MAJOR ISSUES

- ***$2 Billion in State Savings Depends on Federal Action.*** Many of the Governor's proposals for health and welfare savings—amounting to $2 billion—depend on federal action. Federal legislation which would accomplish these savings is being considered as part of the negotiations on the budget and welfare reform. To the extent these actions are delayed or not taken, there will be a budgetary hole in these programs. (See page C-14.)

- ***Budget Proposes to Make Temporary Grant Reductions and Cost-of-Living Adjustment Suspensions Permanent.*** The budget proposes to make permanent the AFDC and SSI/SSP grant reductions adopted in 1992-93 (5.8 percent) and 1995-96 (4.9 percent statewide), and the cost-of living adjustment suspension that was implemented in 1991-92, which are scheduled to be restored in 1996-97. This proposal would result in a General Fund cost avoidance of $1.1 billion. (See pages C-100 and C-125.)

- ***Budget Proposes a 4.5 Percent AFDC Grant Reduction.*** This proposal would result in General Fund savings of $111 million in 1996-97. We discuss the potential impact of the proposed AFDC grant reductions on families. (See page C-102.)

- ***Governor Proposes to Redesign the AFDC Program in 1997-98.*** The Governor proposes major changes in the AFDC Program, including revised eligibility criteria, a flat grant for all families regardless of size, time limits on eligibility, and the implementation of four programs that would offer different types of assistance (including cash and vouchers) based on certain characteristics of the recipients. We present criteria for evaluating the Governor's proposal. (See page C-105.)

▌***Child Welfare Services Program Needs Improvement.*** We review the performance of the Child Welfare Services Program and conclude that improvements are needed in how the state addresses the problem of child abuse and neglect. (See page C-134.)

▌***Budget Proposes Elimination of State-Only Medi-Cal Program for Prenatal Services for Undocumented Women.*** Congress is currently considering welfare reform legislation that would prohibit a state from providing benefits to undocumented persons unless the state chooses to reauthorize these benefits after enactment of the federal law. The budget does not propose reauthorization of the prenatal program, and assumes elimination of the benefits effective March 1996, for a General Fund savings of $22 million in 1995-96 and $65 million in 1996-97. (See pages C-30 and C-37.)

▌***Proposals to Eliminate Medi-Cal Optional Benefits Could Result in Cost Shifting.*** The budget proposes to eliminate eight of the 29 optional benefits, for a net General Fund savings of $34 million in 1996-97. We note that these actions could result in increased costs for county indigent health programs. (See page C-38.)

▌***Budget Proposes Augmentations for Teen Pregnancy Prevention and Family Planning Programs.*** The budget proposes $46 million from the General Fund for teen pregnancy prevention activities in order to expand the media campaign, expand a program for the prosecution of statutory rape, establish a new grant program, and develop school curricula. The budget also proposes $20 million from the General Fund to consolidate and expand family planning programs. We provide an assessment of these proposals. (See pages C-48 and C-60.)

HEALTH & SOCIAL SERVICES

TABLE OF CONTENTS

OVERVIEW

General Fund expenditures for health and social services programs are proposed to decrease by about 3 percent in the budget year. Most of this reduction is due to welfare grant reductions and eligibility restrictions, and shifting state costs to the federal government.

EXPENDITURE PROPOSAL AND TRENDS

The budget proposes General Fund expenditures of $13.5 billion for health and social services programs in 1996-97, which is 30 percent of total proposed General Fund expenditures. The budget proposal represents a reduction of $424 million, or 3 percent, from estimated expenditures in the current year.

Figure 1 (see next page) shows that General Fund expenditures for health and social services programs are projected to increase by $1.1 billion, or 8.5 percent, between 1989-90 and 1996-97. This represents an average annual increase of 1.2 percent.

General Fund expenditures increased significantly until 1991-92, when realignment legislation shifted $2 billion of health and social services program costs from the General Fund to the Local Revenue Fund, which is funded through state sales taxes and vehicle license fees. This shift in funding accounts for the significant increase in special funds starting in 1991-92, as shown in Figure 1. General Fund spending declined in 1992-93, due to various program reductions (the largest being welfare grant reductions). As discussed below, the budget proposes additional General Fund reductions in 1996-97.

Combined General Fund and special funds spending is projected to increase by 25 percent between 1989-90 and 1996-97. This represents an average annual increase of 3.2 percent.

Figure 1

Health and Welfare Expenditures Current and Constant Dollars 1989-90 Through 1996-97

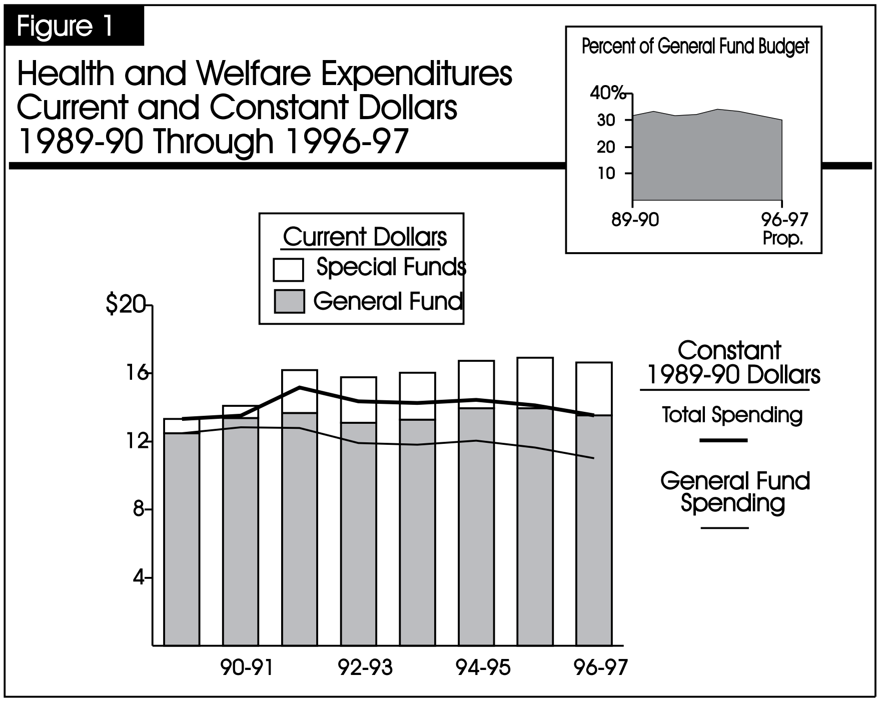


Figure 1 also displays the spending for these programs adjusted for inflation. On this basis, General Fund expenditures are estimated to decrease by 12 percent between 1989-90 and 1996-97. Combined General Fund and special funds expenditures are estimated to increase by 1.5 percent during the same period, on a constant dollar basis. This is an average annual increase of less than 1 percent.

As noted previously, the 1991 realignment legislation significantly altered the financing of health and social services programs by transferring funding for all or part of several mental health, public health, and social services programs to the counties. The sales tax and vehicle license fee revenues dedicated to realignment amounted to $2 billion in 1991-92, which was $239 million short of the amount that was initially estimated. The budget estimates that realignment revenues will be $2.5 billion in 1996-97.

CASELOAD TRENDS

Figures 2 and 3 (see next page) illustrate the caseload trends for the largest health and welfare programs. In both programs, significant increases coincide with the onset of the recession in 1990. Figure 2 shows the Medi-Cal caseload growth, broken out by "traditional" eligibility categories—primarily Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI)/State Supplementary Program (SSP) recipients—and "nontraditional" eligibles—groups recently made eligible by state and federal law, including newly legalized immigrants, undocumented persons, and pregnant women.

Figure 2

Medi-Cal Caseloads
Average Eligible Persons
1986-87 Through 1996-97

(In Millions)

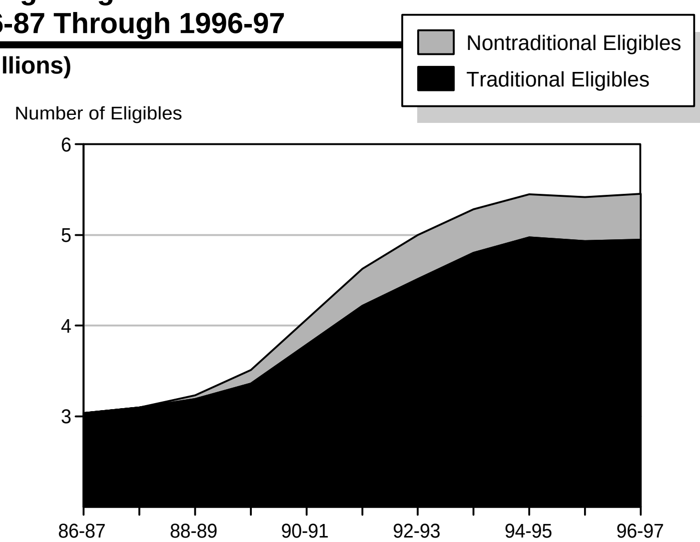


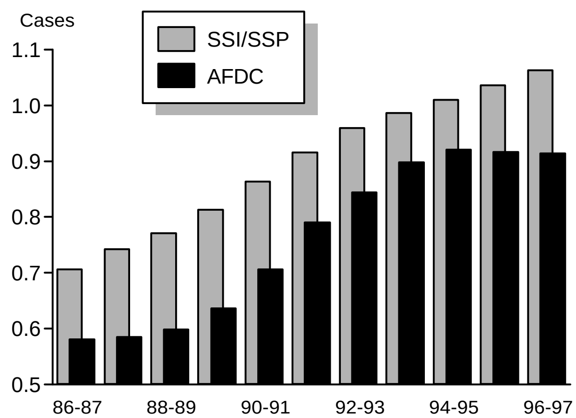
Figure 2 shows there was a significant upswing in the rate of increase in the Medi-Cal caseload, beginning in 1989-90. This occurred primarily because of rapid growth in both the AFDC Program and in the nontraditional categories of Medi-Cal recipients. (For a more detailed discussion of this caseload growth, please refer to our *Analysis of the 1992-93 Budget Bill,* page V-90.)

Figure 3 shows the caseload trend for the AFDC (Family Group and Unemployed Parent[FG&U]) and SSI/SSP Programs. While the number of *cases* in the SSI/SSP Program is greater than in the AFDC Program, there are more *persons* in the AFDC Program—about 2.7 million compared to about 1 million for SSI/SSP. (SSI/SSP cases are reported as individual persons, while AFDC cases are primarily families.)

Figure 3

AFDC and SSI/SSP Caseloads Average Monthly Cases 1986-87 Through 1996-97

(In Millions)



Caseload growth in these two programs is due, in large part, to the growth of the eligible target populations. The increase in the rate of growth in the AFDC caseloads in 1990-91 and 1991-92 was partly due to the effect of the recession. Subsequently, the caseload continued to increase but at a slower rate of growth. This slowdown, according to the Department of Finance, was due partly to (1) certain population changes, including lower migration from other states, and (2) a lower rate of increase in "child-only" cases (including citizen children of undocumented and newly legalized persons), which was the fastest growing segment of the caseload until 1993-94. (For a discussion of other factors affecting the AFDC caseload, please see our report on the program in *The 1991-92 Budget: Perspectives and Issues*, page 189.)

Figures 2 and 3 also reflect the budget's projections that AFDC and Medi-Cal caseloads will begin to decline slightly in the current year. As we discuss in our report, *California's Fiscal Outlook* (November 1995), we believe that these trends are due largely to various factors affecting welfare caseloads, including the improving economy, lower birth rates for young women, and a decline in legal immigration to California.

The SSI/SSP caseload can be divided into two major components: the aged and the disabled. The aged caseload generally increases in proportion to increases in the eligible population—age 65 or older. This component of the caseload accounts for about one-third of the total. The larger component—the disabled caseload—has been growing faster than the rate of increase in the eligible population group (primarily ages 18 to 64). This is due to several factors, including (1) the increasing incidence of AIDS-related disabilities, (2) changes in federal policy that liberalized the criteria for establishing a disability, (3) a decline in the rate at which recipients leave the program (perhaps due to increases in life expectancy), and (4) expanded state and federal outreach efforts in the program.

SPENDING BY MAJOR PROGRAMS

Figure 4 (see page 10) shows expenditures for the major health and social services programs in 1994-95 and 1995-96, and as proposed for 1996-97. As shown in the figure, the three major benefit payment programs—Medi-Cal, AFDC, and SSI/SSP—account for a large share of total spending in the health and social services area.

MAJOR BUDGET CHANGES

Figures 5 and 6 (see pages 11, 12) illustrate the major budget changes proposed for health and social services programs in 1996-97. Generally, the major changes can be grouped into the following categories:

1. ***The Budget Proposes to Fund Caseload Changes.*** This includes funding for: a projected caseload increase of 1.8 percent in the Medi-Cal Program (subsequently revised by the Department of Health Services to 0.7 percent); a decrease of 0.3 percent in the AFDC Program; and an increase of 2.5 percent in the SSI/SSP Program.

2. ***The Budget Proposes to Shift a Significant Amount of State Costs to the Federal Government.*** This would be accomplished by the following actions:

- Assume enactment of legislation appropriating federal funds to reimburse the state's costs of providing emergency health care services to undocumented immigrants ($216 million in 1995-96 and $303 million in 1996-97).

Figure 4

Major Health and Welfare Programs Budget Summary[a] 1994-95 Through 1996-97

(Dollars in Millions)

	Actual 1994-95	Estimated 1995-96	Proposed 1996-97	Change From 1995-96	
				Amount	Percent
Medi-Cal					
General Fund	$6,036.8	$6,074.2	$6,247.3	$173.1	2.8%
All funds	14,904.3	14,929.5	15,342.2	412.7	2.8
AFDC (FG&U)					
General Fund	$2,814.9	$2,602.9	$2,073.0	$-529.9	-20.4%
All funds	5,851.6	5,557.5	4,893.1	-664.4	-12.0
AFDC (FC)					
General Fund	$272.4	$319.7	$332.5	$12.8	4.0%
All funds	1,138.8	1,253.8	1,300.7	46.9	3.7
SSI/SSP					
General Fund	$2,017.7	$1,952.6	$1,577.8	$-374.8	-19.2%
All funds	5,321.7	5,452.0	5,084.6	-367.4	-6.7
County welfare administration					
General Fund	$423.3	$473.8	$496.9	$23.1	4.9%
All funds	1,682.2	1,870.7	1,912.4	41.7	2.2
In-Home Supportive Services					
General Fund	$226.8	$232.3	$301.7	$69.4	29.9%
All funds	881.0	927.9	972.2	44.3	4.8
Regional centers					
General Fund	$539.0	$410.4	$460.7	$50.3	12.3%
All funds	839.8	946.3	1,037.9	91.6	9.7
Developmental centers					
General Fund	$33.1	$33.0	$30.5	$-2.5	-7.6%
All funds	581.6	570.5	526.2	-44.3	-7.8
Child welfare services					
General Fund	$178.0	$283.8	$354.6	$70.8	24.9%
All funds	785.3	936.0	1,025.8	89.8	9.6
State hospitals					
General Fund	$160.4	$209.6	$238.6	$29.0	13.8%
All funds	405.1	474.3	484.6	10.3	2.2

[a] Excludes departmental support.

Figure 5

Health Services Programs
Proposed Major Changes for 1996-97
General Fund

Medi-Cal	**Requested:**	**$6.2 billion**	
	Increase:	**$173 million**	**(+2.8%)**

- $126 million for caseload increase
- $188 million due to higher utilization of services and other cost increases
- $70 million (and $37 million in 1995-96) for Medicare inpatient deductibles and copayments for persons also enrolled in Medi-Cal
- $20 million (and $23 million redirected from the Office of Family Planning) to expand family planning services

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- $303 million (and $216 million in 1995-96) by assuming federal reimbursement for emergency services for undocumented persons
- $65 million (and $22 million in 1995-96) by eliminating the state-only program for prenatal care for undocumented persons
- $34 million (net) by eliminating eight optional benefits
- $26 million by reducing rates for “distinct part” skilled nursing facilities
- $23 million by implementing copayments for certain services

Public Health	**Requested:**	**$313 million**	
	Increase:	**$4.1 million**	**(+1.3%)**

- $46 million to expand the teen pregnancy prevention program

Figure 6

Social Services Programs
Proposed Major Changes for 1996-97
General Fund

AFDC (FG&U)	Requested: $2.1 billion Decrease: $530 million (-20%)

- $299 million (and $82 million savings in 1995-96) by assuming a gain in federal funds under a block grant (also assuming adoption of proposed grant reductions)
- $201 million (cost avoidance) by not restoring the 1992-93 grant reduction and not resuming the Cost of Living Adjustment (COLA)
- $129 million by making permanent the current-year statewide 4.9 percent grant reduction
- $111 million due to a 4.5 percent grant reduction
- $28 million (net) by barring sponsored aliens from receiving grants for five years

SSI/SSP	Requested: $1.6 billion Decrease: $375 million (-19%)

- $52 million for caseload increase

- $442 million (cost avoidance) by not restoring the 1992-93 grant reductions and not resuming the state COLA
- $335 million by making permanent the current-year statewide 4.9 percent grant reduction
- $90 million net savings (and $1 million in 1995-96) by assuming federal legislation to eliminate grants for noncitizens

Child Welfare Services	Requested: $355 million Increase: $71 million (+25%)

- $32 million cost ($5 million savings in 1995-96) by assuming a loss of federal funds under a block grant
- $19 million for increased caseload

- Assume federal welfare reform legislation is enacted establishing block grants, resulting in an estimated net gain in federal funds to the state for AFDC and child welfare services ($87 million in 1995-96 and $267 million in 1996-97). (These amounts are based on what the state would receive, assuming adoption of the Governor's proposed AFDC grant reductions.)

3. ***The Budget Proposes Major Program Reductions in the Medi-Cal, AFDC, and SSI/SSP Programs:***

- Eliminate eight optional Medi-Cal benefits (net state savings of $34 million, after accounting for offsetting costs to maintain these benefits for developmentally disabled persons served by the regional centers).
- Eliminate the state-only Medi-Cal program for prenatal care for undocumented persons, effective March 1, 1996 (savings of $22 million in 1995-96 and $65 million in 1996-97).
- Implement a 4.5 percent grant reduction in the AFDC Program (state savings of $111 million).
- Assume enactment of federal legislation to deny SSI/SSP grants and nonemergency Medi-Cal benefits to noncitizens ($91 million net state savings).

4. ***The Budget Proposes to Make Permanent Certain Grant Reductions and Cost of Living Adjustment (COLA) Suspensions in the AFDC and SSI/SSP Programs:***

- Make permanent the 4.9 percent statewide grant reductions in AFDC and SSI/SSP enacted in the current year ($464 million cost avoidance).
- Make permanent (1) the 5.8 percent grant reductions enacted in 1992-93 and (2) the suspension of the statutory COLAs ($643 million cost avoidance, or $841 million if the proposed federal block grant is enacted).

5. ***The Budget Proposes to Expand Services for Family Planning and Teenage Pregnancy Prevention.*** This would be accomplished by the following actions:

- Expand family planning by establishing a state-only Medi-Cal program to provide contraceptive services to low-income women, effective January 1997 ($20 million cost).
- Expand the teenage pregnancy prevention program ($46 million cost).

Savings Would Require Federal Action

The budget proposes numerous changes in the health and social services area that depend on federal legislation or federal waiver of regulations. As Figure 7 shows, these proposals, in conjunction with previous budget actions requiring federal approval, amount to state savings of $495 million in 1995-96 and $1.5 billion in 1996-97. Federal legislation which would accomplish these savings is being considered in Washington, D.C.

We discuss the federal legislation to reform the welfare and Medicaid programs later in this *Analysis*.

Governor's Proposal to Redesign AFDC

The Governor proposes legislation to redesign the welfare system, effective July 1997. Under the proposal, the AFDC Program would be replaced by four separate programs. The major features of the proposal are as follows:

Eligibility. As is currently the case, families would have to include a child under age 18 and would have to be low-income, based on a yet unspecified income and asset test. Eligibility would generally be based on "fairness and equity with low-income working families," and using this guideline a "work equivalency benchmark" (analogous to the current "need standard") would be established. Also, the existing restrictions on the eligibility of two-parent families would be eliminated. (Currently, to be eligible for the AFDC-U Program, the principal wage earner must be unemployed when applying for aid and must have had a work history, based on specified criteria.)

Grants. The current grant structure, which increases with family size, would be replaced by a flat grant (the amount has not yet been specified). Actual grant amounts would essentially be based on the work equivalency benchmark, less recipients' income (employment earnings, for example), up to the maximum flat grant amount. Thus, recipients who work could, in effect, keep their earnings to the extent that the amount of earnings plus the grant do not exceed the work equivalency benchmark.

New Programs. The four proposed programs are:

- ***The Ready-to-Work Program***. This program would include those adults with a work history or who are currently working. Recipients would receive a flat grant, which would be reduced after six months and again at twelve months, with a total time limit of two years. The program would provide short-term employment services, child care, work-related expenses, and a voluntary program of support services for 18- and 19-year old teen parents who have a work history.

Figure 7

State Savings Dependent on Federal Action Health and Social Services Programs Governor's Budget

(Dollars in Millions)

Budget Proposal	1995-96	1996-97	Two-Year Total
Previous Budget Actions			
AFDC:			
1994-95 2.3 percent grant reduction	$22	$44	$66
Regional 4.9 percent grant reduction	20	58	78
Statewide 4.9 percent grant reduction	43	—	43
Maximum family grant	—	4	4
Barring sponsored aliens	—	28	28
SSI/SSP:			
Regional 4.9 percent grant reduction	25	101	126
Statewide 4.9 percent grant reduction	76	—	76
Eliminate drug/alcohol from SSI/SSP eligibility[a]	—	6	6
New Budget Proposals			
Medi-Cal:			
Federal funds for services to undocumented persons	$216	$303	$519
Reduce nursing facility rates	—	26	26
AFDC:			
Make 1995-96 statewide grant reduction (4.9%) permanent	—	129	129
4.5 percent grant reduction	—	111	111
Savings from federal block grant	82	299	381
Child support provisions (federal welfare reform)	1	-14	-13
Foster Care Emergency Assistance funds (federal welfare reform)	4	8	12
Child Welfare:			
Savings/costs from federal block grant	5	-32	-27
SSI/SSP:			
Deny benefits to noncitizens[a]	1	90	91
Restrict children's eligibility	—	6	6
Make 1995-96 statewide grant reduction (4.9%) permanent	—	309	309
Totals	**$495**	**$1,476**	**$1,971**

[a] Savings include effect on Medi-Cal Program.

- ***Family Transition Assistance Program***. This program would serve families in which the parent has never worked, teen parents under age 18, and teen parents who have never worked. In addition, families could be referred from the Ready-to-Work Program if significant barriers to employment are identified. Instead of a cash grant, the program would provide noncash aid, including vouchers for services such as housing, transportation, and child care. The program would also provide intensive employment services. Teen parents would be required to participate in a support service program that focuses on in-home counseling. The duration of benefits would be limited to five years.

- ***The Disabled Family Assistance Program.*** This program would assist families in which either a parent or child is disabled and receiving SSI/SSP, In Home Supportive Services (IHSS), or disability benefits. Recipients would receive a cash grant for as long as the disability continues. Those who are able to work would receive employment services, child care, and work-related expenses.

- ***The Child-Only Assistance Program***. This program would include (1) children living with parents (primarily undocumented persons) who are not eligible for aid and (2) children living with adult relatives acting as the child's caretaker. Recipients would receive a cash grant, which would be less than the flat grant established for families in the Ready-to-Work Program. Grants for those children in the first category would be subject to a five-year time limit, and no support services would be included. Grants for those in the second category would not be time-limited, and child care would also be provided if needed.

Administration. The state would be responsible for establishing eligibility standards, benefits, time limits for aid, and performance-based outcomes. The state would contract for local administration, with counties given the first choice. If counties refuse, they would continue to be subject to the same cost-sharing requirements. Local administrative agencies would be funded on a per capita basis for each program, based on the number of eligibles and possibly on other risk factors.

We will discuss the Governor's proposal in more depth in our analysis of the AFDC Program.

CROSSCUTTING ISSUES

CALIFORNIA'S HEALTH CARE SAFETY NET

Counties are reporting increasing difficulty in carrying out their responsibility to maintain health care services for indigents. We review the "health care safety net" provided by counties and the factors underlying recent trends.

WHAT IS THE SAFETY NET AND WHO USES IT?

The Safety Net Defined

California's health care safety net provides health-related services to persons who lack health insurance or other coverage, such as Medi-Cal, and cannot pay for such services. These services are provided by the counties, which are ultimately responsible for serving those with no other means of public or private support, as required by Section 17000 of the Welfare and Institutions Code. The safety net provides inpatient hospital and outpatient services.

The Uninsured and the Safety Net

The University of California Los Angeles Center for Health Policy Research has examined recent trends in health insurance in California and found that the percentage of persons without insurance (those most likely to use the safety net) varies significantly across the state, as shown in Figure 8 (see next page). The report found that Los Angeles County's uninsured rate of nearly 31 percent is both the highest in the state and the 30 largest metropolitan areas nationwide. Four other regions in the state—Orange, Sonoma, San Diego, and Fresno-Kern Counties—have uninsured rates in excess of 20 percent.

Figure 8

Percentage of Persons Uninsured, by Major Region 1992-93

		Insured		
Region	Uninsured	Job-Related Insurance	Medicaid Coverage	Other[a]
Los Angeles County	30.9%	45.3%	13.8%	10.0%
Orange County	24.3	59.4	6.6	9.7
Sonoma County	24.0	52.6	9.4	14.0
San Diego County	21.9	48.9	14.5	14.7
Fresno-Kern Counties	21.0	45.2	22.2	11.6
Riverside-San Bernardino Counties	19.6	58.7	13.0	8.7
Santa Barbara-Ventura Counties	17.0	60.3	13.1	9.6
Sacramento area[b]	15.6	59.7	12.3	12.4
San Francisco area[c]	15.2	62.7	7.6	14.5
Santa Clara County	14.6	68.7	5.8	10.9

a Other insurance, including Medicare.

b Includes Sacramento, Yolo, El Dorado, Placer, San Joaquin, and Stanislaus Counties.

c Includes San Francisco, San Mateo, Marin, Alameda, and Contra Costa Counties.

Source: UCLA Center for Health Policy Research analysis of 1992 and 1993 Current Population Survey.

The report further indicates that the majority of uninsured individuals are employed, typically in small firms. Individuals employed full-time in small firms (less than 25 workers) are less likely to receive health insurance compared to employees in small firms in the rest of the nation—36 percent in California versus 42 percent nationally. Many of the smaller firms are involved in the agricultural, retail, and service sectors of the economy.

Demographics of the Safety Net Users

According to the Department of Health Services (DHS), the counties served roughly 1.7 million medically indigent persons in 1992-93 (the latest year for which data are available). The data show that a majority of those served: (1) received outpatient services (84 percent), (2) received services in Los Angeles County (60 percent), and (3) were identified as Hispanic (60 percent). Those receiving care are about equally divided among three age groups: 31 percent are below the age of 21, 34 percent are between the ages of 21 and 34, and 35 percent are age 35 or older.

HOW MUCH DOES THE SAFETY NET COST?

Currently, the data on county indigent health expenditures are not complete. Thus, it is not possible to provide a precise estimate of these expenditures. Based on the data that are available, however, we estimate that the costs are in the range of $2 billion to $2.5 billion annually. This consists of funds from a variety of sources, including: (1) state funds provided through the 1991-92 realignment legislation, Proposition 99, and the General Fund; (2) federal funds provided to "disproportionate share" hospitals; and (3) county general funds. We discuss these funding sources below.

How Has the Safety Net Been Funded?

Funding for the safety net has been provided through several different sources over the years. Below, we describe the major funding sources:

- ***County Health Services (AB 8 Program).*** This state program was established in 1979 in the aftermath of Proposition 13. The AB 8 Program provided counties block grants to support public health services and inpatient/outpatient care for low-income persons. In 1991, realignment legislation replaced state funding from the County Health Services program with funds generated from an increase in vehicle license fees (VLF) and sales taxes.
- ***Medically Indigent Services Program (MISP).*** This state program provided funds to serve the medically indigent adult (MIA) population for larger counties. The state established MISP along with the County Medical Services Program (CMSP) in 1983, when it transferred responsibility for the (MIA) population from the state's Medi-Cal program back to the counties. Realignment in 1991 repealed the MISP and replaced it with funds generated from an increase in vehicle license fees and sales taxes.
- ***County Medical Services Program.*** This state program provides funds to smaller counties that choose to contract with the state to administer their MIA programs. The realignment legislation in 1991 transferred responsibility for the CMSP from the state to the counties, significantly reducing state General Fund support and replacing it with revenues generated from an increase in VLF and sales taxes.
- ***State Legalization Impact Assistance Grants (SLIAG).*** The federally funded SLIAG reimbursed states for the expenses incurred in assisting newly legalized persons pursuant to the Immigration

Reform and Control Act of 1986. A portion of SLIAG funds was allocated to counties for indigent health services from 1988-89 through 1994-95.

- ***Proposition 99.*** The Tobacco Tax and Health Protection Act of 1988 (Proposition 99) allocates a portion of tobacco tax revenues for county health services. In 1989, the Legislature established the California Healthcare for Indigents Program (CHIP) and the Rural Health Services (RHS) Program, which allocate Proposition 99 funds to expand county indigent health services.

- ***Realignment.*** In 1991, the state transferred much of its fiscal responsibility for health services programs to the counties as part of a "realignment" of state and local programs. Specifically, the state eliminated funding for the AB 8 Program and MISP, and significantly reduced its support for CMSP. Realignment legislation replaced those funding sources for counties with revenues derived from an increase in the state sales tax and the VLF, provided counties continued to spend their AB 8 match amounts and dedicate their VLF funds for health services.

- ***County General Funds.*** In order to receive their realignment funds and full share of Proposition 99 revenues, counties are required to maintain a minimum level of county spending on indigent health care, as specified in statute. Some counties, however, spend more on these services than is statutorily required.

- ***Disproportionate Share Hospital (DSH) Supplemental Payment Programs.*** California has established two programs to provide supplemental Medi-Cal payments to certain hospitals that provide services to disproportionate numbers of Medi-Cal and other low-income patients. These programs were established to assist safety net hospitals in meeting the uncompensated care costs associated with the provision of medical services to uninsured and underinsured patients.

- ***The SB 855 Program.*** Chapter 279, Statutes of 1991 (SB 855, Robbins) established the SB 855 Program. The program provides supplemental payments to hospitals that serve disproportionate numbers of low-income individuals. Under the program, *public* entities that operate disproportionate share hospitals—such as counties, special districts, and the University of California system—are required to transfer funds to the state by means of intergovernmental transfers. These funds are combined with matching federal funds and redistributed as supplemental payments to *all* eligible disproportionate share hospitals, including private hospitals. A hospital may receive DSH payments if its

Medi-Cal inpatient utilization rate exceeds an established threshold or it uses a minimum percentage of its revenues to provide health care to Medi-Cal and uninsured patients. Total supplemental payments—intergovernmental transfers (county funds) plus matching federal funds—have grown from $1.6 billion in 1991-92 to $2.2 billion in 1994-95 and are capped at that level by federal law. An estimate for 1995-96 was not available at the time this analysis was prepared.

- ***The SB 1255 Program.*** The California Medical Assistance Commission (CMAC) administers the SB 1255 Program, established by Ch 996/89 (SB 1255, Robbins). The program provides supplemental payments to certain eligible DSH hospitals—generally hospitals that (1) are licensed to provide emergency medical services and (2) contract with CMAC to serve Medi-Cal patients under the Selective Provider Contracting Program. Like the SB 855 Program, intergovernmental transfers are made by public entities, but these transfers are *voluntary* in the SB 1255 Program. These funds are combined with matching federal funds and redistributed by the CMAC as supplemental payments to eligible hospitals (including private hospitals) that demonstrate a need for additional funds.

Major Shifts in Safety Net Funding

Several shifts in funding have occurred within the state's health care safety net over the past five years. As discussed below, the difficulty that many counties are experiencing in providing indigent health care is generally the result of a combination of factors, including the shortfall in realignment revenues provided to counties, a declining share of federal DSH funds allocated to public hospitals, and a reduction in Proposition 99 revenues appropriated for indigent health care.

Realignment Revenues Lower Than Projected. The 1991 realignment legislation fundamentally changed the state and county fiscal relationship. Although intended to be revenue neutral, economic factors caused realignment revenues to be lower than expected for county indigent health programs. As Figure 9 (see next page) shows, the level of realignment revenues initially anticipated for 1991-1992 was not achieved until 1994-95.

SB 855 Funding for Public Hospitals Declining. Figure 10 (see next page) shows this program's net benefit (supplemental payments less intergovernmental transfers) to public and private hospitals for 1992-1993 through 1994-95. The figure shows that the net benefit received by public hospitals decreased from $692 million (77 percent of the total) to

$483.1 million (57 percent) between 1992-93 and 1994-95. This was a decline of $208.9 million during this period.

Figure 9

Realignment Funding for Indigent Health Services 1991-92 Through 1995-96

(In Millions)

Service	1991-92	1992-93	1993-94	1994-95	1995-96
Indigent health funding[a]					
Expected	$652.1	—	—	—	—
Actual	577.4	$614.0	$614.3	$653.4	$732.2
Difference	$74.7				

[a] Indigent health portion estimated as 59.3 percent of total realignment health portion, plus entire realignment portion of County Medical Services Program counties.

Figure 10

Fiscal Impact of SB 855 Program Net Benefit to Public and Private Hospitals[a] 1992-93 Through 1994-95

(In Millions)

	1992-93	1993-94	1994-95
Public hospitals	$692.0	$624.0	$483.1
Private hospitals	201.6	293.3	362.0
Totals	**$893.5**	**$917.5**	**$845.1**

[a] Net benefit is the combination of federal funds and intergovernmental transfers less (1) those transfers and (2) state "administrative fees."
Source: Department of Health Services.

SB 1255 Funding for Public Hospitals Increasing. While SB 855 funds have been declining, SB 1255 funds have been increasing, as shown in Figure 11. The figure shows that the net benefit to county hospitals increased by about $130 million between 1992-93 and 1994-95, primarily for L.A. County hospitals.

Figure 11

**Fiscal Impact of SB 1255 Program
Net Benefit to Public and Private Hospitals
1992-93 Through 1994-95**

(In Millions)

	1992-93	1993-94	1994-95
L.A. County hospitals	$115.0	$115.0	$209.0
Other county hospitals	33.0	32.4	71.4
County subtotals	($148.0)	($147.4)	($280.4)
L.A. community hospitals	$7.7	$9.6	$12.0
Children's hospitals	8.8	10.7	21.5
Other community hospitals	2.9	3.5	9.4
Community subtotals	($19.4)	($23.8)	($42.9)
District hospitals	$0.5	—	$0.8
University of California hospitals	9.0	$9.5	20.3
Totals	**$176.9**	**$180.6**	**$344.3**

Source: California Medical Assistance Commission.

Federal Cap Placed on DSH Funds. The federal Omnibus Budget Reconciliation Act of 1993 placed a cap on how much each hospital can be reimbursed under the DSH Program. Basically, hospitals cannot receive more than 100 percent of their uncompensated care costs through DSH supplemental payments, beginning in 1995-96. Federal regulations to implement these provisions have not yet been issued. We note that the DHS has submitted a state plan amendment to the federal government proposing a method for calculating uncompensated care costs for hospitals in California, but no decision has been made on this proposal. Because the regulations have not been adopted and hospital-specific data are not yet available, an estimate of the impact of the hospital caps on California is not available at this time; but the department anticipates that the caps will result in a reduction in federal funds.

Proposition 99 Revenues Declining. The decline in tobacco consumption has led to lower tobacco tax revenues for Proposition 99 programs, including county health services, as shown in Figure 12 (see next page). Between 1991-92 and 1995-96, the amount of tobacco tax revenues counties received is expected to fall from $241.6 million to $177.8 million—a 26 percent decline.

Figure 12

Proposition 99 Funding For County Indigent Health Services 1991-92 Through 1995-96

(In Millions)

Program	1991-92	1992-93	1993-94	1994-95	1995-96
California Healthcare for Indigents Program	$227.7	$196.0	$192.5	$162.9	$163.0
Rural Health Services	4.5	3.5	3.4	2.8	2.8
County Medical Services Program	9.4	9.6	12.0	12.0	12.0
Totals	**$241.6**	**$209.1**	**$207.9**	**$177.7**	**$177.8**

Federal Funds for Los Angeles County. As a result of its fiscal problems, Los Angeles County negotiated agreements with the federal government and the state to receive $514 million in federal funds for 1995-96. Most of these funds will flow through the SB 1255 Program:

- The county and the CMAC negotiated the early receipt of federal funds through the SB 1255 Program for 1995-96. Normally these negotiations would have occurred later in the fiscal year. The county will transfer $170 million to match an equal amount in new federal funds. Of the $340 million, Los Angeles County will receive $320 million in SB 1255 payments. The net benefit to the county, therefore, will be $150 million.

- Contingent upon approval of a federal Medicaid waiver, the county will transfer an additional $182 million to match an equal amount in federal funds, thereby receiving an additional $364 million in SB 1255 payments. The net benefit to the county, therefore, will be $182 million.

- In addition, the county will receive another $182 million in federal funds through various programs, pursuant to the waiver.

We note that pending federal Medicaid reform legislation puts at risk the county's receipt of the $364 million associated with the waiver.

Recent State and County Actions to Reduce Indigent Health Care Costs

The state and counties have taken several actions to reduce indigent health care costs. These include the establishment of new health insurance programs and county efforts to contract with other entities to provide services.

Lowering Health Insurance Costs for Small Businesses. The state Managed Risk Medical Insurance Board (MRMIB) administers the Health Insurance Plan of California (HIPC), which serves as a purchasing pool to leverage lower health insurance rates for small businesses with 3 to 50 employees. By covering the costs of health insurance to small business, it is hoped that those businesses that do not provide insurance will be able to do so and those businesses that currently provide insurance will continue to do so.

By negotiating with health insurance companies, the HIPC helped reduce premium rates by an average of 6.3 percent in 1994-95, and expects to lower them by an additional 5.1 percent in 1995-96. Since its inception in 1993, the HIPC has enrolled over 5,000 small businesses and 97,000 people through 25 different private health plans. Approximately 20 percent of those small businesses enrolled in HIPC did not previously offer health insurance to their employees.

Subsidizing Health Insurance Premiums for Individuals. The MRMIB also secures health insurance for individuals through the California Major Risk Medical Insurance Program (MRMIP) and the Access for Infants and Mothers (AIM) Program. The MRMIP has helped secure health insurance for over 19,000 California residents ineligible for Medicare and unable to obtain coverage in the open market because of preexisting medical conditions. The program supplements the premiums paid by subscribers (to seven participating health plans) for comprehensive inpatient and outpatient health care services. The AIM Program contracts with private health insurance plans to provide coverage for low-income women seeking pregnancy-related and neonatal medical care. The program has enrolled over 4,500 women and 11,000 infants through eight private health plans. Both the MRMIP and AIM Program are funded with tobacco tax (Proposition 99) revenues.

Contracting Services. Some counties, such as San Diego and Orange, do not operate their own hospitals or primary care clinics, but contract with the University of California and with nonprofit, community-based groups to provide their health services. San Diego County has contracts with 21 nonprofit community-based groups to operate primary care clinics. The clinics reportedly keep their costs down by private fund raising, using volunteers, and paying lower salaries on average.

Issues for the Legislature's Consideration

In our analyses of the Public Health programs and the Managed Risk Medical Insurance Board, we make separate findings and recommendations related to some of the issues discussed above.

DEPARTMENTAL ISSUES

CALIFORNIA MEDICAL ASSISTANCE PROGRAM (4260)

The California Medical Assistance (Medi-Cal) Program is a joint federal-state program to provide health care services to public assistance recipients and other qualified individuals who cannot afford to pay for these services. Generally, program expenditures are supported on a 50 percent General Fund, 50 percent federal funds basis.

The budget proposes Medi-Cal expenditures of $17 billion ($6.2 billion General Fund) in 1996-97. This represents a General Fund increase of $173 million, or 2.8 percent, over estimated current-year expenditures.

At the state level, the Department of Health Services (DHS) administers the Medi-Cal Program. Other state agencies, including the California Medical Assistance Commission (CMAC) and the Departments of Social Services, Developmental Services, Alcohol and Drug Programs, and Mental Health perform Medi-Cal related functions under agreements with the DHS. At the local level, county welfare departments determine the eligibility of applicants for Medi-Cal and are reimbursed for those activities. The federal Health Care Financing Administration oversees the program to ensure compliance with federal law.

CASELOADS AND EXPENDITURES

Who Is Currently Eligible for Medi-Cal?

Persons eligible for Medi-Cal fall into four major categories:

- ***Categorically Needy.*** Families or individuals who receive cash assistance under two programs—Aid to Families with Dependent Children (AFDC) and the Supplemental Security Income / State Supplementary Program (SSI / SSP)—comprise the "categorically needy." These individuals automatically receive Medi-Cal eligibility cards and pay no part of their medical expenses.

- ***Medically Needy.*** This category includes those who are not receiving AFDC or SSI / SSP, but are low income and are (1) families with dependent children and (2) aged, blind, or disabled persons with incomes higher than the June 1991 AFDC payment level ($694 for a family of three). These individuals pay no part of their medical expenses if their incomes are between 100 percent and 133 ⅓ percent of the AFDC payment level for their household size. Individuals with higher incomes can become eligible for Medi-Cal if their medical expenses require them to "spend down" their incomes to 133 ⅓ percent of the June 1991 AFDC payment level. These persons are said to have a "share of cost." (Medically needy beneficiaries who reside in long-term care facilities are required to pay all but $35 of their monthly income toward the costs of their care.)

- ***Medically Indigent.*** Under this category, the Medi-Cal Program provides services to pregnant women and children under the age of 21. Also, these services are available to persons in long-term care facilities who (1) do not belong to families with dependent children and are not aged, blind, or disabled but (2) meet income and share-of-cost criteria that apply to the medically needy category.

- ***Newer Eligibles.*** Federal and state law extend coverage under the Medi-Cal Program to undocumented persons and pregnant women and children who meet various income criteria.

Figure 13 summarizes the various eligibility categories for the Medi-Cal Program for the current year. The first three categories are required by federal law—that is, the Medi-Cal Program must provide services to individuals meeting these criteria in order for the program to receive federal funds. The remaining eligibility categories are optional—the state has discretion over whether to provide services to individuals in these categories, though it receives federal funds to the extent it chooses to do so.

Figure 13

Who Is Eligible for Medi-Cal?

(Dollars in Millions)

Income Level	Other Characteristics	Number Eligible	1995-96 General Fund Expenditures[a]
Federally Required Categories			
Categorically Needy			
AFDC or SSI/SSP income standard	• Families with dependent children • Aged, blind, or disabled persons	4,054,300	$3,811
Other Women and Children			
Percent of federal poverty level: Up to 185%[b] Up to 133% Up to 100%	 • Pregnant women and their infants • Children ages 1 to 6 • Children ages 6 to 12	202,000	171
Undocumented Persons and Refugees			
• Up to 133% of June 1991 AFDC payment level • Persons with higher incomes may "spend down" to this level	• Persons meeting any Medi-Cal criteria receive emergency and pregnancy-related services only • Refugees who are aged, blind, or disabled persons, or children to age 19, receive all services	282,600	312
Additional Categories in California			
Long-Term Care			
Persons of any income must "spend-down" to $35 per month	• Require skilled nursing care	70,700	1,069
Medically Needy			
• Up to 133% of June 1991 AFDC payment level • Persons with higher incomes may "spend down" to this level	• Families with dependent children • Aged, blind, or disabled persons	522,500	782
Medically Indigent			
Same as medically needy	• Pregnant women • Children to age 21	280,500	232
Undocumented Persons			
Same as medically needy	• Prenatal services	NA	75

[a] Figure reflects current law. Budget reflects $378 million less than amount shown due to assumed receipt of intergovernmental transfers from counties and other factors.

[b] State legislation, which established a special income deduction and assets waiver, shifted pregnant women from the state-only 186 percent to 200 percent of federal poverty level program to the federally funded 185 percent program.

What Benefits Does Medi-Cal Provide?

Federal law requires the Medi-Cal Program to provide a core of basic services, including hospital inpatient and outpatient care, skilled nursing care, doctor visits, laboratory tests and X-rays, family planning, regular examinations for children under the age of 21, and services in rural health clinics. Many Medi-Cal services require prior authorization and may not be reimbursed unless the service is determined to be medically necessary.

In addition, the federal government provides matching funds for optional services. California currently provides 29 of 34 optional services, but the budget proposes to eliminate eight of them. We discuss this proposal in more detail below.

We also note that pending federal Medicaid reform legislation could change eligibility and benefit provisions. We discuss this legislation later in this analysis.

Proposed Changes for 1996-97

The major General Fund changes proposed for the Medi-Cal Program in 1996-97 include: (1) $315 million for caseload, utilization, and cost increases; and (2) a net decrease of $142 million in various program changes.

The proposed program changes include the following:

- ***Assume Receipt of Federal Funds (Savings of $216 Million in 1995-96 and $303 Million in 1996-97).*** The budget assumes receipt of $216 million in federal funds in 1995-96 and $303.4 million in 1996-97 to partially offset state costs for emergency health services provided to undocumented persons. Medicaid reform legislation currently under consideration at the federal level includes appropriation of these funds for California.
- ***Eliminate Prenatal Services for Undocumented Women (Savings of $22 Million in 1995-96 and $65 Million in 1996-97).*** The budget proposal assumes enactment of federal welfare reform legislation, which would prohibit a state from providing public benefits to undocumented persons unless the state chooses to reauthorize these benefits after enactment of the federal law. The budget does not propose reauthorization of the state-only prenatal services program, and reflects elimination of the program effective March 1, 1996.
- ***Eliminate Optional Services (Net Savings of $34 Million).*** The budget proposes legislation to eliminate eight optional ser-

vices—nonemergency transportation, psychology, chiropractor, podiatry, independent rehabilitation centers, acupuncture, speech and audiology, and certain medical supplies—effective October 1, 1996.

- ***Establish the Medi-cal Expanded Family Planning Program (Net Cost of $20 Million).*** The budget proposes legislation to establish the state-only Medi-Cal Expanded Family Planning Program to provide contraceptive services to women with incomes under 200 percent of poverty, effective January 1, 1997. The program would subsume the existing program in the department's Office of Family Planning.
- ***Change in Federal Cost Sharing Ratio (Savings of $24.8 Million).*** The budget anticipates federal notification that the Federal Medical Assistance Percentage (FMAP) for California (the cost-sharing ratio) will increase from 50 percent to 50.23 percent, effective October 1, 1996.
- ***Reduce Nursing Facility Reimbursement Rate (Savings of $25.7 million).*** The budget proposes a 20 percent rate reduction for nursing facilities that are a "distinct part" of a hospital, effective August 1, 1996. Federal legislation is required to permit the rate reduction.
- ***Establish Copayments for Services (Savings of $23 Million).*** The budget proposes to reduce provider reimbursement rates for certain services by up to $5 per service and authorize the collection of copayments from beneficiaries, effective October 1, 1996.
- ***Reduce Reimbursement Rates for Medical Supplies and Drugs (Savings of $18.2 Million).*** The budget proposes to revise the reimbursement rates for (1) medical supplies (General Fund savings of $6.1 million) and (2) drug ingredient costs (General Fund savings of $12.1 million), effective October 1, 1996.

Medi-Cal Program Growth

As Figure 14 indicates, General Fund expenditures for the Medi-Cal Program increased from $4.1 billion in 1990-91 to an estimated $6.1 billion in 1995-96, reflecting an increase of about 10 percent annually. Federal funding for the program has increased at a significantly higher rate, largely due to the "SB 855" Program. This program has provided payments to disproportionate-share hospitals since 1991-92. The purpose of these payments is to recognize the financial burden of

Figure 14

Medi-Cal Expenditures[a]
1990-91 through 1995-96

(Dollars in Billions)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	Average Annual Increase
General Fund	$4.1	$5.8	$5.4	$5.5	$6.0	$6.1	9.8%
All funds	8.8	13.8	13.9	16.9	17.3	16.5	17.5

[a] Figures for 1991-92 have been adjusted to eliminate one-time costs for change from cash to accrual accounting. Figures for 1995-96 are estimated.

uncompensated care on those hospitals that serve a high number of indigent persons not eligible for Medicaid. These payments, and the required county match, comprise on average about $2 billion annually in total expenditures from 1991-92 through 1995-96.

In addition, federal funding is budgeted in the current year and for 1996-97 for the Targeted Case Management Program, which reimburses counties for case management activities provided to specific Medi-Cal beneficiaries. These funds comprise $40 million of total expenditures for 1995-96 and the budget year.

Reasons for Increased Medi-Cal Expenditures

The increase in Medi-Cal expenditures over the last five years has resulted largely from caseload increases (which in turn reflect economic and societal changes), utilization changes, and medical care inflation. We discuss these factors below.

Caseload Changes. In prior years, the largest single factor driving program expenditures was the significant increase in the number of persons eligible for Medi-Cal. However, recent data indicate caseload growth is leveling off.

In 1985-86, 2.9 million persons (one out of ten persons in the state) were eligible for the program, while the number of eligibles reached 5.4 million persons (more than one out of every six residents) in 1994-95. As a point of comparison, the number of persons who receive health care coverage through Medi-Cal is about equal to the number of children enrolled in California's public school system, and the Medi-Cal Program is the single largest health-insurer in the state.

In general, three factors accounted for the increase in the number of eligible participants. The "traditional" recipients of Medi-Cal services—primarily AFDC and SSI / SSP recipients—increased significantly during the early 1990s, largely the result of economic and demographic changes. In addition, the Medi-Cal Program caseload increased as a result of state and federal changes that have expanded eligibility to "newer eligibility groups" of recipients. Specifically, the federal government mandated that the state provide medical services to undocumented persons and expand eligibility for pregnant women and children. Similarly, the state elected to extend coverage to pregnant women and their infants beyond the federal requirements. Expenditures due to these state and federal policy changes account for about one-third of total expenditure growth since 1989-90.

Medi-Cal caseloads grew rapidly in the early 1990s but the growth rate began to slow down in 1994-95 (see the Health and Social Services Overview section). The DHS estimates a slight decrease of 0.5 percent in total Medi-Cal eligibles for 1995-96, due to a decline in Public Assistance-AFDC and Medically Needy-AFDC caseloads and a flattening in the Medically Indigent-Children caseload. For 1996-97, the department is projecting a slight increase (0.7 percent) in total Medi-Cal eligibles.

Utilization Changes and Medical Care Inflation. Higher utilization of services by Medi-Cal eligibles and other cost increases are the major factors driving program expenditure increases for 1996-97.

Medical care costs have been increasing at rates that generally exceed other types of inflation. Medi-Cal payment levels for some services (such as for physician services) are discretionary, while others are automatically adjusted pursuant to statute (such as for generic drugs and nursing facilities). Hospital inpatient rates generally are negotiated, but the state has little practical alternative to recognizing at least a portion of the cost increases that hospitals experience. Accordingly, because expenditures for hospital inpatient services, long-term care, and drugs account for the vast majority of Medi-Cal expenditures, medical care inflation has played a significant role in the program's expenditure growth over the last several years.

Societal Changes. Various demographic and societal changes also contributed to Medi-Cal expenditure growth. One societal change that has affected the Medi-Cal Program is the emergence of the AIDS epidemic. In addition, the growth in the number of unmarried teenage women having children, citizen children born to undocumented women, and children born to substance-abusing mothers have increased Medi-Cal eligibility and expenditures.

PENDING FEDERAL MEDICAID REFORM LEGISLATION

Unlike federal welfare reform, the Governor's Budget does not assume enactment of the Medicaid reform legislation. We discuss major provisions of the congressional conference agreement and President Clinton's proposal.

As in the case of welfare reform, proposals under consideration at the federal level would make significant changes to the federal Medicaid Program (Medi-Cal in California).

The Congressional Proposal

The conference agreement proposal would repeal Title XIX of the Social Security Act (the Medicaid Program) and replace it with Title XXI of the Social Security Act (the Medigrant Program).

Changes in Program Eligibility and Entitlement to Services. The proposal would require states to provide assistance to (1) pregnant women and children under age 13 with family income at or below the federal poverty level and (2) low-income disabled individuals, as defined by the state; the measure would eliminate the entitlement for all other beneficiaries. States would be required to provide immunizations for eligible children, and pre-pregnancy family planning services and supplies, as defined by the state. The proposal would repeal the federal Vaccines for Children Program.

Increased Flexibility in Some Areas. The proposal would increase the state's discretion over several key areas, including eligibility criteria, benefit coverage, and payment rates. Specifically, states would no longer be required to: (1) cover specific services; (2) reimburse specific types of health care providers, with some exceptions; (3) reimburse at specific rates; (4) provide services on a statewide basis; (5) provide services of the same duration, amount, and scope to all eligible individuals; (6) allow patients "freedom of choice" to select providers; or (7) reimburse noncontract hospitals and nursing facilities on the basis of reported actual costs.

Some Strings Are Still Attached. A state maintenance-of-effort would be required for three population groups and two program areas: (1) pregnant women and children in families with incomes at or below 185 percent of poverty; (2) low-income disabled individuals; (3) low-income elderly; (4) Medicare premium assistance for low-income beneficiaries; and (5) services provided at federally qualified health clinics and rural health clinics.

Payments to States. A maximum federal allotment would be established for each fiscal year beginning with federal fiscal year (FFY) 1996. The proposal specifies a fixed dollar allotment for each state in FFY 96 ($8.9 billion for California) and would establish a maximum allowable annual growth rate for each state for each year thereafter. In addition, the Federal Medical Assistance Percentage (matching funds) would increase from 50 percent to 60 percent, effectively lowering the required state financial participation amount.

The proposal would prohibit the use of these federal funds for undocumented persons and would eliminate the current federal requirement that states provide emergency medical services to undocumented persons. However, 15 states (including California) would receive a total of $3.5 billion over five years for the cost of providing emergency medical services to undocumented persons. California would receive about $1.6 billion from this fund over the five-year period.

Disproportionate Share Hospital Payments. The proposal would incorporate funds for supplemental payments to disproportionate share hospitals into the overall state allotment, but states would have flexibility over the use of the funds. States would be required, however, to describe in the state plan how they intend to provide assistance to these hospitals.

President Clinton's Proposal

The proposal would amend the current Medicaid Program as follows.

Program Eligibility and Entitlement to Services. The proposal would retain certain provisions of the existing program, including the current mandatory eligibility groups and the requirement to provide all mandatory benefits. States would have the option to expand or simplify program eligibility within certain parameters, but additional federal funding would not be available for the expanded population.

Some Increased Flexibility. Methods for establishing provider reimbursement rates would be revised. States would no longer be required to base reimbursement rates on actual costs for noncontract hospitals and nursing facilities. This provision would apply to federally qualified health clinics and rural health centers beginning in FFY 99. The proposal also would eliminate the need for federal waivers to implement certain types of managed care delivery systems and to provide home- and community-based services as an alternative to institutionalization.

Per Capita Growth Limit Controls Federal Spending. The Medicaid population would be divided into four beneficiary groups for purposes of federal matching payments: the aged, the disabled, nondisabled adults, and nondisabled children. Effective FFY 97, spending per beneficiary would be federally matched up to a specified cap. The spending cap, established for each of the four groups of beneficiaries, would be adjusted annually by an inflation-based growth index and an adjustment to meet budgetary targets. Research and demonstration waivers currently in operation would be subject to the per capita limit. However, federal funds for disproportionate share hospitals, Medicare premiums, the Vaccines for Children Program, and several other programs would be excluded from the cap.

Disproportionate Share Hospital Payments. The proposal would reduce the amount of federal funding available to states for services provided by disproportionate share hospitals. The measure would provide more flexibility in the use of these funds by allowing them to be spent on federally qualified health clinics and rural health centers.

Special Funds. Two special funds would be established to assist states with the costs of uncompensated care and undocumented persons. The ten states with the highest percentage of uncompensated care and Medicaid shortfalls (including California), as measured by the American Hospital Association in its report published November 1992, would receive a total of $3.5 billion over five years. California would receive about $350 million from this fund over the five-year period. The second fund, similar to the congressional provision discussed above, would provide 15 states (including California) with $3.5 billion over five years for the costs of providing emergency medical care to undocumented persons. California would receive about $1.6 billion from this fund over the five-year period.

PENDING FEDERAL WELFARE REFORM LEGISLATION

Budget's Assumption of Federal Welfare Reform Has Implications for Medi-Cal Program

The budget assumes enactment of federal welfare reform legislation affecting the AFDC, SSI/SSP, and Medicaid programs. We review the budget's assumptions of how the federal legislation would affect the Medi-Cal Program.

Despite President Clinton's veto of H.R. 4—the Personal Responsibility and Work Opportunity Act of 1995—many observers believe that the President and Congress will ultimately reach agreement on a welfare reform bill that will encompass a number of major features of the congressional measure. (See our analysis of the AFDC Program for a detailed description of the proposed changes to the welfare programs.) The Governor's Budget, in fact, assumes the enactment of the H.R. 4 provisions affecting the AFDC Program, the SSI/SSP, and the Medicaid Program. Below we discuss how these welfare changes would affect the Medi-Cal Program.

Current Legal Noncitizens. Under H.R. 4, effective January 1, 1997, most current legal noncitizens would not be eligible for the SSI Program. However, H.R. 4 permits states at their option to continue to provide the full range of Medicaid (Medi-Cal) benefits (emergency and nonemergency medical services) to these noncitizens. The budget proposes to transition the persons who will no longer be eligible for SSI (thereby losing their "categorically needy" Medi-Cal eligibility) to the optional "medically needy" aid category and limit their benefit to emergency medical services only. We note that the proposal does not address what would happen to the individuals currently residing in long-term care facilities.

Newcomer Legal Noncitizens. Under H.R. 4, newcomer noncitizens—individuals arriving after enactment of federal welfare reform—would be ineligible for all federal means-tested programs for five years, with some exceptions including emergency medical services. Under current law, these individuals receive a full range of Medi-Cal benefits. The budget proposes to provide emergency medical services only to these individuals. Although this provision of federal law would take effect immediately upon enactment of the legislation, the budget assumes a state implementation date of January 1, 1997.

Illegal Immigrants. The H.R. 4 would prohibit states from providing certain state and local public benefits, including nonemergency medical services, to illegal immigrants unless the state enacts legislation to authorize the benefit. Currently, the Medi-Cal Program provides long-term care services and prenatal care services to illegal immigrants, and counties provide health care to indigents not eligible for Medi-Cal benefits. The Governor's Budget proposes the following:

- ***Long-Term Care.*** The administration proposes to authorize this benefit only for individuals presently in long-term care facilities.
- ***Prenatal Services.*** The administration does not propose to authorize the prenatal services program for undocumented women. Therefore, the program would be eliminated upon enactment of federal welfare reform legislation. The budget assumes an effective date of March 1, 1996.

Disabled Children. The H.R. 4 would tighten the criteria for determining whether disabled children qualify for SSI/SSP. The budget assumes that all children affected by this provision would remain eligible for Medi-Cal through the AFDC, "medically needy," or "medically indigent" aid categories.

Services to Illegal Immigrants— Budget Internally Inconsistent

We recommend a technical adjustment in the amount proposed for long-term care services because the budget does not reflect the savings from the administration's proposal to eliminate these services for illegal immigrants who apply for benefits after the enactment of federal welfare reform legislation. (Reduce Item 4260-101-0001 by $4,233,000.)

The pending federal welfare reform legislation would prohibit the state from providing nonemergency medical services to illegal immigrants unless the state enacts legislation to authorize the benefit. The administration proposes to reauthorize Medi-Cal long-term care services only for illegal immigrants presently in nursing facilities. However, the budget does not reflect the savings from eliminating these services for new applicants. The administration advises us that this omission was inadvertent. We estimate that the reduced costs for benefits and administration would be approximately $4.2 million (General Fund). Accordingly, we recommend this technical adjustment so that the budget will be consistent with its own assumptions, for an estimated General Fund savings of $4.2 million.

OPTIONAL BENEFITS

Elimination of Optional Services

With respect to the department's proposal to eliminate certain optional services, we find that: (1) the proposal could place an additional burden on county indigent health programs; and (2) the department's savings estimate probably is optimistic, due to the federal requirement that Medi-Cal provide necessary transportation.

The budget assumes that the Legislature will enact legislation that will result in net General Fund savings of $34 million by eliminating the following optional service categories from Medi-Cal coverage:

- Nonemergency transportation.
- Medical supplies, excluding incontinence supplies.
- Outpatient psychology services.
- Podiatry services.

- Acupuncture services.
- Speech and audiology services.
- Chiropractor services.
- Services provided at independent rehabilitation centers, including audiology, speech, occupational, and physical therapy.

The department indicates that it is proposing elimination of these services to conform the Medi-Cal benefits package to benefits available under most commercial health insurance plans. The budget proposal would continue to provide the services for developmentally disabled regional center clients, children to age 21, and persons in long-term care.

Figure 15 lists the department's estimate of the Medi-Cal savings from eliminating each of these services and an estimate of the average number of Medi-Cal beneficiaries who currently use these services each month. These savings are partially offset by a General Fund cost of $5.1 million in the budget of the Department of Developmental Services to continue the benefits for regional center clients.

Figure 15

Proposed Elimination of Optional Medi-Cal Services General Fund Savings 1996-97

(Dollars in Millions)

Service	Average Monthly Users	Estimated Savings
Medical supplies	49,490	$17.4
Nonemergency transportation	11,400	16.0
Psychology	4,950	2.8
Podiatry	13,620	2.3
Acupuncture	8,140	1.8
Speech and audiology	680	0.4
Chiropractic	3,890	0.2
Independent rehabilitation centers	350	0.03
DHS budget adjustment for developmentally disabled persons	NA	-1.9
Totals	—[a]	**$39.0**

[a] Total monthly users cannot be estimated, since one beneficiary may use more than one optional service.

"Necessary Transportation" Is Required. Even if optional benefits are eliminated, current federal law requires Medi-Cal to provide "necessary transportation" to beneficiaries. Accordingly, we do not believe that the budgeted savings attributable to the elimination of medical transportation provided in vans can be achieved. Absent legislation to augment the budget, we estimate that this will result in a General Fund deficiency of about $16 million for 1996-97.

Costs May Shift to Other Services. Actual savings from elimination of the proposal's remaining seven optional benefits would depend on behavioral changes on the part of Medi-Cal beneficiaries. In some cases, elimination of optional services clearly will result in savings. In other cases, the savings may be offset because beneficiaries may substitute other Medi-Cal services for the service being eliminated or they may delay receiving treatment and ultimately require more acute care. The budget assumes cost shifts such as these ranging from 0 to 90 percent, depending on the service. The extent to which cost shifts will actually occur, however, is unknown.

Cost Shifts to Counties May Result. We note that counties are the provider of last resort for health services. Accordingly, they may experience increased demand for services they provide, to the extent that beneficiaries are unable to receive care under the Medi-Cal Program.

COPAYMENTS

Beneficiary Copayments Proposal Should Be Modified

We recommend modifying the proposal to charge copayments for services to certain Medi-Cal beneficiaries by (1) reducing the pharmacy dispensing fee for all prescriptions, irrespective of whether copayments can be collected, and (2) exempting from the copayment requirement outpatient clinic and physician services, thereby reducing the potential for primary care access problems and cost-shifting that might otherwise result. This will result in a net General Fund savings of $5.5 million in 1996-97. (Reduce Item 4260-101-0001 by $5,527,000.)

The budget assumes enactment of legislation that will result in savings of $46 million ($23 million General Fund) by requiring some Medi-Cal beneficiaries to pay copayments for certain Medi-Cal services, effective October 1, 1996.

Background. Current state law permits Medi-Cal providers to collect copayments for certain services. However, prior budgets have not assumed collection of the copayments because federal law prohibits providers from refusing services to a beneficiary if he or she cannot make a copayment.

Federal law also requires Medi-Cal to exempt beneficiaries in the following categories from copayment requirements:

- Children under the age of 21.
- Persons in a hospital or nursing facility.
- Women receiving perinatal care.
- Persons receiving emergency care or family planning services.
- Persons receiving Medi-Cal services from a health maintenance organization.

Budget Proposal. Similar to a proposal made by the Governor last year, the budget proposes to (1) require that providers charge copayments (unless the beneficiary indicates that he or she is unable to pay it), and (2) reduce Medi-Cal reimbursement rates to providers by the amount of the copayment required. The budget proposal would exempt from copayment requirements those categories of Medi-Cal beneficiaries that are exempted under federal law. Accordingly, the proposed copayments would apply to beneficiaries who are:

- Aged, blind, or disabled individuals residing at home.
- Adult parents of dependent children who are seeking routine (nonpregnancy-related, nonemergency) care.

Figure 16 (see next page) lists the services for which copayments would be charged, the amount of the copayments, and the department's estimate of the General Fund savings that will result in 1996-97 from reducing provider rates by the amount of the copayments.

Proposal Has Potential Drawbacks. The proposed legislation would not change the requirements in current federal law that prohibit providers from refusing to provide services to Medi-Cal beneficiaries if they cannot pay the copayment. Thus, to the extent beneficiaries are unwilling or unable to make the copayments, providers will receive a lower level of net reimbursements.

Most providers who would face reduced Medi-Cal rates under the proposal have not received Medi-Cal rate increases since 1985-86. Accordingly, even though the copayments are small, some providers (such as physicians and outpatient clinics) may respond to the rate reduction by refusing to provide services to Medi-Cal beneficiaries, thereby reducing access to primary care under the Medi-Cal Program. This, in turn, could result in additional costs to Medi-Cal, to the extent that beneficiaries do not receive primary care (or do not seek it due to the copayment requirement) and develop more serious illnesses that require emergency inpatient services.

Figure 16

Medi-Cal Program
Proposed Beneficiary Copayments
1996-97

Service	Copayment Amount	General Fund Savings (In Thousands)
Prescription drugs	$0.50 to $3	$12,434
Physician services	2	4,164
Dental services	3	2,488
Hospital outpatient services	5	1,375
Clinic services	1 to 3	800
Optometry services	2 to 3	735
Home health services	3	599
Durable medical equipment	3	212
Prosthetics and orthotics	3	86
Hearing aids	3	39
Other	—	85
Total		**$23,017**

Given these potential drawbacks, we recommend that the Legislature modify the budget proposal, as discussed below.

Expand Pharmacist Rate Reduction. First, as Figure 16 shows, most of the savings from copayments are attributable to reducing the "dispensing fee" that is paid to pharmacists each time they fill a prescription. The current Medi-Cal reimbursement for each prescription is $3.55, plus ingredient costs for the drug. We note that this amount is significantly higher than the amount paid by other "third-party" payers. For example, the state's Public Employees' Retirement System negotiates with health care service plans and, on average, reimburses pharmacists $2.55 per prescription (plus drug ingredient costs)—$1 *below* the Medi-Cal reimbursement rate.

Accordingly, we believe the administration's proposal should be modified to eliminate the additional amount currently paid to pharmacists. Specifically, because the pharmacy dispensing fee is above the rate paid by other third-party payers, we recommend that the Legislature authorize copayments on drugs and reduce the dispensing fee paid to pharmacists by $1 per prescription for *all* beneficiaries, irrespective of whether the pharmacist can charge a copayment. The reduced rate should take effect on August 1, 1996 rather than in October as the budget proposes.

We note that the per-prescription reimbursement we recommend ($2.55) essentially conforms the Medi-Cal reimbursement rate to the level currently paid by non-Medi-Cal providers—even if pharmacists are unable to collect *any* copayments. Thus, we do not believe the proposal would adversely affect beneficiary access to prescription drugs. We estimate that this action, together with the earlier implementation date, would result in General Fund savings of $10.5 million above the savings proposed in the budget.

Exempt Physician and Clinic Services. We also recommend that a portion of these savings be redirected to eliminate the proposed copayments in those cases where, in our judgment, the potential for primary care access problems and cost-shifting is most clearly an issue—specifically for physician and clinic services. This component of our recommendation would reduce the budgeted level of savings by $5 million from the General Fund.

Impact of Recommendation. The net result of these recommendations would be an additional General Fund reduction of $5.5 million beyond the amount assumed in the budget. In summary, our recommendation would (1) fully conform the Medi-Cal pharmacy dispensing fee to levels paid by other payers, (2) reduce the potential for primary care access problems and cost-shifting, and (3) achieve an additional General Fund savings of $5.5 million.

LONG-TERM CARE

Budget Proposes "Distinct Part" Facility Rate Reduction

The budget assumes enactment of federal legislation that would permit the state to reduce reimbursement rates for "distinct part" nursing facilities, for a General Fund savings of $25.7 million in 1996-97.

The budget proposes to reduce, by an average of 20 percent, the reimbursement rates paid to nursing facilities that operate as a "distinct part" of a hospital, for a General Fund savings of $25.7 million in the budget year. Currently, these facilities receive, on average, nearly three times the reimbursement rate paid to freestanding nursing facilities (about $215 per day in distinct part facilities versus about $75 per day in freestanding facilities). The higher rates for distinct part facilities are due to a number of factors, including much higher overhead and labor costs associated with a large hospital.

Under federal law (specifically, a provision commonly referred to as the "Boren amendment"), hospital and nursing facility reimbursement rates paid by Medi-Cal must be "reasonably sufficient to cover the costs of an efficiently and economically operated facility." In general, this requirement has been interpreted to require reimbursement of facilities, including "distinct part" nursing facilities, on the basis of reported actual costs. Thus, in order to reduce distinct part reimbursement rates, the department would need to (1) demonstrate that existing rates exceed the costs to operate these facilities or (2) change a federal law. The budget assumes enactment of federal legislation to repeal the Boren amendment. Such a provision is included in the pending Medicaid reform legislation.

Nursing Facility Contracting Program Could Result in Savings

We recommend enactment of legislation to establish a contracting program for nursing facilities similar to the program currently in place for hospitals, for an estimated net General Fund savings of $9.8 million in 1996-97. (Reduce Item 4260-101-0001 by $10,000,000 and increase Item 4270-001-0001 by $175,000.)

In response to recommendations that we made in our *Analysis of the 1995-96 Budget Bill*, the Legislature adopted supplemental report language requiring the CMAC to evaluate the feasibility of implementing a program of contracting for nursing facility services in the Medi-Cal Program. The commission's report concluded: "A contracting program for the purchase of Medi-Cal skilled nursing services is feasible. There does not appear to be any unique aspect of skilled nursing facilities which would rule out the possibility of conducting competitive negotiations for the purchase of Medi-Cal SNF (skilled nursing facility) services."

Background—Hospital Reimbursement Rates. The CMAC negotiates reimbursement rates with hospitals for inpatient services provided to Medi-Cal beneficiaries. It is generally acknowledged that the commission has been successful in negotiating rates that are lower than those which would otherwise be provided.

We believe the primary reason the CMAC has been able to negotiate savings is due to generally low occupancy rates in California hospitals (frequently less than 50 percent). In effect, the low occupancy rates result in a "buyer's market" for hospital inpatient services, which the CMAC has used to its advantage in negotiating reimbursement rates. Accordingly, most hospitals in California have negotiated rates that are significantly lower than the "cost-based" rate in order to (1) attract the volume of patients who are eligible for Medi-Cal and (2) in many cases, gain access to federal disproportionate share hospital supplemental payments.

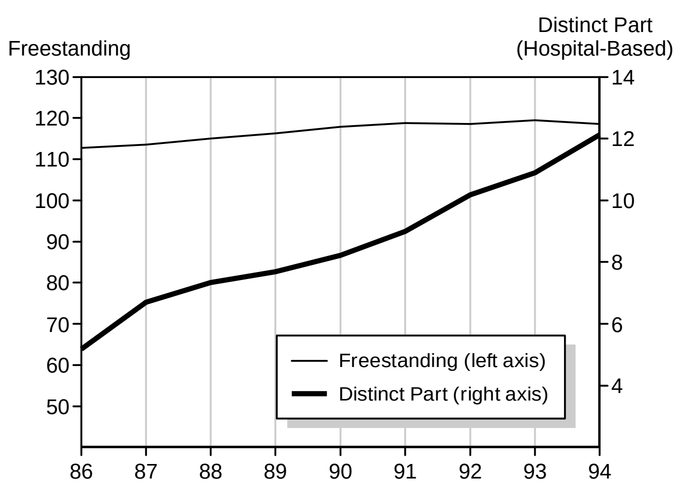
Nursing Facilities. As Figure 17 shows, the number of distinct part (hospital-based) nursing facility beds has more than doubled since 1986, increasing from about 5,000 licensed beds in 1986 to over 12,000 beds in 1994. In contrast, the number of freestanding nursing facility beds has remained fairly steady, increasing by about 1 percent annually over the eight-year period. In other words, hospital-based nursing facility capacity has grown at over ten times the rate of freestanding facilities.

As noted previously in our analysis, Medi-Cal reimburses distinct part facilities at a rate nearly three times the amount it pays for services provided to beneficiaries who receive care in freestanding facilities. This higher reimbursement rate for distinct part facilities almost certainly explains some of the growth in these facilities.

Figure 17

Nursing Facility Capacity By Type of Facility

Licensed Beds (In Thousands)



Opportunity Exists for Contracting. Currently, the CMAC does not negotiate rates for long-term care (nursing facility) services. We believe that if a contracting system were implemented for nursing facilities, rate reductions could be achieved because (1) Medi-Cal Program reimbursement provides nursing facilities approximately 65 percent of the revenues they receive, and (2) excess capacity exists in several regions of the state. The statewide average occupancy rate for freestanding nursing facilities has steadily declined from 93 percent in 1986 to about 85 percent in 1994, and the occupancy rate for distinct part nursing facilities declined from 82 percent to 78 percent over the same period.

We also note that the contracting approach has an advantage over across-the-board rate setting, in that the rate would not need to be uniform across the state. This is particularly important because approximately one-third of distinct part facility reimbursements are paid to county-operated facilities and those in rural areas of the state. As a result, under contracting, the state would have the flexibility to achieve lower reimbursement rates in many cases, while retaining the ability to pay higher rates in cases where other policy objectives—such as maintaining access to acute care hospitals in rural areas—are considered to outweigh the need to achieve Medi-Cal Program savings.

Analyst's Recommendation. To take advantage of market conditions, contain growth in the number of higher-cost facilities, and increase state rate flexibility, we recommend enactment of legislation requiring the CMAC to negotiate Medi-Cal reimbursement rates for nursing facilities in those areas of the state where they believe savings can be achieved without adversely affecting access to services.

Although it is not possible to estimate the precise magnitude of savings that could be achieved through CMAC contracting with nursing facilities, we believe it is reasonable to assume General Fund savings of $10 million, or approximately 1 percent of expenditures, for 1996-97. We believe the state will achieve significant savings in subsequent years after full implementation of the contracting program. We further recommend an augmentation of $175,000 from the General Fund, to be matched with federal funds, for four new positions at the CMAC to support the contracting program.

We note that this proposal would require a federal waiver; however, the state has obtained such a waiver to negotiate rates with hospitals. Further, as indicated previously, the budget assumes passage of federal legislation to repeal the Boren amendment, which would eliminate the need for a waiver.

Expansion of the "Assisted Living" Model Could Result in Savings

We recommend that the department report, during the budget hearings, on the feasibility of expanding the "assisted living" model of service delivery in order to allow the provision of certain medical services to long-term care Medi-Cal beneficiaries in less restrictive and less costly residential settings (community care facilities rather than nursing facilities).

In California, a continuum of care is available to individuals in need of long-term care. The continuum ranges from certain community care facilities, which provide relatively little medical care, to health facilities such as nursing homes, which do provide medical services. While state law does not specifically define "assisted living" facilities, the concept is generally associated with residential community care facilities serving persons in need of long-term care services. Long-term care recipients are the most expensive group of Medi-Cal recipients, on a per-case basis; while they are an estimated 1.3 percent of the caseload, they account for 17 percent of expenditures for 1995-96. In this analysis, we examine one alternative for reducing these costs by expanding the assisted living concept to include health care services provided to individuals in community care facilities.

Current Long-Term Care Placement Options. Community care facilities include nonmedical residential care facilities which provide incidental medical services (for example, assistance with self-administered medications), room and board, basic supervision, and personal care services. In general, financially needy elderly and disabled individuals residing in community care facilities are eligible for SSI/SSP, and in turn are eligible for the Medi-Cal Program. Generally, these health services cannot be provided in the community care facility. However, health care services may be provided on a short-term basis to individuals residing in community care facilities if they are helping individuals transition from a hospital or nursing facility to community living.

Individuals requiring more intensive medical care are not considered appropriate for acceptance in a community care facility, and instead must be referred to health facilities such as nursing homes. Services for financially needy elderly and disabled individuals residing in nursing facilities are funded primarily by the Medi-Cal Program. Nursing facility rates range from $75 per day in freestanding facilities to $215 per day for distinct part (hospital-based) facilities.

Federal Medicaid Waiver Programs. Currently, the state operates various federal Medicaid waiver programs that target specific population groups. The waivers enable the state to avoid certain federal requirements and allow the provision of services to individuals who, absent these services, would be institutionalized in a hospital or nursing facility. The current waiver programs generally provide health care services to Medi-Cal beneficiaries residing in a *home,* but not in a community care facility.

The "Assisted Living" Model. The waiver programs in California focus on in-home care, where feasible. Several states, however, have reported significant savings by substituting community-based care, containing a medical component (generally called "assisted living" arrangements) for institutional, or nursing home, services.

There are several ways the state could expand the "assisted living" concept to provide health care services to long-term care Medi-Cal beneficiaries in a less restrictive setting. One alternative would be to seek federal funds, through a Medicaid waiver program, to provide certain long-term medical services for Medi-Cal beneficiaries residing in community care facilities. Alternatively, a state-only program could be established to pay for specific medical services in certain circumstances, when providing these services would be less costly than serving the patient in a nursing facility.

We note that the DHS is currently reviewing other states' activities in this area and analyzing the fiscal impact of various alternatives. Consequently, we recommend that the department report, during budget hearings, on the feasibility of expanding the "assisted living" model and, if expanded, the fiscal impact on the Medi-Cal Program.

FAMILY PLANNING

Legislature Needs Additional Information on Family Planning Proposal

We withhold recommendation on the $20 million proposed to consolidate and expand the family planning programs, pending review of additional information.

The budget proposes a $20 million General Fund augmentation to establish a "state-only" Medi-Cal family planning program, effective January 1, 1997. These funds would be combined with $23 million from the General Fund proposed to be redirected from the Office of Family Planning (OFP). (While the budget refers to the new program as a "state-only" program, we note that Medi-Cal beneficiaries receiving services under this program would continue to generate federal funds.)

Background. As Figure 18 (see page 51) shows, the DHS presently offers family planning services through two programs—the Medi-Cal

Program for persons meeting the Medi-Cal eligibility criteria (generally AFDC-linked beneficiaries) and the OFP for low-income, non-Medi-Cal eligible persons.

Family planning services, under both programs, include contraceptive services and supplies, and certain health screens, testing, and treatment services. In addition, the OFP program offers more comprehensive education and counseling on reproductive health-related issues, such as sexually transmitted diseases. Family planning services do not include abortions or prenatal care services.

Governor's Proposal. The administration proposes to combine the two state programs currently providing family planning services into one program to be jointly administered by Medi-Cal and the OFP. Under the proposal, the Medi-Cal Program would be responsible for fiscal administration and fraud prevention, while the OFP would develop policies, monitor quality of care, develop outreach and awareness campaigns, and perform program evaluations.

The new program would provide family planning services to all persons with family incomes at or below 200 percent of poverty and at risk of unintended pregnancy. (A person is at risk of unintended pregnancy if he or she is sexually active, not sterilized, and not seeking pregnancy.)

The key features of the program include:

- ***Expansion of Access to Services***. The new program would establish a state entitlement to family planning services for low-income, non-Medi-Cal eligible individuals, in effect changing the “capped” program to an entitlement program. Also, eliminating the requirement that OFP contract for providers specifically to serve non-Medi-Cal clients, the administration anticipates that more Medi-Cal providers will offer services to the non-Medi-Cal population.
- ***Eligibility Determination and Funding.*** Program eligibility would be determined by the provider at point of service, based on a person's self-declaration of income, family size, and other sources of health insurance for the state-only program. Medi-Cal eligibility, however, would continue to be determined by county welfare departments. The state would not receive federal funds to serve non-Medi-Cal clients. The providers would be requested to obtain a social security number from each program participant in order for the billing system to cross-reference Medi-Cal data files and claim federal reimbursement, when appropriate.

- ***Reimbursement Rates.*** The administration proposes to increase the OFP provider reimbursement rate (currently an average of $120 per person) to conform with the estimated annual cost of providing the same services to Medi-Cal beneficiaries ($160)—an increase of 33 percent.

- ***Billing System.*** Provider claims for program participants would be reimbursed through the Medi-Cal billing system. The DHS indicates that, at this time, it has not determined if costs would be reimbursed based on individual procedures (the Medi-Cal system) or a fixed rate for a group of services (the OFP system). According to the DHS, this proposal would require programming modifications to the current billing system.

Figure 18 shows the key features of the current OFP and Medi-Cal programs, as well as the proposed new program.

Significant Caseload Increases Projected. The administration proposes several initiatives designed to reduce the number of unwed and teenage pregnancies. This includes additional funding for a statewide media campaign, a new program to award grants to local entities, and development of school curricula. (See our analysis of Public Health programs.) The administration anticipates that these efforts will increase the demand for family planning services. Based, in part, on these proposals, the department projects a significant increase in the number of persons seeking family planning services. The department estimates that 1.3 million low-income women in California are at risk of unintended pregnancy and in need of family planning services. The administration's proposal to expand family planning services assumes *100 percent* of these women will receive services when the program is fully implemented in 1997-98.

The department estimates that the non-Medi-Cal component of the program would serve an additional 37,000 persons in the budget year and 127,000 in 1997-98 when the program is fully implemented. The Medi-Cal component (90 percent federal funds and 10 percent General Fund) would serve an additional 119,000 persons in the budget year and 409,000 in 1997-98. The estimates for 1997-98 represent significant increases over the current year—31 percent for the non-Medi-Cal component and 126 percent for the Medi-Cal component.

We note that the above caseload increases would not represent a net increase in the total number of persons receiving family planning services because some persons served in the new program would have otherwise received these services through county health departments or private clinics. Thus, to some extent the proposal would represent a cost shift from counties and private clinics to the state.

Figure 18

Family Planning Programs
Current Programs and the Proposed New Program

Program	Office of Family Planning (OFP)	Medi-Cal Program	New Program
Eligibility criteria	Persons ineligible for Medi-Cal, with incomes at or below 200 percent of the federal poverty level	Individuals who meet Medi-Cal eligibility criteria; generally, AFDC-linked beneficiaries below 200 percent of poverty	Same as OFP and Medi-Cal
Eligibility determination	By the provider at point of service	County welfare department	Same as OFP (Medi-Cal for full scope services)
Average annual caseload	417,000	324,000	897,000 in 1996-97 and 1.3 million in 1997-98
Estimated annual expenditures	$46 million General Fund in 1995-96 and $23 million in 1996-97 (and $23 million redirected to new program)	Not available	$43 million General Fund (including redirection from OFP), plus Medi-Cal costs, in 1996-97
Estimated annual cost per eligible	$120	$160	$160
Scope of benefits	Contraceptive services and supplies, certain health screens, testing, treatment, and education and counseling on reproductive health-related issues	Same as OFP, except less comprehensive education and counseling services	Same as OFP
Copayment or share of cost (SOC)	Persons with incomes over 100 percent of poverty pay a copayment, but cannot be denied services if they do not make the copayment	No SOC for most AFDC-linked beneficiaries; a SOC is required of “medically needy” AFDC eligibles (less than 1 percent of caseload)	Same as OFP
Providers	• Contracts with 114 agencies (over 400 program sites) in 55 counties • All OFP providers are Medi-Cal certified providers	All Medi-Cal providers offer family planning services	Same as Medi-Cal and OFP
Provider reimbursement system	Annual contract in which providers receive a per capita payment	Fee-for-service claims through the Medi-Cal billing system; capitation rates for persons in managed care arrangements	Billing through the Medi-Cal system

Funding. The budget proposes a $20 million General Fund augmentation to establish the new program. Figure 19 shows the components of the proposed augmentation, based on a preliminary fiscal analysis provided by the department.

Figure 19

Proposed Family Planning Program General Fund Augmentation 1996-97

(Dollars in Thousands)

Activity	Cost
Increase in the provider rate for the OFP caseload	$8,340
Increase in the non-Medi-Cal eligible caseload	5,938
Increase in the Medi-Cal eligible caseload	3,100
New cost to the Medi-Cal billing system for the OFP caseload	865
Other (unspecified)	1,757
Total	**$20,000**

We note that, in order to fully fund the program, the department projects it would need an additional $27 million (General Fund) in 1997-98.

Issues Concerning the Proposal. The DHS indicates that the proposal is still under development and certain programmatic and fiscal details are presently unavailable for review. We believe that the general concept of expanding family planning services has merit, based on the goal of reducing unintended pregnancies and the associated savings in other programs, such as welfare. We withhold recommendation at this time, however, due to the following concerns:

- ***Access.*** The proposal assumes a significant increase in the state's family planning caseload. The department, however, has not provided information needed to assess whether there will be sufficient providers to serve the additional caseload. For example, we do not have sufficient information on the number and geographical distribution of existing Medi-Cal providers that offer family planning services and that, under the new program, would be expected to expand services to the non-Medi-Cal eligible population.

- ***Caseload and Utilization.*** Based on our review, we believe the department's estimate of the number of women at risk of unintended pregnancy and in need of services (1.3 million) is *understated* by about 390,000. On the other hand, we believe that assuming 100 percent of the eligible women would obtain family planning services in the new program is unrealistic. We note, for example, that the department projects an increase of 126 percent in Medi-Cal beneficiaries seeking family planning services. These beneficiaries, however, currently are entitled to such services, and almost all of them can be served without a required share of cost.

- ***Provider Rate Increase.*** It is not clear why the OFP provider rates should be increased to the level of the Medi-Cal providers. We believe that other alternatives—either a dual rate or a lower single rate—should be explored.

- ***Costs Are Uncertain.*** The DHS has provided only a preliminary analysis of the fiscal impact of the proposal. In addition, costs are subject to considerable uncertainty, due to assumptions regarding caseload mix (state-funded non-Medi-Cal versus federally funded Medi-Cal beneficiaries) and utilization. We also note that the proposal includes $1.8 million for activities that have not been identified.

- ***Medi-Cal Managed Care.*** The Medi-Cal managed care providers are funded for the provision of family planning services as part of their regular capitation rate. However, it is unclear whether the new system would be administered so as to ensure that double-funding will not occur when a Medi-Cal beneficiary enrolled in a managed care arrangement receives family planning services from a provider outside the managed care plan.

- ***Federal Waiver.*** Currently, as well as under the proposal, clients not eligible for Medi-Cal would not generate federal funds. Based on our review, however, the state could apply for a federal Medicaid waiver to provide federally funded family planning services to women not currently eligible for these services under the Medi-Cal Program. Under the existing program, pregnant women with family incomes up to 185 percent of poverty are eligible to receive Medi-Cal services for up to 60 days after delivery. Some states, such as Maryland, have received a federal waiver to provide these women with Medicaid family planning services for up to two years after delivery, with continuous eligibility so as to avoid eligibility redetermination costs. In addition, other states, such as New Mexico, have submitted waiver requests to provide family planning services to all women with family incomes up to 185 percent of poverty, with continuous eligibility for up to two years. Approval of such waivers would allow the state to receive reimbursement for costs with a sharing ratio of 90 percent federal funds and 10 percent General Fund.

We recommend that the department report prior to budget hearings concerning the issues we have raised. Pending a review of this information, we withhold recommendation on the proposal.

MANAGED CARE

Department Continues Major Expansion of Managed Care

Due to major program expansion, over half of all Medi-Cal beneficiaries are scheduled to be enrolled in a "managed care" arrangement by the end of 1996-97.

The department released a "strategic plan" in 1993 intended to rapidly move the Medi-Cal Program toward a "managed care" approach to providing Medi-Cal services throughout California. In this section, we review existing managed care arrangements and the department's strategy for expansion of managed care, and offer comments and recommendations for the Legislature's consideration.

Background. The Legislature and the department have, for several years, attempted to increase the number of Medi-Cal beneficiaries enrolled in managed care arrangements. In particular, legislation accompanying the 1992 Budget Act gave the department broad authority to expand managed care in California, with the goals of improving beneficiary access to care and making the Medi-Cal Program more cost-effective. The department anticipates this number will increase to 3.2 million beneficiaries (58 percent) of the 5.5 million total Medi-Cal eligibles by the end of 1996-97.

Under *managed care arrangements*, the Medi-Cal Program attempts to control costs by generally reimbursing providers on a "capitated," or per-person basis regardless of the number of services any given individual uses. In addition, the use of specialists and high-cost services requires a physician referral.

This approach contrasts with the *fee-for-service system*, where Medi-Cal pays providers for each service they provide, and the beneficiary has his or her choice in selecting providers. In a fee-for-service system, utilization is controlled by requiring prior authorization from the Medi-Cal field offices for the more expensive medical services.

The principal managed care arrangements are:

- ***Prepaid Health Plans (PHPs)***. Medi-Cal contracts with private PHPs to provide care to AFDC-linked beneficiaries. The PHPs are paid a monthly capitation payment, based on an estimate of the costs of serving beneficiaries in the fee-for-service system. CIGNA Health Plan, Foundation Health, and Kaiser Permanente are among the PHPs that have existing Medi-Cal contracts. The department generally has not entered into contracts to enroll SSI/SSP-linked beneficiaries in PHPs.

- ***County-Organized Health Systems (COHS)***. Under this approach, the county acts as a prepaid plan, serving all Medi-Cal beneficiaries in the county. The COHS receive a capitated rate for each beneficiary in the county, and assume full financial risk. Currently, Santa Barbara, San Mateo, and Solano Counties have fully implemented this approach. Orange County began operations in September 1995, while Santa Cruz County began operations in January 1996. Federal law precludes the department from creating additional county-organized systems in California beyond these five.

- ***Geographic Managed Care (GMC)***. Under this model, the Medi-Cal Program negotiates contracts directly with managed care plans to cover AFDC-linked beneficiaries within a specified area on a mandatory basis and SSI/SSP-linked beneficiaries on a voluntary basis, again applying a monthly rate based on the estimated cost of providing services to similar beneficiaries under the fee-for-service system. The department implemented this approach in Sacramento County in April 1994, and will implement a second project in San Diego County in January 1997.

- ***Primary Care Case Management (PCCM)***. Under this approach, individual physicians, physician groups, clinics, and other primary care providers enter into Medi-Cal contracts. PCCM plans are paid a fixed monthly fee (per person) to manage the care of the Medi-Cal beneficiaries enrolled in the plan. They approve referrals to specialists, nonemergency hospitalizations, and other high-cost procedures. If the costs of care for enrollees in a PCCM plan are less than the estimated fee-for-service costs would have been for similar beneficiaries, the PCCM plan receives a payment equal to half the estimated savings.

Principal Components of the Strategic Plan. The department's strategic plan proposed to expand the number of beneficiaries served under managed care arrangements in 1995-96 and 1996-97 primarily by:

- Implementing the COHS model in Orange and Santa Cruz Counties, and the GMC project in San Diego County. The estimated implementation date for the San Diego project, originally scheduled for December 1995, has been revised to January 1997.
- Requiring the expansion of managed care in 12 additional counties under the "two-plan model" which, in general, consists of (1) a locally organized health care system (a "local initiative") to serve up to 70 percent of most AFDC-linked Medi-Cal beneficiaries and all medically indigent children, and (2) a single commercial plan to serve the remaining AFDC-linked beneficiaries. Additional eligibility categories (such as SSI/SSP beneficiaries) may enroll on a voluntary basis. Several counties (including San Francisco, Riverside, and San Bernardino) have experienced delays in developing their local initiative projects. The department anticipates these local initiatives will be implemented in the first half of 1996-97, rather than in the current year.

Figure 20 shows the counties identified for mandatory expansion of managed care in 1995-96 and 1996-97, estimated implementation dates, and the number of affected Medi-Cal beneficiaries.

Targeting AFDC-Linked Beneficiaries Ignores Demonstrated Savings Potential

We recommend enactment of legislation requiring that managed care expansion in 12 counties include newly enrolled SSI/SSP-linked beneficiaries, rather than be at the counties' option as the department proposes.

The department's strategic plan focuses on services provided to AFDC-linked beneficiaries and medically indigent children. Additional eligibility categories may enroll at the beneficiary's option, including SSI/SSP-linked beneficiaries.

The department has provided information demonstrating that SSI/SSP-linked beneficiaries are among the eligibility groups where counties are most likely to achieve savings through managed care. According to the department, capitation rates paid to both San Mateo and Santa Barbara Counties in 1995 for their COHS were significantly *below* the fee-for-service equivalent for SSI/SSP-linked beneficiaries. This suggests that these counties have been able to achieve savings among the higher-cost beneficiaries—generally those who are linked to the SSI/SSP Program.

Figure 20

Counties Designated for Mandatory Implementation of Managed Care 1995-96 and 1996-97

County	Estimated Implementation Date: Local Initiative	Estimated Implementation Date: Commercial Plan(s)	Affected Beneficiaries
Two-plan model			
Alameda	1/96	6/96	132,409
Contra Costa	7/96	6/96	59,430
Fresno	NA	8/96	154,201
Kern	6/96	8/96	92,200
Los Angeles	10/96	8/96	1,223,147
Riverside	12/96	8/96	145,332
San Bernardino	12/96	8/96	243,733
San Francisco	10/96	6/96	54,859
San Joaquin	2/96	8/96	87,533
Santa Clara	7/96	6/96	123,137
Stanislaus	12/96	8/96	64,968
Tulare	4/96	6/96	73,538
COHS model			
Orange	9/95	NA	128,785
Santa Cruz	1/96	NA	12,465
GMC model			
San Diego	NA	1/97	205,815
Total			**2,801,552**

Source: DHS Medi-Cal Managed Care Division.

Accordingly, we believe that the department's efforts to expand managed care have neglected an area where savings potential exists: the high-cost groups of recipients. We recommend, therefore, the enactment of legislation requiring the inclusion of newly enrolled SSI/SSP-linked beneficiaries in the 12 counties. By limiting the requirement to new beneficiaries, concerns that managed care arrangements would disrupt established beneficiary relationships with a primary care physician would be largely avoided.

Budget Does Not Reflect Workload-Related Reductions Due to Managed Care Expansion

We recommend eliminating 48 positions in the department's Medi-Cal field offices and reducing the administrative claims processing

contract, to reflect the declining workload due to managed care expansion, for a General Fund savings of $3.3 million. (Reduce Item 4260-101-0001 by $3,280,000.)

The budget proposes expenditures of $28.1 million from all funds ($7.3 million General Fund) in 1996-97 for support of the Medi-Cal field office operations (495 positions). In addition, the budget proposes expenditures of $85.6 million from all funds ($27.5 million General Fund) in 1996-97 for the Medi-Cal claims processing contract.

As stated earlier in our analysis, the department is proceeding with a major expansion of managed care arrangements in the Medi-Cal Program. Consequently, many administrative functions performed for fee-for-service beneficiaries by the department or through contracts with private organizations will instead be administered by managed care providers pursuant to their contracts with the state. These functions include activities performed by Medi-Cal field office staff (such as reviewing and authorizing certain services) and administrative claims processing performed by a private organization under contract with the department. The budget, however, does not reflect the workload-related reductions in the department resulting from the assumption of these responsibilities by managed care providers.

We estimate that these workload reductions would amount to $2.7 million ($716,000 General Fund) for field office staff (48 positions) and $12 million ($2.6 million General Fund) in contract funds for claims processing in 1996-97. Accordingly, we recommend that the budget reflect these reductions for an estimated General Fund savings of $3.3 million.

We note that the department indicates that it is in the process of reviewing its staffing standards and the workload changes due to managed care expansion. We will review the department's findings, if available, prior to the budget hearings and will modify our recommendation, if appropriate.

Quality Review Contract Overbudgeted

We recommend that the amount proposed to contract for managed care quality reviews be reduced by $548,000 ($274,000 General Fund) in order to account for the effect of delays in implementing managed care. (Reduce Item 4260-001-0001 by $274,000.)

The budget proposes $1.4 million from all funds ($700,000 General Fund) for the department to contract for an independent review of the quality of services furnished under Medi-Cal managed care contracts, as required under federal law.

According to the department, a review of a managed care contract will not be initiated until the managed care provider has been operating for 12 months, in order to collect sufficient data. The budget proposal assumes that 34 managed care contracts will be in place for over one year and require an independent quality review during 1996-97. Because of delays in implementing managed care, however, we project that only 21 managed care contracts will be in place for over one year and require review in the budget year. Accordingly, we recommend a reduction of $584,000 in all funds ($274,000 from the General Fund).

PUBLIC HEALTH

The Department of Health Services (DHS) administers a broad range of public health programs. Some of these programs complement and support the activities of local health agencies controlling environmental hazards, preventing and controlling disease, and providing health services to populations who have special needs. Other programs are solely state-operated programs such as those which license health facilities.

The Governor's Budget proposes $1.5 billion (all funds) for public health local assistance. This represents an increase of $70 million, or 4.8 percent, from estimated current-year expenditures. The budget proposes $313 million from the General Fund, which is 1.3 percent above estimated current-year expenditures. This increase is due primarily to a proposed expansion of teenage pregnancy prevention programs.

Legislature Needs Increased Role in Proposed Teen Pregnancy Prevention Initiative

We recommend enactment of legislation specifying the criteria and guidelines for the proposed allocation of new teenage pregnancy prevention grants in order to ensure that the grants are awarded in a manner consistent with legislative intent. We also recommend that the department report at budget hearings on how it plans to ensure coordination between the proposed new program and an existing teenage pregnancy prevention program administered by the State Department of Education. We further recommend the adoption of Budget Bill language requiring the department to contract for an evaluation of the teenage pregnancy prevention media campaign, from funds proposed for expansion of this program.

Budget Proposal. The budget proposes a $46 million General Fund augmentation, and a $5 million General Fund redirection from the Education Now and Babies Later (ENABL) program, to develop and expand teen pregnancy prevention strategies. Specifically, the budget proposes to fund the following programs:

- ***Community Challenge Grants—$34 Million.*** The budget proposes $34 million to contract with a newly-created private, nonprofit foundation to allocate grants for local teen pregnancy prevention efforts. The newly-established foundation would award grants to public and private organizations, which in turn would be required to match a portion of their grant monies with other funding sources. In addition to awarding grants, the foundation would be responsible for a variety of other activities, including (1) establishing guidelines and criteria for grant awards, (2) determining the amount and duration of grant awards, (3) developing criteria for measuring outcomes and monitoring success, and (4) evaluating the performance of grant awards. The Governor proposes to appoint the chair of the foundation, with the board yet to be determined. The administration indicates that the use of a non-profit foundation instead of a state agency offers more administrative flexibility, which would encourage community and private sector participation.

- ***Media Campaign—$10 Million.*** The administration proposes a $10 million increase for the teen pregnancy prevention media campaign, which received $5.8 million in the current year. This program augmentation includes a $5 million General Fund redirection from the ENABL program, which the administration proposes to terminate (as discussed below). The department indicates that the media campaign would promote responsible teen behavior in three ways. First, it would promote education and raise awareness about the problem of teen pregnancy and its impact on the state. Second, it would provide specific solutions by focusing on: abstinence, parent and teen communication, and male responsibility. Third, the media campaign would encourage public involvement in local-level teen pregnancy prevention activities. The administration also proposes to establish an "Ad Alliance" comprised of members from the advertising, communications, and media industries, as well as community-based organizations and non-profit foundations. The Ad Alliance would serve as an advisory body to the Health and Welfare Agency (which would oversee the department's implementation of the media campaign) and help the department solicit private support to increase media exposure on the problems of teen pregnancy.

- ***Abstinence Curricula—$1 Million.*** The budget proposes $1 million from the General Fund for developing and implementing two abstinence-oriented programs, which would be implemented in selected schools in high-risk communities. These programs would replace the ENABL program, which a recent study found ineffective at reducing the teen pregnancy rate among program participants. The administration has not indicated whether these curricula would be developed under contract or by the department.

- ***Vertical Prosecution of Statutory Rape—$6 Million.*** The administration proposes a $6 million increase (250 percent) for the "vertical prosecution" grant program, which provides funds for district attorneys to prosecute statutory rape cases. Although the Governor's Budget proposes that these monies be appropriated to the DHS, the administration indicates it plans to amend the budget so the funds would be appropriated to the Office of Criminal Justice Planning, which currently administers the program.

Prevention Plan Could Serve as Model for Challenge Grants Program. The Community Challenge Grants Program represents a major initiative based on a new approach. The proposal, however, provides no detail on the process under which the new foundation would operate. With this in mind, we summarize below the basic features of a model prevention plan, adapted from the state's HIV Prevention Community Planning Process. This process was developed by the federal Centers for Disease Control and Prevention (CDC) to provide states with guidelines for implementing at the community level certain HIV prevention efforts. California's planning process was subsequently recognized by the CDC as one of the top two statewide applications of the model. The components of this community planning process are general enough to apply to any grant process including the Community Challenge Grant Program. The key components are as follows:

- ***Participatory Planning.*** The state's planning process should involve state and local-level community planning working groups (CPWGs), which include a broad representation of various groups. These planning groups should be responsible for developing a prevention plan for a target area.

- ***Profile of Target Populations.*** The first step of the community planning process should be to develop a profile of the targeted area in order to identify and locate at-risk populations.

- ***Needs Assessment.*** The state and the local-level CPWGs should assess existing community programs and activities, and identify areas with unmet need.

- ***Interventions and Strategies.*** The state and local-level CPWGs should determine what programs would be most effective for the targeted populations.

- ***Priority Setting.*** The state and local-level CPWGs should determine funding priorities based on various criteria, including: (1) the documented need within the targeted community, (2) projected outcomes, (3) projected cost effectiveness, (4) validity of the scientific theory on which the strategies and interventions are based, (5) incorporation of the values and consumer preferences of targeted communities, and (6) the availability of other resources.

- ***Coordination and Linkages.*** The state and local-level CPWGs should promote linkages between grant recipients and other programs to better coordinate services.
- ***Technical Assistance.*** The state and local-level CPWGs should provide technical assistance.
- ***Monitoring and Evaluation.*** The state and local-level CPWGs should either conduct or contract out for program evaluations.

Issues Concerning the Budget Proposal. Based on our review, we have identified the following issues concerning the proposal:

- ***Legislative Oversight.*** The proposal does not provide sufficient legislative oversight over the expenditure of funds. Specifically, the Legislature has no role in determining the criteria and guidelines for allocating the grants.
- ***Private Foundation.*** The proposal does not provide any details on the private foundation, including (1) how it would be held accountable, (2) the extent to which it would result in greater flexibility and private participation than would a state agency, and (3) how its board members will be selected.
- ***Coordination.*** The proposal does not ensure coordination between the foundation and the State Department of Education, which currently awards $10 million in grants to schools through its Teenage Pregnancy Prevention Grant Program. Thus, the proposal could result in duplication of effort.
- ***Evaluation.*** The proposal has no provision for evaluating the effectiveness of the media campaign.

Recommendations. Establishing a new program such as this raises a number of implementation issues, as discussed above. We recommend enactment of legislation to specify the criteria and guidelines for the proposed allocation of teenage pregnancy prevention grants in order to ensure that the grants are allocated in a manner consistent with legislative intent and that the Legislature is provided with information and data on program performance. The model presented above could facilitate the development of criteria for the allocation of grants.

We also recommend that the department report, during budget hearings, on how it plans to coordinate the proposed foundation and an existing teenage pregnancy prevention program administered by the State Department of Education. We further recommend the adoption of Budget Bill language requiring that the department contract for an evaluation of the teenage pregnancy prevention media campaign, from funds proposed for expansion of this program. The following Budget Bill language is consistent with our recommendation:

> Of the funds appropriated for the teen pregnancy prevention media campaign, up to $500,000 shall be available for the department to contract for a comprehensive evaluation of the media campaign's effectiveness in promoting responsible teen behavior and reducing teen pregnancy rates.

Shelter Program Positions Not Justified

We recommend deleting three existing positions and one proposed position for the Battered Women Shelter Program, for a General Fund savings of $250,000, because they are not justified on a workload basis. (Reduce Item 4280-001-0001 by $250,000.)

Background. The Battered Women Shelter Program (BWSP), established by Ch 140/94 (AB 167, B. Friedman), provides grants to battered women's shelters. Chapter 599, Statutes of 1994 (AB 801, B. Friedman) required that half of the $11.5 million (General Fund) appropriated for the program in 1994-95 be used to augment the existing 86 state-supported shelters, and that the remainder (less state operations) go towards expanding existing services or creating new ones. These services include (1) emergency shelter for women and children, (2) transitional housing programs that could offer counseling, classes, and job training and placement, (3) legal advocacy and other types of representation, and (4) other support services as identified by an advisory council.

Budget Proposal. The budget proposes a $5 million General Fund augmentation (a 43 percent increase over the current year) to establish a domestic violence prevention component of the program. This includes $250,000 for four new positions in the Department of Health Services, $2.9 million for a multi-media campaign against domestic violence, and $1.9 million for a community education and intervention grant program. The department currently has nine positions to administer the program. We recommend deleting four positions (three existing and one new position) for the following reasons.

Current Program Workload. Our review indicates that the Office of Criminal Justice Planning (OCJP) administers a domestic violence program similar to the BWSP, but with fewer staff. Like the BWSP, the OCJP program develops Requests for Proposals for grant awards, offers technical assistance to grantees, and monitors and evaluates local programs. In the current year, the OCJP program awarded 86 grants to shelters, compared to the 96 grants awarded by the BWSP. However, the OCJP administers its domestic violence program with five positions, compared to the DHS's current-year staffing of nine positions for the BWSP. Using the number of grants awarded as a workload indicator, we conclude that the existing BWSP could be staffed by six positions.

We also note that the workload required to maintain the existing BWSP in the budget year should be somewhat less than in the current year. This is because the program experienced some one-time start-up activities in the current year, which would not occur in the budget year. These one-time activities include the development of regulations and criteria for evaluating requests for proposals.

Based on these findings, we conclude that the ongoing component of the BWSP can be adequately staffed by six positions, or three less than proposed.

Prevention Component Needs Fewer Staff. The proposal to add a prevention component will increase workload to the BWSP, for which there is no OCJP counterpart. We believe that this additional workload would justify three new positions rather than the four proposed by the budget. Specifically, using the department's estimated number of grants to be awarded as a workload indicator (30 to 50 grants), we estimate the new workload represents between one-third and one-half of the current workload for the BWSP. Since we estimate that the current workload justifies six positions, we recommend approval of three positions for the new program component, or one less than proposed in the budget year.

Recommendation. In summary, we recommend deleting four of the 13 positions proposed for the BWSP because they are not justified by the program's workload. This would result in a General Fund savings of $250,000. We note that, alternatively, the Legislature could choose to redirect these monies for local assistance in the program.

Department's Plan to Evaluate Program Should Be Reviewed by Legislature

We recommend that the department report at budget hearings on (1) its plan to evaluate the Battered Women Shelter Program and (2) the feasibility of expanding the evaluation to encompass the newly proposed prevention component of the program and the related domestic violence program administered by the Office of Criminal Justice Planning.

The department plans to contract in the next few months for an evaluation of the BWSP. As proposed, this evaluation will review the effectiveness of the department's shelter-based grant program, based on outcome measures developed by a DHS-sponsored "working group" comprised of shelter providers and researchers. The department intends to fund the evaluation by redirecting $250,000 that is expected to be unexpended in the current and budget years.

While we agree that an evaluation of the program has merit, we believe that the Legislature should consider the proposal during the budget hearings. In particular, we believe that the department's evaluation plan is too narrow in scope in that it omits the proposed prevention component of the program and the domestic violence program administered by the Office of Criminal Justice Planning (OCJP). Accordingly, we recommend that the department report at budget hearings on the evaluation plan and the feasibility (including estimated costs and potential funding sources) of expanding the evaluation to include these other programs.

AIDS Drug Assistance Program Faces Potential Shortfall

We withhold recommendation on the budget for the AIDS Drug Assistance Program, pending review of updated expenditure data, because recent data suggest that the amount proposed may not be sufficient. Further, we recommend that the department report, during budget hearings, on whether it intends to add two recently-approved drugs to the program drug formulary and, if so, how this will affect program costs. Finally we present some options for the Legislature that could reduce the costs of the program.

The AIDS Drug Assistance Program (ADAP) provides AIDS drugs to HIV-infected persons with (1) incomes below 400 percent of the poverty level, (2) valid prescriptions from a California licensed physician, and (3) no coverage under Medi-Cal or other insurance. Persons with incomes between 400 percent of poverty ($29,880 for one individual) and $50,000 may also receive drugs through the ADAP at a share of cost.

The budget proposes a total of $17.5 million ($9.1 million General Fund) to support the ADAP in 1996-97. This is the same level of support estimated for the program in the current year.

Department Expands ADAP Formulary. Through an administrative decision in March 1995, the department added 18 drugs to the ADAP drug "formulary," bringing the total to 43 drugs. Although the department estimated that this expansion would cost $3.8 million annually, it did not expect to require additional funding because it projected (1) lower utilization of certain other AIDS drugs that were reported to be ineffective by some studies and (2) lower costs for certain AIDS drugs.

However, recent spending trends and reports from several counties indicate that utilization and costs of the ADAP have increased in the current year. This unexpected increase is primarily due to the following:

- ***Greater Use of Combination Drug Therapy.*** Combination drug therapy, which involves the use of two or more AIDS drugs simultaneously to combat the disease, has gained popularity since the 1995 publication of several studies indicating its effectiveness.

- ***Higher Than Projected Use of the New Drugs.*** According to several counties, ADAP expenditures increased significantly after the addition of the 18 new drugs to the formulary in March 1995. Orange County, for example, indicates that its ADAP expenditures increased by approximately 56 percent from March to April 1995.

- ***Increased Caseload.*** The department acknowledges that the ADAP caseload may exceed earlier projections because of (1) improved outreach efforts in the current year, and (2) greater drug access with the addition of more ADAP-approved drug dispensing centers.

Potential Shortfall in Budget. At the time this analysis was prepared, actual expenditure data for the ADAP was available only for 1994-95. We note, however, that expenditures increased significantly in the fourth quarter of that year, probably due in part to the addition of the new drugs to the formulary. If expenditures remain at this higher level, the amount budgeted for the ADAP in the current and budget years will be short by about $3 million per year. Accordingly, we withhold recommendation on the ADAP's budget, pending a review of current-year quarterly expenditure data that should be available prior to budget hearings.

Options for the ADAP. Recognizing that the ADAP may outspend its budget in the current and budget years, we present below some options for addressing ADAP costs.

- ***Change Eligibility Requirements.*** Currently, the state is required to provide AIDS drug assistance to all persons meeting the ADAP's eligibility requirements. The state, however, may change the eligibility requirements in order to achieve savings which could be redirected within the ADAP. One option is to eliminate or restrict ADAP eligibility for the estimated 12 percent of clients with incomes above 200 percent of poverty. We note that most state-funded health services programs restrict eligibility to those with incomes at or below 200 percent of poverty.

- ***Reduce or Restrict Access to Certain Drugs.*** There currently are 43 AIDS drugs on the ADAP formulary, which includes some high cost drugs that have less expensive substitutes. The state could eliminate or restrict access to some of these high cost drugs to achieve savings which could be redirected within the ADAP. In addition, the state could cap the amount of drug assistance an ADAP client receives based on a certain dollar amount per year.
- ***Pursue Drug Rebates.*** Our review of the ADAP indicates that the state may be eligible for rebates from AIDS drug manufacturers, based on provisions of federal law. The department in the current year plans to pursue negotiations with several drug manufacturers to obtain rebates, which may be available on a retroactive basis. These rebates could result in several million dollars in retroactive savings, with up to $2 million in annual savings to the program.

New AIDS Drugs Approved By FDA. As of December 1995, the Food and Drug Administration (FDA) approved the sale of 3TC and saquinavir, two new AIDS drugs for use in conjunction with the AIDS drug AZT, which an estimated 56 percent of ADAP's clients currently use. The department currently is considering whether it will add these drugs to the ADAP formulary. We note that adding these new AIDS drugs—which some researchers claim will help combat the AIDS virus—could substantially increase expenditures for the ADAP. We recommend that the department report at budget hearings on whether it plans to include the two new AIDS drugs in the ADAP drug formulary and, if so, how this will affect program costs.

Reauthorization of Proposition 99 Funding

Legislation appropriating Proposition 99 funds sunsets June 30, 1996. The Governor proposes legislation to change the Proposition 99 funding formula in order to allocate funds in a manner similar to legislation that was enacted in 1995, but subsequently enjoined by the courts.

We present some options for the Legislature to consider in appropriating Proposition 99 funds for 1996-97.

Background. Proposition 99, the Tobacco and Health Protection Act of 1988, established a surtax on cigarette and tobacco products sold in California. The proposition allocates proceeds from the surtax to six accounts within the Cigarette and Tobacco Products Surtax Fund (C&T Fund) based on specified percentages. These funds are available for appropriation by the Legislature for a variety of purposes, including tobacco-related education and research, indigent health care, and habitat conservation.

In recent years, the state appropriated for various health services programs some of the Proposition 99 funds that would have otherwise gone for health education and research related to smoking. In September 1994, various organizations filed suit against the state for allegedly diverting C&T Fund monies to non tobacco-related purposes. In December 1994, the Sacramento Superior Court ruled, in *American Lung Association v. Wilson*, that use of tobacco tax monies from the Health Education account (HEA) and Research account (RA) for certain health services programs—as appropriated by legislation for 1994-95 and 1995-96—violated the terms of the proposition. The state has appealed this decision, but was not granted a stay to continue spending from the affected Proposition 99 accounts. As a result, the administration proposed, and the Legislature approved, a $36.7 million General Fund deficiency request for 1994-95 to fund three case-driven health services programs that had been supported by the challenged Proposition 99 funds.

In order to continue Proposition 99 funding for the affected health programs in 1995-96, the Legislature enacted Chapter 194/95 (SB 493, Maddy), which amended the Proposition 99 funding formula to permit the allocation of funds for health services programs as reflected in the appropriation for 1995-96. However, the Superior Court enjoined the implementation of Chapter 194. The state has appealed this ruling as well, but was not granted a stay. As a result, in December 1995 the administration proposed to fund the affected health programs in 1995-96 with a combination of $20.9 million in General Fund monies and higher-than-budgeted Proposition 99 revenues.

Budget Proposal. Chapter 195, Statutes of 1994 (AB 816, Isenberg), which appropriated C&T Fund monies for various programs in 1994-95 and 1995-96, sunsets on June 30, 1996. For the budget year, the administration proposes to appropriate Proposition 99 funds through the Budget Act, whereas in the past these funds have been appropriated through separate legislation.

The Governor's Budget proposes expenditures of $436.1 million from the C&T Fund in 1996-97, which represents a 2 percent reduction from the revised current-year expenditure level. This decrease is due to a projected reduction in C&T Fund revenues. The proposal includes $298 million for 14 DHS programs, which is $47.6 million, or 19 percent, above current-year estimated expenditures. This increase is related to a proposed change in the funding formula, as discussed below. Figure 21 (see next page) identifies the DHS programs receiving Proposition 99 funds and the proposed change in funding levels.

Figure 21

Proposition 99 Funding for Department of Health Service Programs Governor's Budget, 1996-97

(In Millions)

Program Description Use of Proposition 99 funds	Funding 1996-97	Increase Over 1995-96
County Health Services		
California Health Care for Indigents Program		
Covers uncompensated care services in large counties.	$119.1	—
County Medical Services Program		
Extends the scope of indigent care services and supports emergency services provided to out-of-county indigent patients.	12.0	—
Rural Health Services		
Provides funds to CMSP counties for uncompensated care costs.	2.8	—
Primary Care		
Child Health and Disability Prevention Program		
Preventive health screens and related treatment services to low-income, non-Medi-Cal children between the ages of 6 and 18 years.	$46.9	$30.5
Expanded Access to Primary Care (EAPC)		
Primary care clinics that serve low-income persons.	13.1	3.0
Comprehensive Perinatal Outreach		
Funds city and county health departments' comprehensive perinatal outreach efforts for low-income women and their infants.	5.1	5.1
California Children's Services		
Treats serious medical conditions for low-income children under age 21.	5.0	5.0
Genetically Handicapped Persons Program		
Medical services for low-income adults with certain genetic diseases.	4.0	4.0
Medi-Cal Perinatal Services		
Perinatal services to low-income women and their infants.	3.2	—
Children's Hospitals		
Covers uncompensated care services provided to indigent children.	1.1	—
Tobacco Education		
Anti-smoking Media Campaign		
Statewide media campaign to reduce tobacco use especially among youth, women, and ethnic and low-income populations.	$12.2	—
Local Lead Agencies		
Provides funds for city and county health departments for a variety of tobacco education and prevention programs.	10.1	—
Competitive Grants		
Community-based tobacco education and prevention programs.	9.8	—
Oversight Committee and Evaluation		
Independent evaluation on the effectiveness of various tobacco education and prevention programs.	3.1	—

Budget Retains Pro Rata Reductions and Protected Programs. Under Chapter 195, the Director of the Department of Finance is required to reduce program funding on a pro rata basis if revenues are insufficient, except for the following "protected" programs: (1) Anti-smoking Media Campaign, (2) Access for Infants and Mothers (AIM) Program, (3) Major Risk Medical Insurance Program, (4) Medi-Cal Perinatal Program, (5) Child Health and Disability Prevention (CHDP) Program, and (6) County Medical Services Program (CMSP). The administration proposes continuation of the pro rata provision and the same protected programs for the budget year.

Funding Formula Change. The Governor proposes legislation to change the funding formula for allocating Proposition 99 revenues. Specifically, the Governor proposes to decrease the allocation for the HEA and RA accounts and increase the allocation for the Physician Services account (PSA) and Unallocated account (UA). This reallocation of Proposition 99 revenues among the accounts would be needed to permit the appropriation of Proposition 99 funds as proposed in the budget. The proposal essentially reflects the same distribution of funds encompassed in legislation appropriating Proposition 99 funds for 1995-96, but enjoined by the courts. This funding formula change requires a four-fifths vote of the Legislature.

Figure 22 (see next page) compares the allocation of estimated 1996-97 Proposition 99 revenues under the proposition as enacted and under the administration's proposal.

Options for the Budget Year. Below we present some options for consideration by the Legislature in appropriating Proposition 99 funds for 1996-97.

- ***Governor's Proposal.*** As discussed above, the Governor proposes to fund programs essentially as encompassed in the statutory appropriation for 1995-96. This option would require legislation to change the Proposition 99 funding formula. Implementation of this legislation will depend on the outcome of the court cases discussed above. If the courts prohibit this change, the Legislature would essentially be faced with the following alternatives: (1) backfill certain Proposition 99-funded health programs with General Fund monies as it did in the current year, (2) implement pro rata reductions on nonprotected programs, thereby freeing up these funds for the protected programs, or (3) reduce or eliminate Proposition 99 funding for selected programs, rather than make pro rata reductions. The first option could cost up to $47 million from the General Fund. The second alternative would result in a significant reduction in funding for the California Healthcare for Indigent Program (CHIP), clinic grants, rural health services, and Children's Hospitals.

Figure 22

Proposition 99 Account Allocations 1996-97

(In Millions)

Account/Purpose	Proposition As Enacted	Governor's Proposal	Proposed Change
Health Education			
To prevent and reduce tobacco use, primarily among children, through school and community health education programs.	$87 (20%)	$43.5 (10%)	-$43.5
Hospital Services			
To compensate hospitals for indigent care services rendered.	152.3 (35%)	152.3 (35%)	—
Physician Services			
To compensate physicians for indigent care services rendered.	43.5 (10%)	97.9 (22.5%)	54.4
Research			
For tobacco-related disease research.	21.8 (5%)	4.4 (1%)	-17.4
Public Resources			
For (1) wildlife habitat protection, restoration, and enhancement and (2) state and local park land improvements.	21.8 (5%)	21.8 (5%)	—
Unallocated			
For any of the specific purposes described above.[a]	108.8 (25%)	115.3 (26.5%)	6.5
Totals	**$435.2 (100%)**	**$435.2 (100%)**	**—**

[a] Proposition 117 (the "Mountain Lion Initiative," June 1990) requires that 10 percent of the Unallocated Account funds be transferred to the Habitat Conservation Fund.

Under the third alternative, the Legislature would reduce or eliminate funding for some Proposition 99-funded programs to free up funds for programs it considers a higher priority. As we discuss in our analysis of the Proposition 99-funded AIM Program, one option would be to reverse the current-year administrative action that expanded the program eligibility to women whose incomes fall between 251 and 300 percent of the federal poverty level. The savings could then be used for other Proposition 99-funded programs (see page 75).

- ***Review the Protected Programs Provision.*** As mentioned earlier, when there is a revenue shortfall the Department of Finance makes pro rata reductions on all Proposition 99-funded programs, except for the six with "protected" status. In light of changes that have occurred in recent years—such as the increasing fiscal pressures on counties to maintain indigent health services (as we discuss earlier in this analysis)—the Legislature might consider reviewing which, if any, programs should receive protected status.

- ***Spend Down Reserves in the Health Education and Research Accounts.*** The Governor's Budget proposes reserves of $94 million in the HEA and $59 million in the RA for the budget year. These monies could be used to (1) expand existing tobacco education and research efforts or implement new activities, or (2) fund such programs not currently supported by Proposition 99. For instance, the HEA monies could be used to expand the Anti-smoking Media Campaign, which a University of California evaluation indicates has helped reduce adult smoking consumption. The HEA and the RA monies also could fund a comprehensive school-based survey on adolescent tobacco and drug use. These data could be useful in efforts to target tobacco prevention and education programs to high risk areas and populations. Finally, the Legislature could (within certain limitations) appropriate HEA monies to support other programs which are eligible for HEA and RA funds.

MANAGED RISK MEDICAL INSURANCE BOARD (4280)

The Managed Risk Medical Insurance Board (MRMIB) administers several programs which provide health coverage to individuals through private health plans. These programs are (1) the Major Risk Medical Insurance Program (MRMIP), which provides health insurance to California residents unable to obtain it for themselves or their families because of pre-existing medical conditions, (2) the Health Insurance Plan of California (HIPC), which operates a health insurance purchasing pool for small employers, and (3) the Access for Infants and Mothers (AIM) Program, which provides coverage for women seeking pregnancy-related and neonatal medical care.

The budget proposes $96.4 million from all funds for support of the MRMIB programs in 1996-97, which is a decrease of $5.3 million, or 5.2 percent, from estimated current-year expenditures. This reduction is due to reduced spending for the MRMIP due to a reduction in fiscal resources.

THE ACCESS FOR INFANTS AND MOTHERS PROGRAM

The AIM Program is a health insurance program under which the state enters into contracts with private insurance plans to provide health services to pregnant women, and their infants to age one, who (1) have no health coverage for their pregnancy, and (2) have incomes between 201 percent and 300 percent of the federal poverty level. (The Medi-Cal Program provides coverage to pregnant women and their infants in families with incomes of up to 200 percent of the federal poverty level.)

Women enrolled in the AIM Program receive health coverage from the time of enrollment until 60 days after birth. Currently, program participants pay a fee of 2 percent of their family income toward the costs of services received by the mother and the infant. In 1995, for example, a single pregnant woman with an annual income of $20,061 (201 percent of the federal poverty level) would pay a fee of $401.

Under current law, the AIM Program is funded through revenues from the Cigarette and Tobacco Products Surtax (C&T) Fund established by Proposition 99. However, the AIM Program's funding will sunset on

June 30, 1996 unless reauthorized by the Legislature. The budget proposes legislation to reauthorize the AIM Program and appropriate funding for the program through the Budget Act.

The AIM Program's caseload is estimated to be 5,200 cases in the current year. This is projected to increase 27 percent to 6,600 in the budget year due to expansion of program eligibility as of September 1995.

Legislative Oversight: The Access for Infants and Mothers Program Eligibility Expanded By Administrative Decision

The Managed Risk Medical Insurance Board, through an administrative decision, expanded the Access for Infants and Mothers Program eligibility by increasing the income limit from 250 percent of the poverty level to 300 percent.

Program Expansion in Current Year. In September 1995, the MRMIB expanded AIM eligibility to include families with incomes between 251 percent and 300 percent of poverty (up to approximately $31,000 annually for a single mother and $45,000 for a married couple with one child).

The MRMIB made this policy change administratively, as permitted by current law, which allows the department to raise the income limit. The board estimates that it can expand eligibility without requiring additional funding beyond the current-year appropriation level because enrollment declined below budgeted levels in 1994-95.

Prior-Year Enrollment. Enrollment declined by 60 percent in 1994-95, from approximately 1,000 new monthly enrollees in 1993-94 to about 400 in 1994-95. This decrease was mainly due to a change in Medi-Cal eligibility which increased the number of pregnant women who were eligible for services under the Medi-Cal Program. Specifically, in September 1994 the state implemented: (1) a Medi-Cal asset waiver, which permitted all pregnant women (regardless of assets) with incomes up to 200 percent of the federal poverty level (FPL) to receive Medi-Cal services, and (2) the implementation of an income floor (at 200 percent of poverty) to exclude this newly Medi-Cal-eligible population from AIM eligibility.

As a result of lower enrollment, the AIM Program spent $4 million less than it received in Proposition 99 revenues in 1994-95.

Review AIM Eligibility. We estimate that in 1996-97 the cost of this expanded eligibility will be in the range of $11 million to $16.5 million from the Perinatal Insurance Fund (Proposition 99) to support an additional 100 to 150 women per month. We note that this revenue source—derived from a surtax on cigarette and tobacco products—is declining at a time when the demand for services funded by this resource is on the rise (see our analysis of Proposition 99 in Public Health). For this and other reasons detailed below, we believe that the Legislature might wish to review the decision to expand AIM eligibility.

In order to facilitate this review, we note that a 1994 evaluation of the program found that the AIM participants generally had better birth outcomes than uninsured women. Specifically, 4.7 percent of AIM mothers delivered low birthweight babies, compared to 7.2 percent of uninsured mothers. The report also indicates, however, that 4 percent of the women enrolled in Medi-Cal with incomes between 186 percent to 200 percent of poverty delivered low birthweight babies—a rate lower than that of the AIM Program.

These findings provide some insight into the benefits that can be derived from expanding the AIM Program. The evaluation suggests that for women not eligible for Medi-Cal, AIM could produce better outcomes than if they had no health insurance. We note, however, that the evaluation methodology precluded an assessment of the extent to which women in the AIM Program would have purchased other insurance in the absence of the program. In addition, data are not sufficient to compare the benefits of expanding the AIM Program to the benefits of alternative uses of the funds. For these reasons, we view this as a policy decision for the Legislature and make no recommendation.

The Access for Infants and Mothers Program Is Overbudgeted in Current and Budget Years

We recommend reducing the proposed level of spending for the Access for Infants and Mothers Program by $15.5 million in the current year and $5.5 million in the budget year, for a corresponding savings to the Perinatal Insurance Fund (Proposition 99 revenues), to reflect more realistic caseload growth. (Reduce Item 4280-001-0309 by $5,460,000.)

Overbudgeting in Current Year. We estimate that the AIM Program is overbudgeted by $15.5 million in the current year due to lower than expected caseload growth. The budget estimates that $60.6 million will be spent for the program in 1995-96, to support a budgeted level of 550 new enrollees per month. However, the board estimates that the AIM enrollment for the current year will average 436 monthly enrollees—21 percent less than budgeted for the program. Therefore, based on the board's enrollment projections, the AIM Program will spend approximately $12.5 million less than budgeted in the current year.

We also believe, however, that the board's own estimate for the current year is too high. Figure 23 shows the monthly caseloads as estimated in the budget, by the board, and by our office. As the figure shows, actual caseloads were stable in the first three months of the fiscal year, and then increased significantly in October (25 percent), when the board expanded eligibility by increasing the income limit. The caseload continued to increase in November (the last month for which actual enrollment figures are available), but by a much lower rate of growth (2.1 percent). The board projects that caseloads will increase from 386 in November to 550 in March—a difference of 42 percent, or an average of over 9 percent per month—and remain at that level for the remainder of the fiscal year. We also note that in estimating the caseload for the program in the *budget year*, the board indicates that monthly enrollments will be within the range of 450 to 550.

Figure 23

AIM Monthly Enrollment 1995-96

Month	Governor's Budget	MRMIB Estimate	LAO Estimate
July	550	306[a]	306[a]
August	550	299[a]	299[a]
September	550	303[a]	303[a]
October	550	378[a]	378[a]
November	550	386[a]	386[a]
December	550	412	412
January	550	450	450
February	550	500	475
March	550	550	475
April	550	550	475
May	550	550	475
June	550	550	475
Totals	**6,600**	**5,234**	**4,909**
Monthly average	**550**	**436**	**409**

[a] Actuals.

While there is very limited data on caseload growth since the program expansion in September, we believe that the slowdown in November calls for a more modest projection than reflected in the board's projections. Consequently, we recommend assuming a rate of increase of roughly 5 percent per month through March, rather than the 9 percent assumed by the board. This would result in additional savings of $3 million (beyond the $12.5 million identified above) in the current year.

Overbudgeting in Budget Year. The budget proposal for 1996-97 is based on a caseload of 550 new AIM enrollees per month in 1996-97. As indicated, however, the MRMIB projects that enrollment will be *between 450 and 550* per month. Based on our projections for the current year, we believe that it would be reasonable to estimate that average monthly enrollment in 1996-97 will be 500, which corresponds to the mid-point of the board's projections. Accordingly, we recommend that the budget proposal for 1996-97 be reduced by $5.5 million to reflect our caseload projections.

We will review additional caseload data as they become available, and will modify our recommendations, if necessary, during the budget hearings.

Fund Reserve Excessive

We recommend that the budget be adjusted to reflect a 5 percent reserve in the Perinatal Insurance Fund (Access for Infants and Mothers [AIM] Program) and that the excess balances (up to $33 million) be reverted from the Perinatal Insurance Fund to the Cigarette and Tobacco Products Surtax Fund because these funds are not needed to support the AIM Program in 1996-97. This action would make these funds available for appropriation to support other programs eligible for Proposition 99 funds.

As indicated previously, the AIM Program is supported by the Perinatal Insurance Fund, which consists of Cigarette and Tobacco Products Surtax Fund (Proposition 99) revenues. According to the Governor's Budget, the Perinatal Insurance Fund will have a fund balance of $15 million at the end of the budget year. This represents 25 percent of the proposed expenditures for the program—or roughly five times the amount that we would suggest for a fund reserve. Accordingly, we recommend that the year-end balance in excess of the amount needed for a 5 percent reserve (approximately $3 million) be reverted to the Cigarette and Tobacco Products Surtax Fund. This would make an additional $12 million (or $33 million if our overbudgeting recommendations discussed previously are adopted) available for appropriation to support other programs eligible for Proposition 99 funding.

DEPARTMENT OF DEVELOPMENTAL SERVICES (4300)

The Department of Developmental Services (DDS) administers services in local communities through regional centers and state developmental centers for persons with developmental disabilities. A developmental disability is defined as a disability, related to certain mental or neurological impairments originating before a person's eighteenth birthday, that is expected to continue indefinitely and that constitutes a substantial handicap. In addition, the department administers a prevention program that serves children under age three with developmental delays or who are at-risk of having developmental disabilities.

The budget proposes $1.6 billion from all funds for support of the DDS programs in 1996-97, an increase of 3.1 percent over estimated current-year expenditures. The budget proposes $515 million from the General Fund in 1996-97, which is $48 million, or 10 percent, above estimated current-year expenditures from this funding source. This increase is primarily due to the (1) increased service utilization by existing clients, and (2) the cost of regional center operations and purchase of services associated with a projected increase in clients.

Federal Funds Available for Early Start/Part H Program

We recommend a reduction of $4.2 million from the General Fund for support of the Early Start/Part H program because federal funds are available to support the program. (Reduce Item 4300-101-0001 by $4,178,000 and increase Item 4300-101-0890 by $4,178,000.)

In 1986, the Congress enacted legislation (Public Law 99-457) that appropriated funds to encourage states to develop comprehensive systems for providing early intervention services for infants who manifest "developmental delays." Early intervention services are designed to address the specific physical, educational, and/or psychosocial needs of infants, toddlers, and their families. Federal law requires that a state's early intervention system includes specific program components, such as a comprehensive method for providing multi-disciplinary assessments.

The budget proposes $109 million from all funds for support of the Early Start/Part H program in 1996-97 (including funds allocated to the

State Department of Education). This is an increase of 9.2 percent over estimated current-year expenditures. The budget includes $72 million from the General Fund, which is $7.8 million, or 12 percent, above current-year expenditures. The General Fund increase is due to (1) backfilling for federal funds transferred to the State Department of Education to provide early intervention services, (2) caseload growth, and (3) an increase in average costs per client.

Federal Funds Available. The state has received federal grants under the program since 1988. Grants not expended during the year in which they are received can be spent for up to three additional years.

Our analysis indicates that federal funds are available to replace part of the $7.8 million increase in General Fund support proposed for this program in 1996-97. Specifically, under the budget proposal, $4.2 million in federal funds will be available but not expended in 1996-97. This is summarized in Figure 24.

Figure 24

Early Start/Part H Program
Federal Funds Budget Summary

(In Thousands)

	1994-95	1995-96	1996-97
Beginning Balance	**$5,978**	**$1,739**	**$1,000**
Revenues			
Federal Grant	29,207	34,997	40,347
Total Resources	**$35,185**	**$36,736**	**$41,347**
Expenditures	$33,446	$35,736	$37,169
Ending Balance	**$1,739**	**$1,000**	**$4,178**

We see no reason why federal funds should be carried over to 1997-98 when they could be used to offset state funds in the budget year. Accordingly, we recommend that the Legislature appropriate the $4.2 million in federal funds for the program in 1996-97 and make a corresponding reduction in the amount proposed from the General Fund. We note that adoption of our recommendation would not violate the federal maintenance-of-effort requirement for the Early Start Program.

Day Training Activity Center Program Double Budgeted

We recommend reducing the General Fund amount budgeted for the Day Training Activity Center (DTAC) Program by $355,000 in 1995-96 and $1 million in 1996-97 to correct for double budgeting of clients being transferred from the Department of Rehabilitation. (Reduce Item 4300-101-0001 by $1,011,000.)

Currently, both the Department of Developmental Services (DDS) and the Department of Rehabilitation (DR) administer Day Training Activity Center (DTAC) Programs for developmentally disabled clients, upon referral by the regional centers. Both departments' programs provide education, training, and support services to develop independent living skills. However, the DR programs place more emphasis on vocational and employment skills and services.

Based on a determination that the clients in the DR program would be more suited to the DDS program, the DR terminated new enrollment in its DTAC program effective July 1995 and began a phased transfer of the clients to the DDS. An estimated 30 clients per month will be transferred from the DR to the DDS in the current and budget years.

The budget proposes $1.7 million from the General Fund in 1995-96 and $4.7 million in 1996-97 for the DDS to support clients transferred from the DR. Our analysis indicates, however, that the budget also includes funds in the DDS budget to cover the state portion of DR's cost of serving these clients, even though the DR will not be serving them. In order to correct for this double budgeting, we recommend that General Fund expenditures be reduced by $355,000 in 1995-96 and $1 million in 1996-97.

DEPARTMENT OF MENTAL HEALTH (4440)

The Department of Mental Health (DMH) directs and coordinates statewide efforts for the treatment of mental disabilities. The department's primary responsibilities are to (1) administer the Bronzan-McCorquodale and Lanterman-Petris-Short Acts, which provide for the delivery of mental health services through a state-county partnership and for involuntary treatment of the mentally disabled, (2) operate four state hospitals, (3) manage treatment services at the Camarillo State Hospital and the California Medical facility at Vacaville, and (4) administer seven community programs directed at specific populations.

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

The budget propose $1 billion from all funds for support of DMH programs in 1996-97, which is an increase of 1.9 percent over estimated current-year expenditures. The budget proposes $475 million from the General Fund in 1996-97, which is an increase of $39 million, or 9 percent, above estimated current-year expenditures from this funding source. This increase is primarily due to three budget adjustments: implementation of the Sexually Violent Predator program; an increase in the Judicially Committed / Penal Code patient population in the state hopsitals; and an increase in funding for managed care to reflect changes in the number of beneficiaries and increased costs.

Implementation Problems with the Sexually Violent Predator Program

We withhold recommendation on $22 million requested for the Sexually Violent Predator Program until the Department of Mental Health and other state agencies responsible for operation of the program resolve a number of significant implementation issues.

Last year, the Legislature and the Governor enacted Ch 762 / 95 (SB 1143, Mountjoy) and Ch 763 (AB 888, Rogan), which created the Sexually Violent Predator Program. Under the program, an inmate who has completed a prison term for certain sex-related offenses, who meets other specified criteria, and who otherwise would be released on parole, would instead be committed under provisions of civil law to state custody for an additional two years at a time for treatment of his or her mental disorder. The Governor's Budget proposes $22 million from the General Fund for 389 positions in the DMH in 1996-97 for the screening, evaluation, treatment, and administrative activities for this program. The DMH's responsibilities include determining whether inmates who are being considered for parole are sexually violent predators subject to civil commitment under the program, and treating those committed sexually violent predators.

Based on our review of the implementation proposal for this program submitted by the DMH and two other implementing agencies, the CDC and the Board of Prison Terms (BPT), we make the following findings:

- The state agencies have conflicting caseload estimates in their implementation plan.
- There is a significant discrepancy between the funding requested in the budget and prior estimates of the cost of the measure presented to the Legislature just four month ago.
- The state agencies have failed to indicate how they will provide facilities to house and treat the numbers of sexually violent predators they intend to commit to state custody.
- There are inconsistencies between the implementation proposal and certain provisions in the authorizing legislation.

We discuss these concerns in more detail in our analysis of the CDC budget.

Pending resolution of these concerns, we withhold recommendation on the DMH's funding request for implementation of this program.

Additional Peace Officers at Metropolitan State Hospital Not Needed

We recommend deleting the proposed General Fund augmentation of $2.1 million for 53 new peace officer positions at Metropolitan State Hospital because security requirements can be met with existing resources by more efficient use of available space at Patton State Hospital. (Reduce Item 4440-011-0001 by $2,139,000.)

Patton State Hospital (PSH) has a projected population of 1,289 patients in June 1996, consisting primarily of Judicially Committed / Penal Code (JC / PC) patients. These patients are committed through the courts. The majority of the patients are classified as Incompetent to Stand Trial (IST), Not Guilty by Reason of Insanity, or Mentally Disordered Offenders.

The department plans to remodel the "70-Building" at PSH, beginning in March 1997, to meet fire, life safety, and environmental standards. The remodeling will result in a temporary loss of space for 348 IST JC/PC patients at PSH. The department indicates that temporary housing for the 348 patients will be needed for approximately two years, the time it will take to remodel the 70-Building at PSH. Thus, the department proposes to transfer these patients, along with an additional 11 IST JC/PC patients, from PSH to Metropolitan State Hospital (MSH) in 1996-97.

Currently, MSH contains a partially-secured unit with a JC/PC patient capacity of approximately 96. The department estimates that the hospital will be at its capacity for this unit in the current year. For 1996-97, the JC/PC population at MSH is proposed to increase by 368 patients, due to the transfer of 359 patients from the Patton Hospital and 9 new patients.

Proposal to Add Peace Officers. The Governor's Budget proposes to increase the number of hospital peace officers at MSH in 1996-97. Specifically, the budget proposes to establish 53 new positions and purchase two patrol cars to establish security for the additional 368 JC/PC patients. Because these patients require a relatively high level of security, the DMH also proposes that a perimeter security fence system be erected at MSH around the buildings which would house the IST JC/PC population, similar to the fence that exists at the Patton Hospital. The department anticipates that the fence will be completed in August of 1997 (fiscal year 1997-98).

The budget's request for 53 peace officers is based on the number of positions needed to staff the observation kiosks and sally port/visitor center areas in the perimeter security fence system, even though the fence will not be completed during the budget year.

Analyst's Recommendation. As the department recognizes, the budget proposal represents a stopgap measure that will *not* provide the appropriate level of security for the new JC/PC patients at the Metropolitan facility until 1997-98, when the fence is completed. We believe, however, that there is an alternative which—while not ideal—would be less disruptive for patients, provide the appropriate level of security, and avoid the costs associated with the new positions.

Specifically, we recommend—in our analysis of the capital outlay budget for the DMH—that in lieu of adding the security personnel at

MSH, the department keep the patients at Patton and temporarily overcrowd the other housing units at Patton over the two-year period that the 70-Building is being renovated. Generally, this would mean that six patients would occupy a room designed for four patients. The department could reduce this overcrowding level by renovating the 70-Building in two stages—keeping one-half of the building open while the other half is renovated. This staging method was previously used at Patton when the "N-Building" was renovated in the 1980s. We urge the department to immediately evaluate this staging option in order to mitigate any impacts of overcrowding. (We also recommend, in our capital outlay analysis, deletion of the funds proposed for construction of the security fence at Metropolitan in 1996-97.)

This temporary overcrowding at Patton should be less disruptive to patients than moving them to Metropolitan. (We note that the patient living areas at Metropolitan are scheduled to undergo structural upgrading for seismic safety in 1996-97.) In addition, the JC / PC patients will be kept in a secure perimeter rather than being at Metropolitan for a period of months prior to the fence being completed. Finally, this will mitigate the need to install a security fence and hire 53 peace officers at MSH. Accordingly, we recommend deleting the proposed 53 positions, for a General Fund savings of $2.1 million in 1996-97.

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT (4700)

The Department of Community Services and Development (DCSD), formerly the Department of Economic Opportunity, administers the Low-Income Energy Assistance Program (LIHEAP) and the Community Services Block Grant (CSBG). In addition, the DCSD plans, coordinates, and evaluates programs that provide services to the poor and advises the Governor on the needs of the poor.

The LIHEAP provides cash grants and weatherization services, which assist low-income persons in meeting their energy needs. The CSBG provides funds to community action agencies for programs intended to assist low-income households.

The budget proposes total expenditures of $116 million for the DCSD in 1996-97. This represents a decrease of $40.6 million, or 26 percent, from estimated current-year expenditures. The budget, however, probably overstates current-year spending and understates budget-year spending. This is because the department typically has significant current-year unexpended balances of federal funds that are shifted into the budget year through a reappropriation.

Of the proposed total expenditures, $108 million are federal funds and $7 million is from the General Fund. The proposed General Fund expenditures are for expansion of the California Mentor Initiative.

Governor Proposes Mentor Initiative

In June 1995, the Governor created the California Mentor Initiative through an Executive Order. Under this initiative, the DCSD will contract with local community action agencies to provide mentoring services to youth age 12 and under who are at risk of becoming teen parents, engaging in criminal activity, or requiring public assistance. The goal of the program is to link 250,000 mentors with 1 million at-risk youth by the year 2000. According to the department, the intent of the initiative is to eventually transfer the program to the private sector.

The administration proposes to spend $1,250,000 in federal funds to establish the program in 1995-96. Of this amount, $1 million is available from “discretionary” funds (not earmarked for designated purposes) received under the federal CSBG and $250,000 is available from federal "Safe and Drug Free Schools and Community Grant" funds received through the Department of Alcohol and Drug Programs. The DCSD anticipates funding 15 to 20 contracts in the current year.

The Director of Finance notified the Joint Legislative Budget Committee (JLBC) of this proposal through a Section 28 letter submitted in December 1995. The chairperson of the JLBC responded that, without prejudice to the proposal, he did not concur with the request on the basis that the establishment of a new program through the Section 28 process is inappropriate. Instead, the chairperson advised the administration to provide the budget committees with detailed information about the proposal during the 1996-97 budget hearings. As we discuss below, the department has not submitted a plan for spending its funds in 1996-97.

The budget proposes a total of $15 million from the General Fund for the Mentor Initiative in 1996-97, reflecting a major expansion of the program. Of this amount, $7 million would be spent by DCSD, with the remainder spent by the California Youth Authority and the Office of Child Development and Education. The department anticipates that it will fund 50 to 80 contracts in 1996-97.

Details Lacking on Program Implementation

The department has not submitted a plan for spending its funds for the Governor's Mentor Initiative. We recommend that the department report during budget hearings on its plans to implement the initiative.

At the time this analysis was prepared, the department did not have detailed information regarding how it would spend the funds proposed for the Mentor Initiative. The Legislature should be fully informed of the objectives, scope, and funding of the initiative in order to ensure that it is consistent with legislative priorities and coordinated with related programs. Thus, in order to facilitate legislative review of the Governor's proposal, we recommend that the department report during budget hearings on its plans for implementation in both the current and budget years.

Federal Funds Available for Mentor Initiative Program

We recommend that if the proposed expansion of the California Mentor Initiative is approved, the budget be reduced by $1,250,000 from the General Fund, because federal funds could be used for this purpose. (Reduce Item 4700-101-0001 by $1,250,000.)

The budget proposes to support the Mentor Initiative *entirely* from the General Fund ($7 million) in the budget year. The budget assumes that the state will continue to receive the same level of discretionary federal CSBG and Drug Free grant funds in 1996-97, but does not propose to spend these funds for the Mentor Initiative as it has in the current year.

We find no reason to discontinue the use of available federal funds to support the Mentor Initiative in the budget year. Moreover, the administration has not identified how these federal funds would otherwise be used in the budget year. Thus, if the expansion of the program is approved, we recommend that $1,250,000 in budgeted federal funds be used to support the program. This would result in corresponding General Fund savings of $1,250,000 in 1996-97.

EMPLOYMENT DEVELOPMENT DEPARTMENT (5100)

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

In addition, the department collects taxes and pays benefits under the UI and DI Programs. The department collects from employers (1) their UI contributions, (2) the Employment Training Tax, and (3) employee contributions for DI. It also collects personal income tax withholdings. In addition, it pays UI and DI benefits to eligible claimants.

The budget proposes expenditures totaling $6 billion from various funds for support of the EDD in 1996-97. This is a decrease of $473 million, or 7.3 percent, from estimated current-year expenditures, primarily due to an anticipated reduction in federal funds for job training programs and a decrease in projected UI benefits. Of the total amount proposed, $4.9 billion is for UI and DI benefits, and $1.1 billion is for various other programs and administration. The budget proposes $23.5 million from the General Fund in 1996-97, which represents the same level of funding as in the current year.

Excess Special Fund Revenues Should Be Transferred to General Fund

We recommend the adoption of Budget Bill language to transfer the amount of the year-end balance in excess of $1 million from the Benefit Audit Fund (BAF) to the General Fund, because the revenues are not needed to support BAF expenditures and it is appropriate to consider these revenues as fungible with the General Fund. (Increase General Fund revenues by $3,500,000.)

The Benefit Audit Fund (BAF) consists of penalty assessments paid by persons who receive unemployment insurance benefit overpayments due to unlawful submission of claims. The funds are appropriated to the EDD for enforcement activities related to the discovery and collection of these overpayments. The budget proposes expenditures of $12.3 million from the BAF in 1996-97, leaving a year-end balance of $4.5 million, or 37 percent of expenditures.

Unlike most other special funds, the revenues in the BAF were not generated with the purpose of supporting a particular program. Instead, the penalties were established as a regulatory mechanism to address violations of the law. Consequently, unlike most special funds, if resources exceed expenditure requirements—as is the case in the BAF—it does not necessarily follow that the penalties should be reduced. Instead, we believe that it would be reasonable to transfer unnecessary balances to the General Fund, where the monies would be available for expenditure according to the Legislature's priorities.

We note that there have been similar transfer provisions for other special funds consisting of fines and penalties. For example, state law governing the EDD's Contingent Fund, which consists of interest and penalties on employers, requires that the year-end fund balance in excess of $1 million be transferred to the General Fund. Similarly, the Budget Act of 1993 required the transfer of various special fund revenues from penalties and interest to the General Fund.

Accordingly, we recommend that the Legislature adopt Budget Bill language to transfer to the General Fund all BAF balances in excess of $1 million, as of June 30, 1997. This would maintain a sufficient reserve in the BAF (8 percent of expenditures) for contingencies and expenditure requirements in the subsequent year, and would increase General Fund revenues by $3.5 million.

Our recommendation could be implemented by adoption of the following language in a new Budget Bill item (5100-011-0184):

> For transfer by the State Controller from the Benefit Audit Fund to the General Fund, the amount of the unencumbered balance of the Benefit Audit Fund in excess of $1,000,000 as of June 30, 1997.

Better Information Needed on Expansion Of Targeted Industries Partnership Program

We withhold recommendation on $2,193,000 proposed for expansion of the Targeted Industries Partnership Program, pending review of information needed from the Department of Industrial Relations.

The budget proposes an augmentation to the EDD of $2,193,000 from the BAF to expand the Targeted Industries Partnership Program (TIPP). The proposal represents a major expansion of the TIPP, under which the Department of Industrial Relations (DIR) and other state and federal agencies conduct joint labor law enforcement activities in the apparel manufacturing and agriculture industries. Of this amount, $1,737,000 would be transferred by the EDD to the DIR, and $456,000 would be retained by the EDD for six positions to audit potential violations of employment and tax laws uncovered by the TIPP investigators. Our analysis of this program expansion appears under the DIR section of the Business and Labor chapter in this *Analysis*. Pending review of the information discussed in that analysis, we withhold recommendation on the $2,193,000 requested for TIPP expansion in the EDD budget.

Budget Assumes Major Reduction in Federal Funds For Job Training and Employment Services Programs

The budget assumes a major reduction of $213 million in federal funds under the Job Training Partnership Act and $9 million in federal funds under the Wagner-Peyser Act in 1996-97, due to pending federal appropriations. We recommend that the department report during budget hearings on the impact of the reductions and what efforts the department proposes to minimize this impact.

The federal Job Training Partnership Act (JTPA) authorizes job training programs to prepare youth and unskilled adults for entry into the labor force. The programs primarily serve persons who are economically disadvantaged (including welfare recipients) or face barriers to employment. The JTPA includes the following programs: (1) the Adult Training Program provides basic and occupational skills training, on-the-job training, and supportive services to participants; (2) the Youth Training Program provides similar services to persons 16-21 years of age; (3) the Summer Youth Program provides training and temporary employment for economically disadvantaged youth during the summer; and (4) the Dislocated Worker Program provides readjustment services, such as skills assessment and job search assistance, to dislocated workers.

The state's Job Services Program, which helps to match job seekers with employers, is supported primarily by federal Wagner-Peyser Act funds. Ninety percent of the Wagner-Peyser funds are used to provide labor exchange services such as job search and placement, recruitment services for employers, counseling, testing, referral, and labor market information. The remaining 10 percent of Wagner-Peyser funds are used for various discretionary activities which include model projects, performance incentives, and services to groups with special needs.

The budget assumes a major reduction in JTPA and Wagner-Peyser funds, based on pending federal legislation appropriating funds for federal fiscal year 1996. (While this federal fiscal year overlaps with the state's current year, the department indicates that, for technical reasons, the federal appropriation would not have a fiscal impact in 1995-96.) Figure 25 shows the department's estimate of the reduced funding levels for California and the impact on the number of clients served in the JTPA and Job Services programs in 1996-97.

Figure 25

JTPA and Job Services Programs
Potential Impact of Federal Funds Reductions[a]

(Dollars in Millions)

	1995-96	1996-97 (Estimated)	Difference	Impact on Clients
JTPA programs				
Adult training	$166	$125	-$42	-13,427
Youth training	22	54	32	10,534
Summer youth	147	—	-147	-97,018
Dislocated workers	198	142	-56	-23,051
Subtotals	($533)	($320)	(-$213)	(-122,962)
Job Services Program	$100	$91	-$9	-21,116
Totals	**$633**	**$411**	**-$222**	**-144,078**

[a] Totals may not add due to rounding.

Reductions of this magnitude could have a significant impact on persons who would otherwise benefit from these programs and on other programs, such as Aid to Families with Dependent Children (AFDC) and county General Assistance programs. Given the potentially significant reduction in federal funds, we recommend that the department report during budget hearings on the potential impact of this reduction and what efforts the department proposes to minimize the impact.

DEPARTMENT OF REHABILITATION (5160)

The Department of Rehabilitation (DR) assists disabled persons to achieve social and economic independence by providing vocational rehabilitation and habilitation services and support for community based rehabilitation facilities. Vocational rehabilitation services seek to place disabled individuals in suitable employment; habilitation services help those individuals who are unable to benefit from vocational rehabilitation function at their highest levels. The DR provides assistance to rehabilitation facilities, such as independent living centers, rehabilitation workshops, halfway houses, and alcoholic recovery homes.

The budget proposes $353 million from all funds for support of DR programs in 1996-97, which is an increase of 3.2 percent over estimated current-year expenditures. The budget proposes $114 million from the General Fund in 1996-97, which is $4 million, or 3.2 percent, above estimated current-year expenditures from this funding source.

Fees and Copayments Could Raise Revenues to Serve Additional Vocational Rehabilitation Clients

We recommend that the department report at budget hearings on the feasibility of expanding the use of client fees and copayments for vocational services and the extent to which these revenues could be used to serve additional clients currently waiting for rehabilitation services.

Order of Selection. The department serves disabled individuals who apply for services and are found to be eligible. Federal law specifies that if the state cannot provide vocational rehabilitation services to all eligible individuals who apply, an "order of selection" process must be established to assign priority to the "most severely disabled," as defined by the state.

The federal act requires that on the date the Order of Selection is implemented all persons in a vocational plan must continue to be served. The department implemented the Order of Selection on September 1, 1995 and determined that, due to a lack of funding, services could not be provided to new clients, at least during the current fiscal year. However, new clients will be placed on a waiting list until the department determines it can serve more individuals. Currently, there are 68,660 clients being served and 5,728 clients on a waiting list. The department anticipates that it will continue to have a waiting list in the budget year, but does not have a projection of how many clients will be on the list.

Financial Participation By Clients. Federal law permits the state to charge fees or copayments based on ability to pay (means test) for most vocational rehabilitation services (excluding assessment, counseling, guidance, and work-related placement). The department currently charges fees or copayments in three service areas: physical restoration (which includes corrective surgeries, prosthetic devices, and eyeglasses), living allowance for additional costs incurred while participating in rehabilitation, and vehicle purchases.

Report on Fees and Copayments . The department is currently examining the feasibility of applying fees and copayments to additional services in order to raise revenues for the purpose of expanding services to additional clients on the waiting list. Such services could include employment training, transportation, and supported employment at the job site. The department anticipates that it will be able to report on the results of the review within the next few months.

We believe that it is reasonable to expect clients to pay for part of the cost of providing vocational rehabilitation services, based on their ability to pay. Consequently, in order to facilitate the Legislature's consideration of this issue, we recommend that the DR report at budget hearings on the potential to raise additional fee revenues in order to reduce the waiting list of clients needing rehabilitation services.

AID TO FAMILIES WITH DEPENDENT CHILDREN (5180)

The Aid to Families with Dependent Children (AFDC) Program provides cash grants to families and children whose incomes are not adequate to meet their basic needs. Families are eligible for the AFDC-Family Group (AFDC-FG) Program if they have a child who is financially needy due to the death, incapacity, or continued absence of one or both parents. Families are eligible for grants under the AFDC-Unemployed Parent (AFDC-U) Program if they have a child who is financially needy due to the unemployment of one or both parents. Children are eligible for grants under the AFDC-Foster Care (AFDC-FC) Program if they are living with a foster care provider under a court order or a voluntary agreement between the child's parent and a county welfare or probation department.

The budget proposes total expenditures of $6.4 billion ($2.5 billion General Fund, $0.5 billion county funds, and $3.4 billion federal funds) for the AFDC Program in 1996-97. This is a decrease of 8.7 percent (17 percent General Fund) from estimated expenditures in the current year. This decrease is due to proposed grant reductions, implementation of past grant reductions that have been delayed, and the assumed enactment of federal welfare reform.

CURRENT-YEAR UPDATE OF AFDC PROGRAM

Major Changes in 1995-96

Statewide and Regional Grant Reductions. The 1995-96 budget trailer bill legislation for welfare programs—Ch 307/95 (AB 908, Brulte)—reduced AFDC grants by 4.9 percent, with an additional 4.9 percent reduction for recipients residing in low-cost counties (as measured by rental housing costs), effective October 1995. The Budget Act assumed that the 4.9 percent statewide grant reduction would generate a General Fund savings of $101 million in 1995-96 and that the 4.9 percent regional grant reduction in low-cost counties would generate an additional savings of $40 million. The high-cost counties are Alameda, Contra Costa, Los Angeles, Marin, Monterey, Napa, Orange, San Diego, San Francisco, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, Santa Cruz, Solano, Sonoma, and Ventura. The statewide 4.9 percent reduction terminates June 30, 1996, and the regional reduction to recipients living in low-cost counties is ongoing.

Implementation of these grant reductions requires either a federal waiver of regulations or a change in federal law. Although there has been no enabling federal action to date, the Governor's Budget assumes the enactment of federal welfare reform legislation that will permit the reductions to be implemented in March 1996. The budget reflects a revised General Fund savings of $63 million (down from $141 million) in 1995-96 from the grant reductions.

Greater Avenues for Independence (GAIN) Program. Budget trailer bill legislation—Ch 306/95 (AB 1371, Weggeland)—modified the GAIN Program to place a greater emphasis on employment. The budget reflects a General Fund savings of $8 million in 1995-96 and $17 million in 1996-97 from these changes.

Edwards v. Carlson. Beginning in 1992-93, the *Edwards v. Carlson* decision required the state to provide higher AFDC grants in specific cases (certain children residing with caretaker relatives). In 1995, the U.S. Supreme Court reversed this lower court decision. The 1995-96 budget legislation eliminates the grant differential for a General Fund savings of $9.5 million in 1995-96 and $10.4 million in 1996-97.

PENDING FEDERAL LEGISLATION

Federal Welfare Reform

If enacted, federal welfare reform could have a significant impact on California. We review the congressional proposal, and estimate that the major provisions would result in a loss of $8 billion in federal funds to California over a five-year period.

In December 1995, Congress approved the Conference Report for H.R. 4—The Personal Responsibility and Work Opportunity Act of 1995. The President, however, subsequently vetoed the measure.

Despite the presidential veto, many observers believe that the President and Congress will ultimately reach agreement on a welfare reform bill that will encompass a number of the major features of the congressional measure. The Governor's Budget, in fact, assumes the enactment of the H.R. 4 provisions affecting the AFDC Program, the Supplemental Security Income/State Supplementary Program (SSI/SSP), and Child Welfare Services. Consequently, we summarize these and related components of the Congressional measures.

AFDC/Temporary Assistance for Needy Families. The major provisions include the following:

- ***Block Grant and Maintenance of Effort.*** The existing entitlement program is replaced with a Temporary Assistance for Needy Families (TANF) block grant, which would be fixed at federal fiscal year (FFY) 1995 spending levels ($3.73 billion annually for California) from FFY 96 through FFY 01. Receipt of the block grant is contingent upon a maintenance-of-effort (MOE) requirement that state spending on welfare programs remain at 75 percent of the FFY 94 level.
- ***Elimination of Entitlement.*** By eliminating AFDC as an entitlement, states will have flexibility to redesign their welfare systems, thereby determining who is eligible for benefits, the duration of benefits (within certain limits), and the amount of benefits. The existing MOE requirement on grant levels would be eliminated, thereby allowing the state to reduce grants as provided in the current- and prior- year budget acts and as proposed for 1996-97.
- ***Work Requirements.*** The H.R. 4 requires that states have an increasing percentage of their welfare caseload (families with children over age one) engaged in work or some other type of qualified job training or job search activity. The overall caseload requirement is 15 percent in FFY 96, increasing to 50 percent by FFY 02. For two-parent families, the requirement is 50 percent in 1996 and increases to 90 percent by FFY 99. Failure to meet work participation requirements subjects a state to an annual penalty equal to 5 percent of their block grant.
- ***Time Limits.*** The H.R. 4 establishes a five-year time limit on families for receipt of cash assistance; however, states are permitted to exempt 15 percent of the caseload from this requirement due to hardship.

SSI/SSP. The major changes in this program include the elimination of benefits for certain disabled children and the elimination of the state's MOE requirement. This latter change would enable the state to reduce grants, as provided in the 1995 Budget Act.

Restricting Welfare Benefits for Noncitizens. Effective January 1, 1997, legal noncitizens that were in the United States at the time of enactment of the measure—with certain exceptions for veterans, refugees, and those who have worked 40 quarters—are ineligible for SSI/SSP and food stamps. Also effective January 1, 1997, states may determine the eligibility of such legal noncitizens for benefits under the

TANF Program, the Title XX Social Services Block Grant, and the Medicaid Program. Noncitizens arriving after enactment of this measure, with certain exceptions for veterans and refugees, are ineligible for *all* means-tested federal benefits for five years, except for emergency medical services and certain child nutrition programs.

Food Stamps. The major food stamps provisions (1) reduce the maximum food stamp benefit by 3 percent due to a change in the calculation of the “thrifty food plan,” (2) freeze certain deductions from income used in determining food stamp benefits, (3) expand work requirements for physically and mentally fit individuals between the ages of 18 and 50, and (4) offer the states an option of receiving funds in a food assistance block grant. In order to participate in the block grant program, California must either (1) adopt a statewide electronic benefit transfer (EBT) system, or (2) pay the federal government for the difference between its food stamp error rate and 6 percent of the total amount of food stamp benefits provided to the state.

Block Grant to States for the Protection of Children. The major provisions of this component of H.R. 4 include the following.

- ***Block Grant***. The measure replaces existing categorical programs with a block grant. The programs include Child Welfare Services, Family Preservation and Support, Independent Living, and administration for Foster Care and Adoptions Assistance. The nationwide block grant amounts are specified for FFY 97 through FFY 02 and are increased annually based on specified percentages. States may receive additional funds which are subject to federal appropriation. The nationwide appropriation for the additional funds is limited to $325 million annually. The state's share of the block grant and additional funds is determined by formula, based on past-year expenditures. During the first two years of the block grant, states must maintain their spending at 100 percent of the amount spent in FFY 94, and must maintain spending at 75 percent in the remaining years.

- ***Foster Care and Adoptions Assistance***. These grants would remain as entitlement payments. However, a MOE requirement, identical to the provision described above, would be established for these programs.

Fiscal Impact on California. We estimate that the provisions pertaining to the TANF, SSI/SSP, and noncitizens would result in a loss of federal funds of about $8 billion over five years, compared to what the state would receive under current law. This includes a $700 million loss in federal funds in 1996-97. We estimate that the fiscal effect of the Child Protection Block Grant would result in a gain in federal funds of

$83 million over five years. This includes a loss of $16 million in 1996-97. The net five-year gain is generally due to a low caseload growth trend in California, relative to the nation as a whole.

National Governors' Association Welfare Reform Proposal

In February 1996, the National Governors' Association submitted a proposal that included welfare reform. The proposal included provision for a block grant as well as other components of the Congressional proposal. The Governors proposed the following major changes to H.R. 4: (1) adding $4 billion in child care funding, (2) increasing by $1 billion the contingency fund to assist states experiencing high unemployment, (3) raising the permissible exemption on the five-year lifetime limit on eligibility from 15 percent to 20 percent of the caseload, (4) providing states an option to receive foster care funds as a capped entitlement which may be transferred into the Child Protection Block Grant, and (5) delaying the effective date for restrictions on SSI disabled children until January 1, 1998. The association indicated that the Governors did not reach consensus on the issue of restricting welfare benefits for noncitizens.

GOVERNOR'S 1996-97 WELFARE PROPOSALS

Governor Assumes Welfare Reform Will Be Enacted Into Law

The budget for the AFDC Program proposes General Fund savings of $172 million in 1995-96 and $667 million in 1996-97 that require federal action. The budget assumes that this will be achieved by enactment of federal welfare reform.

As Figure 26 (see next page) shows, the Governor's Budget proposes over $800 million in General Fund savings, in the current and budget years, that are predicated on enactment of federal welfare reform legislation. These savings can be grouped in three categories. First, federal welfare reform (the version passed by Congress, but vetoed by the President) will enable California to implement previous grant reductions as well as the Governor's proposed 4.5 percent reduction for 1996-97. Second, welfare reform will permit the state to implement existing state policies to bar sponsored aliens from receiving AFDC and to prohibit grant increases for children born while a family is on aid (the Maximum Family Grant provision). Finally, the budget indicates that under the proposed block grant, California will receive more federal funds than it would receive under the current federal sharing system, *assuming that the state enacts the Governor's proposals to reduce grants by 4.5 percent and makes certain past grant reductions permanent that under current law are temporary.*

Figure 26

State Savings Dependent on Federal Action
AFDC Program
Governor's Budget

(In Millions)

Budget Proposal	1995-96	1996-97
Previous budget actions		
1994-95 2.3 percent grant reduction	$22	$44
1995-96 regional 4.9 percent grant reduction	20	58
1995-96 statewide grant reduction	43	—
Barring sponsored aliens	—	28
Maximum family grant	—	4
New proposals		
Make statewide 4.9 percent reduction permanent	—	129
1996-97 4.5 percent grant reduction	—	111
Savings from federal block grant	82	299
Child support provisions—federal welfare reform	1	-14
Foster care emergency assistance funds—federal welfare reform	4	8
Totals	**$172**	**$667**

Budget Proposes AFDC Aid Payment Reductions

The Governor proposes to (1) make the 1992-93 and the 1995-96 statewide grant reductions permanent, (2) eliminate the statutory cost of living adjustment, and (3) reduce AFDC grants by 4.5 percent, resulting in General Fund savings or cost avoidance of $440 million. We review the Governor's proposals and comment on them.

The Governor's Budget proposes several major changes that would reduce grants in the AFDC Program. As Figure 27 shows, these changes would result in combined General Fund savings and cost avoidance of $440 million, under the existing state and federal cost sharing, or $876 million if federal funds were provided as a block grant. General Fund savings and cost avoidance would be greater under the block grant system because federal funding would be fixed and the state would no longer share the savings (or costs) of any change in grant levels with the federal government.

Figure 27

Governor's AFDC Grant Proposals General Fund Savings 1996-97

(In Millions)

Proposal	Fiscal Effect Under: Existing State/Federal Sharing	Fiscal Effect Under: Federal Block Grant
Make permanent the statewide 4.9 percent grant reduction	$129	$256
Make permanent the 5.8 percent grant reduction	165	327
Delete requirement to restore statutory COLA	37	73
Reduce grants by 4.5 percent	111	221
Totals	**$440**	**$876**

The budget contains three separate proposals that would have the effect of reducing AFDC grants below the levels required by current law. These proposals are to (1) make permanent the temporary 5.8 percent grant reduction enacted in 1992-93 and the one-year statewide 4.9 percent grant reduction enacted in 1995-96, (2) delete the requirement to resume the statutory COLA that was suspended in 1991-92, and (3) reduce grants by an additional 4.5 percent.

Budget Proposes to Make Temporary Grant Reductions Permanent. Budget trailer bill legislation for 1992-93 reduced AFDC grants by 5.8 percent and specified that this reduction would remain operative until July 1, 1996. As noted above, budget trailer bill legislation for 1995-96 reduced grants by 4.9 percent statewide, with an additional 4.9 percent reduction for recipients residing in low-cost counties. The statewide reduction terminates on June 30, 1996. The Governor proposes to make both of these temporary reductions permanent, for a General Fund cost avoidance of $294 million (assuming existing state/federal sharing ratios).

Budget Proposes Deleting Requirement to Resume Statutory COLA. The 1991-92 budget trailer bill legislation suspended the statutory COLA for AFDC grants through the end of 1995-96. In deleting the requirement to restore the COLA (1.48 percent for 1996-97), the budget achieves a General Fund cost avoidance of $37 million in 1996-97.

Budget Proposes to Reduce Grants by 4.5 Percent. The budget proposes to reduce grants by 4.5 percent, for a General Fund savings of $111 million in 1996-97. As is the case for the current-year grant reductions, this proposed reduction would require a waiver or a change in federal law because it would reduce the maximum grant below the federally required MOE level. The reduction would be effective July 1, 1996.

Figure 28 summarizes how both current law provisions and the Governor's proposals would affect monthly grants for a family of three in 1996-97. As the figure shows, the proposed 1996-97 maximum grant level in Region 1 (counties with high rental costs) is $540, or $67 below the current-year level ($607) and $103 below the level required by current law ($643). In Region 2, the proposed grant level is $514, or $93 below the current-year level ($607) and $99 below the current law requirement ($613). These grant reductions would be partially offset by increases in food stamps.

Figure 28

AFDC Maximum Monthly Grant
Family of Three
Current Law and Governor's Proposal

	Current Law	Governor's Proposal
Region 1: High-cost counties		
1995-96 actual grant	$607	$607
1996-97 grant assuming:		
Implement 1994-95 2.3 percent reduction[a]	594	594
Make permanent 1995-96 4.9 percent reduction[a]	—	565
Restore 1992-93 5.8 percent reduction	633	—
Restore COLA	643	—
Adopt proposed 4.5 percent reduction[a]	—	540
Region 2: Low-cost counties		
1995-96 actual grant	$607	$607
1996-97 grant assuming:		
Implement 1994-95 2.3 percent reduction[a]	594	594
Implement 1995-96 regional 4.9 percent reduction[a]	565	565
Make permanent 1995-96 statewide 4.9 percent reduction[a]	—	538
Restore 1992-93 5.8 percent reduction	604	—
Restore COLA	613	—
Adopt proposed 4.5 percent reduction[a]	—	514

[a] Requires federal approval.

Evaluating the Proposals to Reduce AFDC Grants

The Governor's proposed grant reductions will result in significant savings and increase the financial incentives for recipients to work. We conclude that while some families will be able to compensate for the grant reductions through work, others will find this difficult due to low levels of education and employment experience, as well as a potential lack of job opportunities.

In presenting his proposals, the Governor has offered several reasons why these changes are needed, including (1) the need to promote personal responsibility, (2) the need to reinforce the premise that AFDC is a temporary program, and (3) the need to make work an attractive alternative to AFDC. These are reasonable premises; but in evaluating the proposals, the Legislature needs to weigh the identified budgetary savings to government against its policy objectives for the AFDC Program and the potential impact of the proposed changes on needy families.

Fiscal Impact on Government. The budget estimates that the proposed reforms will result in significant savings to the state. In 1996-97, combined General Fund savings and cost avoidance are estimated to be $440 million under existing federal sharing ratios. The savings would be offset, by an unknown amount, to the extent that the reductions in grants leads to an increase in the use of other public services such as health and foster care.

Impact on Families. The grant reductions proposed by the Governor would reduce the resources available to many families. We note that currently, the combined maximum monthly grant and food stamps benefit ($838) for a family of three is equal to about 80 percent of the poverty guideline. Under the Governor's proposal, families in Region 1 would have their resources reduced to $792 or about 75 percent of the poverty guideline. Families in Region 2 would have their resources reduced to $773 or about 74 percent of the poverty guideline.

Increasing the Work Incentive. In *The 1991-92 Budget: Perspectives and Issues*, we concluded that the AFDC Program, as structured at the time, offered relatively little financial incentive to work. There were two main sources of the work disincentives: (1) the grant levels when combined with food stamps often were higher than what could be earned by recipients through low-wage employment and (2) program rules allowed working recipients to retain, at best, only a small part of each increment of income. In addition, recipients who worked were likely to weigh the possible loss of Medi-Cal benefits (after a transition period) if they lost AFDC eligibility. Since then, the combination of grant reduction (14 percent since 1990-91), rule changes, and an increase in the federal earned income tax credit have, to some extent, mitigated these problems; and the additional grant reductions proposed by the Governor could further increase the financial incentive to work.

It is impossible to predict with accuracy, however, the degree to which these proposals will induce more AFDC recipients to work. Those nonworking recipients who do not compensate for the grant reductions through an increase in earnings will suffer a reduction in their standard of living. This reduction will be significant, recognizing that these families' incomes are currently below the federal poverty guidelines. It is therefore important, in assessing the impact of the budget proposal, to consider the extent to which AFDC recipients can obtain employment given their education levels and employment experience.

Are AFDC Recipients Work-Ready? In spite of the increased work incentives provided under the Governor's proposals, AFDC recipients are likely to face several obstacles to employment, including lack of training and low education levels and work experience.

Lack of employment-related skills, including low educational attainment, is often cited as a major impediment to AFDC recipients returning to the labor force. Some studies show that low educational attainment is associated with a higher probability of staying longer on assistance.

The GAIN Program is California's primary employment training program for AFDC recipients. It is a more complex program and is more expensive per participant than most previous programs. The program, however, is not funded at a level sufficient to accommodate all “mandatory” and voluntary participants. In fact, the Department of Social Services (DSS) estimates that only 21 percent of “mandatory” GAIN cases were served in 1994-95.

An independent evaluation of the GAIN Program found it to be the most successful welfare to work program ever studied, both from the standpoint of increasing earnings for long-term AFDC recipients as well as from a cost-benefit perspective. However, the evaluation found that even in the most successful county (Riverside), 47 percent of the AFDC-FG GAIN participants were still on aid after two years and 37 percent had not been employed at any time during the first two years of the evaluation.

Finally, we note that the economy plays an important role in the ability of AFDC recipients to obtain jobs. The recent recession suggests that AFDC recipients may find it difficult to obtain employment if the economy's recovery is not sustained.

In summary, the relatively low level of education and employment experience of the typical AFDC parent, combined with limited job opportunities, suggests that it may not be possible for many nonworking adult AFDC recipients to fully compensate for the proposed grant reductions by obtaining a job in the private sector.

GOVERNOR'S 1997-98 WELFARE PROPOSAL

Governor Proposes to Redesign the Welfare System

The Governor proposes to redesign the welfare system in California, effective in 1997-98. The proposed redesign would replace the existing AFDC Program with four new programs. We summarize the Governor's welfare reform proposal and comment on it.

The Governor proposes legislation to redesign the AFDC Program, effective in 1997-98.

Key Program Changes. Figure 29 (see next page) compares the existing AFDC Programs to the Governor's proposal. The new program includes the following major changes:

- ***Eligibility Expanded to Additional Two-Parent Families.*** Under current law, low income two-parent families are eligible for the AFDC-U Program if the primary wage earner is unemployed when applying for aid and has worked for a specified amount of time prior to applying. The Governor proposes to eliminate these restrictions.

- ***Need Standards Replaced by Single Work Equivalency Benchmark.*** The “need standard”—the maximum income a household may have while maintaining eligibility—would be replaced by a Work Equivalency Benchmark. Unlike the need standard, which increases with family size, the new benchmark would be fixed at a constant level. The level is not specified, but would generally be based on the income and benefits available to low income working families. Recipients would be able to work and continue to receive a grant as long as total earnings are below the benchmark.

- ***Flat Grants.*** The maximum grant level is not specified. Similar to current law, the maximum grant would be set at a level below the Work Equivalency Benchmark. In contrast to the current benefit structure, however, grant levels would not increase with family size. The grant would be the Work Equivalency Benchmark less the recipient's income, up to the maximum grant level. Under current law, about one-third of the recipient's earnings is excluded from this calculation.

Figure 29

AFDC Program
Current Law and Governor's Proposal for 1997-98

Current Law	Governor's Proposal
Eligibility	
Family Size/Work History • AFDC-Family Group: one-parent families. • AFDC-Unemployed Parent: two-parent families; primary wage earner must be unemployed when applying for aid and must have a work history.	• Four separate programs, depending on specified characteristics of recipients. • Eliminates restrictions on eligibility of two-parent families.
Income threshold Based on Need Standard: • Varies with family size. • Grant plus income (excluding $30 and one-third of earnings) cannot exceed need standard.	Based on unspecified Work Equivalency Benchmark: • Does not vary with family size. • All income counts when computing grant.
Assets Cannot exceed specified levels.	Unspecified limits.
Time Limits	
No limit on eligibility. (After two years from commencing the GAIN Program, recipients must accept a work slot if provided by county, or grant is reduced.	• Two years for cases in the Ready-to-Work Program, but clients may be transferred to the Family Transition Assistance Program (five-year total time limit) if significant employment barriers are identified. • Five years for other recipients, but may be extended in certain cases (disability, for example).
Maximum Grant	
Set at specified levels, below need standard.	Set below Work Equivalency Benchmark— amount not specified.
Varies with family size.	Does not vary with family size
Adjusted annually by statutory COLA, beginning in 1996-97.	No statutory COLA.
No increase for children born while on aid.	Same.
Cash grant for all recipients.	Cash grant except for recipients in Family Transition Assistance Program, who receive vouchers or direct payments to providers, for specified services such as housing, transportation, and child care.
Support Services	
Work-related expenses Provided, up to specified limit.	Provided, up to unspecified limits.
Child care Provided, up to specified limits.	Provided, up to unspecified limits.
Employment preparation GAIN Program—basic education, job search, and job training.	Short-term assistance for work-ready families. Intensive services for others capable of work.
Teen parents Cal Learn Program—case management and bonuses/sanctions for school performance.	Teen Parent Support Program—primarily in-home counseling and guidance.
Other services Provided through separate programs (food stamps, health services, drug treatment, mental health, etc.).	Essentially the same, but may be provided with assistance of case management.
Sanctions	
After two years from commencing GAIN, must accept job or work slot if offered by county, or grant is reduced.	Automatic reductions to maximum grant at six months and one year for work-ready families. Loss of eligibility for noncooperation.

- ***Performance-Based Local Administration.*** The state would establish minimum standards for eligibility, benefits, maximum time on assistance, and performance-based outcome measures. The state would contract for local administration.

New Programs. The four new programs are (1) the Ready-to-Work (RTW) Program, for those families in which an adult has been employed, (2) the Family Transition Assistance Program (FTAP), for parents without employment experience and teen parents under age 18, (3) the Disabled Family Assistance Program (DFAP), for families with a disabled child or parent, and (4) the Child-Only Assistance Program (COAP), for cases with no adult eligible for assistance. The programs are summarized below.

Ready-to-Work Program. This program would serve adults with a work history or who are currently working. The DSS estimates that 59 percent of the existing caseload has a work history. The program would provide cash assistance in the form of a flat grant that is reduced after six months and again after one year, with a total time limit of two years. Local administering agencies would have the discretion to provide a 90-day exemption from grant reductions or from the two-year limit. The program would offer short-term employment services, child care, work-related expenses, and a voluntary program of support services for 18- and 19-year-old teen parents. After a preliminary appraisal at intake, progress evaluations would be conducted in order to identify barriers to employment at the end of six months, one year, and two years. There would be a three month maximum exemption from the two-year limit, or the grant reductions, for birth of a newborn.

Family Transition Assistance Program. This program is designed for parents with no work history, and minor teen parents. The DSS estimates that this program would serve approximately 15 percent of the existing caseload. Instead of a cash grant, recipients would receive vouchers and other forms of non cash assistance. Case managers would provide assistance and may arrange for direct payment of rent and other necessities. Families would receive intensive employment and counseling services for the purpose of removing barriers to employment. Teen parents would be required to participate in a Teen Parent Support Program, which would include in-home counseling. There would be a five-year time limit. At the end of five years (or earlier if it is determined that the parent is not likely to benefit from further intervention), the case would be referred to a child welfare services professional to assess the capability of the parents to continue to care for their children.

Disabled Family Assistance Program. This program would serve families where either the parent or child is disabled. The DSS estimates that approximately 10 percent of the caseload would be assigned to the DFAP. Work expectations would be based on the capability of the adult to participate in the labor market. Recipients would receive cash assistance for as long their disability prevents them from being self sufficient.

Child-Only Assistance Program. This program is designed to serve two distinct populations: (1) children with parents who are not eligible for aid (such as undocumented persons) and (2) children living with adult relatives acting as the primary caretaker. The DSS estimates that approximately 16 percent of the caseload would be assigned to the COAP. Cash grants in this program would be lower than in the other programs because the grant is for the child only. For children with parents not eligible for aid, there would be a flat cash grant for the child, no support services, and a five-year time limit. For children with caretaker relatives, the grant would be based on the total number of children (not to exceed the Work Equivalency Benchmark), child care services would be provided, and there would be no time limit.

Movement Between the Programs. Each program is designed to help participants become self-sufficient, with a recognition that disabled clients may not attain this goal. While recipients in the RTW would have a two-year limit on eligibility for aid, we note that local administrators would have the discretion to transfer them to the FTAP (where they would be subject to a five-year limit on total time on aid) if it is determined that the client is faced with significant barriers to employment. Conversely, recipients in the FTAP could be transferred to the RTW program if they obtain a labor force connection, such as through part-time employment.

Figure 30 summarizes the key features of the three programs that are designed to assist families in becoming self-sufficient. The DSS estimates that these three programs would serve approximately 785,000 cases, or 84 percent, of the current caseload. The remainder of the caseload would be in the COAP, which is summarized in Figure 31 (see page 110).

Administration. The state would contract for local administration, with counties given the first choice. If counties refuse, they would continue to pay their share of welfare costs, and the state would contract with cities, non profit corporations, other counties, or the private sector. Local administering entities would be funded on a per capita basis for each program, based on the number of eligibles and potentially other “risk factors.” Local administrators could contract with other organizations to provide various services, including eligibility determination. The department indicates that some type of fiscal incentives could be built into the contracts with the local administrators, based on a managed care model. In other words, if local entities succeed in moving clients into self sufficiency, they could achieve financial rewards. Counties would continue to administer the General Assistance program.

Figure 30

Governor's Proposed Redesign of the Welfare System Summary of Programs for Families with Adult Recipients

	Ready to Work Program	Family Transition Assistance Program	Disabled Family Assistance Program
Target population	Recipients with work history	Recipients lacking work experience and teens	Families with disabled parents or children
Program size	546,000 cases 59 percent of caseload	139,000 cases 15 percent of caseload	92,000 cases 10 percent of caseload
Focus of program	Employment	Intensive case management and services to overcome barriers to employment	Within limits of their disability, help parents become self sufficient
Type of aid	Cash grant, reduced after six months and one year	Vouchers and direct payments to service providers	Cash grant
Time limit	Two years If local administrators identify barriers to employment, recipients may be transferred to FTAP	Five years	Parents unable to be self sufficient may receive benefits indefinitely
Exemptions from time limits	• Up to three months following birth of a child • Up to three months for cause, at the discretion of local administrator	None	Not applicable, program is not time limited
Services provided	• Short-term employment • Child care • Work-related expenses • Voluntary teen parent support services	• Intensive employment • Child care • Work-related expenses • Mandatory teen support services • Case management, other services on referral	• Employment services • Child care • Work-related expenses (including ancillary services)

Figure 31

Proposed Redesign of the Welfare System
Summary of Child-Only Assistance Program

	Target Populations	
	Children With Ineligible Parents	Children Living With Adult Relatives Other Than Parents
Program size	110,800 cases 12 percent of caseload	36,288 cases 4 percent of caseload
Focus of program	Provide assistance to children with ineligible parents	Assist relative caretakers
Type of aid	Flat cash grant	Cash grant based on number of children
Time limit	Five years	No limit
Exemptions from time limits	None	Not applicable
Services provided	None	• Child care • Needy caretaker relatives may receive other services if they are in RTW, FTAP, or DFAP

Framework for Evaluating the Governor's Proposal

We believe that the Governor's proposal is a useful starting point for the Legislature's deliberations on welfare reform. Little is known, however, about whether proposals such as the flat grant and time-limited eligibility would result in a significant increase in the number of welfare recipients who obtain employment. We recommend that the department submit a report prior to budget hearings that estimates the fiscal effect of the proposal.

There appears to be substantial agreement among policymakers that one of the overarching goals of the AFDC Program is that it be structured so as to move adult recipients into stable employment as soon as possible. Beyond this basic goal, there is little consensus on the key elements that should be in a welfare program. We believe, however, that the following set of criteria could be used as a framework for evaluating the Governor's proposals.

Recipients Should Receive Aid in an Amount, and for a Period of Time, That Is Adequate to Give Them the Opportunity to Become

Self-Sufficient. The Governor's proposal does not specify the amount of the maximum grant or the Work Equivalency Benchmark (which is the maximum income a household could have and remain eligible for the program). While the Work Equivalency Benchmark is not specified, the administration indicates that it will generally be based on the income of a low-income working person (an average of $736 per month assuming the minimum wage). We note that the benchmark would not vary with family size, indicating that large families would have greater difficulty meeting their needs if they rely solely on income from grants. Similarly, the amount of the maximum grant is not specified, but would also be set at a fixed level that does not vary with family size.

To get some sense of the potential impact of these changes, we note that in October 1994, an estimated 13 percent of families on AFDC had five or more persons in the household. As the Governor indicates, the flat grant (which does not vary with family size) is analogous to the fact that wages do not increase with family size; although, we note that working parents do receive some financial benefits for additional children through income tax deductions.

The Governor's proposal also provides for automatic grant reductions, at six months and one year, for recipients in the RTW Program. It is uncertain whether the automatic grant reductions for RTW families—particularly at six months—would provide sufficient aid, for a sufficient amount of time, to recipients. The fact that all of these household heads have, at some point within the past ten years, held a job does not mean that they are equally "work-ready" and will be capable of obtaining and holding a job for a sustained period of time after being on aid for six months. It is worth noting that even in the best-performing county studied in the recent GAIN Program evaluation, 47 percent of the participants were still on aid after two years.

Regarding the duration of aid, we note that about 32 percent of the state's AFDC cases have been on aid for a total time of five years or more. Thus, a five-year limit as proposed for FTAP represents a significant policy change. Given the lack of data on the impact of such a change, this policy entails some risk because if it does not result in increased employment among recipients, more families with children will be further below the poverty line. At the same, such a limit on eligibility could result in significant benefits if, by increasing recipients' incentive to work, it leads to a large increase in the number of recipients who obtain employment. We note that in October 1994, about 10 percent of AFDC households reported earnings from employment.

The two-year limit for RTW Program participants would have potential effects similar to the five-year limit, although program administrators would be authorized to refer these clients to the FTAP if they identify significant employment barriers. We note that in October 1994, an estimated 65 percent of the caseload had been on AFDC for more than two years.

In assessing these proposals, job availability will be an important variable. The Employment Development Department (EDD) projects that approximately three million new jobs will be created in California between 1995 and 2005, or approximately 300,000 new jobs per year. The EDD further estimates that approximately one-half of these new jobs will be low-skilled jobs requiring one year or less of vocational preparation and eight years or less of education. The data, however, are not sufficient to determine whether the anticipated new jobs will be sufficient to reduce existing unemployment and absorb persons entering the labor force from California's growing population as well as from the AFDC caseload.

The System Should Include Work Incentives and Be Based on an Expectation That Recipients Make an Effort to Achieve Self-Sufficiency. The Governor's proposal, particularly with the imposition of time limits on persons capable of working, is predicated on this criterion. The emphasis on effort on the part of parents is reinforced by the proposal to give administrators discretion to discontinue aid in the event of non cooperation with program requirements (presumably for reasons such as refusing drug treatment upon referral from a case manager).

The Governor's proposal includes various components designed to provide an incentive for recipients to become self-sufficient by seeking employment. These include the time limits, the flat grant, and the differential between the Work Equivalency Benchmark and the maximum grant. Regarding the latter factor, we note that it would operate similarly to current law, whereby the difference between the "need standard" and the maximum grant represents an amount that recipients can earn without these earnings offsetting their grants. We also note, however, that the Governor proposes to eliminate an existing work incentive feature of the AFDC Program—the "$30 and one-third disregard." Under this rule, the first $30 of earned income plus one-third of remaining earnings are not counted as offsets to the grant.

In addition, we note that the final report of an evaluation of recent maximum grant reductions and the "$30 and one-third disregard" in California, and their combined impact on increasing the percentage of AFDC recipients who work, is due to be submitted this spring. Preliminary results submitted two years ago showed some impact on AFDC-U recipients but virtually no impact on AFDC-FG recipients.

Services Should Be Designed to Give Recipients an Opportunity to Achieve Self-Sufficiency. Generally, the Governor's proposal recognizes the need to provide support services to AFDC families and to differentiate among the needs of these families. This is particularly true of the FTAP, which would provide intensive services, including case management. We note, however, that none of the programs would provide basic education services. This apparently is in response to the successful employment-focused approach adopted in the Riverside County GAIN Program. Research on the GAIN Program, moreover, did not find significant employment impacts from mandatory basic education, although the evaluators indicated that a longer-term analysis would be more appropriate because some of the beneficial effects may not materialize in the initial years.

We also note that, like the existing program in California, the proposal makes no provision for case management services once a family goes off aid. Given the large number of AFDC families that go on aid more than once (estimated at 48 percent), the provision of such assistance should be given some consideration.

The System Should Strike a Balance Between the Provision of Administrative/Programmatic Flexibility and the Assurance of Equitable Treatment of Recipients. The proposal would give local program administrators significant flexibility to make key decisions regarding program services, time limits, and sanctions. Local administrators, for example, would have some discretion to reassign clients among programs, provide limited extensions to delay grant reductions or the two-year limit in the RTW program, and effectively extend the two-year time limit to five years by transferring clients from the RTW program to the FTAP.

This flexibility permits local administrators to tailor their decisions to the individual needs of clients and to take into account differences in families' circumstances. At the same time, it could result in treating similar clients differently because of differences in the administrators rather than the recipients. We believe that if the Legislature adopts the proposal, guidelines or regulations should be included in this area—for example, to better define the circumstances that would permit an RTW Program participant to be transferred to the FTAP.

Conversely, we believe that the FTAP, in requiring that all non disabled adult recipients with no employment experience receive vouchers or other non cash aid rather than a cash grant, does not have sufficient administrative flexibility. The voucher provision rests on the premise that these recipients need some form of money management assistance. The proposal, however, does not recognize that many of these recipients—who are assigned to the program solely because they have not been employed within the past ten years when applying for aid—will have no more need for money management than will participants in the other program components.

Similarly, recipients in the RTW Program would differ significantly with respect to their readiness for work, as noted above. Some could have relatively high levels of education and employment experience, while others could have relatively low levels.

The System Should Be Administered Efficiently. Although relatively little detail has been provided regarding program administration, the Governor proposes to use a per-capita funding mechanism in the state's contracts with local entities. This could be an innovative approach to welfare administration, but it will be important to ensure that the incentive system accounts for effectiveness (outcomes) as well as costs so that local administrators do not deny needed services in an effort to maximize their net revenues. In other words, the system should reward administrative agencies for moving recipients into jobs, as opposed to simply moving them out of the AFDC Program (and onto General Assistance, for example).

We also point out that the use of vouchers and direct payments to providers, as proposed for the FTAP, will entail considerably higher administrative costs than the use of cash grants.

The System Should Be Cost-Effective. Cost-effectiveness can be measured in different ways—from the perspective of the government, the taxpayer, or the society as a whole, for example. From the government's perspective, the cost-effectiveness of the Governor's proposal would depend primarily on the cost of the grants and services and the revenues from additional tax receipts to the extent that employment is increased, compared to these costs and revenues under the existing system.

The costs of the Governor's proposal cannot be estimated without additional information, including the levels proposed for the grants and the Work Equivalency Benchmark. Future costs, moreover, would depend on caseload levels as well as impacts on other state and county programs, which cannot be projected with any reliability primarily because little is known about the impact of provisions such as time limits. For the same reason, it is not possible to estimate the impact on revenues.

We can predict, however, that the time limits would significantly reduce the state costs of grants and related administration, once these limits begin to take effect. The extent to which this translates into a shift of costs to the counties depends on the extent to which recipients obtain jobs rather than go onto General Assistance.

As indicated, the initial costs of grant expenditures under the Governor's proposal cannot be estimated until the grant levels are known.

Likewise there is no estimate, at this time, of the cost of support services. These costs probably would be higher than current expenditures for AFDC-related services if, unlike the existing GAIN Program, the authorized services are fully funded.

We can get some idea of the potential costs of support services in the RTW Program by utilizing data from the recent evaluation of the GAIN Program. Based on the orientation / assessment and job search costs in the Riverside County GAIN Program, we estimate that providing these services to the anticipated RTW program caseload could exceed $675 million in the first year. This would be more than twice the current direct costs of the entire GAIN Program, which includes basic education and job training. These costs, moreover, exclude child care services, which also would likely exceed current-year spending. We note, however, that ongoing annual costs would be substantially reduced because in the first year, services would be needed for all *existing* cases referred to the RTW Program, whereas in subsequent years the services would be largely for new applicants.

We believe that the cost of support services in the Family Transitional Assistance Program also would exceed the corresponding costs of services provided currently because of the provision of intensive case management and other services called for in the Governor's plan. Further, the use of vouchers instead of cash grants is likely to increase administrative costs.

In summary, it is not possible to estimate the fiscal effects of the proposal without additional information. The time limits, however, would result in significant long-term savings to the state and potentially a shift of costs to the counties, depending on the effect of the proposal on employment among AFDC recipients. We also note that a preliminary report from an evaluation of recently implemented time-limited welfare programs in three states indicates that the states are incurring significant net costs in the first year (for activities such as support services and automation), but it is too soon to determine longer-term impacts. In order to assist the Legislature in considering the Governor's proposed redesign of the welfare program, we recommend that the department submit a report, prior to budget hearings, that estimates the fiscal effect of the proposal, including the cost of grants and support services, as well as the estimated savings from increased employment.

Conclusion. While we have raised several areas of concern regarding certain aspects of the Governor's proposal, we believe that it is a useful starting point for the Legislature's deliberations on welfare reform. In summary, we draw the following conclusions regarding the proposal:

- ***Recognizing Differences Among Recipients.*** We believe that it makes sense to structure the successor to the AFDC Program in a way that takes into account the differences among recipients. Dividing the caseload into four programs is consistent with this concept, but we believe that the criteria established for the two major programs—the RTW and the FTAP—may be too inflexible in that there will be significant differences among families within and between each program, with respect to their readiness for work and their need for support services.

- ***Structuring Work Incentives.*** The proposal includes several elements designed to increase the work incentive, the most significant being the flat grant and time limits on eligibility. Little is known about the impact of such proposals. The time limits would result in significant state savings in AFDC grants. If they do not increase employment levels significantly, however, they could also result in a major shift of costs to other state programs and, in particular, to county programs. The potential shift of costs to counties would be mitigated to some degree by recent legislation (Ch 6/96 [SB 681, Hurtt]) which permits counties to limit General Assistance to three months in any 12-month period, for persons considered employable.

- ***Impact on Children.*** Any sanctions against parents for failing to become self-sufficient will have consequences for their children. Thus, it is important to consider what happens to families when aid is reduced or discontinued due to time limits. Given the limitations on General Assistance, the final "safety net" for children may be the child welfare system. In fact, under the Governor's proposal, families that reach the five-year time limit would be referred to a child welfare professional for an assessment of the capability of the parents to continue to care for their child. The proposal, however, does not address the potential consequences—both to children and to the child welfare programs—of such assessments.

- ***Support Services.*** The proposal provides for support services in order to help recipients achieve self-sufficiency. The provision of case management and other services, if needed, for all FTAP participants represents a significant change from current law. While additional information is needed, there is some evidence that under the proposal the cost of support services would be significantly higher than under current law, if the proposed program is fully funded.

- ***Cost-Effectiveness.*** Because (1) the grant levels are not specified and (2) the long-term impact on employment levels cannot be predicted, we cannot estimate the cost-effectiveness of the proposal.

Finally, we note that the proposal to redesign the AFDC Program serves as an opportunity to consider the state's welfare system in a broader perspective. More specifically, we recommend that the Legislature consider state assumption of responsibility for the General Assistance program, as we discuss in our companion volume, *The 1996-97 Budget: Perspectives and Issues*. At a minimum, the Legislature should ensure that any welfare redesign clearly links program responsibility, accountability, and financing to achieve its policy objectives.

CHILD SUPPORT ENFORCEMENT PROGRAM

Child support enforcement services are provided by county district attorneys to all persons who request such assistance. Collections made on behalf of AFDC recipients offset AFDC grant expenditures and therefore result in state and county savings.

Budget Underestimates Savings From Franchise Tax Board Program

We recommend that the budget's estimate of the impact of the Franchise Tax Board's child support enforcement program be adjusted to more accurately reflect recent data on monthly collections, for a General Fund savings of $6.2 million in 1995-96 and $5.3 million in 1996-97. (Reduce Item 5180-101-0001 by $5,300,000.)

Chapter 1223, Statutes of 1992 (AB 3589, Speier), established a program in which counties forward delinquent child support cases to the Franchise Tax Board (FTB) to attempt to recover these obligations. The budget estimates that the program will increase AFDC collections by $12.6 million in 1995-96 and $16.5 million in 1996-97, resulting in General Fund savings of $5.9 million and $8 million, respectively.

In reviewing the actual monthly collections from September through December 1995 (the most recent data available), we found that the FTB recovered an average of $2.3 million per month in AFDC collections for the 22 participating counties. If this trend continues, collections would amount to about $26 million in the current year and $28 million in the budget year, significantly higher than the budget's estimates.

Accordingly, we recommend that the budget's estimated AFDC child support collections be adjusted to reflect the current-year trend, requiring an increase of $13.4 million in 1995-96 and $8.5 million in 1996-97. This would result in additional General Fund savings of $6.2 million in 1995-96 and $5.3 million in 1996-97, due to the effect of the additional collections in offsetting AFDC grant expenditures.

We note that our estimate is conservative in that (1) we based our estimate on collections for September through December even though collections in December (the latest month of data) were significantly higher than in the preceding months and (2) the board anticipates that additional counties will choose to participate in the program in the budget year, thereby resulting in increased collections above the current year. We will review these factors with the department and the board prior to the budget hearings, and modify our recommendation if appropriate.

Proposed Child Support Court Commissioner System Needs Implementation Plan

We withhold recommendation on $19 million ($6.5 million General Fund) proposed to implement a commissioner-based child support court system, pending receipt of an implementation plan from the Department of Social Services.

Currently, most child support cases referred to the courts are heard by judges. In some counties, however, court commissioners are used to hear some of the cases. The Governor's Child Support Court Task Force recommended in 1995 that counties establish a statewide system in which court commissioners are dedicated specifically to the establishment of child support paternity and support orders. The budget proposes to fund such a system, effective January 1, 1997, assuming enactment of pending legislation (AB 1058, Speier).

The new court commissioner system would be designed to include streamlined procedures, dedicated support staff, automation, and better information and guidance for parents through the system. Federal financial participation at 66 percent of total costs would be available, provided that a plan of cooperation exists between the courts and the DSS. The budget proposes $6.5 million from the General Fund to support the half-year costs of 50 commissioners and five new positions for state-level administration by the Judicial Council. (An unspecified portion of these funds would replace county funds currently used for court commissioners.)

The DSS estimates that the program will result in state savings of $2.1 million in 1996-97 due to additional child support collections. Thus, the proposal is estimated to result in a net General Fund cost of $4.4 million in 1996-97. By 1998-99, the DSS estimates that the program will result in net General Fund savings of $17.9 million because of increased child support collections. We also note that the program would free up time for judges to hear other cases and would provide some savings to those counties that currently use county-funded commissioners.

We believe that the proposal to expand the use of commissioners has merit. The administration, however, has not provided sufficient information to justify the need for 50 commissioners in 1996-97. In fact, a workload study completed by the department in 1994 indicated that 25 commissioners would be needed. Caseload growth since 1994 would not justify increasing the number of commissioners needed to 50. In our discussions with the department, however, staff indicated that they would be able to provide additional information justifying the need for 50 commissioners because the 1994 study did not account for the backlog of child support cases. Accordingly, we withhold recommendation on the proposal, pending receipt of an implementation plan that shows (1) when each county will make the transition to the commissioner-based system and (2) the number of commissioners needed in each county or group of counties.

Budget Does Not Reflect Savings From Expanded License Match Program

We recommend that the budget's estimate of child support collections be adjusted to reflect the impact of expanding the State Licensing Match System, for a General Fund savings of $26 million in 1996-97. (Reduce Item 5180-101-0001 by $26,000,000.)

Chapter 481, Statutes of 1995 (AB 257, Speier) expanded the State Licensing Match System (SLMS) to require the Department of Motor Vehicles (DMV) to suspend or revoke the driver's license of delinquent child support obligors, and made other modifications to the state's child support collection system. When the bill was enacted, the Department of Finance estimated that AB 257 would result in a General Fund savings of $26 million in 1996-97, due to the impact on AFDC child support collections. We also note that similar legislation in Maine substantially increased child support collections.

Based on the experience in Maine and our discussions with staff at the DSS, we conclude that a net General Fund savings of $26 million is a reasonable estimate. The budget, however, does not reflect any savings from this program. Accordingly, we recommend that the budget's estimate for AFDC child support collections be increased to reflect a General Fund savings of $26 million in 1996-97.

AFDC—FOSTER CARE

Budget Should Reflect Additional Revenue and Savings

We recommend (1) increasing General Fund revenues by $172,000 and (2) reducing General Fund expenditures by $317,000 in order to reflect the impact of foster care group home audits. (Increase General Fund revenues by $172,000 and reduce Item 5180-101-0001 by $317,000.)

Current law requires the department to perform program and fiscal audits of foster care group homes. Group homes are paid a rate based on the level of care and supervision that is provided. The department is authorized to reduce the rate being paid to the group home and to collect any overpayments identified in audit findings that the required level of care and services was not provided.

The budget proposes $745,000 ($484,000 General Fund) to continue eight limited-term positions and establish two new positions to conduct group home audit activities. In addition to these positions, the department currently has five permanent positions performing group home audits. Based on our review, we find that continuation of the eight positions is justified on a workload basis.

Budget Does Not Reflect Revenues and Savings from Proposed Activities. Our analysis indicates that the Governor's Budget does not reflect any revenue or savings that would result from proposed group home audit activities. The department, however, estimates that additional General Fund revenues of approximately $172,000 will be generated from the collection of overpayments. In addition, the department estimates General Fund savings of $317,000 resulting from group home rate reductions. Accordingly, we recommend that the budget reflect the $172,000 in General Fund revenues and $317,000 in reduced expenditures resulting from these activities in 1996-97.

Technical Error in Calculating General Fund Share of Costs

We recommend a reduction of $1.3 million from the General Fund because a technical error in calculating the state share of costs for foster care resulted in overbudgeting. (Reduce Item 5180-101-0001 by $1,312,000.)

The budget proposes an increase in the Foster Care Program of $2.3 million from the General Fund ($4.8 million from all funds) as a result of a federal policy change affecting certain cases where the foster parent is a relative of the child. Our analysis indicates that the General Fund costs are overbudgeted because the department applied an incorrect state/county cost sharing ratio. Therefore, we recommend that the General Fund amount be reduced based on the correct cost sharing ratio. This would result in General Fund savings of $1,265,000 in 1995-96 and $1,312,000 in 1996-97. We note that this would also result in corresponding increases in county costs.

Budget Does Not Reflect Savings Anticipated From an Increase in Federal Funds

We recommend a General Fund reduction of $485,000 in the amount proposed for the Foster Care Program to reflect anticipated additional federal funds due to an increase in the federal share of costs of this program. (Reduce Item 5180-101-0001 by $485,000.)

The Federal Medical Assistance Percentage (FMAP) determines the federal share of costs in the Medicaid Program (Medi-Cal in California) as well as certain other programs. The Governor's Budget anticipates that the federal sharing ratio will increase from 50 percent to 50.23 percent of total costs for the affected programs, effective October 1, 1996. The budget assumes General Fund savings in certain programs (primarily Medi-Cal) due to the anticipated increase in federal funds, beginning in 1996-97.

The federal share of costs for foster care grants is also based on the FMAP. The budget, however, does not reflect a change in the federal share of costs. We estimate that the additional federal funds would result in General Fund savings of $485,000 in 1996-97. Accordingly, we recommend that the budget be amended to reflect these anticipated savings.

Department Will Not Meet Deadline for Report on a Revised Foster Care Rate Setting System

At the time this analysis was prepared, the Department of Social Services had not yet convened a working group to recommend a revised foster care rate setting system, as required by the Legislature. We recommend that the department report during budget hearings on the status of its efforts to meet this requirement.

Children who are placed in foster family homes generally receive the basic foster family home grant, ranging from $345 to $484 per month. Children with special medical and/or behavioral needs are also eligible for a specialized care increment over and above the basic foster family home grant.

Foster family agencies (FFAs) recruit and certify foster homes and provide training and support services to the foster parents. One of their objectives is to provide placement settings for children who have special needs and require a higher level of care than typically provided in a foster family home. The FFA rates generally range from $1,283 to $1,515 a month.

The *Supplemental Report of the 1995 Budget Act* requires the Department of Social Services to convene a working group to review the rate setting system for foster family homes and FFAs and to report its recommendations for a new or revised system by March 1, 1996. The working group must include representatives from the department, counties, providers, consumers, and the Legislature. The purpose of the review is to recommend a system that could help to provide for a greater range of service levels and placements for children in foster care. At the time this analysis was prepared, departmental staff indicated that they were still in the process of identifying potential participants of the working group. It is apparent that the Legislature's deadline for the report will not be met and we find no justification for the delay. To facilitate legislative oversight of this issue, we recommend that the department report during budget hearings on the status of its efforts to comply with the Legislature's directive.

Flexibility in Use of Foster Care Funds Could Increase Family Reunifications

We recommend the enactment of legislation to establish a pilot program whereby counties could use state foster care funds to provide ongoing support services to children and their families after reunification.

One of the goals of the Child Welfare Services Program is to safely reunify foster care children with their families, when appropriate. Although in some cases it may not be appropriate to return a foster child home to his/her family, there are instances where reunification is in the child's best interest. As some child welfare professionals have indicated, more children in long-term foster care could return home if *ongoing* support services were provided to the families. Currently, very few families receive ongoing services when a child is returned home, mainly due to lack of funding.

It is likely that some children who are in long-term foster care could be reunified if more resources were available to fund these ongoing services. Currently, state law prohibits the use of foster care funds to provide ongoing support services to families. Instead, the funds must be used to maintain the child in foster care placement (food, clothing, shelter, etc.). We recommend the enactment of legislation to establish a pilot program whereby counties could use state foster care funds to provide support services to children and their families after reunification. In other words, the program would give counties flexibility to use foster care funds to support a child in his/her family. This program would target the services to children in *long-term* foster care who could be returned home with the support of such services.

We note that this legislation could be designed so that at a minimum the General Fund costs of participating in the pilot program would not exceed current foster care costs for those cases. In some instances this proposal could result in net savings to the General Fund. This is because long-term foster care children typically remain in foster care homes until they reach age 18. This proposal, if it is successful, would reunify these children with their families, thereby avoiding long-term foster care costs.

Closure of County Probation Facilities Could Lead to Increases in Foster Care Costs

Possible closure of county juvenile camps and ranches could result in higher caseloads and costs in the Foster Care program.

Several counties are reporting that, as a consequence of reductions in federal funds, they intend to close local camps and ranches for juvenile offenders. Because foster care is an alternative placement option for some of these juvenile offenders, the closure of county camps and ranches (funded by the counties) could lead to higher caseloads in the Foster Care program (partially funded by the state). The budget, however, does not assume closure of any county camps and ranches. We discuss this issue in detail in our analysis of the Department of the Youth Authority.

SUPPLEMENTAL SECURITY INCOME/ STATE SUPPLEMENTARY PROGRAM

The Supplemental Security Income/State Supplementary Program (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The budget proposes an appropriation of $1.6 billion from the General Fund for the state's share of the SSI/SSP in 1996-97. This is a decrease of $375 million, or 19 percent, from estimated current-year expenditures. This decrease is due primarily to the full-year effect of previous grant reductions (which have so far been delayed because of lack of federal approval), and the elimination of SSI/SSP benefits for noncitizens pursuant to proposed federal welfare reform legislation.

In December 1995, there were 330,852 aged, 21,833 blind, and 673,197 disabled SSI/SSP recipients.

Assumed Federal Law Changes Create a General Fund Risk

In the SSI/SSP, the budget proposes General Fund savings of $102 million in 1995-96 and $512 million in 1996-97 that are dependent on federal action to eliminate the maintenance-of-effort requirement and restrict program eligibility. The budget assumes that this will be achieved by the enactment of federal welfare reform legislation.

Background. Federal law allows states the discretion to set the level of the SSP grant (the state-funded component of SSI/SSP) as long as the payment remains at or above the federally-mandated maintenance-of-effort (MOE) level. The MOE level is the SSP grant level in effect in July 1983. Budget trailer bill legislation for 1995-96—Chapter 307, Statutes of 1995 (AB 908, Brulte)—reduced payments by 4.9 percent statewide, with an additional 4.9 percent reduction for persons living in low-cost counties, effective December 1995. The statewide reduction is scheduled to terminate on June 30, 1996 and the additional reduction to recipients in low-cost counties will be ongoing. These grant reductions would reduce the grants for most recipients below the federally mandated MOE, but federal legislation permitting this reduction has not been enacted.

Budget Savings Contingent on Federal Welfare Reform. Figure 32 (see next page) lists past and proposed budget actions that are dependent on federal legislation. As the figure shows, $614 million in General Fund savings in the current and budget years are at risk. With the exception of the elimination of drug and alcohol addiction as qualifying disabilities (which is included in separate pending legislation), the most recent version of federal welfare reform (passed by Congress but vetoed by the President) would enable the state to implement the proposals shown in Figure 32. We note however, that the budget assumes that the current-year grant reductions will become effective April 1, 1996. Because of recipient notification and other administrative requirements, it will not be possible to achieve all of the savings assumed in the budget for the current year even if federal welfare reform is enacted in March 1996.

Figure 32

State Savings Dependent on Federal Legislation SSI/SSP 1995-96 and 1996-97

(In Millions)

Budget Proposal	1995-96	1996-97	Total
Previous Budget Actions:			
1995-96 regional 4.9 percent grant reduction	$25	$101	$126
1995-96 statewide grant reduction	76	—	76
Eliminate drug/alcohol addiction as criteria	—	3	3
New Proposals:			
Make statewide 4.9 percent reduction permanent	—	$309[a]	$309
Restrict eligibility for noncitizens	1	90[b]	91
Restrict eligibility for disabled children	—	9	9
Totals	**$102**	**$512**	**$614**

[a] Total savings are estimated at $335 million, of which $309 million is dependent on federal action.

[b] $96 million in SSI/SSP savings partially offset by net costs of $6 million in Medi-Cal.

Budget Proposes to Make Temporary Reductions Permanent

By proposing to make past grant reductions permanent and to delete the requirement to restore the statutory cost of living adjustment, the budget would achieve a General Fund cost avoidance of $777 million in 1996-97.

Budget trailer bill legislation for 1991-92 and 1992-93 reduced SSI/SSP grants by 5.8 percent, suspended the statutory state cost of living adjustment (COLA), and specified that the grant reduction and the COLA suspension would remain operative until July 1, 1996.

Restoring the 5.8 percent grant reduction in 1996-97 would result in General Fund costs of $442 million. There would be no cost in 1996-97 to restore the COLA because of the interaction between the state COLA—which is based on the California Necessities Index (1.5 percent) and is applied to the entire SSI/SSP grant—and the federal COLA, which is based on the Consumer Price Index (2.9 percent) and is applied to the SSI portion of the grant. The Governor's Budget proposes to make the grant reduction and the COLA suspension permanent, for a General Fund cost avoidance of $442 million in 1996-97.

The budget also proposes to make permanent the statewide 4.9 percent grant reduction enacted in 1995-96. This would result in a General Fund cost avoidance of $335 million in 1996-97.

Figure 33 shows the SSI/SSP grants in 1996-97 for individuals and couples in Region 1 (high-cost counties) and Region 2 (low cost-counties) under both current law and the Governor's proposal. Grants under the Governor's proposal would be roughly 10 percent less than under current law. As a point of reference, we note that the federal poverty guideline in 1995 is $623 per month for an individual and $836 per month for a couple. Thus, under the Governor's proposal, the grant for an individual would be below the poverty guideline (96 percent of the poverty level in high-cost counties and 91 percent of poverty in low-cost counties). Under current law, the grant for an individual would be somewhat above the poverty line (107 percent of poverty in high-cost counties and 102 percent of poverty in low-cost counties).

Figure 33

SSI/SSP Monthly Payment Standards
Current Law and Governor's Proposal[a]
1996-97

Region and Recipient Category	Current Law	Governor's Proposal	Difference
Region 1—High-cost counties			
Individuals	$663	$596	-$67
Couples	1,170	1,066	-104
Region 2—Low-cost counties			
Individuals	$633	$568	-$65
Couples	1,135	1,014	-121

[a] Does not include federal COLA which will be applied to SSI portion of grant on January 1, 1997.

SSI/SSP Benefits for Noncitizens— Budget Internally Inconsistent

We recommend a technical adjustment in the amount proposed for SSI/SSP grants because the proet underestimates the savings from eliminating SSI/SSP benefits for noncitizens, based on its own assumption of federal welfare reform legislation. (Reduce Item 5180-111-0001 by $34,052,000.)

The budget proposes to make most legal noncitizens ineligible for SSI/SSP effective January 1, 1997, assuming enactment of federal welfare reform legislation, which includes these restrictions. The most recent version of federal welfare reform legislation excepted certain legal noncitizens from the bill's prohibition. The budget, however, excludes two categories of recipients that are *not* excluded in the latest version of welfare reform legislation—specifically, noncitizens over age 75 and noncitizens that are too disabled to become citizens. The administration advises us that these exclusions were inadvertent and do not accurately reflect its proposal. Correcting for this error would result in a net increase in General Fund savings of $34.1 million which is not reflected in the Governor's Budget. Accordingly, we recommend this technical adjustment so that the budget will be consistent with its own assumptions.

Governor Proposes to Deny General Assistance to Noncitizens

The Governor proposes legislation to prohibit counties from providing General Assistance to those noncitizens who lose eligibility for federal benefits as a result of federal welfare reform.

If federal legislation is enacted to eliminate noncitizens from eligibility for SSI and Food Stamps, many of these persons would become eligible for county General Assistance benefits. The Governor proposes legislation to prohibit counties from providing General Assistance to those noncitizens who lose eligibility for federal benefits as a result of such legislation.

We note that denying aid to those noncitizens who do not attain citizenship would have a significant adverse effect on these individuals unless they can compensate for the loss of income through employment or some other means. In this respect, it is important to recognize that under federal law, noncitizens must reside in the country for five years and then must initiate an application process which currently takes more than a year to complete.

For a discussion of how this proposal affects the state-county relationship, please see Part V of our companion volume, *The 1996-97 Budget: Perspective and Issues.*

COUNTY ADMINISTRATION OF WELFARE PROGRAMS

The budget appropriates funds for the state and federal share of the costs incurred by counties for administering the following programs: (1) Aid to Families with Dependent Children (AFDC); (2) Food Stamps; (3) Child Support Enforcement; (4) Special Adults, including emergency assistance for aged, blind, and disabled persons; (5) Refugee Cash Assistance; and (6) Adoption Assistance.

The budget proposes an appropriation of $496.9 million from the General Fund for the state's share of the costs that counties will incur in administering welfare programs in 1996-97. This represents an increase of $23.1 million, or 4.9 percent, over estimated current-year expenditures.

Statewide Fingerprint Imaging System Needs Further Review

We withhold recommendation on the $15.7 million ($7.9 million General Fund) proposed to implement a new Statewide Fingerprint Imaging System that is designed to detect and prevent fraud in the Aid to Families with Dependent Children Program, pending receipt of additional information from the Health and Welfare Data Center.

The budget proposes $15.7 million ($7.9 million General Fund) to implement a Statewide Fingerprint Imaging System (SFIS) modeled on an existing fraud detection program in Los Angeles County. The Health and Welfare Data Center (HWDC) is responsible for developing and procuring the statewide system. The Department of Social Services (DSS) will provide the data center with $11.6 million ($5.8 million General Fund) for its costs related to its development and procurement of the system. The remaining funds will be used for county administration of the program ($3.8 million total, and $1.9 million General Fund) and for state operations at the DSS ($264,000 total, $132,000 General Fund).

Counties will phase into the program over a six-month period, beginning in January 1997. Partial year AFDC grant savings are estimated to be $11.7 million ($5.6 million General Fund) in 1996-97. When the system is fully operational in 1997-98, the program is estimated to provide net savings of $60.1 million ($28.5 million General Fund).

Background. Los Angeles County implemented its Automated Fingerprint Reporting and Match (AFIRM) pilot program in April 1994. The program requires all adult AFDC recipients to be fingerprinted in order to continue to receive AFDC benefits. A database stores fingerprint images, and the system compares these images to those of new applicants. If there is a positive match, aid will be denied. An evaluation of AFIRM concluded that the program would reduce AFDC benefit payments by $86 million over a 26-month period.

A follow-up study of 137 randomly selected cases that were terminated due to noncompliance with AFIRM found that 104 cases (76 percent) were engaged in some kind of fraudulent activity. Failure to confirm fraud in the remaining 24 percent of cases raises the issue of whether *some* of the AFDC grant savings should be attributed to reasons other than actual fraud.

Process Should Conform to Action Taken in HWDC Budget. In our analysis of the HWDC (please see the State Administration section of this *Analysis*), we discuss several issues pertaining to the expedited procurement process and the estimated cost of the SFIS. In that discussion, we withhold recommendation on all funds pertaining to the implementation of the SFIS pending receipt of additional information from the HWDC. Accordingly, we withhold recommendation on the $15.7 million proposed in this item for the SFIS.

Welfare Automation Projects Transferred To the Health and Welfare Data Center

We withhold recommendation on proposed funding for the Statewide Automated Welfare System and the Statewide Automated Child Support System, pending receipt of additional information from the Health and Welfare Data Center.

The responsibility of developing the Statewide Automated Welfare System (SAWS) and the Statewide Automated Child Support System (SACSS) has been moved from the DSS to the HWDC. A brief summary of these projects is provided below. For a more complete description of these programs and our recommendations, please see the State Administration section of this *Analysis*.

SAWS. The budget proposes $68.2 million ($29 million federal funds, $31 million General Fund, $4.6 million county funds, and $3.5 million in reimbursements) for the DSS and the HWDC to continue the development and implementation of the SAWS. The 1995 Budget Act required the HWDC to provide two reports to the Legislature regarding the SAWS. The first report, released November 1, 1995, presented a multiple county consortium strategy for implementing a SAWS.

Under this approach counties join together into consortia based on common business needs and working relationships. The report included a preliminary assignment of counties into four consortia, a summary of the consortia concept and rationale for each consortium, and a description of the responsibilities for key project stakeholders. The second report, to be released February 1, 1996, covers implementation issues, consortia government structures, and action plans.

Funding for the Implementation of Interim Statewide Automated Welfare System Should Conform to Action Taken in the HWDC Budget. In our analysis of the HWDC, we withhold recommendation on Implementation of Interim Statewide Automated Welfare System (ISAWS) implementation and maintenance pending receipt of additional information for the HWDC. The ISAWS is one of four proposed consortia that counties may choose to join in implementing SAWS. Accordingly, we also withhold recommendation on $40.9 million ($20.1 million General Fund) in the DSS budget for the ISAWS.

SACSS. The budget proposes $50.4 million ($42.1 million federal funds, $4.2 million General Fund, and $4.1 million county funds) for the implementation and the ongoing operation and maintenance of the SACSS in 1996-97. As of December 1995, seven pilot counties had implemented the SACSS. Statewide implementation is scheduled to be completed in February 1997.

In January 1996, the Department of Finance approved a revised Special Project Report (SPR) which projected an additional $108 million in total costs, through June 2000, above the $152 million previously estimated. However, none of these costs are reflected in the budget proposal for 1996-97.

Implementation of SACSS Should Conform to Action Taken in the HWDC Budget. In our analysis of the HWDC, we discuss several issues pertaining to the revised SPR for the SACSS project. In that analysis, we withhold recommendation on the SACSS project pending the receipt of additional information from the HWDC. Accordingly, we also withhold recommendation on the $50.3 million ($4.2 million General Fund) in the DSS budget for the project in 1996-97.

Proposal to Prohibit General Assistance for Noncitizens

The Governor proposes to prohibit counties from providing General Assistance to noncitizens made ineligible for federally funded programs, if pending welfare reform legislation is enacted.

If enacted into law, current versions of federal welfare reform now pending in Congress, would make legal noncitizens (with certain exceptions) ineligible for Supplemental Security Income (SSI) and Food Stamps effective January 1, 1997, and would give states the option of denying AFDC benefits to these individuals. With respect to AFDC, the Governor proposes to follow current state law and bar sponsored aliens from receiving these benefits. Based on these policies, we estimate that approximately 180,000 noncitizens would be denied SSI / State Supplementary Program (SSP) benefits, roughly 225,000 would be denied food stamps, and 8,339 sponsored aliens would be denied AFDC, unless the individuals attain citizenship status. Under current law, counties would be required to provide General Assistance to these noncitizens, provided they met county eligibility guidelines. The Governor, however, proposes legislation to prohibit counties from providing General Assistance to these noncitizens.

Essentially, this is a policy decision for the Legislature. We note, however, that General Assistance is part of the safety net for indigents. Thus, denying this aid to those noncitizens who do not attain citizenship would have a significant adverse effect on these individuals unless they can compensate for the loss of income through employment or some other means. In this respect, we also note that under federal law, noncitizens must reside in the country for five years, and then must initiate an application process which currently takes more than a year to complete.

Budget Exceeds Projected Spending Based on Recent Trends

We recommend that the proposed expenditure for unidentified activities ($8.9 million General Fund) in county administration be deleted because it is in excess of projected county spending in 1996-97, based on past trends adjusted for caseload growth, inflation, and policy changes. We further recommend that the Legislature consider redirecting the savings to expand the Greater Avenue for Independence Program because of its demonstrated effectiveness in increasing participant's employment and earnings. (Reduce Item 5180-141-0001 by $8,883,000).

Amount Budgeted Exceeds Projected County Spending. The current methodology used to budget for county administration is based on the amount counties actually spent in the past year, adjusted for projected changes in caseload and inflation in the budget year. This amount is also adjusted for policy changes. Because of recent economic conditions, the counties have not matched all the state and federal monies available for administrative costs in recent years. This experience is reflected in actual expenditures, and therefore is the basis used to project budget-year spending.

The budget reflects county administrative savings in 1996-97 from various fraud activities, legislation barring sponsored aliens from AFDC eligibility, and the consolidation of eligibility determination in the AFDC and Food Stamps Programs. The budget, however, proposes to allow counties to use $8.9 million of these General Fund savings (if matched by $3.8 million in county funds) to pay for other unidentified activities. The DSS's rationale is that the trend used to project the 1996-97 expenditures understates the amount counties would spend because, in recent years, the counties have cut back on spending due to their limited resources.

By adding $8.9 million from the General Fund to the baseline projection, the budget is assuming that counties will be willing to increase their match beyond the level reflected in recent years. We find no basis for this assumption. If anything, county fiscal resources are coming under more pressure, not less. Moreover, the department has not justified the request on the basis of programmatic needs because it has not been able to identify the activities for which these monies would be spent.

Greater Avenue for Independence (GAIN) Program Increases Earnings and Reduces AFDC Grant Payments. A recent evaluation of the Greater Avenue for Independence Program concluded that, on average, the program increased earnings for AFDC-FG (Family Group) cases by 22 percent over a three-year period and increased earnings for AFDC-U (Unemployed Parent) cases by 12 percent. Further, AFDC grant payments were reduced by an average of 6 percent. In Riverside County, moreover, the GAIN Program returned $2.84 to government budgets for every dollar spent on the program. Budget trailer bill legislation—Ch 306/95 (AB 1371, Weggeland)—modified the GAIN Program to make it more like the employment-oriented program operated by Riverside County.

Program Not Fully Funded. The DSS indicates that the proposed funding for the GAIN Program is substantially below the amount needed to accommodate all eligible AFDC recipients. Given the demonstrated effectiveness of the program, we recommend that the Legislature consider redirecting the savings realized by adoption of our recommendation for county administration to expand the GAIN Program. In effect, this would make additional state funds available to the counties, but with some assurance that the funds will be spent in an effective manner.

Overbudgeting for Food Stamps Program Administration

We recommend reducing the General Fund amount proposed for county administration of the Food Stamps Program by $9 million, because the budget overstates the caseload (based on the budget's own assumption of federal welfare reform legislation). (Reduce Item 5180-141-0001 by $9 million).

As indicated previously, the Governor's Budget proposal assumes the enactment of federal welfare reform legislation which would make legal noncitizens, with certain exceptions, ineligible to receive certain federal benefits, including food stamps. Pursuant to this provision, we estimate that approximately 225,000 noncitizens will lose eligibility for Food Stamps. The Governor's Budget, however, inadvertently fails to account for this reduction in the food stamps Program caseload and therefore overstates the state costs of program administration by $9 million. Accordingly, in order to make the budget consistent with its own assumptions, we recommend reducing the General Fund amount proposed for Food Stamps Program administration in 1996-97 by $9 million.

CHILD WELFARE SERVICES

The Child Welfare Services (CWS) Program provides services to abused and neglected children and children in foster care and their families. The CWS Program provides:

- Immediate social worker response to allegations of child abuse and neglect.
- Ongoing services to children and their families who have been identified as victims, or potential victims, of abuse or neglect.
- Services to children in foster care who have been temporarily or permanently removed from their families because of abuse or neglect.

Child Welfare Services Program Needs Improvement

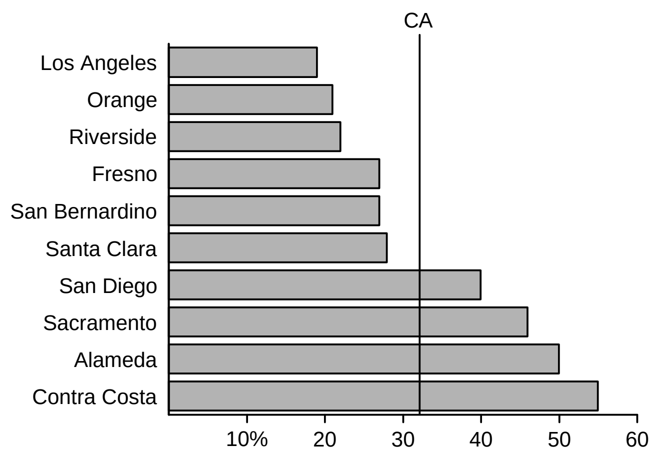
In January 1996, we issued a report in which we concluded that California's Child Welfare Services Program needs improvement. We recommend that the Department of Social Services (DSS) report at budget hearings on its efforts to improve the program.

In our report, *Child Abuse and Neglect in California* (January 1996), we present a variety of performance-related information that indicates a need for improvement in the state's CWS Program. We discuss our major findings below.

Significant Variation Among Counties in Percentage of Reports "Screened Out." One of the functions of the CWS Program is to respond to reports of child abuse and neglect. Counties are required to screen, by use of telephone assessments, reports of child abuse/neglect to determine whether an in-person investigation is necessary. Ideally, only those reports that do not constitute abuse or neglect are "screened out" in the initial response stage. As Figure 34 shows, there is significant variation among the counties in the percentage of reports that are "screened out." Without further investigation, we cannot determine whether some counties are screening out too many or not enough reports of abuse/neglect. We believe this is an area that warrants investigation by the department.

Figure 34

Proportion of Abuse/Neglect Reports "Screened Out" Among Counties 1994

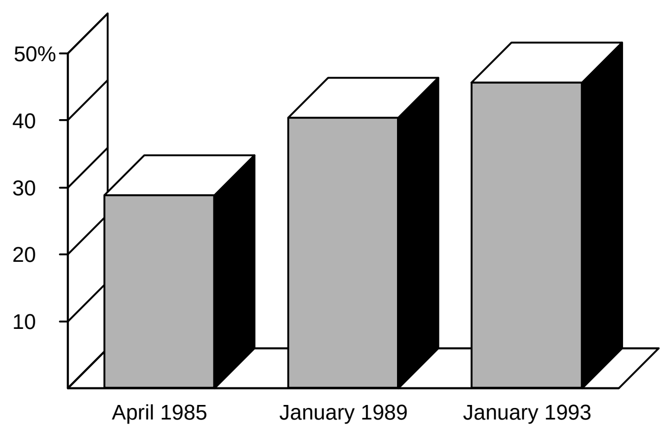


Recidivism Increasing. As shown in figure 35 (see next page), the percentage of children returning to the CWS Program has increased significantly over the years, from 29 percent in 1985 to 46 percent in 1993. These data suggest that the program has not been effective in preventing reabuse and neglect in a significant and growing number of cases. The increased recidivism may be partly due to changes in the CWS caseload, such as an increase in the number of families who are more difficult to serve effectively (for example, a higher proportion of cases where children have severe behavioral problems or parents who have substance abuse problems). Currently, there is a lack of information identifying those factors which contribute to the success of family maintenance and reunification services. If these services are working well we would expect to see recidivism mitigated. We believe that collecting such performance data could ultimately improve program outcomes.

Reliance on Foster Care Increasing. One of the goals of the CWS Program is to minimize the use of foster care placements in serving abused children and instead maintain or reunify such children with their families when appropriate. The data, however, suggest that reliance on foster care has been increasing because (1) foster care placement rates (relative to the population of children in the state) have increased since 1988, (2) family reunifications (returning foster care children to their parents) have not increased relative to the growth in foster care cases, and (3) the proportion of children in the CWS Program who are being placed in foster care (rather than receiving support services at home) has been increasing. These trends are not likely to be reversed until the effectiveness of family maintenance and reunification services is improved.

Figure 35

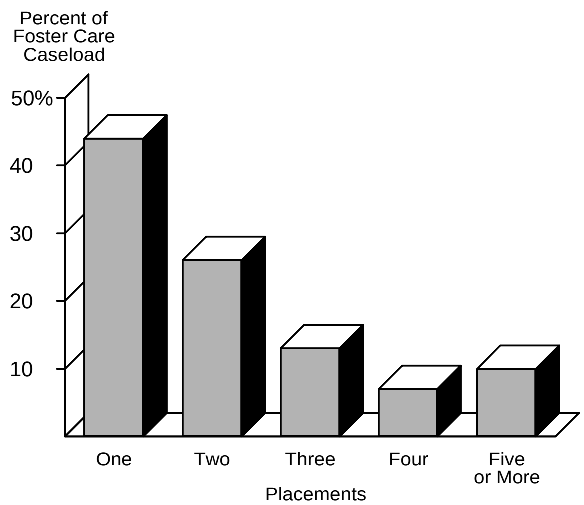
Percent of Children Previously In the CWS Program



Multiple Foster Care Placements. Another measure of the success of the CWS Program is the extent to which multiple foster care placements for the same child are minimized. The data show that in 1993-94, about one-third of children in foster care had experienced three or more different placements. (See Figure 36.) We note that Chapter 1294, Statutes of 1989 (SB 370, Presley) requires the department to develop a Level of Care Assessment tool to facilitate the assignment of a foster care child to the most appropriate placement, thereby reducing the chances of multiple placements. Although there is no statutory completion date, the department has not provided the Legislature with a project status report which was due in January 1995. We find no justification for the delay in completing this project.

Figure 36

Number of Different Placements For Foster Care Children 1993-94

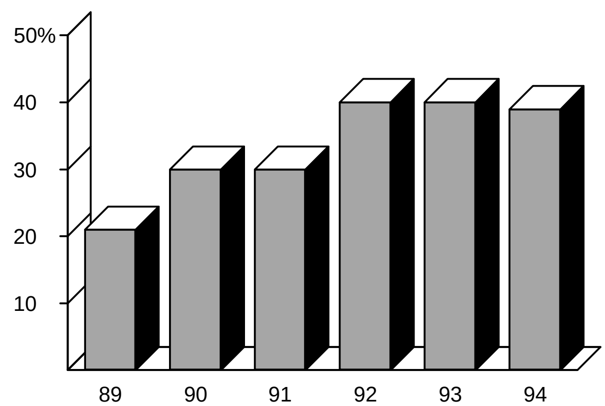


Use of Foster Care Group Homes Increasing More Than Foster Family Homes. When placing a child in foster care, current law gives priority to more family-like foster care settings and requires placement in foster family homes instead of group homes, when appropriate. The proportion of children placed in foster family homes, however, has actually decreased slightly over the years—from 88 percent in 1984 to 86 percent in 1995.

Less Than Half of Eligible Foster Care Children Receive Services Through Independent Living Program. Children who are emancipated from the foster care system (generally at age 18) must have a service plan to help them transition to independent living. As shown in Figure 37 (see next page), less than half of the eligible children receive services through the state's Independent Living Program (ILP). In our field visits, child welfare professionals have indicated that additional funds are needed to expand the ILP to serve all eligible youth. We note, however, that data are not sufficient to determine whether the program is effective.

Figure 37

Percent of Eligible Foster Care Children Served by Independent Living Program 1989 Through 1994



Current law requires the department to complete an evaluation of the ILP and develop recommendations on how independent living services could better prepare foster youth for independence. The evaluation was due in January 1995 but has not been completed. This evaluation is important in order to help the Legislature determine the appropriate funding level for the program. We find no justification for the department's delay in providing the report.

Recommendation. Reversing some of these trends will not be an easy task. The provision of additional resources could help, but given the competing demands for such resources it is important that available funding—whether new or existing—be used effectively. Some of these trends may be caused by factors that cannot be easily addressed by government agencies. Nevertheless, we believe that efforts should be made to improve the CWS Program. Thus, we recommend that the DSS comment during budget hearings on our findings and report on what actions could be taken—including activities by the department—to address the problems that we identified.

ADOPTIONS PROGRAMS

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

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

The Adoptions program is supported by the General Fund and federal funds. The budget proposes expenditures of $54 million ($36 million General Fund) for the program in 1996-97. The General Fund amount represents an increase of $7 million, or 24 percent, above current-year expenditures. This is due to the Governor's proposed "Adoptions Initiative."

Adoptions Initiative

The administration indicates that the goal of the Governor's Adoptions Initiative is to increase the number of adoptions for children who would otherwise remain in long-term foster care. The two components of the initiative are described below.

Additional Staff for State's Adoptions Branch. The budget proposes $963,000 ($626,000 General Fund) and 14 limited-term (five-year) positions in the department's adoptions branch to develop and implement proposals to facilitate the adoption of children in foster care. The objectives are to improve the effectiveness of the service delivery system and to increase the productivity of adoptions caseworkers. The proposed activities include establishing performance goals, streamlining the adoptions process, and providing technical assistance and training.

County Performance Agreements and Increased Funding for Caseworkers. The budget proposes an augmentation of $10.6 million ($6.6 million General Fund) to increase the number of county caseworkers in the Adoptions program in 1996-97. The DSS advises that county agencies have historically been underfunded for the program and that the augmentation would fund counties at a level justified by their workload. The department estimates that the augmentation will fund 184 additional staff and allow counties to place 810 more children in adoptive homes in 1996-97. In addition, the DSS plans to establish performance agreements with county agencies under which the counties will be required to increase the number of adoptions as a condition for continuing to receive the higher level of funding.

The budget assumes General Fund savings in the Foster Care and Child Welfare Services programs of $726,000 from reduced foster care placements and General Fund costs in the Adoptions Assistance Program of $564,000 in 1996-97 from increased adoptions assistance grants (for those children who are eligible) resulting from the increased number of adoptions. While this proposal would result in net costs during the first years of implementation, we note that eventually there should be ongoing annual net savings (avoidance of foster care costs) associated with these adoptions.

Information Needed for Proposed Staff Increase

We withhold recommendation on General Fund expenditures of $626,000 for 14 new positions in the department's adoptions branch, pending receipt of additional information.

In order to evaluate the department's proposal for 14 additional staff in the adoptions branch, we requested information from the department regarding the workload of the existing staff. At the time this analysis was prepared, we had not received the information necessary to complete our review. Thus, we withhold recommendation on the proposal for new staff, pending receipt and review of this information from the department.

Details Lacking on Implementation of Performance Agreements

We recommend that the department report during budget hearings on its plans to implement performance agreements with county adoption agencies. If the Legislature adopts the proposal, we recommend that it be modified to include the establishment of performance agreements with state adoption offices as well as with the county agencies.

As mentioned above, the department proposes to establish performance agreements with counties, linking the increased funding to increased adoptions. In developing the agreements, the department plans to establish a baseline of placements against which counties must improve. At the time this analysis was prepared, the department did not have any details regarding the performance agreements, such as the specific number of adoptions needed to qualify for increased funding, or the disposition of funds withheld from counties that do not meet the standards (for example, whether these funds would be redirected to other counties). The department, however, indicated that it was in the process of reviewing alternative methods for implementation. We believe that the Legislature needs to review this information prior to approving the budget proposal.

In addition, we note that the proposal does not address the establishment of performance agreements with *state* adoption offices. We are not aware of any reason to distinguish between the county and state components. Under the budget proposal, both the state and county programs would be fully funded to serve estimated caseloads. Consequently, it seems reasonable to apply the performance criteria equally to both components of the program.

Accordingly, we recommend that the department report during budget hearings on its plans to develop and implement performance agreements with county adoption agencies. Furthermore, if the proposal is adopted, we recommend that the Legislature require that performance agreements also be established with state adoption offices.

COMMUNITY CARE LICENSING DIVISION

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

The budget proposes expenditures of $70.3 million ($15 million General Fund) for the CCLD in 1996-97. This represents a 16 percent increase in General Fund expenditures from the current year.

Proposed Staffing Increase Does Not Reflect Efficiencies From Automation

We recommend that the Legislature delete 13 of the 54 proposed new positions for the Community Care Licensing Division, for a General Fund savings of $586,000, because the budget does not reflect efficiencies resulting from automation. (Reduce Item 5180-001-0001 by $586,000.)

The budget proposes an augmentation of $3.3 million ($2.8 million General Fund) for 54 new positions to address workload associated with an increase in the number of community care facilities that require licensure.

Our analysis indicates that 13 of these additional licensing staff—proposed for the child day care section—are not needed due to anticipated automation efficiencies. In January 1996, the Department of Finance approved a Special Project Report (SPR) for an automation project to provide child day care licensing staff with portable computers. The project will be implemented during 1995-96. The SPR indicated there would be annual savings of $586,000 and 13 positions resulting from efficiencies due to this automation project. These efficiencies stem from eliminating the need to manually complete parts of the licensing report, automating research capabilities for legal and technical questions, and providing the ability to print copies of necessary forms during a licensing visit. The projected savings, however, are not reflected in the department's budget.

Accordingly, we recommend that the Legislature delete 13 positions from the budget proposal in order to reflect the impact of automation, for a General Fund savings of $586,000 in 1996-97.

LIST OF FINDINGS AND RECOMMENDATIONS

		Analysis Page
5.	**Elimination of Optional Services.** We find that (1) the proposal could place an additional burden on county indigent health programs, and (2) the department's savings estimate probably is optimistic because federal law requires Medi-Cal to provide necessary transportation services.	C-38
6.	**Beneficiary Copayments Proposal Should Be Modified. Reduce Item 4260-101-0001 by $5,527,000.** Recommend that the Legislature modify budget proposal to assume collection of beneficiary copayments by (1) reducing the dispensing fee for all prescriptions, irrespective of whether copayments can be collected, and (2) exempting physician and clinic services from copayments to avoid potential primary care access and cost-shifting problems.	C-40
7.	**Budget Proposes "Distinct Part" Facility Rate Reduction.** The budget assumes passage of federal legislation to repeal the "Boren amendment," thereby allowing the state to reduce hospital-based "distinct part" nursing facility rates.	C-43
8.	**Nursing Facility Contracting Program Could Result in Savings. Reduce Item 4260-101-0001 by $10,000,000 and increase Item 4270-001-0001 by $175,000.** Recommend legislation to establish a contracting program for nursing facilities similar to the one currently in place for hospitals.	C-44
9.	**Expansion of "Assisted Living" Could Result in State Savings.** Recommend that the Department of Health Services report on the feasibility of expanding the "assisted living" model of service delivery in order to allow the provision of certain medical services to beneficiaries in less restrictive residential settings, and at lower costs.	C-47

		Analysis Page
10.	**Need Additional Information on Family Planning Proposal.** Withhold recommendation on the $20 million proposed to establish the family planning program, pending review of additional information.	C-48
11.	**Strategic Plan Implementation Proceeds.** The department's strategic plan to expand managed care services is projected to enroll over half of all Medi-Cal beneficiaries in a managed care arrangement by the end of 1996-97.	C-54
12.	**Targeting AFDC-Linked Beneficiaries Ignores Demonstrated Savings Potential.** Recommend that the Legislature include newly enrolled SSI/SSP-linked beneficiaries in managed care expansion in order to maximize savings potential.	C-56
13.	**Budget Does Not Reflect Workload-Related Reductions Due to Managed Care Expansion. Reduce Item 4260-101-0001 by $3,280,000.** Recommend reducing the General Fund amount by $3.3 million to account for the workload-related reductions in field office staffing and claims processing expenditures due to expansion of managed care arrangements.	C-57
14.	**Quality Review Contract Overbudgeted.** Reduce Item 4260-001-0001 by $274,000. Recommend the amount proposed to contract for managed care quality reviews be reduced by $274,000 in order to account for the effect of delays in implementing managed care.	C-58

Public Health

15.	**Legislature Needs Increased Role in Proposed Teen Pregnancy Prevention Initiative.** Recommend enactment of legislation specifying criteria for the proposed allocation of teenage pregnancy prevention grants in order to ensure that grants are awarded in a manner consistent with legislative intent. Recommend that the	C-60

Analysis Page

department report at budget hearings on how it plans to coordinate the proposed new program and an existing teenage pregnancy prevention program. Further recommend the adoption of Budget Bill language requiring that the department contract for an evaluation of the teenage pregnancy prevention media campaign.

16. **Shelter Program Staff Not Justified. Reduce Item 4280-001-0001 by $250,000.** Recommend deleting four positions because they are not justified on a workload basis. C-64

17. **Department's Plan to Evaluate Program Should Be Reviewed By Legislature.** Recommend that the department report at budget hearings on (1) its plan to evaluate the Battered Women Shelter Program and (2) the feasibility of expanding the evaluation to encompass the newly proposed prevention component of the program and the related domestic violence program administered by the Office of Criminal Justice Planning. C-65

18. **AIDS Drug Assistance Program Faces Potential Shortfall.** Withhold recommendation, pending review of updated expenditure data. Recommend that the department report, during budget hearings, on whether it intends to add two recently-approved drugs to the ADAP drug formulary and, if so, how this will affect program costs. Finally, we present some options that could reduce the costs of the program. C-66

19. **Statutory Authority for Appropriating Proposition 99 Funds Expires June 30, 1996.** We identify several issues for the Legislature to consider in appropriating Proposition 99 funds for 1996-97. C-68

Analysis Page

Managed Risk Medical Insurance Board

20. **Legislative Oversight: The Access for Infants and Mothers Program Eligibility Expanded By Administrative Decision.** The Managed Risk Medical Insurance Board expanded the Access for Infants and Mothers (AIM) Program eligibility by increasing the income limit from 250 percent of the poverty level to 300 percent. C-75

21. **The Access for Infants and Mothers Program Overbudgeted in Current and Budget Years. (Reduce Item 4280-001-0309 by $5,460,000.)** Recommend reducing the proposed level of spending for the AIM Program by $15.5 million in the current year and $5.5 million in the budget year, for a corresponding savings to the Perinatal Insurance Fund, to reflect more realistic caseload growth. C-76

22. **Fund Reserve Excessive.** Recommend that the budget be adjusted to reflect a 5 percent reserve in the Perinatal Insurance Fund (AIM Program) and that the excess balances (up to $33 million) be reverted from the Perinatal Insurance Fund to the Cigarette and Tobacco Products Surtax Fund because these funds are not needed to support the AIM Program in 1996-97. This action would make these funds available for appropriation to support Proposition 99-funded programs. C-78

Department of Developmental Services

23. **Federal Funds Available for Early Start/Part H Program. Reduce Item 4300-101-0001 by $4,178,000.** Recommend a reduction of $4.2 million from the General Fund for support of the Early Start/Part H program because federal funds are available to support the program. C-79

	Analysis Page
24. **Day Training Activity Center (DTAC) Program Double Budgeted. Reduce Item 4300-101-0001 by $1,011,000.** Recommend reducing the General Fund amount budgeted for the Day Training Activity Center (DTAC) Program by $355,000 in 1995-96 and $1 million in 1996-97 to correct for double budgeting for clients being transferred from the Department of Rehabilitation.	C-81

Department of Mental Health

25. **Implementation Problems with the Sexually Violent Predator Program.** Withhold recommendation on $22 million requested from the General Fund to implement the program until the Department of Mental Health and other state agencies responsible for operation of the program resolve significant implementation issues.	C-82
26. **Additional Peace Officers at Metropolitan State Hospital Are Not Needed. Reduce Item 4440-011-0001 by $2,139,000.** Recommend deleting the proposed General Fund augmentation of $2.1 million for 53 positions because security requirements can be met with existing resources by more efficient use of available space.	C-83

Department of Community Services and Development

27. **Details Lacking on Program Implementation.** Recommend that the department report during budget hearings on its plans to implement the Governor's Mentor Initiative in order to facilitate legislative review.	C-87
28. **Federal Funds Should Replace General Fund Support for Mentor Initiative Program. Reduce Item 4700-101-0001 by $1,250,000.** Recommend a reduction of $1,250,000 from the General Fund because federal funds are available to support the program.	C-87

Analysis Page

Employment Development Department

29. **Excess Special Fund Revenues Should Be Transferred to General Fund. Increase General Fund Revenues by $3,500,000.** Recommend adoption of Budget Bill language to transfer the amount of the year-end balance in excess of $1 million from the Benefit Audit Fund (BAF) to the General Fund, because the revenues are not needed to support BAF expenditures, and it is appropriate to consider these revenues as fungible with the General Fund. C-89

30. **Better Information Needed on Expansion of Targeted Industries Partnership Program.** Withhold recommendation on $2.1 million, pending review of information from the Department of Industrial Relations. C-90

31. **Budget Assumes Major Reductions in Federal Funds for Job Training and Employment Services Programs.** The budget assumes a major reduction of $213 million in federal funds under the Job Training Partnership Act and $9 million in federal funds under the Wagner-Peyser Act in 1996-97, due to pending federal appropriations. Recommend that the department report during budget hearings on the potential impact of this reduction and what efforts the department proposes to minimize this impact. C-91

Department of Rehabilitation

32. **Fees and Copayments Could Raise Revenues to Serve Additional Vocational Rehabilitation Clients.** Recommend that the department report at budget hearings on the feasibility of expanding the use of client fees and copayments for vocational services and the extent to which the additional revenues could be used to reduce the waiting list for rehabilitation services. C-93

	Analysis Page
38. **Evaluating the Governor's Proposal to Redesign the AFDC Program.** We believe that the Governor's proposal is a useful starting point for the Legislature's deliberations on welfare reform. Little is known, however, about whether proposals such as the flat grant and time-limited eligibility would result in a significant increase in the number of welfare recipients who obtain employment. We recommend that the department submit a report, prior to budget hearings, that estimates the fiscal effect of the proposal.	C-110
39. **Budget Underestimates Savings From Franchise Tax Board Program. Reduce Item 5180-101-0001 by $5,300,000.** Recommend that the budgeted level of child support collections for AFDC families be increased to more accurately reflect the most recent data for the program, for a General Fund savings of $6.2 million in 1995-96 and $5.3 million in 1996-97.	C-117
40. **Proposed Child Support Court Commissioner System Needs Implementation Plan.** Withhold recommendation on $19 million ($6.5 million General Fund) proposed to implement a commissioner-based child support court system, pending receipt of an implementation plan from the Department of Social Services.	C-118
41. **Budget Does Not Reflect Savings from Expanded License Match Program. Reduce Item 5180-101-0001 by $26,000,000.** Recommend that the budget's estimate of child support collections be adjusted to reflect the impact of expanding the State Licensing Match System, for a General Fund savings of $26 million in 1996-97.	C-119

Foster Care

42. **Budget Should Reflect Additional Revenue and Savings. Increase General Fund Revenues by $172,000 and reduce Item 5180-101-0001 by $317,000.** Recommend that the budget reflect General Fund revenues of	C-120

	Analysis Page
$172,000 and expenditure reductions of $317,000 anticipated from the proposed continuation of foster care group home audits.	
43. **Reduce Foster Care Appropriation to Correct Technical Error. Reduce Item 5180-101-0001 by $1,312,000.** Recommend a reduction of $1.3 million from the General Fund because a technical error in calculating the state share of cost resulted in overbudgeting.	C-120
44. **Budget Does Not Reflect Savings Anticipated From an Increase in Federal Funds. Reduce Item 5180-101-0001 by $485,000.** Recommend a reduction of $485,000 in the Foster Care Program to reflect an increase in federal funds due to the anticipated change in the federal/state cost sharing ratio.	C-121
45. **Department Will Not Meet Deadline for Report on a Revised Foster Care Rate Setting System.** Recommend that the department report during budget hearings on the status of its efforts to develop a revised foster care rate setting system, as required by the Legislature.	C-121
46. **Flexibility in Use of Foster Care Funds Could Increase Family Reunifications.** Recommend legislation to establish a pilot program whereby counties could use state foster care funds to provide ongoing support services to children and their families after reunification.	C-122
47. **Closure of County Probation Facilities Could Lead to Increases in Foster Care Costs.** Possible closure of juvenile camps and ranches could result in higher caseloads and costs in the Foster Care program.	C-123

	Analysis Page
Supplemental Security Income/ State Supplementary Program	
48. **Assumed Federal Law Changes Create a General Fund Risk.** In the SSI/SSP, the budget proposes General Fund savings of $102 million in 1995-96 and $512 million in 1996-97 that are dependent on federal action to eliminate the maintenance-of-effort requirement and restrict eligibility. The budget assumes that this will be achieved by the enactment of federal welfare reform.	C-124
49. **Budget Proposes to Make Temporary Reductions Permanent.** By proposing to make past grant reductions permanent and deleting the requirement to restore the statutory cost of living adjustment, the budget would achieve a General Fund cost avoidance of $777 million.	C-125
50. **SSI/SSP Budget Internally Inconsistent. Reduce Item 5180-111-0001 by $34,052,000.** Recommend technical adjustment in the amount proposed for SSI/SSP grants because the savings from eliminating SSI/SSP benefits for noncitizens, pursuant to budget's own assumption of federal welfare reform legislation, have been underestimated.	C-127
51. **Governor Proposes to Deny General Assistance to Noncitizens.** The Governor proposes legislation to prohibit counties from providing General Assistance to those noncitizens who lose eligibility for federal benefits as a result of federal welfare reform.	C-127
County Administration of Welfare Programs	
52. **Statewide Fingerprint Imaging System Needs Further Review**. Withhold recommendation pending receipt of additional information from the Health and Welfare Data Center (HWDC).	C-128

Analysis Page

53. **Welfare Automation Projects Transferred to the HWDC.** Please refer to our analysis of the HWDC's budget. C-129

54. **Proposal to Prohibit General Assistance for Noncitizens.** If enacted into law, federal welfare reform could result in the denial of Supplemental Security Income/State Supplementary Program and Food Stamps to legal noncitizens. The Governor proposes to prohibit counties from providing General Assistance as well. C-131

55. **Budget Exceeds Projected Spending Based on Recent Trends. Reduce Item 5180-141-0001 by $8,883,000.** Recommend that a proposed expenditure for unidentified activities ($8.9 million General Fund) be deleted because the budget is in excess of projected county spending in 1996-97. Further recommend that the Legislature consider redirecting the savings to expand the Greater Avenue for Independance Program because of its demonstrated effectiveness in increasing participants employment and earnings. C-131

56. **Administration of Food Stamps Program is Overbudgeted. Reduce Item 5180-141-0001 by $9 million.** Reduce proposed expenditures for county administration of the Food Stamps Program because the budget overstates the caseload (assuming federal welfare reform is enacted). C-133

Child Welfare Services

57. **Child Welfare Services Program Needs Improvement.** Recommend that the Department of Social Services (1) comment during budget hearings on the findings of our report regarding the performance of the CWS Program and (2) report on what efforts can be made to improve the program. C-134

	Analysis Page
Adoptions	
58. **Information Needed for Proposed Staff Increase.** Withhold recommendation on General Fund expenditures of $626,000 for 14 new positions in the department's adoptions branch, pending receipt of additional information.	C-140
59. **Details Lacking on Implementation of Performance Agreements.** Recommend that the department report during budget hearings on its plans to implement performance agreements with county adoption agencies. Further recommend that, if the proposal is adopted, the Legislature require that performance agreements also be established with state adoption agencies.	C-140
Community Care Licensing	
60. **Proposed Staffing Increase Does Not Reflect Efficiencies From Automation. Reduce Item 5180-001-0001 by $586,000.** Recommend that the Legislature delete 13 of the 54 proposed positions for a General Fund savings of $586,000, because the budget does not reflect efficiencies resulting from automation.	C-142