LAO

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Social Services

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EXECUTIVE SUMMARY

Overview of Social Services Programs and Expenditures

A Wide Array of Services. California's major social services programs provide a variety of benefits to its citizens. These include income maintenance for the aged, blind, or disabled; cash assistance and welfare-to-work services to low-income families with children; protection of children from abuse and neglect; home-care workers to assist the aged and disabled in remaining in their own homes; collection of child support from noncustodial parents; and subsidized child care.

Expenditure Growth Averages About 3 Percent Per Year. For most of this decade, expenditures for social services programs have represented an average of about 11 percent of all General Fund outlays. Despite caseload increases in many programs, from 2001-02 through 2008-09 combined social services expenditure growth was modest, averaging about 3 percent per year. The growth rate of individual programs has varied. Growth in spending in the California Work Opportunity and Responsibility to Kids (CalWORKs) program has been relatively flat. However, the In-Home Supportive Services (IHSS) program has increased by an average of 11 percent per year.

Balancing the 2009-10 Budget

Governor Proposes $3 Billion in Budget Reductions. For social services, the Governor proposes $3 billion in General Fund budget solutions for 2009-10. Grant reductions and cost-of-living adjustment (COLA) suspensions in the CalWORKs and Supplemental Security Income/State Supplementary Program (SSI/SSP) programs account for about half ($1.5 billion) of the total solution. Proposed benefit terminations for children on CalWORKs and legal noncitizens would provide an additional $800 million in budget solutions. Other major solutions include redirecting Proposition 10 cigarette tax revenues to offset General Fund costs in programs for children ($275 million), and reducing wages for IHSS providers ($267 million).

LAO Approach to SSI/SSP Grants. The Governor proposes reducing benefits to the minimum required by federal law, resulting in savings of $1.1 billion. We present two alternatives which achieve less total savings, but are less likely to negatively impact recipients. Specifically, we propose (1) reducing the state portion of the SSI/SSP grant by the amount of the January 2009 COLA, and reducing grants for couples, which are currently well above the poverty level, down to 125 percent of the poverty level. Combined, these alternatives result in savings of $530 million in 2009-10.

LAO Approach to IHSS Wages. The Governor proposes to reduce state participation in wages to the minimum wage for a savings of $266 million. We propose either reducing state participation to $10 per hour and/or reducing state participation in the wages of close relative providers to the minimum wage. Together, these alternatives could save over $200 million.

LAO Approach to CalWORKs The Governor proposes grant reductions, benefit terminations for children, and other changes that would result in savings of almost $1.1 billion. At a minimum, we recommend that the Legislature adopt $207 million in CalWORKs savings and seriously consider making a 10 percent grant reduction for additional savings of $294 million. About one-third of this grant reduction would be offset by an increase in food stamps benefits.

LAO Approaches to Obtaining More Federal Funds Pursuant to Recently Enacted Legislation. Recent federal legislation creates opportunities to draw down federal funds to offset state costs. Specifically, with respect to the Kinship Guardian Assistance Payment program (Kin-GAP), we estimate that up to $37 million in net General Fund benefit can be achieved by accessing new federal funds pursuant to the recently enacted Fostering Connections to Success and Increasing Adoptions Act of 2008. In addition, we find that the SSI Extension for Elderly and Disabled Refugees Act creates an opportunity for the state to obtain federal funding (about $17 million) to offset General Fund costs for legal noncitizens in the state-only funded Cash Assistance Program for Immigrants (CAPI).

Other Reform Proposals

To improve the cost-effectiveness and delivery of social services programs we present two program reforms.

Adoptions Assistance Program (AAP). The AAP provides ongoing cash assistance payments to all parents who adopt foster children, regardless of whether the foster children are difficult to adopt. We recommend a series of reforms to better target AAP resources toward parents who adopt children with special difficulties.

IHSS Time Cards. The IHSS recipients are the employer of their providers and responsible for signing and verifying the time cards their providers submit for hours worked. To increase oversight and accountability in the IHSS program, we recommend the enactment of legislation requiring providers to (1) document on their time card the actual hours that they provide services and (2) turn in their time cards within one month of providing care.

BACKGROUND

California's major social services programs provide a variety of benefits to its citizens. These include income maintenance for the aged, blind, or disabled; cash assistance and welfare-to-work services for low-income families with children; protecting children from abuse and neglect; providing home-care workers who assist the aged and disabled in remaining in their own homes; and subsidized child care for families with incomes under 75 percent of the state median. Under the Governor's budget proposal, General Fund expenditures for the state's social services programs would be $8.7 billion in 2009-10, about 9.1 percent of proposed General Fund expenditures for all purposes.

Description of Major Social Services Programs

Most social services are administered at the state level by the Department of Social Services (DSS), the Department of Child Support Services (DCSS), and the other Health and Human Services Agency (HHSA) departments. The actual delivery of many services at the local level is carried out by 58 separate county welfare departments. The major exception is SSI/SSP, which is administered mainly by the U.S. Social Services Administration. Below, we summarize the purpose and operation of the state's major social services programs.

Supplemental Security Income/ State Supplementary Program

The SSI/SSP provides monthly cash grants for low-income aged, blind, or disabled individuals and couples. The SSI portion of the grant is supported by federal funds and the SSP portion is a state-only supplement to the federal grant. Under current law, a federal COLA is applied to the federal portion of the grant every January, and a state COLA is applied to the combined state and federal grant each June.

The state contracts with the U.S. Social Security Administration to administer the SSI/SSP benefit payments. Generally, to be eligible for the program, an applicant's income, with some exceptions for certain sources of income, must be at or below the amount of the SSI/SSP monthly grant ($870 for individuals). Additionally, an individual is usually ineligible for SSI/SSP if he or she has assets in excess of $2,000 ($3,000 for couples), with certain exclusions, such as homes and vehicles. To qualify for SSI/SSP on the basis of age, an individual must be age 65 or older. To be eligible for the grant based on disability, an applicant must demonstrate that he or she is unable to work because of a permanent or long-term mental or physical impairment.

State-Only Program for Legal Immigrants. The state-only funded CAPI provides a monthly cash grant to legal immigrants who are aged, blind, or disabled. This program serves those who meet SSI/SSP eligibility requirements, but who are not otherwise eligible to receive SSI/SSP due to their immigration status.

CalWORKs

The CalWORKs program was created in 1997 in response to the 1996 federal welfare reform legislation, which created the federal Temporary Assistance for Needy Families (TANF) program. CalWORKs provides cash grants and welfare-to-work services to families whose income is inadequate to meet their basic needs.

To be financially eligible for CalWORKs, a family's income must be below a specified income level (for example, $1,170 per month for a family of three) and meet specified asset limits. Grants vary by family size and where they reside. Currently, the maximum monthly grant for a family of three is $723 in higher-cost counties. Current law applies a COLA to the maximum grant each July. Once on aid, families may remain eligible for aid despite having significant additional earnings because of program rules establishing an "earned income disregard," which does not count substantial earned income when determining the family's grant. In addition, CalWORKs families receive a monthly Food Stamp allotment as described more fully below. Generally, able-bodied adults are limited to five years of cash aid, while children are not subject to such time limits.

Work Requirements. Federal law generally requires that states ensure that at least 50 percent of their cases with adults be working either 20 or 30 hours per week, depending on the age of the youngest child. (Federal law provides states with credits that reduce this obligation if they reduce their welfare caseloads.) Failure to meet the net federal work participation rate (WPR) may result in substantial federal financial penalties on the state.

California law governing the CalWORKs program requires single parents to work 32 hours per week or participate in related education and training activities. Higher weekly hours are required for two-parent cases. Able-bodied adults, who are required to participate, receive child care and other services to help them work, obtain training, or find work. Able-bodied adults are generally limited to five years of cash assistance. If an adult reaches the five-year limit, the family's grant is reduced by the amount attributable to the adult and the children continue to receive aid in a program known informally as the "safety-net." Children with ineligible parents (such as undocumented persons) receive a "child-only" grant throughout their time on aid.

Funding. To receive the $3.7 billion federal TANF block grant, California must meet a maintenance-of-effort (MOE) requirement of $2.9 billion. Although the MOE requirement is primarily met through state and county spending on CalWORKs, some state spending in other programs and departments is also counted toward satisfying the requirement.

Food Stamp Program

The federal Food Stamp program provides monthly benefits to low-income households and individuals to assist them with food purchases. Generally, to qualify for the Food Stamp program, a household's gross income must be below 130 percent of the federal poverty level, and the household must meet other financial eligibility criteria, including an asset limit of $2,000 (with exclusions for homes and vehicles).

Participants in the Food Stamp program receive monthly benefits on Electronic Benefit Transfer cards, similar to debit cards, which can be used at participating stores. The maximum food stamp allotment depends on household size. For example, the maximum monthly allotment is $463 for a household of three.

The cost of the federal food benefits is borne entirely by the federal government. Associated administrative costs are shared between the federal government (50 percent), the state (35 percent), and the counties (15 percent). We note that a recently enacted federal law, the Food, Conservation, and Energy Act of 2008 (Public Law 110-246), renames the Food Stamp program the Supplemental Nutrition Assistance Program, or SNAP.

State-Only Food Stamp Program for Noncitizens. The California Food Assistance Program provides state-funded monthly benefits to legal noncitizen adults between 18 and 65 years of age who have resided in the United States for less than five years, but otherwise meet all federal food stamp eligibility requirements.

In-Home Supportive Services

The IHSS program provides in-home care for persons who cannot safely remain in their own homes without such assistance. In order to qualify for IHSS, a recipient must be aged, blind, or disabled and in most cases have income at or below the level necessary to qualify for SSI/SSP.

After the IHSS application, a county social worker visits the home of the recipient and uses a uniform assessment tool to determine the number of hours for each type of IHSS service that a recipient qualifies for in order to remain safely in his/her own home. Assistance is provided with such tasks as cleaning, meal preparation, bathing, grooming, and helping with medications and prosthetic devices. The IHSS recipients are sent a notice informing them of the number of authorized hours for each task. Typically, social workers conduct reassessments annually to determine whether the services needed by the recipient have changed.

Once the recipient is authorized IHSS service hours, he or she must find an IHSS provider to perform those services. In the IHSS program, the recipient is considered to be the employer, who has the responsibility to hire, train, supervise, and fire their provider.

Nevertheless, representatives of IHSS providers are authorized under state law to participate in collective bargaining with the county for uniform salary and benefit levels in their jurisdictions. Currently, the state contributes a share of the cost of wages and benefits for each IHSS worker up to $12.10 per hour. Any wage or benefit costs above $12.10 per hour are paid for by counties and the federal government.

Child Welfare System

The purpose of California's child welfare system is to prevent, identify, and, when necessary, respond to allegations of child abuse and neglect. Following a report of child abuse or neglect, county Child Welfare Services (CWS) social workers are obligated under state law and regulations to take various steps to resolve the situation. Social workers investigate such allegations and provide services to children who have been identified as victims, or potential victims, of abuse or neglect. Services may also be provided by counties to the families of the children to address such concerns.

When an investigation indicates further actions are warranted, CWS social workers may temporarily or permanently remove children from their homes for health and safety reasons and place them in Foster Care. Children are typically placed in Foster Care by the action of a juvenile court, which provides ongoing supervision of what are known as dependency cases. A Foster Care placement can be with either an individual family or a group home setting. Family and group providers receive monthly grant payments for the 24-hour care and supervision of the child.

Children in Foster Care may eventually be reunified with their parents or placed in adoption or guardianship when family reunification is not possible. In most cases, adoptive parents and guardians are eligible for monthly grants paid through either AAP or the Kin-GAP program. When a child is reunified with his or her family, or permanently placed with an adoptive family or guardian, the court generally dismisses the dependency case and CWS services end.

The child welfare system is supported by federal, state, and county funds. With the exception of the Kin-GAP program, children in the programs described above are eligible for support from federal funding if their parents have incomes below specified levels. Typically, about 75 percent of Foster Care children are federally eligible.

Community Care Licensing

The Community Care Licensing (CCL) Division of DSS develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. The CCL oversees the licensing of about 86,000 facilities, including child care centers, family child care homes, foster family and group homes; adult residential facilities; and residential facilities for the elderly. Counties who have opted to perform their own licensing operations monitor approximately 11,000 of these facilities.

In order to receive and maintain a license to operate a community care facility, applicants and providers are charged an initial licensing fee and an annual renewal fee. Depending on facility type and capacity, application fees range from $60 to $10,000, while annual fees range from $60 to $5,000. The CCL program is supported with federal funds, General Fund, and fee revenue.

Department of Child Support Services

In California, both parents have a legal duty to provide financial support for their children. The goal of DCSS is to collect support payments from a noncustodial parent on behalf of the custodial parent and the child.

Once a custodial parent applies for assistance in collecting child support, local child support agencies (LCSAs) work to (1) locate absent parents; (2) establish the paternity of a child; (3) obtain, enforce, and modify child support payment orders; and (4) collect and distribute child support payments. Using a statutory guideline, which reflects both parents' income and time with their children, local courts determine the amount of the child support order. Orders may be enforced in various ways including the withholding of wages and unemployment benefits, interception of tax return refunds, and the placement of liens on real property.

When a family receiving child support is also receiving public assistance, DCSS distributes the first $50 per month collected from the non-custodial parent to the custodial parent and child. Any additional amount is deposited in the state General Fund to partially offset the state's costs for providing public assistance. Generally, if the family is not receiving public assistance, the money collected by DCSS goes to the custodial parent.

The DCSS is supported by a combination of state (34 percent) and federal (66 percent) funds.

Overall Historical Spending Trends

Total Spending. From 2001-02 through 2008-09, General Fund spending on social services programs increased from $8.3 billion to $10.2 billion, an average annual increase of

3 percent. Figure 1 shows total spending from 2001-02 though 2009-10, as proposed by the Governor. For the budget year, the Governor proposes new special funds to offset General Fund spending. (These special funds are reflected in the small second "bar" on top of the General Fund bar for 2009-10.) As the figure shows, General Fund spending increased by about $500 million in 2002-03 and then grew very slowly through the end of 2005-06, when spending reached $9.2 billion. In 2006-07 General Fund spending increased by $600 million to $9.8 billion. General Fund spending fluctuated in 2007-08 and 2008-09 mostly due to TANF fund shifts rather than underlying changes in actual program costs. For 2009-10, the Governor's budget would reduce spending by $1.5 billion down to $8.7 billion due to various proposed actions to address the state's fiscal problems.

Adjusting for Inflation. Figure 1 also displays spending on social services programs adjusted for inflation (constant dollars). On this basis, total General Fund expenditures decreased from $8.3 billion in 2001-02 to $7.4 billion in 2008-09. If adopted, the Governor's budget would reduce constant dollar spending to $6.4 billion, a reduction of 22 percent since 2001-02.

Comparison to Overall General Fund Spending. For most of this decade, General Fund spending on social services programs has ranged between 9.5 percent and 11.5 percent of total General Fund outlays. For 2008-09, social services' share is estimated to be 11.2 percent. Under the Governor's budget, social services' share would drop to 9.4 percent in 2009-10, after adjusting for special fund shifts.

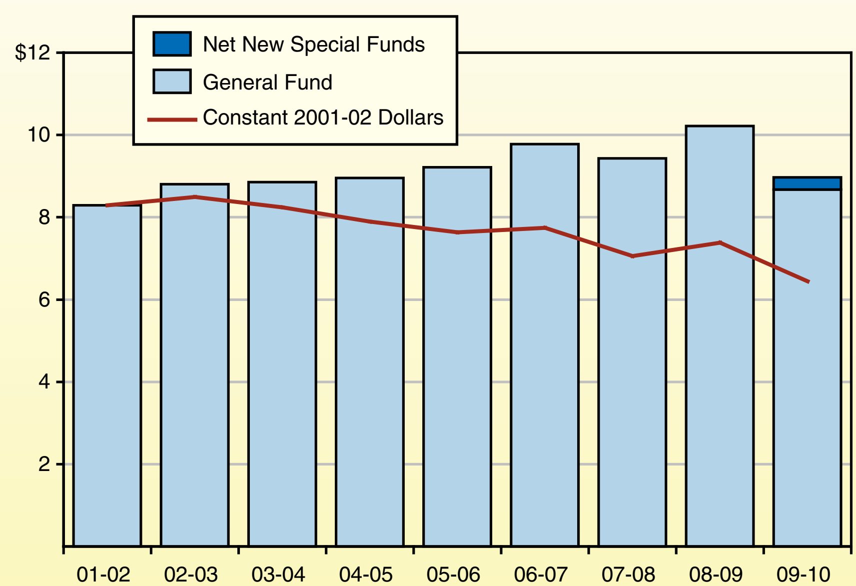
Individual Program Spending Trends

Spending growth rates vary widely by program. Figure 2 (see next page) shows the average annual spending growth rate by program from 2001-02 through 2008-09. The SSI/SSP, the largest social services program, has been growing at a relatively steady pace of 3.3 percent. The second largest program is CalWORKs, which has been relatively flat throughout this period. The next largest program is IHSS, which

Figure 1

Social Services Expenditures Current and Constant Dollars

2001-02 Through 2009-10 (In Billions)



has been growing relatively rapidly, at an average annual rate of just over 11 percent. Programs for children, including CWS, Foster Care, and AAP, have grown collectively at an average annual rate of 3.8 percent. All other social services programs, have collectively declined by an average of 1.8 percent annually.

Program "Cost Drivers"

In general, the primary factors driving up costs for social services programs are changes in caseload, COLAs (if provided), county administrative costs, and labor costs for providing the services. Below, we discuss these factors as they pertain to the largest social services programs.

IHSS. As noted above, IHSS is by far the fastest growing social services program, as well as one the fastest growing programs in the state budget overall. The primary cost drivers are caseload, provider wages, and hours of services provided. From 2001-02 through 2008-09, IHSS General Fund expenditures increased by over $940 million (110 percent), despite a federal waiver which increased federal financial participation in the program. During the same time period, the caseload increased by 61 percent. The remaining 49 percent of the spending increase is mostly due to higher wages paid to providers. A small portion of the increase is attributable to an increase in the average number of service hours authorized for recipients.

SSI/SSP. Spending on SSI/SSP increased from $2.8 billion in 2001-02 to $3.5 billion in 2008-09, an increase of over $700 million (or 26 percent). The primary cost drivers in the SSI/SSP program are caseload growth and annual COLAs. From 2001-02 through 2008-09, the SSI/SSP caseload grew by about 15 percent. An additional 6.5 percent of the growth in the cost of the program is attributable to two state statutory COLAs provided between 2001-02 and 2008-09. (Over this time period legislation was enacted to suspend six other scheduled state statutory COLAs.) The remaining portion of growth is mostly due to increases in the CAPI caseload during this time period.

CalWORKs. General Fund spending on CalWORKs has been essentially flat during this decade, averaging about $2 billion each year. Modest caseload declines were partially offset by two COLAs granted during this time period (COLAs were statutorily suspended for six of the eight years), and some increases in spending on county administration and welfare-to-work services. We also note that, during this time period, hundreds of millions of TANF block grant funds were annually used to offset General Fund costs in other state programs. The CalWORKs caseload has just recently begun to increase, a trend that we discuss later in this analysis.

Programs for Children. From 2001-02 through 2008-09, General fund spending for various children's programs increased collectively by just under $400 million (or 30 percent). Substantial spending growth in the AAP during

Figure 2

Major Social Services Programs Average Annual Spending Growth Rate

2001-02 Through 2008-09 (General Fund)

Program	Rate
SSI/SSP	3.3%
CalWORKs	-0.1
IHSS	11.2
Children's programs	3.8
Child Support	-1.4
County administration and automation	6.4
All other	-7.7
Total	**3.0%**

this period accounts for about one-half of the total growth for these children's programs. About one-third of the spending growth is attributable to discretionary investments in (1) child welfare, specifically the outcome improvement project (OIP), and (2) new services for emancipating foster youth.

No Regular Inflationary Adjustments for County Administration. From 2001-02 through 2008-09 counties were not provided annual inflationary adjustments to account for increases in their cost of doing business. At times, however, the Legislature has provided specific allocations of additional funding, such as with the OIP for child welfare or for CalWORKs administration, in part to recognize that county administrative costs for these programs have been increasing.

Overview of the Governor's Social Services Proposals

Overall Spending by Program

The Governor's budget proposes General Fund expenditures of $8.7 billion for 2009-10, a reduction of $1.5 billion (15 percent) compared to proposed spending for 2008-09. Figure 3 shows proposed expenditures for the major programs. We note that the proposed spending for 2008-09 reflects almost $400 million in budget solutions proposed for the current year. Moreover, the amounts shown in Figure 3 for CWS/Foster Care/Adoptions Assistance reflect a General Fund reduction of $275 million that would be backfilled under the Governor's budget plan with special funds from a proposed redirection of Proposition 10 funds.

Proposed Budget Solutions

In the social services area, the Governor proposes about $385 million in solutions for 2008-09 and just over $3 billion in solutions for 2009-10. Figure 4 (see page 12) lists the Governor's proposals for each program. Below, we summarize the major themes for these solutions. One common theme is that all of these solutions are ongoing rather than one-time. In the next section of this document, these solutions, along with other solutions that we have developed, are evaluated in more detail.

Figure 3

Social Services Programs General Fund Spending

(Dollars in Millions)

	Actual	Proposed		Change From 2008-09	
	2007-08	2008-09	2009-10	Amount	Percent
SSI/SSP	$3,623.5	$3,514.5	$2,579.7	-$934.8	-26.6%
CalWORKs	1,481.7	1,996.5	1,958.2	-38.3	-1.9
In-Home Supportive Services	1,686.5	1,798.7	1,603.3	-195.4	-10.9
CWS/Foster Care/Adoptions	1,596.5	1,682.3	1,366.0	-316.3	-18.8
Department of Child Support Services	326.4	400.2	330.0	-70.2	-17.5
County Administration/Automation	451.0	500.6	540.2	39.7	7.9
All other social services programs	266.8	322.6	299.1	-23.5	-7.3
Totals	**$9,432.4**	**$10,215.3**	**$8,676.5**	**-$1,538.9**	**-15.1%**

SSI/SSP = Supplemental Security Income/State Supplementary Program; CalWORKs = California Work Opportunity and Responsibility to Kids; CWS = Child Welfare Services.

- ***Grant Reductions and COLA Suspensions.*** For 2009-10, the proposed budget would achieve savings of over $1.1 billion in SSI/SSP and nearly $400 million in CalWORKs from grant reductions and COLA suspensions. We note that the COLAs are based on the change in the California Necessities Index (CNI). The Governor assumed the CNI would be 2.94 percent, but actual data indicate the CNI will be 1.53 percent.

- ***Benefit Terminations in CalWORKs.*** The budget proposes to create five-year time limits for children on CalWORKs whose parents are unwilling or unable to meet specified work participation requirements. These proposals would result in caseload savings of over $500 million.

- ***Wage-Related Changes.*** The budget proposes to reduce state participation in the wages paid to IHSS providers to the

Figure 4

Governor's Proposed Budget Solutions for Social Services

(General Fund, In Millions)

Program/Description	Governor's Budget 2008-09	Governor's Budget 2009-10
SSI/SSP		
Reduce grants to federal minimum	$180.1	$1,117.2
Eliminate CAPI (state only SSI/SSP for immigrants)	20.0	129.6
Suspend June 2010 state COLA	—	27.0
CalWORKs		
10 percent grant reduction	$45.2	$294.0
Child-only time limit (five-year limit for child-only cases)	38.4	261.7
Modified safety net (five-year limit for cases with adult)	36.4	260.7
Self-sufficiency reviews (recertification in person at six months)	3.5	97.2
Suspend July 2009 COLA	—	79.1
Suspend pay-for-performance county incentives	—	40.0
Reduce childcare reimbursements to 75 percent of RMR	—	30.9
In-Home Supportive Services (IHSS)		
Reduce state participation in IHSS wages to minimum	$44.5	$266.8
Eliminate domestic and related services for low functional index (FI)	11.9	71.4
Eliminate SOC buyout for low FI	6.4	46.0
Proposition 10		
Eliminate state commission and redirect 50 percent of local funds to DSS Children's programs	—	$275.0
Food Stamps		
Eliminate California Food Assistance Program	—	$37.8
Automation		
Delay Los Angeles replacement system by six months	—	$14.6
Totals	**$386.3**	**$3,049.1**

CAPI = Cash Assistance Program for Immigrants; RMR = regional market rate; COLA = cost-of-living adjustment; SOC = share of cost; DSS = Department of Social Services.

minimum wage. Counties and the federal government would share in any wage costs above the minimum wage. This proposal would result in savings of about $265 million.

- ***Redirection of Proposition 10 Funds.*** The budget proposes to ask the voters to eliminate the state Proposition 10 commission and reduce funding for local commissions by 50 percent. If approved by the voters, the $275 million in funds freed up by these changes would be used to offset General Fund costs for CWS, Foster Care, and AAP.

- ***Elimination of Benefits for Legal Noncitizens.*** The budget would achieve savings of almost $170 million by eliminating state-only funded cash and food assistance programs for legal immigrants.

Finally, we note that for many programs, the Governor proposes a package of solutions with interactive effects. If the Legislature rejects a given proposal, such a rejection could alter the solution value of other proposals.

BALANCING THE 2009-10 BUDGET

Social Services Caseload Projections

Caseload Projections Are Reasonable. Figure 5 (see page 14) shows the recent trends and the projections in the Governor's budget of annual caseload growth for the state's major social services programs. As the figure shows, the CalWORKs and Food Stamps caseloads are projected to rise much faster than in recent years, largely due to the recession. In general, we find that these caseload projections are reasonable. Below, we discuss certain caseload trends that warrant close monitoring.

CalWORKs. In November 2008, we forecasted caseload increases in CalWORKs of 3.7 percent in 2008-09 and 2.4 percent in 2009-10. Our projections were based on the data available to us through July 2008 showing that the caseload was increasing by about 0.3 percent per month, or 3.6 percent per year. More recent data through October 2008 indicate that the caseload is now increasing at a rate of 0.6 percent per month, or 7.2 percent per year. The Governor's forecast is very much in line with the latest quarter of actual data.

The key questions are how long will the recession persist, and when will the CalWORKs caseload stop growing so fast? How the economy affects the CalWORKs program could prove difficult to project. Since enactment of the welfare reform legislation in 1996 that resulted in the creation of CalWORKs, there has only been one relatively mild recession (in 2001-02). The associated caseload increase in that recession was modest and short-lived.

CalWORKs Child Care. Another caseload issue to watch in CalWORKs is child care utilization. The Governor's budget assumes that utilization rates will remain at current levels. It is possible that, in a recession, less of the caseload will be working, and therefore utilization of child care services may fall. On the other hand, members of families enrolled in CalWORKs who cannot find work are still expected to participate in education or training, and thus would still need some child care for these purposes.

The key question is how much child care they will need.

CAPI Caseload May Be Underestimated. The Governor's budget proposes to eliminate CAPI to achieve annual General Fund savings of $130 million. Our review of recent actual data suggest that the CAPI caseload may be growing at a faster rate than the Governor has assumed. (This means the effective savings from the Governor's proposal could be larger if it is adopted, but that the costs of the program could be larger than budgeted if the Legislature decides to preserve the program.) We will monitor this caseload and report at May Revision if any change to the caseload budget estimates for CAPI is warranted.

Figure 5

Major Social Services Programs
Annual Caseload Growth: Recent, Past, and Projected

	Actual			Projected	
Program	2005-06	2006-07	2007-08	2008-09	2009-10
CalWORKs	-2.9%	-3.4%	1.3%	5.9%	6.9%
SSI/SSP	2.2	1.4	0.8	2.8	2.4
IHSS	4.6	5.5	7.8	7.0	6.5
Food Stamps	9.3	7.0	12.9	15.4	12.9

Supplemental Security Income/ State Supplementary Program

The administration's budget plan proposes to achieve General Fund savings in the SSI/SSP budget by (1) reducing SSI/SSP grants for individuals, and (2) eliminating the state-only CAPI. We describe the Governor's proposals below and present other budget solutions for the Legislature to consider.

Grant Reduction Proposals

As described earlier, California supplements the federal SSI grant with a state-funded SSP grant. Federal law requires that the state SSP portion of the grant be "maintained" at or above its 1983 level. Failure to comply with the MOE requirement would result in the loss of all federal Medicaid health care program funding (the program is known as Medi-Cal in California).

Governor's Proposal: Reduce SSI/SSP Grants to Federal Minimum. The Governor's plan would reduce SSP grants to the minimum levels required by federal law. Specifically, the grants would be reduced to a maximum of $156 per month for individuals and $396 per month for couples, effective May 2009. This proposal is estimated to save $178 million General Fund in 2008-09 and over $1.1 billion General Fund in 2009-10. Below, we present two alternative approaches the Legislature could consider for reducing grants.

LAO Option 1: No Pass-Through of Federal COLA. As we previously noted, the federal government applies a COLA to the federal SSI portion of the grant each January. This option would reduce the state SSP portion of the grant by the dollar amount that the SSI portion of the grant increased due to the January 2009 federal COLA. This option is referred to as "not passing through the federal COLA." This would reduce SSP monthly grants for individuals by $37 to $196 and couples by $57 to $513. This returns the total maximum monthly grants to the level in place during 2008. Assuming a May 1, 2009 implementation date, this would save about

$79 million in 2008-09 and about $479 million in 2009-10.

LAO Option 2: Reduce Grants for Couples. Another option to consider is to reduce the maximum SSI/SSP couples grants to 125 percent of the 2009 federal poverty guideline (as estimated by the LAO). The maximum grants for couples are currently at 133 percent of the poverty guideline. Grants for individuals, which are at about 100 percent of the poverty guideline, would be unaffected by this option. Even with this reduction, SSI/SSP couples would remain well above the federal poverty guideline. This proposal would reduce SSP monthly grants for couples by $88, from $568 to $480, a level that would still be well above the federal MOE requirement. Couples would continue to receive the federal COLA in January 2010, and would be entitled to future federal and state COLAs when they are provided. This option saves about $21 million in 2008-09 and $135 million in 2009-10.

Comparing SSI/SSP Grant Levels. Figure 6 shows SSI/SSP average grant levels for individuals and couples under the Governor's proposal and our two LAO options discussed above. The figure also compares grant levels to the federal poverty guideline.

Conclusion. Because all of the options above only impact the state-funded, SSP portion of the grant, they do not result in the loss of federal funds. We note that these options may be combined to achieve higher levels of savings. For example, the Legislature could opt to reduce the grants for couples to 125 percent of the poverty guideline and not pass through the January 2009 federal COLA for combined savings of $86 million in 2008-09 and $530 million in 2009-10. *The SSI/SSP program represents over one-third of the total social services budget. Due to the state's severe fiscal problems, we recommend the Legislature adopt one or a combination of the above proposals to achieve budget solution.*

Figure 6

SSI/SSP Maximum Monthly Grants
Governor's and LAO Proposals

			May 2009		
	January 2008	January 2009	Governor's Budget	LAO Option 1	LAO Options 1 and 2
Individuals					
SSI	$637	$674	$674	$674	$674
SSP	233	233	156	196	196
Total	**$870**	**$907**	**$830**	**$870**	**$870**
Percent of Poverty[a]	100%	103%	94%	99%	99%
Couples					
SSI	$956	$1,011	$1,011	$1,011	$1,011
SSP	568	568	396	513	480
Total	**$1,524**	**$1,579**	**$1,407**	**$1,524**	**$1,491**
Percent of Poverty[a]	131%	133%	118%	128%	125%

[a] For 2008, poverty guideline is from the U.S. Department of Health and Human Services. For 2009, the poverty guidelines are estimated by the LAO based on recent trends.

Restaurant Meal Allowance

Under current law, individuals who self-certify that their living arrangement prevents the preparation of meals at home receive a state-funded supplement to their SSP grant. This supplement, known as a restaurant meal allowance, is currently provided to over 39,000 SSI/SSP recipients at a cost of $84 for individuals and $168 for couples per month. The annual budget for this supplement is approximately $39 million General Fund.

Allowance Should Be Eliminated. We have two major concerns about the restaurant meal allowance. There is currently no verification process to ensure that this grant supplement is paid only to the SSI/SSP recipients who actually qualify for it. Moreover, no time limit is placed on the receipt of this benefit. Because of these problems, *we recommend eliminating the SSI/SSP restaurant meal allowance, an action that would result in annual General Fund savings of about $35 million.* We note that our estimate of the savings associated with the proposal is not equivalent to the total present cost of the program. This is because we have allowed for some erosion in the savings to account for the likelihood that some SSI/SSP recipients who lost the allowance would apply for and receive a similar supplement available to those who qualify for the IHSS program. Finally, the Legislature could establish a program to assist in one-time purchases by recipients of cooking equipment, such as a microwave oven.

Proposals Affecting Cash Assistance Program for Immigrants

Governor's Proposal. The Governor proposes to eliminate CAPI to achieve General Fund savings of $20 million in 2008-09 and $130 million in 2009-10. Below, we present alternatives to the Governor's proposal.

LAO Option 1: Eliminate CAPI Prospectively. One option would be to halt any further enrollment in the CAPI program. This option would essentially stop growth in the program and allow those already receiving benefits to remain on the program. We estimate that it would result in savings of about $20 million in 2009-10, and greater annual savings in future years as current CAPI recipients exit the program.

LAO Option 2: Make Some CAPI Recipients Eligible for Federal Funds. On September 30, 2008 the President signed in to law the SSI Extension for Elderly and Disabled Refugees Act (P.L. 110-328). We are advised that this legislation makes certain refugees eligible for federal SSI benefits for an additional two years beyond the seven years previously authorized. Some current recipients of CAPI are refugees. However, DSS is not able to estimate the number of CAPI recipients statewide who are considered to be refugees. Our discussions with counties suggest that there are about 2,000 current CAPI recipients potentially eligible for the SSI extension. Under current law, counties with a CAPI caseload of 70 or more recipients are already required to establish advocacy programs to assist CAPI recipients and applicants in applying for federal SSI. The goal of the advocacy program is to reduce state-only CAPI costs by facilitating recipients' transition to the federally supported SSI/SSP.

We recommend instructing counties to focus their existing advocacy efforts on the CAPI cases most likely to be eligible for this federal SSI extension. To further encourage counties to focus on these cases, we recommend establishing an incentive payment to counties for each case transferred to federal eligibility. We would suggest the payment be equal to one month of the individual CAPI grant. We estimate that the savings from the transition of these recipients from the state-only CAPI to federal and state-funded SSI/SSP would result in net state savings of $17 million in 2009-10. This results in state savings because the state would no longer fund the entire CAPI grant ($897 for individuals and $1,559 for couples), but would instead fund only the SSP portion of the SSI/SSP grant ($233 for individuals and $568 for couples).

In-Home Supportive Services

The administration budget plan proposes to achieve General Fund savings in the IHSS program by modifying (1) the state buyout of the "share of cost" for certain recipients, (2) the service hours provided to certain recipients, and (3) state support for the wages paid to providers. We assess the Governor's proposals below and present other options for the Legislature to consider.

Share of Cost Buyout Proposals

What Is a Share of Cost (SOC)? As previously noted, to qualify for IHSS, recipients generally have income at or below the SSI/SSP grant level. However, when an IHSS recipient has income in excess of the SSI/SSP grant levels, that recipient may still be eligible to receive IHSS services with a SOC. An IHSS recipient with a SOC must make an out-of-pocket monthly payment towards the receipt of IHSS services. For example, if an IHSS recipient has monthly income that is $200 over the SSI/SSP grant level, that recipient will pay about $200 towards their IHSS services each month before the IHSS program pays the remainder of the cost of their services.

History. In 2004, the state applied for, and received, a federal waiver that allowed 64,000 recipients (out of about 66,000) in the state-only IHSS Residual program to be eligible for federal Medicaid funding in the existing IHSS Personal Care Services Program (PCSP) or in the newly established IHSS Waiver program. This change permitted the state to achieve significant General Fund savings in IHSS.

Intersection Between IHSS and Medi-Cal. The federal Medicaid program is known as Medi-Cal in California. When IHSS recipients with a SOC were moved from the Residual program to either the PCSP or IHSS Waiver programs, they could have been subject to paying a higher Medi-Cal SOC. This is because both the PCSP and the IHSS Waiver programs are partially funded by Medicaid. The Medi-Cal SOC is usually greater than the IHSS SOC because it is based on the income of their entire family, while the amount of the IHSS SOC is based only on the individual recipient's income.

In order to avoid creating a higher Medi-Cal SOC obligation for these IHSS recipients, the state agreed to use state funds to pay for the difference in the IHSS and Medi-Cal SOC. For example, if a recipient had an IHSS SOC of $200 per month in the Residual program, but now had a higher Medi-Cal SOC of $1,000 per month, the recipient was only obligated to pay the lower IHSS SOC amount ($200).The state paid the difference between the IHSS SOC and the Medi-Cal SOC ($800). Essentially, this policy holds the IHSS recipient harmless from this program change.

Program Caseload and Costs Growing. The SOC buyout program has grown significantly since the establishment of the IHSS Waiver program in 2004, and that growth is projected to continue. The Governor's budget estimates that 9,691 recipients will benefit from the state buyout in 2008-09, and that this number will increase to 11,080 recipients in 2009-10 (an increase of over 14 percent). In the budget year, the total cost of the SOC buyout program is estimated to be $57 million General Fund (up from $47 million in the current year).

The range of monthly SOC buyouts paid to individual recipients varies widely, from under $100 to over $10,000 per month. Figure 7 shows the distribution of SOC buyouts. The average General Fund cost of the buyout is estimated to be $427 per person per month in 2009-10.

Incentive to Apply for IHSS for SOC Buyout, Not Services. Because of the SOC buyout program, there is an incentive for someone with a high Medi-Cal SOC to apply for IHSS. This is because once a recipient applies for and receives any amount (even one hour a month) of authorized IHSS hours, the state is obligated to buy out their SOC. This means that—from the earlier example—a person with a monthly $1,000 SOC on Medi-Cal would have their SOC reduced to the $200 level once approved for IHSS. The buyout occurs regardless of whether he or she then uses the IHSS services. For example, during one month, DSS made buyout payments for 174 IHSS recipients (at an average cost of $327 per month) who had not hired providers or claimed hours that month.

Figure 7

Share of Cost Buyout Amounts Vary Greatly

Monthly Buyout Amount	Percent of Recipients
$0 to $199	9%
$200 to $399	60
$400 to $599	13
$600 to $999	12
$1,000 to $2,000	4
Over $2,000	1

Governor's Proposal: Eliminate SOC Buyout for Less Impaired. The Governor's budget proposes to eliminate the SOC buyout program for less-impaired IHSS recipients. The level of a recipient's impairment is assessed by a county social worker using a uniform assessment tool to rank the recipient's impairment for each task on a five-point scale known as the Functional Index (FI) ranking. Figure 8 shows each of the potential FI rankings that may be assessed by a social worker, and what they mean for the impairment level of the recipient. The budget plan proposes to eliminate the SOC buyout program for recipients with an average FI ranking of less than four to reduce General Fund costs by $6.4 million in 2008-09 and $46 million in 2009-10. The administration estimates that this proposal will impact about 8,900 IHSS recipients in 2009-10, raising their SOC by an average of about $427 per month.

Administration Savings May Be Less Than Estimated. Our analysis indicates that the Gov-

Figure 8

Functional Index Ranking Scale

Functional Index	Impairment Implications
1	Able to perform function without human assistance—independent
2	Able to perform a function, but needs verbal assistance (reminding, encouraging)
3	Able to perform a function with some human, physical assistance
4	Able to perform a function with substantial human assistance
5	Cannot perform the function with or without human assistance

ernor's budget proposal does not account for potential increases in state administrative and program costs that could result from the proposed restrictions on the SOC buyout. That is a concern because we believe that this proposal could result in increased requests by recipients for reassessments and appeals. When some individual recipients learn that their SOC is increasing by over $400 because their FI ranking is not higher, a significant number will likely appeal or ask for a reassessment of their FI ranking. A combination of increased administrative and program costs from recipients who successfully appeal their FI ranking may significantly erode the savings estimated in the Governor's budget plan.

LAO Option 1: Reduce SOC Buyout by 50 Percent for All IHSS Recipients. In our view, the SOC buyout is an issue of ability to pay, and is not related to the FI ranking of the recipient. In other words, a recipient's ability to pay a Medi-Cal SOC is related to his/her level of monthly income rather than his/her level of disability. Accordingly, the Legislature may wish to consider a different approach to achieving savings on SOC buyout costs. Under this option, state participation in SOC buyouts would decrease by 50 percent for all recipients, regardless of their FI ranking. This proposal would save less than the Governor's—about $4 million in 2008-09 and $28 million in 2009-10. However, these savings would not likely be eroded because, unlike the Governor's proposal, there is no reason for recipients to appeal their FI ranking. All recipients, regardless of their FI ranking, would be treated the same under this approach.

LAO Option 2: Cap the Buyout at a Determined Level. One variation of the 50 percent reduction in the SOC buyout is to consider placing a specific dollar cap on the buyout amount. In other words, the state would continue to buy out the difference between the Medi-Cal SOC and the IHSS SOC up to a certain amount per month. Any amount above that would be the responsibility of the recipient. The savings associated with this proposal would depend upon the amount of the cap—the lower the level of the cap, the more savings achieved. For example, if the Legislature decided to cap the buyout amount at $400 per month, savings would be approximately $13 million annually.

LAO Option 3: Prospectively Eliminate SOC Buyout. The original rationale for the SOC buyout program was that it allowed IHSS recipients to transfer from the Residual program to the other IHSS programs without increasing their SOC obligation, essentially holding them harmless. Although it was reasonable to buy out the difference between the Medi-Cal SOC and the IHSS SOC for recipients who were already in the program when the IHSS Waiver was obtained, it arguably is not necessary to provide this service prospectively. Under this option, those in the existing caseload would continue to receive the existing state buyout, but the growth in the SOC buyout caseload would end. This option would save at least $9.4 million in 2009-10, with increased savings in future years as existing SOC buyout recipients exited the IHSS program.

Conclusion. *Given the growth in the SOC buyout program, and the current fiscal situation, we recommend the Legislature adopt one or a combination of these savings options.* We note that it is not necessary to limit action to one of these proposals, as they may be combined. For example, it is possible to both eliminate the SOC buyout program prospectively and reduce state participation in the buyout by 50 percent for the existing SOC buyout recipients.

Service Hour Proposals

As we noted earlier, after the needs of an IHSS recipient are assessed by a social worker, the recipient is authorized to receive a specific number of hours each month for a variety of services. This care is allocated among certain tasks to create a package of services to assist recipients in remaining in their homes. Recipients may be authorized domestic and related care services tasks as a component of their package of services, as long as their relevant FI ranking exceeds 1. Domestic and related care services include general housekeeping activities, meal preparation, meal clean-up, shopping for food, and errands. Over 95 percent of all IHSS recipients receive some level of domestic and related care.

Governor's Proposal: Eliminate Domestic and Related Care Services for Less Disabled Recipients. The Governor's budget proposes to eliminate domestic and related care service hours for IHSS recipients with related FI rankings below four. The DSS estimates that approximately 81,000 IHSS recipients will lose each month an average of 22.6 domestic and related care service hours (out of a typical total of 84.9 hours) as a result of this policy.

After accounting for some savings erosion due to administrative costs and hour restorations for some recipients who would successfully appeal decisions to eliminate their services, the administration estimates that this proposal will save about $12 million in 2008-09 and $71 million in 2009-10.

LAO Option: A Tiered Reduction to Domestic and Related Care Services. We believe that the administration's proposal has some merit because it targets services to those recipients who have been assessed as being the most impaired. However, instead of a 100 percent reduction in domestic and related care services for recipients with FI rankings between 1.01 and 3.99, the Legislature may wish to consider use of a tiered approach to making the reductions. For example, recipients with functional rankings between 1.01 and 2.5 would have their hours capped at a level that would be lower than for individuals with functional rankings between 2.5 and 3.99. This approach would not completely eliminate domestic and related care service hours for any IHSS recipient, and would tend to result in fewer appeals and less erosion of savings. The amount of the savings from this proposal would depend on the tiers set by the Legislature. We think it is reasonable to set the tiers at a level to achieve savings of about half of the Governor's proposal, or about $36 million in 2009-10.

IHSS Wage Proposals

Although the state participates in wages and benefits up to $12.10 per hour, as shown in Figure 9, the combined wages and benefits actually paid in each county varies from $8.00 per hour to $14.68.

Governor's Proposal: Reducing State Participation in Provider Wages to Minimum. The Governor's budget proposes to reduce state participation in IHSS provider wages and benefits to a combined $8.60 per hour (the $8.00 minimum wage established under state law, plus $0.60 for health benefits). This proposal results in General Fund savings of about $45 million in 2008-09, increasing to $267 million in 2009-10, and eliminates out-year costs associated with future county wage increases that would likely occur under current law.

The proposed reduction would not limit the amount counties could pay their IHSS providers, but rather would reduce the state's level of support for the wages. Depending on county decisions, this proposal would either result in county general fund costs (because a county elects to backfill the decreased state funds) or reduced provider wages (because a county does not backfill).

LAO Option 1: Reduce State Participation in IHSS Wages and Benefits to $10 Per Hour. The Legislature may wish to consider a modification of the Governor's approach for achieving IHSS savings. This option would reduce state participation in wages and benefits to $10 per hour (roughly the current average wage and benefit level). This proposal would not immediately impact counties currently paying providers less than $10 per hour. Counties with current wages and benefits above $10 per hour could share the marginal cost with the federal government, or could reduce wages and benefits. This proposal would save about $28 million in the current year and $170 million in 2008-09.

LAO Option 2: State Participation in Lower Wages for Close Relative Providers. Currently, about 53 percent of IHSS providers are either the parent, spouse, or child of the person for whom they are providing care. We define these providers as "close relative providers." One option to consider is lowering state participation in wages to the minimum wage for close relative providers. The rationale behind this proposal is that wages do not need to be as high for close relative providers as they may need to be to attract outside providers. This option would save about $140 million General Fund in the budget year.

Impact on Supply of Providers. In the past, we have noted that long-term wage decreases could eventually impact the supply of qualified

Figure 9

IHSS Hourly Wages and Benefits by County Approved as of January 2009

Alpine	$8.00	Tulare	$9.60
Colusa	8.00	San Bernardino	9.63
Humboldt	8.00	San Diego	9.71
Inyo	8.00	Stanislaus	9.71
Lake	8.00	Madera	9.80
Lassen	8.00	San Joaquin	10.02
Mariposa	8.00	Mendocino	10.05
Modoc	8.00	Ventura	10.10
Mono	8.00	Yuba	10.10
Siskiyou	8.00	Calaveras	10.26
Trinity	8.00	Placer	10.60
Tuolumne	8.00	San Benito	10.60
Glenn	8.15	San Luis Obispo	10.60
Tehama	8.60	Riverside	10.85
Butte	8.75	Fresno	11.10
Sutter	8.85	Monterey	11.10
Shasta	9.00	Sacramento	11.10
Amador	9.10	Santa Barbara	11.10
Nevada	9.16	Yolo	11.10
Plumas	9.16	Alameda	11.49
Sierra	9.16	Sonoma	11.90
Orange	9.50	Marin	12.07
Los Angeles	9.51	Napa	12.10
Del Norte	9.60	San Mateo	12.10
El Dorado	9.60	Santa Cruz	12.10
Imperial	9.60	Solano	12.10
Kern	9.60	Contra Costa	12.75
Kings	9.60	San Francisco	13.39
Merced	9.60	Santa Clara	14.68

IHSS providers. However, given the current condition of the economy, and the high unemployment rates throughout the state, we do not believe that a wage reduction proposal would have a significant impact on the availability of IHSS providers at this time. The various wage-related proposals discussed above would reduce provider income, but are unlikely to impact services for IHSS recipients.

Conclusion. *Given the state fiscal difficulties, and the growing expense of the IHSS program, we recommend that the Legislature take action to reduce the costs associated with IHSS provider wages.* The options above provide a framework to consider a number of IHSS wage changes. Our analysis indicates that wage reduction proposals will result in IHSS savings in a way that minimizes the impact on IHSS recipients.

CalWORKs

In this section of our report, we discuss (1) federal work participation requirements and how they affect the state's CalWORKs program, (2) the Governor's proposals for achieving General Fund savings in CalWORKs, (3) some specific LAO alternatives to the administration's proposals, and (4) the overall approach to these issues that the Legislature may wish to consider.

Federal Work Participation Rate (WPR) and Penalties

Federal Requirements. Federal law governing the TANF program requires that states meet a WPR of 50 percent, as adjusted to reflect credits for any decline in caseload that has occurred since the 2005 federal fiscal year (FFY). (We discuss this aspect of the CalWORKs program in more detail in the "Background" section of this report.)

There are actually two types of caseload reduction credits (CRCs) provided under federal regulations. The first credit is awarded for the actual decline in a state's welfare caseload. A second type of CRC is awarded to a state that spends "excess" resources in support of its program above the MOE requirement established for states by the federal government. Specifically, for every $50 million in excess MOE expenditures, California receives a CRC of 0.73 percent. (Please see page C-98 of the *Analysis of the 2008-09 Budget Bill* for a more extensive discussion of this federal policy and its ramifications for the CalWORKs program.)

Figure 10 presents the administration's estimate of the net WPR requirements faced by California, after accounting for the credits it is likely to be qualified to receive through FFY 2011. As the figure shows, the net WPR requirement for California is likely to generally increase over the years because the CalWORKs caseload is growing and the state's MOE-related credits are likely to decrease.

Calculation of WPR. The WPR is determined by dividing the number of cases meeting federal requirements (the numerator) by the number of cases subject to the requirements (the denominator). As discussed later in this *Analysis*, various policy options impact the numerator and denominator in this calculation. We note that the federal Deficit Reduction Act of 2005 made several changes in the TANF program which had the impact of making it harder for states to meet the WPR. (These changes are discussed in our CalWORKs write-ups in our analyses of the 2007-08 and 2008-09 budget bills.)

Work Participation Penalties for States. If a state fails to meet the required WPRs, it is subject to a penalty of up to a 5 percent reduction of its federal TANF block grant. For each successive year of noncompliance, the penalty increases by 2 percent to a maximum of 21 percent. For California, the 5 percent penalty would be approximately $149 million annually, potentially growing by up to $70 million per year. Penalties are based on the degree of noncompliance. Pursuant to current state law, the state and counties would share in any federal penalty. States out of compliance may enter into corrective action plans which can reduce or eliminate penalties, depending on a state's progress in meeting the negotiated goals of the corrective plan.

Current Status. For 2007, California achieved a WPR of 22.3 percent, well below the required rate of 40.7 percent (50 percent less the CRCs). Normally, the federal government notifies states of their WPR status about one year after the close of the fiscal year. Accordingly, most states were expecting to receive federal notification of their WPR compliance status for FFY 2007 by September 2008. However, the prior administration did not send the notifications or release the state-by-state WPR results.

Potential Federal Changes Could Ease WPR Issues. Given the fiscal difficulties many states are facing, and the likelihood that Congress and the new federal administration will soon provide a federal relief package for states, it is possible that WPR penalty notifications to states may not be issued by federal authorities for quite some time. It is also possible that federal authorities will make it easier for states to meet WPR requirements. The TANF regulations issued during 2007 and 2008 by the prior administration made it significantly harder for states to meet the WPR, but a change in policy in this area is possible in the new federal administration. (For an extensive discussion of these federal regulations, see the "CalWORKs" chapter of the *Analysis of the 2008-09 Budget Bill,* page C-100.) Moreover, the federal TANF program is up for reauthorization next year, offering a further opportunity for some relaxation of the states' WPR obligations. In any event, when and if California is notified that it failed WPR in 2007, the state would have until at least FFY 2010, and probably until FFY 2011, to attain compliance with federal law and regulations through a corrective action plan.

Governor's CalWORK's Proposals

The Governor's 2009-10 spending plan offers seven CalWORKs budget reduction proposals, five of which impact grants and eligibility. Figure 11 (see next page) summarizes the fiscal, WPR, and eligibility impacts for these proposals. If adopted, total General Fund savings would be about $123 million in 2008-09 and almost $1.1 billion

Figure 10

CalWORKs Program
Adjusted Work Participation Rate (WPR) Requirements

	Federal Fiscal Year (FFY)				
	2007	2008	2009	2010	2011
Federal WPR Requirement	50.0%	50.0%	50.0%	50.0%	50.0%
Caseload Reduction Credits					
Natural decline since FFY 2005	3.5	6.9	4.0	—	—
Excess MOE reduction	5.8	8.2	2.0	1.0	2.0
Total Credit	**9.3%**	**15.1%**	**6.0%**	**1.7%**	**2.0%**
Net WPR Requirement	**40.7%**	**34.9%**	**44.0%**	**48.3%**	**48.0%**

MOE = maintenance-of-effort.

in 2009-10. These proposals would increase the WPR by an estimated 2.1 percent, and would remove over 234,000 children from aid.

We note that because of the TANF MOE requirement described earlier, not all of the $1.1 billion in savings can be achieved in the CalWORKs program. Some of the General Fund savings are achieved by using TANF funds freed up from the proposed program reductions to offset General Fund costs in the Student Aid Commission ($192 million) and the Department of Developmental Services ($24 million). These fund shifts are feasible. The issue of whether to make these fund shifts depends on how deeply the Legislature elects to cut the CalWORKs program. Key features of the Governor's CalWORKs proposals are described below.

Grant Reduction. The proposed 10 percent grant reduction would reduce the maximum monthly CalWORKs grants by $72 in designated high-cost counties and $69 per month in low-cost counties. Roughly one-third of these grant decreases for recipients would be partially offset by an increase in food stamp benefits. This is because food stamp allotments are based on income, including grant income. Figure 12 shows the current grants and food stamp allotments and how these amounts would change under the Governor's proposal. The figure also shows how the combined grant and Food Stamps compares to the federal poverty guideline. (We note that under current law, a COLA based on the change in CNI would be granted in July 2009. This COLA would increase the grants by 1.53 percent. However, the Governor proposes to suspend this COLA.)

The administration's proposed grant reduction would reduce the WPR by 4.5 percent. This is because the grant reduction has the effect of removing about 15,400 aided families who are working sufficient hours to meet federal requirements. (These families are removed from aid because they have incomes that would exceed the new income eligibility limit created by the proposed grant reduction and its interaction with the earned income disregard.)

Modified Safety Net and Child-Only Time Limit. The administration's modified safety net and child-only time limit proposals both establish a five-year limit on the receipt of CalWORKs

Figure 11

Governor's CalWORKs Proposals
Summary of Fiscal, WPR, and Caseload Impacts

(Dollars in Millions)

	Savings		WPR Impact	Removed From Aid	
	2008-09	2009-10	FFY 2010	Families	Children
10 percent grant reduction	$45.2	$294.0	-4.5%	15,400	30,200
Child-only time limit (five-year limit for child-only cases)	38.4	261.7	—	42,800	83,400
Modified safety net (five-year limit for cases with adult)	36.4	260.7	5.2	35,900	90,400
Self-sufficiency reviews (recertification in person at six months)	3.5	97.2	1.4	16,000	30,400
Suspend July 2009 COLA	—	79.1	—	—	—
Delay pay-for-performance county incentive program	—	40.0	—	—	—
Reduce child care reimbursements	—	30.9	—	—	—
Totals	**$123.5**	**$1,063.7**	**2.1%**	**110,100**	**234,400**

WPR = Work Participation Rate; FFY = federal fiscal year; COLA = cost-of-living adjustment.

assistance for children. (The proposals are unchanged from the Governor's 2008-09 budget. We provide a more detailed discussion of these proposals in the *Analysis of the 2008-09 Budget Bill* [please see page C-109].) Currently, children have no time limit for receiving aid, but their parents (if eligible) are generally limited to five years of assistance. The modified safety net policy requires adults who have been on aid for five years to either work sufficient hours to meet the federal WPR, or have their entire family removed from aid. The administration estimates that this policy would increase the WPR by 5.2 percent and result in just over 90,000 children losing their CalWORKs grant. The child-only time limit has no impact on the work participation rate (because the parents are ineligible for assistance and are not subject to the WPR), but results in an estimated 83,400 children being removed from aid.

Self-Sufficiency Reviews. The Governor proposes to condition a recipient's eligibility for CalWORKs on their attendance at an in-person review with his/her county worker every six months. This requirement would apply to any case that was not meeting work participation requirements (including most child-only cases, which often are not subject to federal participation requirements). The CalWORKs budget assumes that 5 percent of recipients will discontinue aid for failing to comply with this requirement. Based on the 5 percent discontinuance rate, the budget plan estimates that this policy would result in $97 million in savings in 2009-10 from removing about 16,000 families and 30,000 children from aid. It would increase the WPR by about 1.4 percent, due to the removal of these families from the CalWORKs rolls (in other words, they are no longer in the WPR denominator).

Other Proposals. The Governor also proposes to limit child care reimbursements to the 75th percentile of the regional market (currently the limit is the 85th percentile). In addition, the Governor proposes to further delay implementation of a pay-for-performance county incentive system, which has yet to be implemented.

Future WPR Status. As noted above, some of the Governor's proposals impact the WPR. Figure 13 (see next page) compares the annual WPR requirements presented in Figure 10 to the estimated WPR for California, assuming the Governor's CalWORKs

Figure 12

CalWORKs Maximum Monthly Grant and Food Stamps Current and Proposed Grants for a Family of Three

	Through April 2009	May 2009	Change: Amount	Change: Percent
High-Cost Counties				
Grant	$723	$651	-$72	-10.0%
Food Stamps	423	445	22	5.2
Totals	**$1,146**	**$1,096**	**-$50**	**-4.4%**
Percent of Poverty[a]	77%	73%		
Low-Cost Counties				
Grant	$689	$620	-$69	-10.0%
Food Stamps	433	454	21	4.8
Totals	**$1,122**	**$1,074**	**-$48**	**-4.3%**
Percent of Poverty[a]	75%	72%		

[a] Compares grant level to federal poverty guideline. The 2009 LAO estimate is based on 2008 federal guidelines, adjusted for recent trends.

proposals are adopted. As the figure shows, the Governor assumes that the WPR would increase by 10 percent over a five-year period ending in FFY 2011 under current law. This assumption is based on continued implementation of recently enacted policies which focused the counties on better engaging CalWORKs recipients with work participation. Any increase is speculative, and the recession will make it harder to employ CalWORKs recipients. However, recent data from Los Angeles County, which comprises almost one-third of the caseload, suggest the WPR will be moving up in FFY 2008 and FFY 2009. Even with the assumed 10 percent increase in the WPR and the impact of the Governor's proposed policies, the figure shows that the state will have a major WPR shortfall through 2011. Finally, we would note that the state's WPR status shown here could change significantly, depending on federal direction.

Alternatives to the Governor's Proposals

Below, we present two LAO alternatives to the Governor's proposals. In general, these options result in less savings than the Governor, but also cause far fewer children to be removed from aid. In addition, we describe the previously adopted Work Incentive Nutritional Supplement (WINS) program, which the Governor proposes to delay.

LAO Option 1: Adopt Community Service Requirement for Safety Net Parents. As mentioned earlier, the CalWORKs safety net provides cash assistance just to the children of about 50,000 cases where the adult has been aided for five years and is no longer directly eligible for CalWORKs benefits. As an alternative to the administration's proposal, which terminates benefits for children whose parents do not meet federal WPR requirements, we propose creating a community work obligation of 20 hours per week for safety net parents. The LAO proposal is described in more detail beginning on page C-115 of the *Analysis of the 2008-09 Budget Bill*. Under the LAO approach, safety net parents who are not meeting federal participation requirements would be offered a 20-hour per week community work requirement created by their county.

Figure 13

CalWORKs Program
Estimated Work Participation Rate (WPR) Shortfall

	FFY 2007	FFY 2008	FFY 2009	FFY 2010	FFY 2011
Net WPR Requirement (see Figure 1)	40.7%	34.9%	44.0%	48.3%	48.0%
2007 WPR	22.3%	22.3%	22.3%	22.3%	22.3%
Governor's assumed increase per current law	—	4.0	10.0	10.0	10.0
Estimated current-law participation rate	(22.3%)	(26.3%)	(32.3%)	(32.3%)	(32.3%)
Governor's Policy Proposals					
10 percent grant reduction	—	—	-1.8%	-4.5%	-4.5%
Self-sufficiency review every six months	—	—	0.4	1.4	1.4
Modified safety net	—	—	1.9	5.2	5.2
Estimated Participation Rate	**22.3%**	**26.3%**	**32.8%**	**34.4%**	**34.4%**
Estimated WPR Shortfall	**-18.4%**	**-8.6%**	**-11.2%**	**-14.0%**	**-13.6%**

FFY = federal fiscal year.

Counties would have discretion in how to set up the community service requirement. It could be a subsidized employment opportunity pursuant to Chapter 589, Statutes of 2007 (AB 98, Niello), or some other type of supervised volunteer position. Every three months, each client would be placed in a job club/job search program to test the labor market. Parents who refused this job would have their families removed from aid following a home visit to determine if the family was entitled to a participation exemption. We estimate that the annual savings from this approach would be about $24 million. When fully implemented, this option would increase the WPR by about 2.8 percent.

LAO Option 2: Focus Reviews on Families With Able-Bodied Adults. In general, the concept of an in-person self-sufficiency review for families with adults who are not meeting federal work participation requirements has merit. However, we believe self-sufficiency reviews should be focused on cases with work-eligible adults who are not meeting federal work participation requirements. Assuming implementation of this option by May 2009, this approach would result in a net cost of $1 million in 2008-09 (mostly due to start-up costs) followed by savings of $33 million in 2009-10. When fully implemented, this option would raise the CalWORKs WPR by about 0.55 percent.

WINS. Statutory language in the 2008-09 budget package requires the DSS to develop a WINS program. The WINS program would provide $40 per month in additional food benefits to working poor families. Specifically, the benefits would go to Food Stamps families who are working sufficient hours to meet federal work participation requirements, but are currently not receiving CalWORKs assistance. This program is intended to increase the state's WPR by about 10 percentage points, helping the state meet the federal work participation requirements and possibly avoiding federal penalties in the future. The Legislature added $2 million in the budget to begin the automation changes to implement WINS, but the Governor vetoed this funding.

For 2009-10, the Governor proposes statutory budget language that would delay the implementation of WINS until October 2011. If the Legislature elects to fund this program on an earlier timetable, this would result in costs of $2 million in 2009-10 (for first-year automation costs) and $18 million in 2010-11. Ongoing costs thereafter would be about $24 million. Given these costs, and the state's fiscal condition, it may be prudent to delay action on WINS until there is some clarification at the federal level on WPR requirements.

LAO Approach

Recommended Budget Solution. *At a minimum we would recommend that the Legislature adopt (1) the COLA suspension (for savings of $79 million), (2) the reduction in child care reimbursements ($31 million), (3) the delay in the pay-for-performance incentive program ($40 million), (4) the LAO approach to self-sufficiency reviews ($33 million), and (5) the community service work requirement for safety net cases ($24 million).* Together, these proposals provide $207 million in solutions to the state's General Fund budget problem and would increase the WPR by about 3.3 percent, thus also helping to avoid future new General Fund penalty costs.

Given the magnitude of the budget problem, the Legislature may need to achieve additional savings in CalWORKs. In this event, we would suggest adopting a grant reduction, as described below.

Seriously Consider the 10 Percent Grant Reduction. The Governor's proposed grant reduction results in substantial General Fund savings, amounting to $294 million in 2009-10. Almost one-third of the negative impact on recipients from this action would be mitigated by an increase in food stamp benefits. Moreover, this policy modestly impacts all CalWORKs families, rather than completely eliminating benefits for entire families, which is the case with some of the administration's other CalWORKs budget reduction proposals. The loss of 4.5 percentage points in WPR is of some concern, but probably is not critical at this time, considering the potential for change at the federal level.

County Welfare Automation

As noted above, while DSS oversees the administration of California's social services programs, most services are delivered by 58 separate county welfare departments. Counties have combined into four separate consortia for purposes of welfare automation. The Los Angeles County Computer System known as LEADER system is one of the consortia.

In 2005, the Legislature approved funding for a new system that would replace and update LEADER. The project is currently in the procurement stage and has not yet awarded a bid to a primary vendor.

LA County System Replacement Should Be Delayed

In November, we proposed delaying the LEADER replacement system project by up to two years in order to defer development costs into future years. This approach would save about $15 million General Fund in 2009-10 and an additional $38 million in 2010-11. The Governor took a similar approach, proposing a six-month delay. The Governor's proposal achieves savings in the budget year that are similar to our proposal while allowing the project to finish before the expiration of its existing sole-source maintenance contract. This would allow the state potentially to avoid significant cost increases for extension of the contract. We recommend adoption of this six-month delay for the LEADER replacement system. This achieves significant state savings and preserves flexibility for the Legislature in making decisions about this project next year.

Kinship Guardianship Assistance Payment (Kin-GAP) Program

The Kin-GAP program was established to enhance family preservation and stability by placing foster children in long-term placements with relative caregivers. Under Kin-GAP, a dependent child who has been living with a relative for at least 12 months in Foster Care may receive a monthly grant if the relative assumes guardianship and the dependency case is dismissed. The grant is identical to the one the child received while in Foster Care. California operates Kin-GAP with state and county funds only, with the state paying roughly 75 percent of the costs.

New Federal Legislation Allows Federally Subsidized Guardianship Payments

The President signed the Fostering Connections to Success and Increasing Adoptions Act of 2008 (P.L. 110-351) into law on October 7, 2008. Among its many provisions impacting the child welfare system, the act creates an option for states to provide subsidized kinship guardianship payments with federal financial participation (FFP) through federal Title IV-E funds. (The Title IV-E program provides support to states for the costs of eligible children placed in foster homes or other types of out-of-home care under a court order or in other situations.)

While the Governor's budget does not include a proposal related to this new federal act, we believe the Legislature should take advantage of newly available federal funds for guardianship programs. Below, we review this provision, outline steps California could take to begin drawing down new federal funds for existing and new potential Kin-GAP cases, and identify key issues for legislative consideration.

Eligibility Requirements for Obtaining FFP. To receive FFP for kinship guardianship payments, a child must have been eligible for federal Title IV-E foster care maintenance payments while residing for at least six months in the home of the prospective relative guardian. In addition, among other requirements, the state must (1) determine that returning home or adoption is not appropriate permanency options for the child, and (2) negotiate and enter into a written kinship guardianship agreement that, among other requirements, specifies the amount of the assistance payment and the manner in which the payment may be adjusted periodically. Nearly all existing Kin-GAP cases either meet, or could meet, these requirements.

New Guardianship Program To Obtain Federal Funds

We recommend the Legislature take steps in the current year to create a new guardianship program that enables the drawdown of federal funds for new guardianship cases, as well as for existing Kin-GAP cases. To obtain federal funding, the Legislature must create a new guardianship program which meets federal requirements. Once established, the state may enroll new relative guardian cases directly into this new program and receive federal funding for eligible cases.

What About Existing Kin-GAP Cases? One of the key issues raised by the new federal act is whether FFP is available only prospectively or for existing Kin-GAP cases as well. We believe the language allows for states to receive FFP for existing Kin-GAP cases once certain conditions are satisfied. The U.S. Administration for Children and Families, however, recently released a Program Instruction on the act's guardianship provision containing some statements that suggest otherwise. The Program Instruction is meant to provide guidance to the states in advance of final regulations. If the Program Instruction and statutes are interpreted in a restrictive manner, the state may have to move existing Kin-GAP cases back into Foster Care for a brief period, and then move them to the new guardianship program, to receive FFP for these cases. A less restrictive interpretation of the act and the instruction suggests an easier process may be available in which existing Kin-GAP providers sign new negotiated agreements in order for the state to qualify these cases for FFP.

As we await additional clarification from the new federal administration on the act's guardianship provision, we believe the state can position itself to take either approach described above in order to draw down federal funds for existing Kin-GAP cases. We note that both approaches would result in new administrative costs. We describe both approaches in more detail below.

Permissive Federal Approach: Signing a New Agreement. If the federal government allows a more permissive approach, the state may move existing Kin-GAP providers into the new guardianship program by signing a new negotiated agreement that meets federal requirements. This approach would result in new administrative costs for county social workers to negotiate the new agreement with guardians. These negotiations would occur at annually scheduled meetings conducted by social workers with guardianship families to redetermine their eligibility for the program.

Restrictive Federal Approach: Converting Existing Kin-GAP Cases Through Foster Care. With respect to the more restrictive interpretation, the state may have to end existing guardianships and ask the court to resume dependency using a technical procedure allowable under Welfare and Institutions Code Section 388. This means that for an existing Kin-GAP case, the child would technically return to Foster Care but continue living with his/her relative caregiver. The relative caregiver would continue to receive assistance payments through the Foster Care program, which can be supported through federal Title IV-E funds for eligible cases. Once a new guardianship agreement is negotiated with the relative caregiver, the child could then exit Foster Care for guardianship under the new program with FFP.

The approach outlined above would require legislation to streamline the process and to minimize court costs and the potential imposition on guardians. Even after streamlining the process, however, there would be new administrative costs for county social workers to inform existing Kin-GAP providers of this change in policy, process any paperwork necessary for the court, and negotiate a new guardianship agreement with the relative caregiver. We note that the cost to the state of reimbursing counties for these additional administrative costs would likely be more than offset by the benefit to the state General Fund from qualifying these cases for FFP.

We also note that further guidance from the federal government could result in an approach that is a hybrid of the two described above. Federal clarification will help guide the Legislature in creating the new guardianship program. In any event, below we provide preliminary estimates on the fiscal impact of a new guardianship program with FFP.

Estimated Fiscal Impact

Depending on which approach the state takes to making existing Kin-GAP cases eligible for FFP, we estimate General Fund savings ranging from about about $31.3 million to $36.9 million in 2009-10. As shown in Figure 14, we attribute the major difference in savings from the

Figure 14

Creating a New Guardianship Program With FFP
2009-10 Estimated General Fund Impact

(In Millions)

	Permissive Federal Environment	Restrictive Federal Environment
State benefit from FFP	$42.9	$42.9
New administrative costs	-6.0	-11.6
Net Savings	**$36.9**	**$31.3**

FFP = federal financial participation.

two approaches largely to one-time administrative costs. These estimates assume that legislation is enacted in the current year to create a new guardianship program and develop a process to convert existing Kin-GAP cases, with implementation beginning on July 1, 2009, and phasing in over a 12-month period. Generally, these would be ongoing savings. For 2010-11, we estimate full-year General Fund savings of about $70 million.

Issues for Legislative Consideration

There are several other implementation issues for the Legislature to consider. We highlight two issues with particular fiscal impacts below.

Implementation Time Frame. If the less restrictive approach described above of moving existing Kin-GAP cases to the new guardianship program with FFP is viable, the Legislature may wish to expedite the process of shifting cases over, thus accomplishing it in a shorter period than the 12 months we assumed in our estimates. While this would increase upfront administrative costs, the state and counties would realize increased savings due to the shorter time frame.

Negotiation Requirement. As previously described, under existing law, Kin-GAP payments are set at the rate that the child received while in Foster Care. There is no negotiation process and the overall payment is not modified to reflect changes in the needs of the child. The federal requirement, however, indicates that the guardianship agreement should be adjusted periodically as the needs of the child and circumstances of the guardian change. Depending on how often the state adjusts payments and by what criteria, the average Kin-GAP payment may increase or decrease, which would impact the level of General Fund savings.

Child Welfare Services

Temporarily Suspend Budgeting Practice to Achieve General Fund Savings

Existing Budgeting Practice. In preparing the budget for CWS, DSS adjusts proposed funding for social worker staffing upwards when the caseload increases, but does *not* adjust funding downward when the caseload actually decreases. The practice of not adjusting the budget to reflect caseload decline is commonly known as the "hold harmless" approach, although DSS technically refers to this as the "base funding adjustment." Because of the way the hold harmless provision works, the number of social workers funded by the state for the counties remains unchanged despite workload decreases. In other words, if an individual county's caseload is declining, its number of caseworkers is nonetheless held at the prior-year level. At the same time, if another county's caseload is increasing, the state provides that county with funds to hire additional caseworkers. Therefore, on a statewide basis, despite an overall caseload decline, the funding for basic social worker support continues to grow.

We note that the Child Welfare Services Workload Study, which was required by the Legislature through Chapter 785, Statutes of 1998 (SB 2030, Costa), determined that CWS social workers had too many cases to effectively ensure the safety and well-being of the children for which they were responsible. The SB 2030 Study, as it is commonly known, proposed the establishment of minimum and optimal caseload standards for social workers. The hold harmless provision has been one way for the Legislature to provide additional funding to counties to try to meet these SB 2030 standards.

For 2009-10, DSS reviewed the estimated caseloads per CWS component and included $22.8 million ($9.7 million General Fund) in the budget for 37 counties with declining caseloads, pursuant to the hold harmless funding provision. We note that this does not include the two counties—Alameda and Los Angeles—participating in the federal Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project.

Suspend Hold Harmless. *Given the General Fund shortfall, we recommend suspending the hold harmless budgeting methodology for two years.* This would result in General Fund savings of about $9.7 million in 2009-10, with similar savings in 2010-11. Temporarily suspending hold harmless targets CWS expenditure reductions to those counties with declining caseloads that need fewer resources and would not reduce existing social worker caseload ratios in any county. In addition, this temporary suspension of the hold harmless provision would bring the budgeting practice for CWS in line with the state's normal budgeting practice for a variety of caseload programs. When the state's fiscal situation is better, the Legislature could revisit the workload standards and budgeting methodology for the CWS program to decide whether to continue the hold harmless provision or implement a different method to fund the program at the workload standards the Legislature desires.

Community Care Licensing

The Governor proposes to increase CCL fees to support increased investigations in two program areas. We discuss this proposal below and provide an alternative approach that achieves General Fund savings in the budget year.

Governor's Community Care Facility Fee Increase Proposal

The Governor's budget proposes to add 30 new positions to the CCL Division of DSS to address (1) an increased workload in investigating subsequent arrest reports for persons previously criminally cleared to operate or work at licensed community care facilities, and (2) issues recently identified by the Bureau of State Audits (BSA) related to checking that registered sex offenders were not residing at, or otherwise had access to, such facilities. The Governor proposes to fund these new positions with additional fee revenues generated by a 16 percent increase in application and annual fees for licensed facilities. We discuss these two aspects of the proposal in more detail below.

Workload Increase in Subsequent Criminal Arrest Investigations. All individuals who are licensed to operate, work in, or reside at a community care facility must receive a criminal background check. The Caregiver Background Check Bureau within CCL supports the processing and monitoring of background checks and arrest records for these individuals. The bureau is responsible for reviewing and responding to both initial background checks and any subsequent criminal activity involving an arrest. Upon an investigation and analysis by the bureau of subsequent criminal arrests, CCL may revoke the individual's ability to be involved with the licensed facility. Typically, violent crimes result in such suspensions, while many nonviolent crimes do not.

Over the last three years, there has been a 17 percent increase in the overall number of criminal arrest records submitted to the bureau for review. In particular, the number of subsequent crime arrest records that warrant investigation by the bureau has increased by 60 percent. As a result of this increase in workload, CCL estimates that there is an existing backlog of about 1,400 individuals who require review, investigation, and/or analysis by the bureau. Pending such investigation, these individuals, if not incarcerated, are generally allowed to work in community care facilities.

The Governor's budget proposes to add approximately $2.1 million and 21.5 positions to CCL to address these workload increases. About $1.8 million of this augmentation would be funded through the proposed 16 percent fee increase, while the remaining $318,000 would be supported with federal funds.

Service Expansion Related to Investigations of Registered Sex Offenders. In April 2008, the BSA released a report that identified 49 registered sex offenders who matched 46 addresses of licensed facilities. This resulted from a review of records pertaining to over 60,000 licensed child care and foster care homes and facilities. The CCL took subsequent actions to investigate the BSA findings and, in two instances, suspended licenses and took legal action against facilities or homes in which registered sex offenders had access and children in care were present. In 11 other cases, CCL found that the offenders had access to a facility or home with an active license, but that no children in care were present. Nevertheless, these licenses were also suspended. All of the remaining address matches required no further action from CCL as they were determined to present no safety risks.

Partly in response to the BSA findings and to decrease any potential risk of abuse or harm to children and adults served by licensed facilities, the CCL proposes to expand its investigation efforts related to registered sex offenders. These efforts include providing online data to parole and probation officers about the locations of licensed facilities, conducting an annual match of address data with licensee addresses, and extending the address match process to county-licensed homes and relative placement addresses.

The Governor's budget proposes to add approximately $1.4 million and 8.5 positions to CCL to expand efforts related to these investigations. About $1.2 million of this augmentation would be funded through the proposed 16 percent fee increase, while the remaining $190,000 would be supported with federal funds. In addition, the budget includes an additional $458,000, supported by the fee increase, for counties that operate licensing programs under contract to the state to undertake comparable activities.

LAO Alternative: Increase Fees Now and Gradually Increase Investigation Efforts

The Governor's budget proposes increasing fees by 16 percent, which generates about $3.5 million in additional revenue, to support the proposal described in the previous section. Our recommendation is to increase fees by a higher amount than proposed by the Governor, and gradually invest the additional fee revenue in the program areas described in the Governor's proposal. *Specifically, we recommend (1) a higher fee increase of 25 percent (raising $5.4 million), (2) funding the workload increase related to subsequent crime arrest investigations (at a cost of $1.8 million), and (3) funding the data-sharing portion of the expanded efforts related to registered sex offender investigations now (at a cost of $96,000) and delaying consideration of the remaining efforts for two years.* This option results in a net General Fund benefit of $3.5 million in 2009-10, with similar savings in 2010-11.

Fee Revenue. Figure 15 compares examples of current annual and application fees to the Governor's and LAO's proposed fees. Under our approach of increasing fees by 25 percent, revenues would increase by about $1.9 million more than the Governor's proposal, for a total of $5.4 million in 2009-10. These fees have not been raised since 2004-05 and currently recover about 35 percent of the state cost of licensing and enforcement activities. We estimate a 25 percent fee increase would raise the state's cost recovery to about 45 percent.

Gradual Investment in Expanded Registered Sex Offender Investigations. The state currently invests in several processes and programs through the California Department of Corrections and Rehabilitation, the Department of Justice, and local probation agencies to monitor the whereabouts of registered sex offenders. Given these existing efforts, we believe the development of the data-sharing capability is justified at this time. Therefore, we recommend funding this portion of the Governor's proposed efforts to expand CCL's registered sex offender investigations. Specifically, we recommend providing total funds of $111,000 to develop, administer, and maintain a Web site for sharing location information on community care facilities with parole agents and probation officers, offender placement agencies, and local offender registration officials. We believe funding this specific tool will enhance the efforts of existing resources that are dedicated to the monitoring of registered sex offenders.

As for the remaining proposed efforts to expand CCL's registered sex offender investigations, we believe that CCL has a sound existing process in place—through background checks and review of criminal arrest records—to check for potential registered sex offender involvement with licensed facilities. This existing process contributed to the low incidence of actions resulting from the address matches identified by BSA. Therefore, although these proposed efforts to expand investigations of registered sex offenders have merit, these efforts represent a higher service level which we believe can wait for consideration for two years. At that time, the Legislature can reconsider the merit of these additional positions and the state's fiscal condition.

Proposition 10 Early Childhood Development Programs

Proposition 10 was enacted by the voters of California in the November 1998 election. The initiative measure created the California Children and Families Commissions, now commonly

Figure 15

Community Care Licensing Fees
Examples of Current and Proposed Fees

	Annual Fee			Application Fee		
Facility Type	Current	Governor's Proposal	LAO Proposal	Current	Governor's Proposal	LAO Proposal
Family child care home (1-8 children)	$60	$70	$75	$60	$70	$75
Child care center (1-30 children)	200	232	250	400	464	500
Adult day facility (16-30 adults)	125	145	156	250	290	313
Residential facility (16-30 residents)	750	869	938	1,500	1,739	1,875
Foster family agency	1,250	1,449	1,563	2,500	2,898	3,125

known as the state and local First 5 Commissions, which rely upon revenues generated by state excise taxes on cigarettes and other tobacco products to fund early childhood development programs for children up to age five. The state commission (which receives 20 percent of revenues) and county commissions (which receive the remaining 80 percent) operate the First 5 programs.

Governor's Proposal

In November 2008, our office presented the Legislature with a budget option to eliminate the state commission and reduce local funding by 50 percent, and redirect these funds to children's health or childcare programs. The Governor's budget essentially adopts this LAO option. It specifically proposes to redirect $275 million in Proposition 10 funds in 2009-10 to offset General Fund costs in CWS, Foster Care, and AAP, all programs administered by DSS. The Governor's proposal assumes that the elimination of the state commission will occur gradually over the budget year, and estimates the savings from this proposal will increase to approximately $321 million in 2010-11.

We concur with the Governor's savings estimates. We would also note that while these would generally be ongoing savings, the level of savings would likely decline over time because taxes on cigarettes and other tobacco products are a slowly declining revenue source. This proposal would require voter approval because it changes the allocation of funding originally provided under Proposition 10.

LAO Analysis: Prioritizing Use of State Funds Is Logical

Voters approved Proposition 10 during a healthier fiscal period for the state. Proposition 10 generally funds early childhood development, health, and education programs that were designed to be enhancements to previously existing core programs. With the state facing a $40 billion deficit, many core programs are now facing reductions or elimination. Rather than cutting more deeply into core programs, in our view it makes sense to reduce enhanced programs such as Proposition 10. *Accordingly, we recommend asking the voters to prioritize the use of Proposition 10 revenues to provide support for core children's programs and services.* This recommendation is part of a broader package of proposed ballot measures—discussed in our January 2009 *Overview of the Governor's Budget*—which would increase state revenues and offset General Fund costs in core programs.

We note that while the Governor's proposal reduces local funding by 50 percent in 2009-10 and thereafter, it allows local commissions to retain their significant existing fund balances. Under our approach, and the Governor's budget proposal, local commissions would be in a position to prioritize ongoing revenues to meet local needs and would retain their unexpended balances to smooth over this transition.

Issues for Legislative Consideration

There are two implementation issues for the Legislature to consider with regard to the Governor's proposal to redirect Proposition 10 resources to children's programs administered by DSS.

Oversight of Local Commissions. Each year, local commissions issue an annual report and conduct independent audits primarily related to the commissions' financial practices and the manner in which funds were expended. Local commissions submit these audits and their annual report to the state commission for review and inclusion in the state commission's annual statewide report on First 5 activities. If a local commission fails to submit its audits or annual report to the state commission, the state commission may withhold funds that would otherwise have been allocated to the local commission.

If the state commission were to be eliminated, a different entity would need to assume these oversight responsibilities over the local commissions. Existing entities, such as HHSA or the State Controller's Office, may be able to take over these functions.

Redirection Priorities. The Governor's budget proposes redirecting the Proposition 10 funds to support several children's programs administered through DSS. While this is a workable approach, the Legislature could redirect Proposition 10 funds to other program areas, depending upon its priorities.

Department of Child Support Services

The Governor's 2009-10 budget plan includes three significant proposals for the DCSS. All involve additional expenditures intended to result in savings in 2009-10 and future years. We discuss these proposals below.

Augmentation for Local Child Support Agencies

Governor's Proposal. In general, federal and state funding for LCSAs, which carry out child support collection efforts, has been held flat since 2003-04. Largely because costs for various operations have increased, LCSA staffing has declined during this period by 1,935 positions, or 23 percent of total staffing. The Governor's budget proposes to stop the decline in staffing by increasing funding for LCSAs by $18.7 million ($6.4 million General Fund) in 2009-10.

As mentioned earlier, all but the first $50 of the child support collected on behalf of families receiving public assistance is deposited in the General Fund. The proposed 2009-10 budget augmentation for LCSAs is intended to retain child support enforcement staff, increase child support collections, and increase deposits into the General Fund to offset public assistance program costs. Specifically, we estimate that nonassistance child support collections will increase by over $70 million while assistance collections will increase by $6.5 million. Because the General Fund augmentation is $6.4 million, we estimate that this proposal results in a net General Fund benefit of about $100,000 ($6.5 million in increased General Fund revenue, less the $6.4 million General Fund augmentation).

Potential Risks. Although the retention of child support case workers would likely have a positive impact on collections to some degree, it is unclear whether this proposal would result in a net General Fund benefit. The proposal is based on several risky assumptions. Our sensitivity analysis of the proposal indicates that even slight changes in the underlying assumptions could result in a negative impact to the General Fund rather than the positive impact estimated by the Governor.

Alternative Approach to Supporting LCSAs. Below, we present an alternative approach which establishes a voluntary matching program for LCSAs wishing to access new funds. Although there may be risks associated with our alternative for increasing funding for LCSAs, we believe that with adequate oversight and a strategic allocation process, a General Fund benefit is probable.

LCSAs Have No Fiscal Stake in the Program. Our 2006 report, *Strategies for Improving Child Support Collections in California,* found that California has historically performed poorly in the collection of child support compared to other states. Among several findings, the analysis notes that a contributing factor is that LCSAs have no fiscal stake in the program. Specifically, child support enforcement is supported with a combination of state and federal funds without a county share of cost. We found that one way to ensure that counties bear more responsibility for the success of the child support program is to give them a fiscal stake in it though a share of program costs. The rationale behind this recommendation was that a share of cost would provide counties with a fiscal incentive to ensure that funding is spent carefully and targeted toward activities that improve child support collections.

Creating a Voluntary Matching Program. The Governor's proposed augmentation presents an opportunity to implement a variation on this recommendation from 2006. Specifically, the Legislature could prioritize the proposed augmentation for counties willing to provide matching funds. For example, the Legislature could agree to match each dollar invested by the county with an additional $2 from the augmentation and $6 from the federal government.

Figure 16

Child Support Augmentation LAO and Governor's Proposals

(In Millions)

	Governor	LAO
County funds	—	$3.2
State funds	$6.4	6.4
Federal funds	12.3	19.2
Total Augmentation	**$18.7**	**$28.8**

Leveraging Additional Federal Funds. By using a combination of state and county funds, additional federal funds beyond those estimated by the Governor would be drawn down. Figure 16 shows how the proposed voluntary matching program would allow the state to use the same amount of General Fund as the Governor to leverage even more federal funds. Although it is hard to quantify, the larger child support collection effort made possible with more federal funding would have a benefit to the state General Fund—potentially as much as $3.6 million. *If the Legislature provides an augmentation to LCSAs, we recommend it be done through a matching program, as described above.*

Allocation Issues. To implement this proposal, the DCSS would notify the LCSAs of their potential share of these funds and their required match. Those funds not claimed by counties would be made available to other counties. If there were still unspent funds remaining at the end of the year, they would revert back to the General Fund. This allocation methodology would ensure that the counties most interested in improving their child support programs receive the additional funds. We note that the figure above assumes 100 percent county participation.

Mandatory Federal Fee

Background. Currently the state provides child support enforcement services free of charge for both assistance and nonassistance cases. Beginning in January 2008, in accordance with the Federal Deficit Reduction Act of 2005, the federal government began assessing an annual fee on the state of $25 for each child support case for which $500 or more was collected on behalf of those who have never received public assistance. (These are known as "never-assisted" cases.) States were given the option to (1) collect the fee from the custodial parent, (2) collect the fee from the noncustodial parent, or (3) use state funds to cover the fee. Because California was in the middle of implementing a statewide child support computer system at the time, it was determined that it would not be cost-effective to make the automation changes necessary to enable the collection of the fee from the noncustodial or custodial parent. As a result, state funds were used to cover the cost of the fee in 2007-08 ($1.8 million) and 2008-09 ($3.5 million).

Governor's Proposal. The 2009-10 budget proposes $39,000 General Fund to provide notification to never-assisted families regarding this potential fee, which would commence in 2010-11. The administration's proposal to collect the fee is slightly different than an approach discussed in a June 2008 cost-benefit report prepared by DCSS regarding this fee collection issue. That report found that it would be cost-effective to collect a $25 fee from all never-assisted families for which over $500 in child support was recovered. Instead of collecting a standard $25 fee, the Governor now proposes a tiered fee structure. Under this proposal, recipients would be charged $25 if over $500 is collected, $50 if over $1,000 is collected, and $75 if over $3,000 is collected on their behalf. This fee structure is likely to generate more revenue than a flat $25 collection, but the automation changes necessary to enable the collection of the fee would also be more sophisticated and, thus, likely more costly. The DCSS is currently working to update the costs and anticipated revenue estimates associated with this proposal. Although the General Fund revenues are unknown, they are likely to exceed the current General Fund costs of paying the fee.

Conclusion. We believe that assessing a fee on never-assisted child support cases has merit. To the extent that the DCSS finds that the required automation changes cost less than the anticipated General Fund fee revenue, we recommend pursuing the collection of this fee.

Child Support Automation

Federal Certification. In November 2008, the California Child Support Automation System (CCSAS) was fully implemented, after eight years and $1.5 billion in costs. The system then received federal certification as a single statewide automation system, ending the threat of federal penalties and lifting the cap placed on federal support for automation costs. The DCSS is responsible for maintaining the functionality of CCSAS and ensuring that the LCSAs have access to the system in order to perform child support enforcement activities.

Budget Requests. For CCSAS, the Governor's budget proposes expenditures totaling about $118 million ($78 million federal funds and $40 million General Fund) for 2009-10. About $66 million of the total funds is slated for CCSAS maintenance expenses, such as system support staff, software updates, and equipment replacement. The remaining $52 million is for multiple change requests for additional functionality that was previously deferred in order to meet the federal certification deadline. The administration has indicated that further details on these change requests will be forthcoming.

Evaluating the CCSAS Budget. The $66 million for maintenance and upkeep of the CCSAS system appears necessary to maintain current functionality. However, the $52 million in functionality change requests appear to be enhancements to a federally certified system which provides adequate service levels. Given the current fiscal environment, any change requests that seek new functionality should be rejected, unless the administration provides evidence that the new functionality would result in increased child support collections and be more cost-effective than the current operations.

Recommendations. At the time this analysis was prepared, the administration had not provided sufficient justification for the $52 million in change requests. *Accordingly, we recommend reducing the CCSAS budget by $52 million ($17 million General Fund).* As details of the $52 million change requests become available, we will update our analysis and advise the Legislature of our findings.

OTHER ISSUES

Adoption Assistance Program

The AAP provides monthly cash grants to parents who adopt foster children. State law defines eligible children as those who, without assistance, would likely be unadoptable because of their age, racial or ethnic background, or handicap; because they are a member of a sibling group that should remain intact; or because they come from an "adverse parental background."

The AAP grants are limited to the amount of the foster family home rate that the child would have received if she or he had remained in Foster Care. In addition, if the child has special needs that would have been covered had the child remained in Foster Care, the AAP grant typically includes an additional amount of funding called a specialized care increment (SCI).

Growth of AAP

As previously mentioned, the AAP is one of the fastest growing children's programs within DSS. The General Fund budget for AAP has grown from $150 million in 2001-02 to a proposed funding level of approximately $360 million for 2009-10, an increase of over 139 percent, or 11.6 percent a year. This cost increase is mostly attributable to caseload growth and higher average monthly grant payments.

AAP Eligibility and Payment Levels

Because of broad eligibility requirements and relatively high payment levels, California's AAP is among the most generous of such programs in the country. The state's inclusion of adverse parental background as an eligibility factor allows virtually all children adopted out of the foster care system to qualify for AAP, regardless of whether or not they would otherwise be hard to place. This is because any child removed from his or her parents and placed in Foster Care must have had an adverse parental background. Other states have more limited eligibility criteria.

As for grants, some states choose to cap the AAP basic grant or SCI amounts. California, however, has chosen to pay the maximum allowable amount to AAP families, which is the amount the child would have received in Foster Care, including any SCI payments.

Reform AAP to Improve Its Cost-Effectiveness

Based on our review of the program, we recommend enactment of a series of legislative reforms to AAP to improve its cost-effectiveness. These reforms would only apply to prospective cases, and would not affect agreements already in place with existing adoptive parents. We summarize these proposed changes below.

Narrow the Definition of AAP Eligibility. We recommend eliminating the adverse parental background category from AAP eligibility requirements. In other words, the AAP program would only be available for those children who are truly hard to place. This means, for example, that *healthy* children under the age of three would generally be ineligible for immediate financial support through AAP. We note that many persons become foster parents to infants and young children as the first step toward intended adoption. Therefore, the "incentive" for adoption provided by AAP may be unnecessary for these families.

Set Grant Levels to Recognize Adoptive Parents' Financial Responsibility. We recommend capping the basic AAP rate paid to adoptive parents at 75 percent of the foster care rate. Although this reform would recognize that when adoptive parents take over the role of parenting, they assume some measure of financial responsibility for their children, the parents would still receive some financial assistance for adopting a child who may be hard to place. This 75 percent cap would not apply to the SCI, which can range from zero to over $2,000 per month.

Better Tie Benefit Levels to Need. Currently, parents generally receive an automatic increase in their AAP grant as their children age. Because these age-driven grant increases are not based on a demonstration of need, we recommend such increases be eliminated. Grants should be increased only for more narrowly defined reasons, including increased costs due to physical, mental, emotional, or medical problems that the child may have, which are directly tied to their birth parents or the child's circumstances before they were adopted.

Estimated General Fund Savings. The changes outlined above would require the enactment of statutory changes and regulations as well as the issuance of guidance letters to counties. Assuming these steps occurred by January 2010, our recommendations for reform of AAP would result in General Fund savings of approximately $2 million in 2009-10, increasing to about $12 million in 2010-11, and with greater savings in the out-years. For more details on these proposals, please see *Reforming the Adoptions Assistance Program* on page C-255 in our *Analysis of the 2004-05 Budget Bill.*

IHSS Time Card Reforms

Some Efforts Have Been Made to Prevent Fraud and Abuse

In the IHSS program, as we previously discussed in the "Background" section of this report, the recipient is considered to be the employer of the person providing them services. As the employer, the recipient has the responsibility of signing and verifying the time cards of their provider. Below, we discuss current time card policies and two reform options to increase IHSS program oversight and integrity.

IHSS Quality Assurance Initiative. Chapter 229, Statutes of 2004 (SB 1104, Committee on Budget and Fiscal Review), created an IHSS quality assurance (QA) initiative. The QA initiative was designed to, among other things, enhance program integrity and increase the detection of program fraud and abuse. Pursuant to QA requirements, each county established a QA unit to review and investigate cases of potential fraud and abuse. The QA workers visit the homes of recipients, conduct case reviews, and make recipient phone calls to verify that IHSS hours are being authorized and used appropriately.

Current Time Card Practices Limit Program Oversight

Despite the recent QA efforts, we find that the process for documenting the number of service hours provided each month lacks the detail required to ensure adequate program oversight.

Documenting Service Hours. In order to receive payment, recipients and providers sign and return time cards to their counties for processing. These time cards require the recipient and the provider to jointly sign for the total number of service hours that were provided each day of the pay period, but do not ask either party to indicate the actual times that were worked. For example, while a provider may indicate that he or she worked for five hours on a particular date, the provider is not required to document that he or she worked from 1:00 p.m. to 6:00 p.m.

Our discussions with county officials revealed that this situation makes it difficult for county QA employees and fraud investigators to determine whether those hours were actually provided. In certain cases, fraud investigators may be aware, through case-monitoring efforts, that hours have not been provided. However, this fraud can be very difficult to prove because the provider can claim that he or she provided the services at times when the investigator was not monitoring their activities.

Submitting Time Cards for Payment. Each time card covers a two-week period. Notably, there is no time limit for providers to submit their time cards to the county for processing after the two-week period of service has been completed. The DSS indicates that providers frequently save up their time cards and submit them all for processing at the end of the calendar year. This means that counties are not able to monitor the use of IHSS hours on a regular basis. Many QA programs regularly scrutinize the records of providers who are paid for delivering over 300 hours of service each month (the equivalent of ten-hour days, seven days per week). Although providers are allowed to work such a heavy schedule, it would be difficult for a provider to actually work this many hours on an ongoing basis. The QA monitors regularly follow up with providers and recipients in such situations to verify whether the services were actually delivered. The lack of any deadline for providers to submit their time cards for payment undercuts these QA efforts. Providers who do not submit their time cards until the end of the year will not appear on a "300-hour report" and would therefore be able in many cases to avoid an investigation.

Time Card Reforms Could Improve Program Integrity

To increase oversight and accountability in the IHSS program, we recommend the enactment of legislation to reform current time card practices. Specifically, we recommend requiring providers to (1) document on their time card the actual hours that they provide services and (2) turn in their time cards within one month of providing care. This would assist IHSS fraud investigators, increase program oversight, and hold providers accountable for the services they provide.

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