Federal Welfare Reform In California

A Review of the Family Support Act of 1988

Office of the Legislative Analyst

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Introduction

Introduction

This report reviews the federal Family Support Act of 1988, the major welfare reform legislation recently enacted by Congress. The report discusses each provision of the Family Support Act (FSA) that (1) requires either a significant change in current California law or practice or (2) provides the state with a new programmatic option. Each discussion describes the new provision, indicates when the state must implement the provision, describes how the provision differs from current state law, and outlines the issue that it presents to the Legislature. In most cases, we recommend a course of action for the Legislature to take to implement the provision.

The first chapter provides an overview of the FSA. Chapter II describes the FSA changes related to the child support enforcement program. Chapter III describes the work and training requirements of the FSA, referred to as the new Job Opportunities and Basic Skills Training (JOBS) program. Chapter IV describes the new transitional child care and medical benefit programs for families leaving welfare. Chapter V describes miscellaneous, but major, provisions of the FSA that do not fall into a single thematic category.

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Executive Summary

Executive Summary

The Family Support Act of 1988

Congress recently enacted and the President signed into law the Family Support Act of 1988. This legislation is considered the most sweeping reform of the nation's welfare system since 1935. The Family Support Act (FSA) is designed to promote self-sufficiency among welfare recipients and reduce their dependence on the welfare system.

Some of the major changes enacted in the FSA will *not* significantly affect California. For example, the FSA requires states to provide aid to two-parent families whose incomes are below the Aid to Families with Dependent Children (AFDC) grant level due to the unemployment of one or both of the parents. This requirement does not affect California because the state already operates the AFDC-Unemployed Parent (AFDC-U) program for these individuals.

There are several provisions of the FSA, however, that *do* require changes in state law in order to comply with the new federal requirements. Many of the changes could have major fiscal consequences for the state. These changes fall into four categories, as discussed below.

Child Support Enforcement

The FSA makes several changes in the existing child support enforcement program. The change that will have the most significant effect on the state is the requirement that states develop automated systems to track and monitor child support enforcement operations. The federal government will pay 90 percent of the costs of developing the automated system. Other changes that have a potentially major impact include requirements that states (1) review and adjust child support awards periodically, (2) meet new federal standards regarding the number of paternities established for children born out of wedlock, and (3) collect parents' social security numbers before issuing copies of birth certificates for any child born in the state.

Job Opportunity and Basic Skills Training (JOBS) Program

The FSA establishes the JOBS program to provide education, training, and employment services to AFDC recipients. The program is similar in most respects to the state's existing Greater Avenues for Independence (GAIN)

Format of the Report

In this report, we discuss the new provisions, describe how they differ from current law, outline the purpose of each change and the issues it presents to the Legislature, and recommend a course of action for the Legislature to take to implement each provision. Our recommendations generally fall into one of the following categories:

- Recommendations that the administration provide specific information and that the Legislature defer action pending receipt of the information.
- Recommendations for enactment of legislation (sometimes urgency legislation) where the state has no effective option but to implement the change or where the change will not have a disruptive effect on an existing program.
- Recommendations that the Legislature consider the issue during deliberations on the 1989-90 budget.

At the time we prepared this report, the affected state departments had not had an opportunity to prepare estimates of the fiscal effects of most of the FSA provisions. As a result, we do not provide *specific estimates* of the fiscal effects of most provisions. Instead, we provide our preliminary assessment of the general magnitude of the fiscal effect of each change. Even these assessments of magnitude, however, are subject to change once the federal government issues regulations implementing the new law. ❖

Chapter I

Chapter I

The Family Support Act of 1988: An Overview

Following many years of debate, Congress approved a major reform of the nation's welfare system in September 1988. The President signed the legislation into law on October 13, 1988. The legislation, known as the Family Support Act of 1988 (House Resolution 1720-Public Law 100-485), is considered the most sweeping revision of the federal welfare system since the enactment of the Social Security Act of 1935.

The purpose of the Family Support Act (FSA) is to promote self-sufficiency among welfare recipients and reduce dependence on the welfare system, primarily by increasing child support payments and providing education, training, and employment services to low income families.

The FSA covers four basic areas:

- Changes in the existing *child support enforcement program* that are designed to provide a more uniform level of enforcement and increase collections, thereby reducing dependency on Aid to Families with Dependent Children (AFDC).
- Establishment of mandatory *work and training programs* for families on welfare that are designed to make families more employable and independent.
- Establishment of *transitional child care and medical benefits* to ease a family's transition from AFDC to a job, thereby increasing the likelihood that the parent will succeed in a job and not return to AFDC.
- Various *miscellaneous changes to current programs*, including changes to the existing AFDC program and federal tax laws, and establishment of various optional welfare demonstration projects.

Legislature Will Need To Change State Law

The FSA affects many components of California's welfare programs. As a result, the Legislature will need to make numerous changes to state law to comply with the requirements of the measure. Although the impact of many of these changes will depend on federal regulations that will not be promulgated until mid-1989, it is clear that several of

Chapter II

Chapter II

Child Support Enforcement Program

Background

The child support enforcement program is a revenue-producing program administered by district attorneys' offices throughout California. Its objective is to locate absent parents, establish paternity, obtain court-ordered child support awards, and collect payments pursuant to the awards. The service is available to both welfare and nonwelfare families. Child support payments that are collected on behalf of welfare recipients under the AFDC program are used to offset the state, county, and federal costs of the program. Collections made on behalf of nonwelfare clients are distributed directly to the clients.

The administrative costs of the child support program are paid by the federal government (68 percent) and county governments (32 percent). Beginning on October 1, 1989, the federal share of administrative costs will decrease to 66 percent and the county share will increase to 34 percent. Counties also receive "incentive payments" from the state and the federal government designed to encourage counties to maximize collections. The incentive payments are based on each county's child support collections. In federal fiscal year 1989 (FFY 89), the federal government pays counties an amount equal to 6.5 percent of AFDC collections and 7 percent of non-AFDC collections, while the state pays an amount to each county equal to 7.5 percent of its AFDC collections. In addition, the state pays counties $90 for each paternity that they establish.

As Table 1 shows, the child support enforcement program resulted in *net savings* of $57 million to the state's General Fund in 1987-88. The federal government spent $45 million *more* for the program than it received in the form of grant savings. California counties experienced a *net savings* from the program of $4 million in 1987-88.

Our analysis indicates that the following provisions of the FSA, which we do *not* discuss elsewhere in this report, will have insignificant, if any, impact on the state and will probably not require any change in state law:

- The requirement that the state establish and review guidelines for judges to use when setting the amount of child support awards. California already has such guidelines.
- The requirement that states allow AFDC recipients to keep $50 of the monthly child support payment made on their behalf, even if the payment is not received in the month when it was due. According to the Department of Social Services (DSS), the federal Department of Health and Human Services (DHHS) advises that California law for dealing with late payments is consistent with the FSA requirement.
- The requirement that the state agency charged with the administration of wage and unemployment compensation claims (in California, the Employment Development Department (EDD)) must assist the DHHS in obtaining access to claims information. The EDD already provides these data to the DHHS on an ongoing basis.
- The changes related to funding for interstate demonstration projects. California is not currently involved in any of these projects and will, therefore, not be affected by the funding changes.

DISCUSSION CONTINUED

2. **Seek a waiver of the requirement for a statewide system and instead require all counties to develop their own systems.** The Legislature could enact legislation requiring all counties to establish automated systems for child support enforcement using DSS guidelines and a central DSS data base, which would contain various information on child support cases. This arrangement would be comparable to the way in which the DSS is currently developing the Statewide Automated Welfare System (SAWS).

There are advantages to each of these options. Based on our review of these issues, we conclude that the costs of developing a state-operated system would be less than the costs to develop several county-operated systems. In addition, a state-operated system could probably be brought on line faster because the state would have to develop only one system. A state-operated system also would be easier and less expensive to maintain than a county-operated system and would be easier to reprogram as needed to implement changes in regulations or federal or state law. On the other hand, a county-operated system would be more responsive to local needs.

Because of the importance of automation to the success of the child support enforcement program and the long lead-time required for automation projects, we recommend that the DSS report to the Legislature during hearings on the 1989-90 Budget Bill on the options outlined above. The report should include a review of the costs and benefits of each option.

Regardless of which of these options the Legislature chooses, it will need to decide the issue of which level of government will provide the 10 percent match for development costs and the 34 percent match for ongoing operations costs. Under either a state-operated or a county-operated system, the match could be provided with county funds, General Fund monies, or a combination of both. Consequently, the department's report also should address the options for funding the required match for these costs.

DISCUSSION CONTINUED

Recommendation. In order to assist the Legislature in developing legislation to implement the required reviews and adjustments, we recommend that the DSS report to the Legislature by April 1, 1989 on its plans and timetable for developing the statewide plan required by the FSA. We further recommend that the department submit its proposed statewide plan to the Legislature by April 13, 1990 (six months before the plan is due to the federal government).

Prior to the enactment of the FSA, the DSS had requested federal funding for a demonstration project on modification of child support awards. The demonstration project, which is still awaiting federal approval, would provide for modification of awards at the request of either parent. The project would be conducted in five counties (Merced, San Mateo, Santa Clara, Santa Barbara, and Yolo) and would operate for two years from the time it is approved. The project will enable the department to gather information about the potential effects of the required reviews. This information could be useful to the department in developing its proposed plan and to the Legislature in reviewing the department's proposal.

DISCUSSION CONTINUED

costs (more than $1 million annually). To the extent that district attorneys fund these increased costs by redirecting budgetary resources from other collection activities, this could result in major reductions in child support collections, at least in the short run.

Recommendation. We recommend that the Legislature defer action on this item until the DSS has had an opportunity to determine whether the new paternity establishment standards will require California to increase its paternity establishments. In the event that an increase is required,we believe that the Legislature should consider establishing a pilot project in several counties in order to assess the costs and benefits of establishing more paternities. This pilot project could be incorporated into the DSS' evaluation of Chapter 899, which it must submit to the Legislature by June 30, 1991.

CHILD SUPPORT ENFORCEMENT

Use of Social Security Numbers

REQUIREMENT

The FSA requires states to collect social security numbers from both parents prior to issuing a birth certificate. (This requirement applies to all parents regardless of whether they are receiving child support.)

ISSUE

What is the most cost-effective way to collect and maintain records of the social security numbers of parents? Should any costs to do this be covered by an increase in the existing fee for providing copies of birth certificates?

RECOMMENDATION

We recommend that the DSS, in conjunction with the Department of Health Services (DHS) and county health officers, report to the Legislature by May 1, 1989 on various options for collecting the social security numbers of parents at the time a birth certificate is issued for a child. The report should include a review of the costs and benefits of each option. The report should also review whether and by how much the existing birth certificate fees can be increased to pay for the additional costs of collecting and maintaining these data.

DISCUSSION

Background. The FSA requires states to require both parents to furnish their social security numbers as a condition of issuing a birth certificate to any child. The social security number may not be shown on the birth certificate, and may be used only for child support enforcement purposes. The requirement takes effect **November 1, 1990.** According to information from the DSS and Congress, the purpose of this requirement is to provide additional information on parents so that it will be easier for states to establish paternity and collect child support payments.

Under current law, county health departments and the DHS are responsible for issuing birth certificates and maintaining birth records. A substantial portion of their costs for these activities is covered by a fee charged for providing copies of birth certificates.

Fiscal Effect. To the extent that this requirement enables district attorneys to locate additional parents who are not supporting their children and to enforce additional child support orders, it could result in increases in state, federal, and county revenues due to increased child support collections. Depending on the method of collecting and maintaining these data, county health departments, the DHS, and the DSS could incur additional administrative costs.

Recommendation. In order to assist the Legislature in developing legislation to implement this requirement, we recommend that the DSS, in conjunction with the DHS and county health officers, report to the Legislature by May 1, 1989 on the options for collecting the social security numbers of parents at the time a birth certificate is issued for a child. The report should include a review of the costs and benefits of each option. The report should also review whether and by how much the existing birth certificate fees can be increased to pay for the additional costs of collecting and maintaining these data.

CHILD SUPPORT ENFORCEMENT

Prompt State Response to Requests for Assistance in Child Support Enforcement

REQUIREMENT

The FSA requires states to accept and respond to requests for assistance in specified child support enforcement activities within time standards to be established by the DHHS.

ISSUE

Will California be able to meet the new time standards?

RECOMMENDATION

We recommend that the Legislature defer action on this item until the DHHS has developed the new time standards.

DISCUSSION

Background. The FSA requires states to meet specified time standards when responding to requests for assistance in locating absent parents, establishing paternity, establishing child support awards, and collecting child support payments. The FSA requires the DHHS to establish a nationwide advisory committee on performance standards, consisting of state officials (the committee was established in late December and includes one representative from California). The DHHS must issue proposed performance standards by **April 13, 1989** and final standards by **August 1, 1989.** Based on discussions with the DSS and review of federal documents, we understand that Congress included the time standards in the FSA in order to provide for more uniform levels of child support enforcement and service throughout the nation.

Although the FSA does not specify the penalty for states that do not meet the standards, states that are out of compliance with similar requirements generally risk withholding or loss of federal AFDC funds.

There are currently no statewide time standards, although prior to the enactment of the FSA, the DSS had begun development of a statewide model to improve program performance in counties, including the development of time standards. A state-county task force representing the DSS and Contra Costa, El Dorado, Los Angeles, Marin, Riverside, Sacramento, Santa Barbara, Santa Clara, and Stanislaus Counties is currently developing the model. The DSS advises that the results of the project will be available by April 1989.

Fiscal Effect. The fiscal effect of this requirement will depend on the performance standards developed by the DHHS. To the extent that district attorneys have to redirect budgetary resources from other collection activities in order to meet the standards, there could be a reduction in both AFDC and non-AFDC child support collections. On the other hand, by emphasizing more timely response to requests for assistance, district attorneys may increase collections, especially for non-AFDC cases, since these are the cases that are more likely to request additional service.

Recommendation. We recommend that the Legislature defer action on this item until the DHHS develops proposed standards in April 1989. By the time the DHHS proposes specific standards, the state-county task force on a performance model should have information available and the DSS should be able to advise the Legislature on whether California will be able to meet the new federal standards.

CHILD SUPPORT ENFORCEMENT

Collection and Reporting of Child Support Enforcement Data

REQUIREMENT

The FSA requires the DHHS to collect and maintain certain statistics with respect to paternity establishment, location of absent parents, and establishment of support.

ISSUE

How can the state most efficiently collect the additional data required by the FSA?

RECOMMENDATION

We recommend that the Legislature direct the DSS to work with the counties to identify the most efficient way to collect the additional data required by the FSA.

DISCUSSION

Background. The FSA requires the DHHS to collect specified data on child support enforcement actions, including data on paternity establishment, location of absent parents for the purpose of establishing a child support order, establishment of the orders, and location of an absent parent for the purposes of enforcing or modifying an established child support award. The purpose of this requirement is to provide better data to the federal government to evaluate the success of the FSA and to ensure that states are providing uniform child support enforcement services.

Currently, counties provide the DSS with certain statistical information on child support enforcement activities, which the department compiles and reports to the DHHS. Although the state collects much of the statistical data required under the FSA, the information it collects on the location of absent parents does not specify the reasons why the absent parent is being located, as required by the act.

Although the FSA does not specify when these data collection and reporting requirements will take effect, the congressional conference report indicates that the requirements become effective on **January 1, 1990.**

Fiscal Effect. The requirement would result in additional administrative costs to the counties and the federal government to collect additional data. In addition, the DSS would probably incur some relatively minor administrative costs to compile these data.

Recommendation. We recommend that the Legislature direct the DSS to work with the counties to identify the most efficient way to collect the additional data required by the FSA.

Chapter III

Chapter III

Job Opportunities and Basic Skills Training Program

Background

The FSA requires states to implement a JOBS program, by **October 1, 1990** as a condition of continuing to receive federal funds for the AFDC program. The measure provides funds to states to operate their JOBS programs which will provide education, training, and employment services to welfare recipients. California currently operates the GAIN program, a program that is very similar to the JOBS program. Our analysis indicates that the state will need to make several changes to the GAIN program in order to comply with the requirements of the JOBS program, thereby making it eligible to (1) retain its federal AFDC funds (California received $2.1 billion in federal AFDC funds in 1987-88) and (2) obtain federal JOBS funds.

In this chapter we discuss (1) the GAIN program in California, (2) the JOBS program required by the FSA, and (3) the effects of the FSA on the GAIN program.

California's GAIN Program

The GAIN program was created by Chapter 1025, Statutes of 1985 (AB 2580). The purpose of the GAIN program is to provide employment and training services to AFDC recipients in order to help them find employment and become financially independent. Chapter 1025 required all counties to begin operating a GAIN program by October 1988, and allowed counties to bring their full caseload into the program over a two-year period. Some counties have operated GAIN programs since 1986 while others have just recently begun implementing their GAIN programs.

The DSS provides policy guidance and oversight of the GAIN program at the state level, while county welfare departments administer the program locally. The GAIN program is funded through state and federal funds annually appropriated in the Budget Act. Counties are not required to pay for any of the costs of the GAIN program.

The Jobs Program

The FSA establishes the JOBS program--a new education, training, and employment program for AFDC recipients. The purpose of the JOBS program is "to assure that needy families with children obtain the education, training, and employment that will help them avoid long-term welfare dependence." The JOBS program replaces a variety of federal education, training, and employment programs for welfare recipients.

The FSA provides funding to states for the JOBS program up to specified maximum amounts. Within these maximums, the *actual* amount of funds each state will receive depends primarily on (1) the state's relative share of the nationwide AFDC adult population and (2) the state's actual expenditures for the JOBS program.

In addition to the funding discussed above, the FSA provides funds to states on a matching basis for child care provided to JOBS participants. (California's matching rate will be 50 percent General Fund and 50 percent federal funds.) Child care funding is *not* capped: in other words, states will receive federal reimbursements for these costs on an open-ended, entitlement basis.

At the time this report was prepared, the details needed to determine the exact fiscal effect of the FSA on the GAIN program were not available. However, our preliminary assessment indicates that the state will be eligible for additional federal funds--potentially over $20 million annually--once the state makes the required changes to the GAIN program, or obtains any necessary waivers. After we review the Governor's proposed spending plan for GAIN contained in the 1989-90 budget, we will be better able to assess the fiscal implications of the FSA.

Implementation of the JOBS Program

The FSA requires states to implement a JOBS program by October 1, 1990 as a condition of continuing eligibility for federal AFDC funding. Thus, California has almost one and one-half years before it must make the necessary changes to conform its GAIN program to the requirements of the FSA. This presents the state with a dilemma. On the one hand, the state could implement the changes immediately so that it could receive additional federal funds starting July 1, 1989. As we indicated above, these additional federal funds are potentially over $20 million annually. However, implementing the JOBS program by July 1, 1989 would not be easy, requiring the Legislature and the administration to make the necessary changes in a relatively short period of time.

On the other hand, the Legislature may decide not to make the changes until next year for three reasons. First, because the GAIN program is just now being fully implemented statewide, the Legislature may decide to complete that implementation without the disruption that might result from implementing the new JOBS requirements. Second, delaying implementation would allow the Legislature to fully deliberate the options available to the state for implementing several of these changes. Third, federal regulations identifying the precise requirements of FSA on GAIN will not be issued until mid-1989, which could make it difficult to implement the changes by July 1989.

Whether the Legislature decides to make the changes immediately or waits until next year depends on how it views the changes to the

J O B S P R O G R A M

Mandatory JOBS Caseload

REQUIREMENT

The FSA requires states, *contingent on the availability of state and federal funds,* to make participation in the JOBS program mandatory for AFDC parents whose youngest child is 3 years of age or older and for specified recipients who themselves are 18 to 19 years old.

ISSUE

How would these additional mandatory GAIN participants affect actual GAIN caseloads and costs?

RECOMMENDATION

We recommend that the Legislature consider this issue as part of its deliberations on the 1989-90 budget.

DISCUSSION

Background. The FSA makes participation in the JOBS program mandatory for AFDC parents whose youngest child is 3 years of age or older and for 18 and 19 year old parents who have not completed high school or its equivalent or passed the General Education Development (GED) test. In general, states may not require parents who personally care for a child 3 to 5 years of age to participate in the JOBS program for more than 20 hours per week. However, states can require 18 to 19 year old parents who have not completed high school or received a GED to participate full-time in educational programs, regardless of the age of their youngest child.

Under current state law, an AFDC recipient whose youngest child is less than 6 years old is exempt from mandatory participation in the GAIN program, although these individuals are free to volunteer for the program. Thus, the effect of the FSA's mandatory participation requirements would be to add two new groups to the mandatory GAIN caseload: parents whose youngest child is 3 to 5 years of age and certain parents who are 18 and 19 years old.

It is important to note that the mandatory participation requirements of the FSA are contingent on the availability of state and federal funds. Thus, it appears that, if a state does not have sufficient state and federal funds to serve its entire mandatory caseload, the FSA would allow the state to limit the number of individuals that it serves, even if this means that it does not serve all of the "mandatory" participants.

Fiscal Effect. The federal requirement to provide employment and training services to parents whose youngest child is 3 to 5 years of age and parents who are themselves 18 or 19 years old would potentially result in major (multi-million dollar) increased General Fund costs. The actual costs, however, would depend on the Legislature's action on the 1989-90 and subsequent budgets. This is because the FSA requires states to serve mandatory participants only to the extent that they have the funds to do so. Thus, if the budget does not include sufficient funds to serve the entire mandatory GAIN caseload, including the new mandatories added by the FSA, the state could accommodate the shortfall by limiting the number of participants that actually receive GAIN services.

Recommendation. The effect of adding mandatory participants to the GAIN program will depend to a large extent on the Legislature's action on the 1989-90 and subsequent budgets. Therefore, we recommend that the Legislature consider this issue as part of its deliberations on the 1989-90 budget.

J O B S P R O G R A M

Job Search

REQUIREMENT

The FSA limits the amount of job search activity that states may require of JOBS participants.

ISSUE

How extensively will California have to redesign the GAIN program in order to meet the FSA limit on job search activity?

RECOMMENDATION

We recommend that the DSS report to the Legislature, prior to hearings on the 1989-90 budget, on (1) the extent to which GAIN participants currently exceed the limits on job search activities imposed by the FSA and (2) options available to bring the GAIN program into compliance with the FSA limits.

DISCUSSION

Background. The FSA limits the amount of job search activity that states can require of JOBS participants. Specifically, the measure limits job search activities to 8 weeks in any 12-month period (except that states can require 16 weeks of job search in a participant's first year on AFDC). In addition, the FSA provides that states may require no more than 3 weeks of job search before the participant's assessment. The FSA also provides that job search activities after a specified period do not qualify for federal funding.

The GAIN program does not limit the amount of time that counties can require participants to perform job search activities. Instead, the program places participants in job search at various stages during the employment and training process. For example, the GAIN program requires some participants to perform 3 weeks of job search prior to assessment and some participants to go through a 90-day (13-week) job search after completing an educational or training activity. In addition, the GAIN program requires some participants to perform job search when they are between GAIN components (for example, while waiting for their educational activities to begin). Thus, the amount of job search required of an individual depends to a certain extent on how the participant moves between the various GAIN components. As a result, the GAIN program may require some participants to perform more job search activity than is allowed under the FSA.

Fiscal Effect. The effect of this requirement on the state will depend on (1) the extent to which GAIN participants currently exceed the FSA job search limit and (2) the specific changes that the Legislature makes to ensure that GAIN participants do not exceed the FSA job search limit. For example, one option would be to assign these individuals to educational or training programs in lieu of job search. This would result in unknown costs to the GAIN program, since most educational and training programs are more expensive than job search.

Recommendation. It appears that the FSA job search limit will require the state to make some change in the way that the GAIN program deals with job search. It is not clear at this time, however, what the fiscal and programmatic effects of the FSA limit might be. Therefore, we recommend that the DSS report to the Legislature, prior to hearings on the 1989-90 budget, on (1) the extent to which GAIN participants currently exceed the FSA job search limits and (2) the fiscal and programmatic effects of the options available to modify the GAIN program to comply with the FSA job search requirements, including its assessment of these options.

JOBS PROGRAM

Assessment and Employability Plan

REQUIREMENT

The FSA requires that at the time an individual enters the JOBS program, states perform a comprehensive assessment of the participant's skills and work experience and develop an employability plan for the participant.

ISSUE

Would it be cost-effective to perform a comprehensive assessment of, and develop an employability plan for, all GAIN participants?

RECOMMENDATION

We recommend that the Legislature defer action on this issue and encourage the DSS to seek federal approval of the existing GAIN assessment process.

DISCUSSION

Background. The FSA requires states to assess the skills and work experience of each JOBS participant, as well as her or his needs for education, child care, and supportive services, prior to assigning the participant to any required JOBS activity (except for limited job search). Based on this assessment, and in consultation with the participant, the state must develop an employability plan for the participant.

Under the current GAIN program, counties assess GAIN participants' skills and work experience in two stages. First, the counties assess the participants' educational, child care, and supportive services needs as soon as they enter the program. Based on this appraisal, some participants are assigned to basic education and/or job search. If the participant remains on aid after completing basic education or job search, the county conducts the second assessment, which is an evaluation of her or his skills and work experience, and develops an employability plan.

Fiscal Effect. The assessment and employability plan requirements of the FSA would result in major (multi-million dollar) cost increases in California. This is because, under the GAIN program, counties do not perform skills and work experience assessments or develop employability plans for participants who find a job or leave the program for some other reason prior to the second assessment. A significant number of participants leave welfare before they reach the second GAIN assessment.

Recommendation. Our review of the FSA indicates that the provisions relating to assessments and employability plans could require the state to make significant and costly changes to the GAIN program. However, the DSS advises that it *might* be possible for the DHHS to allow California to continue with its current assessment process. In our view, the current GAIN assessment process is an efficient way to target resources by providing a second assessment and developing an employability plan for only those participants who do *not* find employment during or immediately after basic education or job search. Therefore, we recommend that the Legislature defer action on this issue and encourage the DSS to seek federal approval of the existing GAIN assessment process.

JOBS PROGRAM

Financial Sanctions -- Duration and Amount of Aid Reduction

REQUIREMENT

The FSA requires states to financially sanction individuals who are required to participate in the JOBS program and who fail to participate, or refuse to accept an offer of employment.

ISSUE

Should California impose larger financial sanctions, for a longer period on GAIN participants than required by the FSA?

RECOMMENDATION

We recommend that the Legislature enact legislation conforming state law to the FSA.

DISCUSSION

Background. The FSA requires states to financially sanction individuals who are required to participate in the JOBS program, but who fail to do so or who refuse employment without "good cause." The GAIN program also provides for financial sanctions, but these sanctions are more severe for AFDC-U families than are the sanctions required by the FSA.

Table 2 compares the financial sanctions on a family of four under the JOBS and the GAIN programs.

As the table indicates, the financial sanctions on an individual in an AFDC-FG household are the same under the JOBS and the GAIN programs. However, with respect to AFDC-U households, the reductions in aid are quite different under these two programs. Specifically, the JOBS program requires states to reduce the number of persons aided by two--the principal wage earner and the spouse, if she or he is not participating in JOBS. In contrast, when the principal wage earner refuses to participate or accept a job offer under the GAIN program, counties are required to eliminate *all* aid to the household.

In addition, the financial sanctions under the GAIN program can be in effect for longer than the FSA financial sanctions, under some circumstances. For example, the first time a participant refuses to comply with the GAIN program, she or he is sanctioned for three months, or until she or he agrees to comply, whichever is longer. Under the FSA, the same participant would return to full aid as soon as she or he complies, instead of waiting for the completion of the full three months.

Fiscal Effect. The amount of the financial sanctions required by the JOBS program would be substantially less than the sanctions under the GAIN program and these sanctions might be of shorter duration than those imposed under the GAIN program. However, these differences would probably *not* result in a major fiscal effect on the state. This is because counties currently impose financial sanctions on only a few individuals. One reason for the small number of sanctions is the state's current conciliation process, which seeks to minimize the number of financial sanctions required by encouraging compliance with the GAIN program. Therefore, we estimate that the reduction in financial sanctions required under the JOBS program would result in relatively minor (less than $1 million) increased AFDC grant costs.

Recommendation. It is our understanding that the FSA *requires* states to adopt the federal financial sanctions. Failure to do so would presumably constitute noncompliance with the FSA, thereby jeopardizing the state's receipt of federal AFDC funds. Therefore, we recommend that the Legislature enact legislation to conform the current GAIN financial sanctions to those specified in the FSA.

Table 2

Financial Sanctions for a Family of Four: JOBS Versus GAIN

	AFDC-FG			AFDC-U[a]		
Program	Grant With No Sanction[b]	Sanction Amount	Grant After Sanction is Applied	Grant With No Sanction[b]	Sanction Amount	Grant After Sanction is Applied
JOBS	$788	-$125	$663	$788	-$253	$535[c]
GAIN	788	-125	663	788	-788	--

[a] *Figures reflect the maximum aid payment and assume that the family has no non-AFDC income.*
[b] *Assumes that the sanctioned individual is the principal wage earner.*
[c] *Assumes that the second parent is not participating in GAIN.*

Chapter IV

Chapter IV
Transitional Assistance Benefits

One of the cornerstones of the FSA is the provision of medical and child care benefits to assist families during the transition from welfare to the work force. The idea behind these transitional benefits is that if a parent is assured that his or her children will not lose eligibility for medical care or be left unsupervised during the family's transition from AFDC to a job, the parent will be more likely to succeed in a job and less likely to return to AFDC.

The FSA requires states to provide medical and child care benefits to AFDC recipients for a full year after they find work and become ineligible for AFDC. Currently, California provides transitional benefits for a shorter period: Medi-Cal benefits are available for four months after a recipient leaves aid, while child care benefits are available for three months for those persons who participate in the GAIN program.

The transitional assistance provisions of the FSA will require changes in California law. The requirements will result in major costs to the state and to the federal government, and may also result in major savings to the state, the federal government, and the counties to the extent that they encourage or enable AFDC recipients to leave aid. We discuss the transitional assistance provisions on the following pages.

TRANSITIONAL ASSISTANCE BENEFITS

Transitional Medical Assistance

REQUIREMENT

The FSA requires states to extend medical coverage for up to 12 months after a family becomes ineligible for AFDC due to increased earnings, increased hours of employment, or loss of earned income disregards.

ISSUE

Should persons who are eligible to receive transitional Medi-Cal benefits pay a premium during their second six months of eligibility? If so, how should the premium fee scale be structured?

RECOMMENDATION

We recommend the enactment of legislation creating a transitional Medi-Cal program to provide benefits for one year to all AFDC recipients who leave aid for the reasons specified in federal law. We further recommend that the DHS report to the Legislature by May 1, 1989 on the costs and benefits of premium systems for Medi-Cal recipients. This report should include an assessment of alternative premium structures and the fiscal impact of each alternative.

DISCUSSION

Background. The FSA requires states, effective **April 1, 1990,** to provide transitional medical assistance for 12 months following the month in which a family becomes ineligible for AFDC due to increased earnings, increased hours of employment, or loss of earned income disregards. During the first six months of the transition, a family is automatically eligible for medical coverage if it has received AFDC for at least three of the six months preceding the month in which it becomes ineligible for AFDC.

The FSA requires states to offer an additional six months of transitional medical assistance. During the second six-month transitional period, states may, at their option, charge families a premium. Premiums may only be applied to families whose average gross monthly earnings during a specified period exceed 100 percent of the federal poverty line.

The federal government will reimburse states for transitional medical assistance at their Medicaid matching rate (in California, this is 50 percent federal funds and 50 percent state). Revenue from premium payments would reduce the *state's* share of the costs.

The transitional medical assistance provisions of the FSA take effect on April 1, 1990 and sunset on September 30, 1998.

Under current state law, families who become ineligible for AFDC may receive four months of transitional Medi-Cal benefits. Current law makes no provision for recipients to pay a premium, although some families receive Medi-Cal on a share-of-cost basis. These are families who spend enough of their own income on medical care that their remaining income falls below the AFDC grant level.

Fiscal Effect. This requirement could result in major costs (more than $5 million annually) to the state and federal governments for Medi-Cal benefits. Actual costs would depend on the number of months a person would stay on Medi-Cal after leaving AFDC and how much revenue any premium would generate during the second six months of eligibility. To the extent that fewer persons return to AFDC as a result of this requirement, there could be reductions in state, federal, and county costs for welfare grants and administration.

Recommendation. The FSA *requires* states to provide transitional medical benefits. We therefore recommend that the Legislature enact legislation creating a transitional Medi-Cal program to provide benefits for one year to all AFDC recipients who leave aid for the reasons specified in federal law. In order to assist the Legislature in developing legislation, we recommend that the DHS report to the Legislature by May 1, 1989 on the costs and benefits of premium systems for Medi-Cal recipients. This report also should include an assessment of alternative premium structures and the fiscal impact of each alternative.

Chapter V

Chapter V
Miscellaneous Provisions

The FSA makes several changes to existing federal law that, unlike the changes related to child support enforcement, work requirements, and transitional assistance, are not easily categorized by a theme. For convenience, we have included all of these miscellaneous provisions in this chapter.

In this chapter, we discuss five of the miscellaneous FSA provisions that we believe could have potentially significant effects on California, or may be of special interest to the Legislature. Two of the provisions we discuss (changes in income disregards and preeligibility fraud detection) require changes in California's AFDC program. Another provision (improvement of child care licensing) relates to the ongoing Community Care Licensing program administered by the DSS. One of the provisions (requiring minor parents to live at home as a condition of AFDC eligibility) is a new state option within the AFDC program. The last provision that we discuss (changes in federal tax law) does not relate to welfare reform programmatically, but was designed to generate federal funds to help finance the FSA. The state could make changes in its tax law to conform to the federal change.

Optional Demonstration Projects

The FSA establishes nine demonstration projects. While the federal government will fund most of the costs of the demonstration projects, participating states may be required to match the federal funds. Although all of the demonstration projects are optional, California may wish to participate in one or more of the projects in order to test various concepts and procedures. We summarize the goals, funding, and duration of each demonstration project in Table 3 at the end of this chapter.

MISCELLANEOUS PROVISIONS

Changes in Income Disregards Used to Determine AFDC Eligibility and Grant Levels

REQUIREMENT

The FSA requires states to increase the amount of earned income that is not counted ("disregarded") when calculating the grant level for a recipient resulting from (1) child care and work expenses and (2) any advance payments or refunds of the earned income tax credit.

ISSUE

Should the state increase various AFDC income disregards to conform with federal law?

RECOMMENDATION

We recommend that the Legislature enact urgency legislation to conform state law to the new federal law regarding income disregards for child care and work-related expenses.

DISCUSSION

Background. Effective **October 1, 1989,** the FSA requires states to increase the amount of earned income that is not counted when calculating monthly AFDC grant levels. The changes are as follows:

	Current Disregard	*FSA Disregard*
Child care expenses:		
Child age two and older	$160	$175
Child under age two	160	200
Work-related expenses	75	90

The effect of increasing the earned income disregards would be to increase the AFDC grant payments for recipients who are employed and have incurred child care costs or work-related expenses. For example, the AFDC grant for families with *earned* income would not be reduced for actual expenses incurred for child care costs (up to the specified maximum--$160 under existing state law and $175 and $200 under the FSA).

In addition, the FSA requires states to disregard any advance payments or refunds of the federal earned income tax credit when calculating AFDC eligibility and grant levels. The earned income credit is a federal tax relief program that assists specified working taxpayers with adjusted gross incomes below certain levels ($17,000 for 1988). The maximum credit is $800. Under current state law, these payments and refunds are considered income and therefore reduce the AFDC payment.

Fiscal Effect. Increasing the earned income disregard and adding as a disregard the earned income tax credit would result in major (multi-million dollar) increases in AFDC grant costs in California (paid 44.6 percent from the General Fund, 50 percent in federal funds, 5.4 percent in county funds). These changes also would result in increased county welfare department administrative costs (paid 25 percent from the General Fund, 50 percent in federal funds, 25 percent in county funds). At the time this report was prepared, the DSS had not estimated the impact of the changes.

Recommendation. The FSA *requires* states to increase the AFDC disregard for child care and work-related expenses and add a new federal earned income tax credit disregard by October 1, 1989. We therefore recommend that the Legislature enact urgency legislation to conform state law accordingly.

MISCELLANEOUS PROVISIONS

Funding for Improved Child Care Licensing and Registration

REQUIREMENT

The FSA authorizes a total of $26 million for grants to states to improve their child care licensing and registration requirements and procedures and to monitor child care provided to children receiving AFDC.

ISSUE

Should California seek funding to improve child care licensing and registration programs?

RECOMMENDATION

We recommend that the DSS, in conjunction with the SDE, report to the fiscal committees during hearings on the 1989 Budget Bill on California's potential allocation and use of the funds authorized by Congress to improve child care licensing and registration.

DISCUSSION

Background. The FSA authorizes $13 million annually in FFY 90 and FFY 91 for grants to states to "improve" their child care licensing and monitoring programs. The measure does not specify the kinds of activities that would qualify for these funds. These funds will be allocated to states based on the proportion of children receiving child care under AFDC. The FSA also requires states to provide a 10 percent match to these grants.

The DSS estimates that it will spend $17.6 million in 1988-89 for child care licensing and monitoring activities. In addition, the SDE will spend $4.7 million in 1988-89 to monitor and administer subsidized child development programs.

Fiscal Effect. We estimate that California could receive up to $2 million annually in FFY 90 and FFY 91 to improve its child care licensing and monitoring efforts. The state would have to match these funds with up to $200,000 from the General Fund.

Recommendation. We recommend that the DSS, in conjunction with the SDE, report to the fiscal committees during hearings on the 1989 Budget Bill on California's potential allocation of these funds and on their proposals to use the funds to improve child care licensing and monitoring.

DISCUSSION CONTINUED

had income and resources that exceeded the limits used to determine AFDC eligibility. Second, to the extent that living at home with their parents helps minors to stay in school or keep a job, the requirement to do so could lead to AFDC grant savings in the longer run.

It is not possible to determine the net effect of these costs and savings.

In addition to AFDC grant cost savings, the requirement would also result in major (several millon dollars annually) increased county welfare department administrative costs (25 percent General Fund, 50 percent federal funds, 25 percent county funds) to (1) determine whether individual recipients qualify for any of the exemptions to the requirement and (2) redetermine grant levels for families affected by the requirement.

Recommendation. We have no basis to make a recommendation on this issue because there is insufficient analytical evidence to determine whether requiring unwed minor parents to live with their parents will result in positive programmatic or fiscal effects.

MISCELLANEOUS PROVISIONS

Demonstration Projects

FSA OPTION

The FSA establishes nine optional demonstration projects.

ISSUE

Should the state participate in any of the demonstration projects established by the FSA?

RECOMMENDATION

We make no recommendation on this issue because of uncertainty regarding the specific requirements of the projects. We recommend that the Legislature consider each project in light of the Legislature's fiscal priorities and the likelihood that the project will provide useful information.

DISCUSSION

Background. The FSA establishes nine optional demonstration projects. California may wish to participate in one or more of the projects. Table 3 identifies each demonstration project, including the objectives of the project, the number of states that are eligible to participate, the duration of the project, and the amount of funding authorized in the FSA for the project. Because the FSA provides few specific details on each project, the DHHS regulations will be especially important in determining whether California should participate in one or more of the projects. The FSA does not specify when the DHHS must promulgate regulations.

Fiscal Effect. The fiscal effect of these options is unknown, and would depend on the number of projects the state participates in, the available federal funding, and the duration of the project.

Recommendation. We make no recommendation on this issue because of uncertainty regarding the specific requirements of the projects. We recommend that the Legislature consider each project in light of its fiscal priorities and the likelihood that the project will provide useful information.

Table 3 Continued
Demonstration Projects Authorized in the Family Support Act

PROJECT	OBJECTIVE	NUMBER OF STATES ELIGIBLE	DURATION OF THE PROJECT	FUNDING
4. Child Access Problems	To develop procedures for enforcing access provisions (custody/ visitation) of child support orders, the establishment of special staff to deal with and mediate access disputes, and the dissemination of information to parents.	No limit.	Two years.	$4 million each year in 1990 and 1991.
5. Expanding Job Opportunities Through Nonprofit Organizations	To create employment opportunities for AFDC recipients and other low-income people in nonprofit organizations. Grants to nonprofit organizations, not states.	Five to 10 nonprofit organizations.	Three years.	$6.5 million each year from 1990 through 1992.
6. Counseling and Services to High-Risk Teenagers	To provide a range of nonacademic services (sports, arts, recreation) and self-image counseling to high-risk teenagers (youths between 10 and 20 years of age who have a history of academic or behavioral problems, live in a one-parent household, or are pregnant or already are parents) in order to reduce the rates of pregnancy, suicide, substance abuse, and school dropout.	4	Three years.	$1.5 million each year from 1990 through 1992.
7. Model Procedures for Reviewing Child Support Awards	To test and evaluate model procedures for reviewing child support awards.	4	Two years.	Unknown amount; federal government will pay 90 percent of costs.
8. Work and Training Programs for Unemployed Noncustodial Parents	To determine whether providing JOBS services to unemployed noncustodial parents will enhance their ability to pay child support.	5	Not specified.	Not specified.
9. Projects to Test State Programs Established Under the "JOBS" Program	To test the relative effectiveness of different approaches for assisting long-term and potentially long-term AFDC recipients pursuant to the JOBS program.	5	At least three years.	$5 million each year in 1990 and 1991.

program. There are, however, several significant differences between these two programs. The major differences include (1) requiring AFDC families with children between the ages of three and five to participate in GAIN (currently only families with children six years of age or older are required to participate), (2) reductions in the amount and duration of the financial sanctions that can be imposed on AFDC families for refusing to comply with the GAIN program, and (3) a new federal limit on the number of weeks and the number of hours that a state can require individuals to perform "job search" and "community work experience" (workfare), respectively.

The FSA requires states to implement a JOBS program by October 1, 1990 as a condition of continuing eligibility for federal AFDC funding. Thus, California has almost one and one-half years before it must make the necessary changes to conform its GAIN program to the requirements of the FSA. This presents the Legislature with dilemma. On the one hand, the state could implement the changes immediately so that it could receive additional federal funds--potentially over $20 million annually--starting July 1, 1989. On the other hand, the Legislature could decide not to make the changes until next year, preferring to take the maximum amount of time to plan and implement the changes.

Which option is selected depends on the extent to which the Legislature believes these changes will disrupt the GAIN program. If the Legislature determines that the changes required by the FSA would be too disruptive to the GAIN program, it should use as much time as is available to plan and implement these changes in a way that minimizes any potential disruption. Alternatively, if the Legislature determines that the required changes pose only a minor disruption to the GAIN program, it could implement a JOBS program as early as July 1989. It is important to note, however, that implementation of JOBS by July 1989 will *not* be easy, due to the statutory and administrative changes that must be made prior to starting California's JOBS program.

Transitional Assistance Benefits

Effective April 1, 1990, the FSA requires states to provide persons leaving AFDC with benefits to ease their transition from welfare to work. Specifically, the measure requires states to provide child care and Medi-Cal to AFDC recipients for one year after they go off AFDC. California currently provides these benefits for shorter periods of time.

Miscellaneous Provisions

The FSA makes a number of major changes to federal law that are not easily categorized by a particular theme. These include (1) increasing the amount of income that is not counted ("disregarded") when calculating AFDC grant amounts, (2) requiring states to establish programs to detect fraudulent AFDC applications prior to determining AFDC eligibility, and (3) additional federal funds to improve licensing and monitoring of child care programs. In addition, the FSA permits, but does not require, states to require unwed minor parents to live with an adult in order to receive AFDC. Finally, the FSA makes several changes to federal tax law in order to generate additional revenues to fund the measure.

the new federal requirements will require changes in California law and could have major fiscal consequences for the state and the counties. Additional federal money will be available to pay for a portion of the costs of the changes, but the state and counties will have to provide additional funding as well. Because the affected state departments have not had an opportunity to prepare detailed fiscal estimates, it is not possible to determine the net fiscal impact of the changes at this time.

While most provisions of the FSA will require a change in state law, some of the provisions that were the most controversial and received the most national media attention will have little, if any, impact on California. The best example of this is the requirement that states establish AFDC programs for intact families with at least one unemployed parent. California already provides aid to such families. Other provisions may not affect California as significantly as they do other states. For example, the measure's work and training requirements--the Job Opportunities and Basic Skills Training (JOBS) program--are similar in many ways to the state's existing Greater Avenues for Independence (GAIN) program. Thus, while California will have to make some changes in its existing GAIN program, it will *not* have to start an entirely new program, as many other states will be required to do. Moreover, as discussed in Chapter III, there is a question about whether the Legislature should conform to the changes immediately or by the federal deadline -- October 1, 1990.

The Focus of This Report

In this report, we discuss each provision of the FSA that requires either a significant change in current California law or practice or provides the state with a new option. In each discussion, we describe the new requirement, indicate when the state must implement the requirement, describe how the requirement differs from current law, and outline the issue that it presents to the Legislature.

In many cases, we recommend that the Legislature enact legislation--and in some cases, urgency legislation--to bring the state into compliance with the new federal law. In other cases, however, we recommend that the Legislature defer action until additional information is available or until the federal government issues clarifying regulations. ❖

Table 1
Fiscal Impact of the Child Support Enforcement Program
1987-88
(dollars in thousands)

	State	*Federal*	*County*	*Total*
County administration	--	$109,565	$50,566	$160,131
AFDC	--	(74,460)	(34,365)	(108,825)
Non-AFDC	--	(35,105)	(16,201)	(51,306)
State administration	$3,072	6,700	--	9,772
Welfare collections[a]	-86,201	-89,458	-10,114	-185,773
Incentive payments[b]	26,103	18,462	-44,565	--
Totals	-$57,026	$45,269	-$4,113	-$15,870

[a] Does not include welfare collections for children in other states.
[b] Incentive payments include AFDC and non-AFDC cases.

The table does *not* show one of the major fiscal effects of the child support program, its impact on AFDC caseloads. To the extent that child support collections on behalf of non-AFDC families keep these families from going on aid, they result in AFDC grant avoidance savings. While AFDC grant avoidance is one of the major goals of the child support program, it is not shown in the table because, unlike the other fiscal effects of the program, there is no way to directly measure the savings that result from grant avoidance.

Child Support Changes Enacted By Federal Welfare Reform

The FSA makes a number of changes in the child support enforcement program. In general, these changes are designed to provide a more uniform level of enforcement across the country and throughout each state, increase collections and reduce dependency on AFDC, or achieve various social policy objectives (for example, to increase the percentage of out-of-wedlock children who know the identity of their father).

As with other requirements of the FSA, the precise impact of many of the changes affecting child support enforcement will depend on federal regulations, which will not be promulgated until mid-1989. It is clear, however, that several of the new federal requirements will require changes in California law. Some of these changes will probably have major fiscal consequences for the state and counties. Other changes will almost certainly have fiscal consequences, although it is too early to assess their probable magnitude. In the following pages, we discuss each of the FSA provisions that we believe will have significant or potentially significant effects on California's child support enforcement program.

CHILD SUPPORT ENFORCEMENT

Automated Tracking and Monitoring System

REQUIREMENT

The FSA requires states to develop statewide automated systems for tracking and monitoring child support enforcement operations.

ISSUE

How should the state go about developing a statewide automated child support system?

RECOMMENDATION

We recommend that the DSS report to the Legislature during hearings on the 1989-90 Budget Bill on the costs and benefits of implementing (1) a state-operated automated child support system compared to (2) a county-operated automated system. The report should include a review of the costs and benefits of each option and a discussion of the options for funding the nonfederal share of the costs.

DISCUSSION

Background. The FSA requires states to develop statewide automated systems for tracking and monitoring child support operations. Such systems can provide many services, such as case management, word processing, accounting, billing, and data collection. The measure also provides that the federal government will pay for up to 90 percent of the development costs of automation through September 1995. **The systems must be operational by October 1, 1995.**

Currently, California has no requirement for automation of the child support program. If a county elects to automate its program, its system must be approved by the DSS. Currently, 12 counties representing approximately one-fourth of the total state child support enforcement caseload have fully automated their programs.

Our analysis indicates that automation offers one of the best possibilities to increase collections and improve efficiency of the child support enforcement program. A well designed automated system would enable county staff to handle larger caseloads, allow workers to more effectively target enforcement activities, and give county management the ability to ensure that necessary correspondence and billings are handled at the appropriate times. In addition, automation can help keep track of child support payments, obligations, and arrearages.

Fiscal Effect. This requirement will result in major (multi-million dollar) one-time costs to develop an automated system and major ongoing costs to operate and maintain the system. The federal government will pay for 90 percent of the development costs of automation through September 30, 1995. The remaining 10 percent of these costs will be paid by either the state or the counties, depending on how the state chooses to implement the requirement. The federal government will pay for 66 percent of the ongoing costs to operate and maintain the system. The remaining 34 percent will be paid by either the state or the counties, also depending on how the state implements the system.

These additional costs would be more than offset, in our judgment, by (1) potentially major increases (multimillions of dollars annually) in child support collections, (2) potentially major (multi-million dollars annually) savings due to AFDC avoidance, and (3) potential savings from administrative efficiencies.

Recommendation. Our analysis indicates that in order to comply with this requirement, the Legislature has two basic options:

1. **Establish a state-operated system.** The Legislature could enact legislation requiring the DSS to establish a single, statewide automated system to track and monitor all child support enforcement actions in all counties. The system would be operated on state- or contractor-owned hardware and maintained by state staff or a contractor. District attorneys would input data on the system and receive a variety of reports and other information from the system. This arrangement would be comparable to the Case Management Information and Payrolling System (CMIPS) used in the In-Home Supportive Services (IHSS) program.

CHILD SUPPORT ENFORCEMENT

Review and Adjust Child Support Awards

REQUIREMENT

The FSA requires that:

- By October 13, 1990, states must develop a plan to periodically review and adjust child support awards.
- Effective October 13, 1993, states must review child support cases at least every three years and adjust the awards in accordance with existing guidelines.

ISSUE

What is the most cost-effective way to implement a system of periodic reviews and adjustments of individual awards?

RECOMMENDATION

We recommend that the DSS report to the Legislature by April 1, 1989 on its plans and timetable for developing the statewide plan to review and adjust child support awards required by the FSA. We further recommend that the department submit its proposed statewide plan to the Legislature by April 13, 1990 (six months before the plan is due to the federal government).

DISCUSSION

Background. The FSA requires each state to develop a plan by **October 13, 1990** to periodically review and adjust child support awards.These adjustments must be based on the state's child support award guidelines, which are used by judges in establishing the amounts of the initial child support awards.

During the period October 13, 1990 through October 13, 1993, the FSA gives the state discretion to determine which cases to review and adjust.

Effective **October 13, 1993,** the FSA requires states to review the child support cases of children receiving AFDC at least every three years and to adjust cases in accordance with state guidelines (unless the court determines that a review would not be in the best interest of the child). The measure also requires states to review and adjust non-AFDC cases if requested by either parent.

The FSA also requires the DHHS to conduct demonstration projects in four states to evaluate model procedures for reviewing child support awards. The federal government will pay 90 percent of the costs of the projects.

Current California law does *not* require district attorneys to review child support awards. As a practical matter, however, many district attorneys review cases on a regular basis.

In most California cases, the periodic adjustments required by the FSA would result in an increase in the child support award. This is because the guidelines that California judges use in setting awards are based mainly on the income of the noncustodial parent (income generally increases over time) and the state's AFDC grant levels (state law requires these levels to be adjusted annually to offset the effects of inflation).

Fiscal Effect. Periodic review and adjustment of awards would result in potentially major administrative costs (more than $1 million annually) to the counties and the federal government for district attorneys and courts to review and modify awards. The periodic reviews and adjustments also would result in (1) potentially major (more than $1 million annually) increases in child support collections and (2) potentially major savings (more than $1 million annually) due to AFDC avoidance. In addition, the DSS would incur some relatively minor one-time administrative costs (less than $100,000) to develop the required plan.

The net fiscal effect of these costs, revenues, and savings would depend primarily on the following factors: (1) the magnitude of the increases in individual awards, (2) the extent to which noncustodial parents actually pay the increased awards, and (3) the magnitude of the administrative costs, which would depend on how the state and the counties implement the required reviews.

CHILD SUPPORT ENFORCEMENT

Paternity Establishment Standards

REQUIREMENT

The FSA requires states to meet federal standards for the establishment of paternities.

ISSUE

Will the new federal standards require California to increase the number of paternities it establishes each year?

RECOMMENDATION

We recommend that the Legislature defer action on this item until the DSS has had an opportunity to determine whether the new federal standards will require the state to increase the number of paternities established each year.

DISCUSSION

Background. The FSA requires states to meet federal standards by **October 1, 1991,** for the establishment of paternities. The measure allows states to choose one of the following three standards for children on AFDC who were born out of wedlock:

- The state must establish paternities for at least 50 percent of these children.
- The state's percentage of these children for whom paternity has been established must be at least equal to the average for all states.
- The state's percentage of these children for whom paternity has been established must have increased by three percentage points between FFY 88 and FFY 91 and by at least three percentage points each year thereafter (that is, six percentage points above the FFY 88 level).

The FSA permits the Secretary of DHHS to modify the requirements to take into account additional factors that affect the ability of a state to meet the requirements. At the time this report was prepared, data were not available to determine which standard could be most easily achieved by California.

Currently, district attorneys must establish the paternity of children before they can obtain a child support order. District attorneys have discretion in pursuing paternity establishments; generally, they prioritize cases based on their assessment of the likelihood that the paternity establishment will result in a child support award and collection of payments. Although state law does not provide a paternity establishment standard, Chapter 899, Statutes of 1988 (AB 3240, Leslie) requires the state to pay incentives to counties of $90 per child for each paternity established. This incentive sunsets on June 30, 1991.

The FSA also provides that the federal government will pay for 90 percent of the costs for paternity laboratory tests, beginning October 1, 1988. Based on information provided by the Congressional Budget Office, we estimate that this provision will result in additional federal reimbursements to counties of less than $1 million annually.

Based on our discussions with DSS staff, the rationale for these provisions was probably twofold. First, although establishing paternity may not be cost-effective in the short run, it may be cost-effective in the long run. This is because younger fathers with relatively low income when their children are born may experience income increases over time. Second, knowledge of the identity of both parents can have significant health benefits for the child throughout the child's life. For example, if the child develops a disease that is thought to be hereditary, knowledge of both parents and their medical histories could assist in diagnosis and treatment.

Fiscal Effect. At the time this report was prepared, the DSS advised that data were not available to determine whether California could meet any of the three standards. Consequently, it is not possible to determine at this time whether the new federal standards would result in a requirement for California to increase its paternity establishments. To the extent that meeting the standards requires district attorneys to establish more paternities, they could incur major administrative

CHILD SUPPORT ENFORCEMENT

Civil Procedures for Paternity Establishment

FSA OPTION

The FSA encourages, but does not require, states to adopt and implement a simplified civil procedure for (1) voluntarily acknowledging paternity and (2) determining paternity in contested cases.

ISSUE

Would a simplified civil procedure for establishing paternity in contested cases increase the number of paternity establishments?

RECOMMENDATION

We recommend that the DSS work with district attorneys and the Judicial Council to assess the need for a simplified civil procedure for voluntarily acknowledging paternity and establishing paternity in contested cases.

DISCUSSION

Background. The FSA encourages, but does not require, states to implement a simplified civil procedure for (1) voluntarily acknowledging paternity and (2) determining paternity in contested cases. Currently, California does not have simplified procedures to make paternity establishment easier or faster in contested cases or a simplified procedure for fathers to voluntarily acknowledge paternity. Instead, court procedures in these cases are identical to procedures used in other civil cases.

Fiscal Effect. To the extent that a simplified civil procedure for establishing paternity increases the number of paternities established, it could result in administrative savings to district attorneys. This also could result in (1) increased child support collections and (2) savings due to AFDC avoidance.

Recommendation. We recommend that the DSS work with district attorneys and the Judicial Council to assess the need for a simplified civil procedure for voluntarily acknowledging paternity and establishing paternity in contested cases.

CHILD SUPPORT ENFORCEMENT

Notification of Support Collected

REQUIREMENT

The FSA requires states on a monthly basis, to notify families receiving welfare of the amount of support collected on their behalf.

ISSUE

Will more frequent notification of welfare recipients of the amount of child support collected on their behalf encourage more recipients to leave welfare?

RECOMMENDATION

We recommend enactment of legislation establishing a pilot project to test monthly <u>and</u> quarterly notification of welfare recipients of the amount of child support collected on their behalf.

DISCUSSION

Background. The FSA requires states to notify families receiving welfare of the amount of support collected on their behalf on a *monthly* basis, unless the Secretary of the DHHS determines that monthly reporting imposes an unreasonable administrative burden, in which case the measure permits states to provide *quarterly* notification. The requirement takes effect on **January 1, 1993.** Under current state law, counties must provide such notification on an *annual* basis.

Based on discussions with the DSS, we understand that Congress added this provision based on the assumption that informing welfare recipients of the amounts collected on their behalf more frequently than once a year might stimulate them to leave welfare. Presumably, Congress believed that recipients who have a more up-to-date knowledge of the nonwelfare resources available to them would be more inclined to accept a job, even one that pays less than their welfare grant. AFDC recipients keep $50 per month of the collections on their behalf, but would keep *all* of the collections if they left welfare to take a job.

Fiscal Effect. We estimate that monthly notification would result in annual administrative costs of more than $3 million ($1 million in county funds, $2 million in federal funds) primarily for postage and mailing costs. However, we estimate that quarterly notification would result in annual administrative costs of $1.5 million ($0.5 million in county funds, $1 million in federal funds). To the extent that district attorneys fund these increased costs by redirecting budgetary resources from other collection activities, this would result in a significant reduction in child support collections. (On average, district attorneys in California collect $3.11 in child support payments for every $1 in collection costs.) To the extent that increasing the frequency of notification stimulates families to leave welfare, it would result in reductions in state, federal, and county costs for AFDC grants and administration.

Recommendation. The FSA gives states until January 1, 1993 to implement a monthly notification system, unless they receive a waiver to implement a quarterly notification system. Since monthly notification would cost substantially more to implement, we recommend that the Legislature use this time to evaluate the fiscal effects of both alternatives. Specifically, we recommend enactment of legislation to establish a pilot project to test both monthly and quarterly notification. The pilot project should (1) evaluate whether more frequent notification has an impact on the number of recipients who leave welfare and (2) assess the impact of the increased administrative costs associated with monthly and quarterly notification on the overall performance of the child support enforcement programs in the pilot counties.

CHILD SUPPORT ENFORCEMENT

Automatic Wage Withholding

REQUIREMENT

The FSA requires states to initiate automatic wage withholding for all child support orders.

ISSUE

This requirement would simply expand California's existing automatic wage withholding to cover all child support orders, including those in which the intital order was issued before January 1, 1987.

RECOMMENDATION

We recommend that the Legislature enact legislation to require automatic wage withholding in all modified child support cases.

DISCUSSION

Background. The FSA requires states to implement wage withholding of child support payments from noncustodial parents' paychecks immediately after an order is issued, regardless of whether there is an arrearage in payments. The requirement does not apply where the court finds there is good cause not to require withholding or where both parents sign a written agreement providing an alternative arrangement. The FSA requires states to phase in automatic wage withholding as follows:

- Beginning **November 1, 1990** for all new child support orders handled by district attorneys.
- Beginning **January 1, 1994** for all new child support orders handled by private attorneys.

Existing California law requires courts to order immediate wage withholding for all child support orders, including modified orders, issued *after* January 1, 1987. (Modified orders are orders that are issued after the initial child support orders and they usually involve an adjustment in the amount of support.) California law does *not* require automatic wage withholding for modified orders in thoses cases where the original order was issued prior to January 1, 1987, unless there is an arrearage in payments equal to at least one month's worth of support. The effect of this federal change is to require automatic wage withholding for *all* modified orders, even those where the initial order was issued prior to 1987.

Fiscal Effect. The requirement would result in relatively minor costs to counties and the federal government for district attorneys to arrange for withholding of awards from the paychecks of noncustodial parents at the time the awards are modified.

Recommendation. This requirement would simply require the state to extend the provisions of current state law regarding wage withholding to cases in which the initial order was issued before January 1, 1987. We therefore recommend that the Legislature enact legislation to require district attorneys to arrange automatic wage withholding in all modified child support cases.

Certain AFDC recipients must participate in GAIN in order to receive aid (referred to as "mandatory participants"); others may volunteer for the program. Generally, mandatory participants are (1) heads of single-parent households--AFDC-Family Group (AFDC-FG) households--if their youngest child is six years of age or older and (2) primary wage earners from two-parent households--AFDC-U households. Mandatory participants remain in the program until they find a job or discontinue aid for some other reason.

Counties provide the following services to GAIN participants:

- ***Registration.*** Counties register mandatory and voluntary participants for the GAIN program. Based on the information collected at the time of registration, counties determine which additional services to provide to the participant.
- ***Basic Education.*** Counties are required to refer every GAIN participant who lacks a high school diploma or basic literacy or mathematical skills, or the ability to speak English, to educational services such as adult basic education, English as a second language, and high school equivalency instruction.
- ***Job Club.*** Job Club services include (1) Job Search workshops, which consist of group training in job-finding skills, followed by (2) supervised Job Search, which consists of participants using telephones (and other methods) to look for work.
- ***Assessment.*** Participants who have been on aid more than twice during the three years preceding their most recent application for aid are referred immediately to assessment instead of Job Club or basic education. Other participants are referred to assessment if they remain in the program after going through Job Club, Job Search, or Basic Education. The purpose of the assessment is to develop an employment goal and to determine what kinds of services the participant will need in order to achieve his or her employment goals.
- ***Short-Term Training.*** Based on the results of the assessment, participants are referred to one of the following short-term training programs or to unsupervised Job Search:
  - ***Short-Term Preemployment Preparation (PREP).*** Participants in short-term PREP work for a public or non-profit organization, for up to three months, in order to learn work behavior skills or to enhance existing skills.
  - ***On-the-Job Training (OJT).*** Participants in OJT work for a private or public employer while they receive training.
  - ***Vocational Training.*** Participants in Vocational Training are trained in specific occupational skills.
  - ***Grant Diversion.*** Participants in Grant Diversion work for public or private employers and receive a wage comparable to what other employees of the company or agency receive. The employer will receive all or a portion of the recipient's cash grant as a wage subsidy.
  - ***Supported Work.*** Supported Work is a form of Grant Diversion in which a service provider receives all or part of the recipient's grant and, in return, provides services to help the recipient maintain a job.
- ***Long-Term PREP.*** Participants who remain in the GAIN program after going through short-term training are referred to long-term PREP for up to 12 months. Long-term PREP is simply an extended form of the short-term PREP program described above.
- Counties also provide supportive services under the GAIN program, including day care and transportation.

GAIN program required by the FSA. If the Legislature sees these changes as disruptive to the GAIN program, it will probably need to use as much time as is available to plan and implement these changes in a way that minimizes disruption. On the other hand, if the Legislature sees these changes as causing only a minor disruption in the GAIN program, it should make the required changes as soon as possible to maximize the federal funds available to the state under the JOBS program.

Effects of the FSA on GAIN

The remainder of this chapter focuses on the major effects of the FSA on California's GAIN program. As with other requirements contained in the FSA, the precise impact of many of the changes affecting the GAIN program will depend on federal regulations, which will not be promulgated until mid-1989. It is clear, however, that several of the new federal requirements will require changes in California law. Some of these changes may have major fiscal or policy consequences for the GAIN program. Other changes will almost certainly have fiscal or policy consequences, although it is too early to assess their probable magnitude. In the following pages, we discuss each of the FSA provisions that we believe will have potentially significant effects on California's GAIN program.

The FSA also contains many provisions that we do not discuss in this report. Based on our initial assessment, these provisions either (1) require no change to current state law or (2) require changes to current state law that will have only minor fiscal or policy implications. These provisions include:

- The "good cause" criteria for refusing to participate in the JOBS program or for refusing an offer of employment contained in the FSA. We believe that the existing good cause criteria under GAIN will satisfy the FSA requirements.
- The provisions that require the state to provide specified information on the JOBS program to AFDC applicants and recipients. Counties in California already provide most of the required information to GAIN registrants.
- The participation rate and target group provisions of the FSA that relate to federal financial participation matching rates. We believe that these provisions will have little practical effect on California because the state currently overmatches federal funds for the GAIN program by a substantial amount.

J O B S P R O G R A M

Additional Mandatory Participants

FSA OPTION

The FSA allows, but does not require, states to add to the list of mandatory JOBS participants (1) the second parent in AFDC-U households and (2) AFDC parents whose youngest child is one or two years of age.

ISSUE

How would these additional mandatory GAIN participants affect actual GAIN caseloads and costs?

RECOMMENDATION

We recommend that the Legislature consider this issue as part of its deliberations on the 1989-90 budget.

DISCUSSION

Background. The FSA gives states the option to require the following two categories of AFDC recipients to participate in the JOBS program: (1) the second parent in an AFDC-U household and (2) AFDC parents whose youngest child is one or two years of age. Under current state law, these individuals are exempt from mandatory participation in the GAIN program, although they are free to volunteer for the program.

In addition, the FSA allows states to require parents who are 16 or 17 years old and who have *not* completed high school or received a GED to participate full time in educational activities, regardless of the age of their youngest child. Under current state law, these individuals are exempt from mandatory participation in the GAIN program if their youngest child is under 6 years old.

Fiscal Effect. Adding these individuals to the mandatory GAIN caseload would potentially result in major (multi-million dollar) increased General Fund costs to provide GAIN services to these individuals. The actual costs, however, would depend on the Legislature's action on the 1989-90 and subsequent budgets. This is because the FSA requires states to serve mandatory participants only to the extent that they have the funds to do so. Thus, if the budget does not include sufficient funds to serve the entire mandatory GAIN caseload, including second AFDC-U parents, AFDC parents whose youngest child is one or two years of age, and certain parents who are 16 or 17 years old, the state could accommodate the shortfall by limiting the number of participants that actually receive GAIN services.

Recommendation. The effect of adding mandatory participants to the GAIN program will depend to a large extent on the Legislature's action on the 1989-90 and subsequent budgets. Therefore, we recommend that the Legislature consider this issue as part of its deliberations on the 1989-90 Budget Bill.

J O B S P R O G R A M

AFDC-U Work Activity Standards

REQUIREMENT

The FSA establishes standards for the percentage of a state's AFDC-U households that must participate in a work activity for at least 16 hours per week.

ISSUE

How extensively will California have to redesign the GAIN program in order to meet the new federal work activity standards?

RECOMMENDATION

We recommend that the Legislature defer action on this issue until the 1991-92 legislative session, by which time the DSS should have the data needed to estimate the extent of the changes in the GAIN program that would be needed to comply with the new standards.

DISCUSSION

Background. The FSA establishes standards, effective in **FFY 94**, for participation in work activities by AFDC-U parents. Work activities include, but are not limited to, community work experience programs and on-the-job training. Specifically, the FSA establishes participation standards for states as follows: 40 percent of the state's AFDC-U households must participate in work activities in FFY 94, 50 percent in FFY 95, 60 percent in FFY 96, and 75 percent in FFY 97 and FFY 98. Failure to meet these standards would constitute noncompliance with the FSA and therefore, could jeopardize the state's eligibility for federal AFDC funds.

Under the existing GAIN program, there is no requirement that AFDC-U parents participate in a minimum level of work activity. Instead, counties refer GAIN participants to the various GAIN components based on the county's assessment of the individuals' needs. Generally, a participant has to be enrolled in GAIN for several months before he or she is assigned to the type of work activity required by the FSA. For this reason and because GAIN is a relatively new program, fewer than 5 percent of the state's AFDC-U households are currently participating in any work activity program. This percent is likely to increase by 1994 as more and more GAIN participants remain in the program long enough to be referred to a work activity component. However, it seems unlikely that this increase alone will be enough to bring California up to the participation standards established in the FSA.

Fiscal Effect. The effect of this requirement will depend on how extensively the state has to redesign the GAIN program to meet the work activity participation standards. The DSS should be able to develop such an estimate as data reflecting existing participation in work activities becomes available over the next several years.

Recommendation. We recommend that the Legislature defer action on this issue until the 1991-92 legislative session, by which time the DSS should have the data necessary to estimate the extent of the changes necessary in order for the GAIN program to comply with the new work activity participation standards.

J O B S P R O G R A M

Community Work Experience Program

REQUIREMENT

The FSA establishes a maximum number of hours that JOBS participants may be required to work in a community work experience program.

ISSUE

Should GAIN participants be required to work in a community work experience program for more hours than required by the FSA?

RECOMMENDATION

We recommend that the Legislature enact legislation to conform the GAIN program to the FSA's community work experience requirements.

DISCUSSION

Background. The FSA allows states to provide a community work experience program (CWEP) as part of the JOBS program. The CWEP provides work experience and training to participants in public or not-for-profit agencies. Participants are not paid for their work, but receive AFDC benefits and supportive services such as child care and transportation.

Under the FSA, states may require individuals to participate in a CWEP assignment for a maximum number of hours, as determined by a specified formula. After the participant works nine months in an assignment, the FSA requires that states use a different formula to determine the maximum number of hours of participation. The FSA does *not* specify a minimum number of hours of participation in CWEP.

The GAIN program also includes a community work experience program referred to as the Preemployment Preparation program (PREP). GAIN limits PREP participants to a maximum of 32 hours per week. The actual number of hours that an individual is required to participate in PREP is determined by the amount of his or her AFDC grant.

The formula used to determine the limit on CWEP hours is complex and some of the data needed to precisely estimate its impact in California are not available. Our analysis indicates, however, that the FSA limit will have only a relatively small effect on a limited number of individuals--those who remain in a PREP assignment for more than nine months and who are working in positions where the paid staff who work in comparable positions receive relatively high wages. Under the FSA limit, these individuals would be required to work fewer hours than currently required by the GAIN program.

Fiscal Effect. The FSA limit on PREP participation would result in minor (less than $200,000) savings to the GAIN program to the extent that some participants would require fewer hours of supportive services. The savings would be minor because (1) the limit will only affect a limited number of individuals and (2) some of the individuals affected would be reassigned to other GAIN components and would, therefore, continue to need supportive services.

Recommendation. If the state failed to adopt the FSA limit, it would presumably constitute noncompliance, thereby jeopardizing the state's eligibility for federal AFDC funds. Compliance would have minimal impact on the GAIN program. Therefore, we recommend that the Legislature enact legislation to limit GAIN participants' required PREP hours to the level specified in the FSA.

JOBS PROGRAM

Postsecondary Education Programs

REQUIREMENT

The FSA allows JOBS participants to participate in self-initiated training or postsecondary education programs that are consistent with their employment goals. The FSA places *no limit* on the amount of time individuals can spend in self-initiated programs. The FSA also gives states the option to assign JOBS participants to postsecondary education, also without time limit.

ISSUE

Will the DHHS' regulations allow California to retain the existing two-year limit on GAIN participants' utilization of postsecondary education programs?

RECOMMENDATION

We recommend that the Legislature defer action on this item pending receipt of the new federal regulations.

DISCUSSION

Background. Under the FSA, individuals participating in self-initiated education or training programs are considered to be satisfactorily participating in the JOBS program if (1) the self-initiated program is consistent with their employment goals and (2) they continue to make satisfactory progress in the program. The FSA places no time limit on the self-initiated program activities, so long as these conditions are met. In addition, the FSA gives states the option to assign JOBS participants to postsecondary education without a time limit.

Under the existing GAIN program, individuals may participate in self-initiated programs if their attendance and progress are satisfactory. However, the GAIN program limits self-initiated *educational* activities to two years. In addition, the GAIN program may assign certain participants to postsecondary education as part of their employability plan. These activities also are limited to two years under the GAIN program.

Under both JOBS and GAIN, individuals participating in postsecondary education programs are entitled to supportive services such as transportation and child care.

Fiscal Effect. By allowing individuals to continue postsecondary education activities on an unlimited basis, the FSA could result in unknown costs for services and for AFDC grants. This would occur to the extent that some individuals would remain in postsecondary education programs longer than two years. These individuals would probably remain in the GAIN program and on AFDC until they complete their education.

Recommendation. Based on our review of the FSA, we believe that the provisions of the GAIN program that limit the utilization of postsecondary education programs may have to be changed. However, we recommend that the Legislature defer action on this issue pending review of the forthcoming regulations. Specifically, the regulations may clarify whether the FSA would allow California to continue to impose its two-year limit on these programs.

TRANSITIONAL ASSISTANCE BENEFITS

Transitional Child Care

REQUIREMENT

The FSA requires states to provide child care for 12 months after a family becomes ineligible for AFDC due to increased earnings, increased hours of employment, or loss of an earned income disregard.

ISSUE

How should the state structure the sliding fee scale for transitional child care? How should the transitional child care program be administered?

RECOMMENDATION

We recommend the enactment of legislation creating a transitional child care program for all AFDC recipients who leave aid for the reasons specified in federal law. We further recommend that the DSS, in conjunction with the State Department of Education (SDE), report to the Legislature by May 1, 1989 on (1) alternative sliding fee scales,including the administrative costs of each alternative, and (2) alternatives for administering the program, including the costs and benefits of each alternative.

DISCUSSION

Background. The FSA requires states, effective **April 1, 1990,** to provide transitional child care for 12 months following the month a family becomes ineligible for AFDC due to increased earnings, increased hours of employment, or loss of an earned income disregard, if the state determines that child care is necessary for an individual's employment. Families receiving transitional child care must contribute to the cost of care according to a sliding fee scale to be established by the state. Transitional child care benefits are available to *all* families who become ineligible for AFDC, not just families who participated in JOBS or GAIN.

To be eligible for transitional child care, a family must have received AFDC for at least three of the six months immediately preceding the month in which the family became ineligible for aid. Transitional child care benefits are not available if the parent quits his or her job without good cause, or fails to pay his or her child support. The federal funding ratio for transitional child care varies among states, but for California, the federal government will cover 50 percent of the costs. The FSA limits the amount that the federal government will pay per child, per month to the "local market rate" for child care.

The transitional child care provisions of the FSA take effect on April 1, 1990 and sunset on September 30, 1998.

Under current state law, families who participate in GAIN are eligible for three months of transitional child care benefits after they complete the GAIN program. Current law requires participants in the GAIN program to contribute to the costs of transitional child care only if they are served in an SDE child care program. Most families who participate in GAIN do not participate in an SDE child care program. Instead, they find their own child care and are reimbursed by the state.

Fiscal Effect. Providing transitional child care to former AFDC recipients would result in major costs (more than $25 million annually) to the state and to the federal government. The state would incur child care costs in two ways: (1) as reimbursements to individuals for their actual child care expenses or (2) as costs to provide direct care under the SDE's subsidized programs. To the extent that fewer persons return to AFDC as a result of receiving this child care, there could also be reductions in state, federal, and county costs for welfare grants and administration.

Recommendation. The FSA *requires* states to provide transitional child care. Failure to provide this benefit would potentially jeopardize all of the state's federal AFDC funding. We therefore recommend that the Legislature enact legislation creating a transitional child care program for all AFDC recipients who leave aid for the reasons specified in federal law. In order to assist the Legislature in developing legislation to implement transitional child care, we further recommend that the DSS, in conjunction with the SDE, report to the Legislature by May 1, 1989 on (1) alternative sliding fee scales, including the administrative costs of each alternative, and (2) the alternatives for administering the program, including the costs and benefits of each alternative. The report should address such questions as:Who should administer the program? How will the care be provided? What should be the role of the DSS, county welfare departments, and the SDE?

Provisions Having Little or No Impact on California

We do not discuss in this chapter the following provisions of the FSA, which we believe will have little or no fiscal or programmatic impact on California:

- The requirement that *states establish an AFDC-U program.* Although this was a major, controversial provision of the FSA, it will have no impact on California, since California already provides AFDC to intact families who have at least one unemployed parent.
- The requirement that *states reevaluate their AFDC need and payment standards at least every three years.* In general, California adjusts its need and payment standards annually based on changes in the California Necessities Index (CNI).
- The requirement that *states extend medical benefits for four months to families losing eligibility for AFDC due to increased child support collections.* The FSA extended this provision to October 1, 1989 (it had expired on September 30, 1988). The DHS advises that it will incur costs of less than $100,000 to pay the state share of this benefit through October 1, 1989.
- The requirement that *states report on the use of Title XX Social Service Block Grant funds* annually rather than every two years, as required in current law. This requirement will probably result in little or no additional administrative costs.

MISCELLANEOUS PROVISIONS

Preeligibility Fraud Detection

REQUIREMENT

The FSA requires states to implement measures to detect fraudulent AFDC applications prior to determining eligibility of these applications for AFDC.

ISSUE

Should California implement a statewide preeligibility or early fraud detection program for AFDC?

RECOMMENDATION

We recommend the enactment of urgency legislation requiring all counties to implement the Fraud Early Detection/Prevention (FRED) program.

DISCUSSION

Background. The FSA requires states to implement measures by **October 1, 1989** to detect fraudulent AFDC applications prior to determining eligibility of these applications for AFDC. The DHHS must issue final regulations on the preeligibility fraud detection measures no later than April 13, 1989. The purpose of this requirement is to detect fraud in the AFDC program before the applicant is granted aid, thereby avoiding AFDC grant costs. According to the DSS and federal officials, this requirement was modeled after the FRED program piloted in Orange County in early 1980 and currently operating in 23 counties in California.

The FRED program involves assigning welfare fraud investigators or specially trained investigative-eligibility workers to work with county welfare department eligibility staff. The investigators are on-call to conduct in-depth investigations of the statements made by applicants for welfare. Eligibility workers refer cases to the fraud investigators whenever (1) the statements made by the applicant establish eligibility for welfare *and* (2) the intake worker has reason to believe that one or more of the statements in the application are false.

Fiscal Effect. This requirement would result in major AFDC administrative costs (multi-million dollar) to the state (25 percent), federal (50 percent), and county (25 percent) governments. Based on our review of the performance of the FRED program in counties that already operate the program, we believe that these costs would be more than offset by savings due to reduced AFDC fraud (please see our 1986-87 *Analysis*, p. 928).

Recommendation. Our analysis indicates that extending the existing FRED program to all counties would be cost-effective and the simplest way to comply with the FSA requirement. Consequently, we recommend that the Legislature enact urgency legislation requiring all counties to implement the FRED program.

MISCELLANEOUS PROVISIONS

Requiring Minor Parents to Live in Their Parents' Homes

FSA OPTION

The FSA *permits*, but does not require, states to require unwed minor parents to reside with a parent, legal guardian, or adult relative, or in another adult-supervised living arrangement, as a condition of receiving AFDC.

ISSUE

Should unwed minor parents be required to live with their parents or with other adults in order to receive AFDC?

RECOMMENDATION

We have no basis upon which to make a recommendation on this issue because of a lack of analytical evidence regarding the programmatic or fiscal effects of this proposal.

DISCUSSION

Background. The FSA *permits*, but does not require, states to require a minor (under age 18) who has never married and who has a child or is pregnant to reside with a parent, legal guardian, or adult relative in his or her home, or in a foster home, maternity home, or other adult-supervised supportive living arrangement, as a condition of receiving AFDC.

The FSA specifies that states may *not* impose this requirement if any of the following conditions exist:

- The minor has no parent or guardian who is living and whose whereabouts are known.
- The parent or guardian will not allow the minor to live at home.
- The state determines that the physical or emotional health or safety of the minor would be jeopardized by the living arrangement.
- The minor has lived apart from the parent or guardian for at least one year before the child was born or the minor applied for AFDC.
- The state determines (in accordance with DHHS regulations) that there is good cause not to impose the requirement.

The FSA further specifies that if the state chooses to implement the option, it can become effective any time after January 1, 1990.

Under current law, a minor parent who leaves home may establish a household and apply for AFDC as a separate family unit. The income of the parents of the minor parent is not counted as available to the minor in determining eligibility for AFDC if the minor does not reside with his or her parents.

It is unclear how many AFDC recipients would be affected if California chose this option, thereby requiring minor parents to live in their parents' homes. Approximately 22,000 minors who were either parents or pregnant received AFDC benefits in 1987-88. It is not known, however, how many of these recipients were already living with a parent or in another adult-supervised arrangement.

The reasons Congress adopted this option are not clear. On the one hand, it could be based on the belief that requiring minor parents to live with their parents or guardians will reduce the risk of teenage pregnancy and permit children to grow up in an adult-supervised, supportive arrangement. On the other hand, it may have been viewed as a way to reduce AFDC caseloads to save money.

Fiscal Effect. If the Legislature chooses to implement this option, it would result in both costs and savings in AFDC grants (44.6 percent General Fund, 50 percent federal funds, 5.4 percent county funds) as follows:

- The requirement could result in increased AFDC costs to the extent that requiring a minor parent to live with his or her parents results in the entire family (the unwed minor, her child, and her parents) becoming eligible for AFDC. This would happen if the parents had no other minor children living at home and their income and resources were within AFDC limits.
- The requirement could result in AFDC savings for two different reasons. First, it could result in savings if living with the parents makes the unwed minor ineligible for AFDC. This could happen if the parent

MISCELLANEOUS PROVISIONS

Changes in Federal Tax Law

REQUIREMENT

The FSA modifies several components of federal tax law in order to generate additional federal funds to pay for the measure. While the state is not required to take conforming action, it could do so if it wished.

ISSUE

Should the Legislature enact legislation to conform state income tax law to the new federal income tax law?

RECOMMENDATION

We recommend that the Legislature consider this issue as part of the general tax conformity process.

DISCUSSION

Background. The FSA modifies several provisions of the federal income tax law in order to generate funds to pay for the overall costs of the FSA. The provisions include the following:

- Extension of the federal debt collection program.
- Modifications to the child care tax credit and dependent care income exclusion.
- Modification to the treatment of certain employee business expenses.
- Requirement that taxpayer identification numbers (social security numbers) be identified for dependents aged two and over who are claimed as dependents on federal tax returns.

Fiscal Effect. The Congressional Budget Office estimates that these changes will generate $3.3 billion in additional revenues to the federal government. If the Legislature enacts legislation to conform some or all of the relevant provisions of state tax law to the new federal tax law, the state would receive additional General Fund revenue. Our *preliminary* estimate of the additional revenue is in the range of $40 million to $50 million annually.

Recommendation. The Franchise Tax Board (FTB) is currently estimating the potential General Fund revenue effects of conforming state tax law to these changes in federal tax law. We recommend that the Legislature consider this issue as part of its annual general tax conformity review process.

Table 3
Demonstration Projects Authorized in the Family Support Act

PROJECT	OBJECTIVE	NUMBER OF STATES ELIGIBLE	DURATION OF THE PROJECT	FUNDING
1. Family Support Demonstration				
A. Early Childhood Development	To test the effectiveness of in-home early childhood development programs and preschool center-based development programs emphasizing the use of volunteers with families receiving AFDC; enhance cognitive skills, linguistic ability, communication skills, the ability to read, write, and speak English for children under five years of age.	Up to 10 states.	No more than three years.	Up to $6 million each year for FFY 90, FFY 91, and FFY 92 (this amount includes funding for the other two Family Support Demonstration projects).
B. Innovative Education and Training Programs for Children	To develop innovative education and training programs for children receiving AFDC, test financial incentives and interdisciplinary approaches to reducing school dropout rates, encourage skill development, and avoid welfare dependency.	No limit.	Not less than one year or more than five years.	Up to $6 million each year for FFY 90, FFY 91, and FFY 92 (this amount includes funding for the other two Family Support Demonstration projects).
C. Long-Term Family Self-Sufficiency Through Community-Based Services	To test methods of coordinating and providing services to promote long-term family self-sufficiency; partnership between state and community-based organizations to provide comprehensive family support services.	No limit.	Not specified.	Up to $6 million each year for FFY 90, FFY 91, and FFY 92 (this amount includes funding for the other two Family Support Demonstration projects).
2. AFDC Parents as Child Care Providers	To test whether employing AFDC parents as child care providers will facilitate the provision of child care under the JOBS program and if this employment will assist in avoiding welfare dependency among such child care providers.	5	Three years.	$1 million each year from 1990 through 1992.
3. Alternative Definition of AFDC-U	To test and evaluate the use of a definition of unemployment greater than the current "100-hour" rule in the AFDC-U program.	Eight sites (a site may be a county or an entire state).[a]	Up to five years.	Not specified.

[a] *California currently has pilot projects related to the 100-hour work rule in three counties (Fresno, Merced, and Riverside). It is possible that the DHHS would require these pilots each to compete to be included as one of the eight sites available under the FSA.*