

**AGENDA  
SUBCOMMITTEE No. 1  
ON HEALTH AND HUMAN SERVICES**

**ASSEMBLYMEMBER PATTY BERG, CHAIR**

**WEDNESDAY, APRIL 9, 2008  
STATE CAPITOL, ROOM 444  
1:30 P.M.**

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## VOTE-ONLY ITEMS

### 5180 DEPARTMENT OF SOCIAL SERVICES

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#### ISSUE 1: BCP – CALWORKS WELFARE TO WORK PERFORMANCE OVERSIGHT

##### BACKGROUND

The Budget Change Proposal (BCP) requests the establishment of six three-year limited term positions (\$687,000) in its Welfare to Work Division, effective July 1, 2008 to (1) hold regular performance outcome measurements meetings (CalStats) with the counties in order to highlight good practices as well as identify obstacles to performance and (2) conduct county peer/state reviews in order to assist counties in improving work participation rates, identify best and promising practices, and provide technical assistance. The administration states that data gathered from the County Peer Reviews will be part of the report card and will enable CDSS to populate its Best Practices website and meet the requirements of the federal Deficit Reduction Act of 2005 and state statute.

##### STAFF COMMENT

While there is strong desire to support county efforts toward collaborative approaches and information-sharing on CalWORKs improvements in program implementation, the Legislature must view requests for new positions in the context of simultaneous, massive, cumulative proposed cuts to programs and clients. In light of these considerations, staff recommends rejection of the BCP.

**ISSUE 2: BCP – CONTINUATION OF LIMITED TERM STAFF FOR BACKLOG VISITS****BACKGROUND**

The administration is requesting an 18-month extension of 29 limited term positions (\$1 million GF, \$54,000 federal funds) so that facilities that have not been visited in over five years can be inspected. The Community Care Licensing (CCL) Division at the department states that in the last several years the frequency of evaluation visits has been severely compromised due to budget constraints and statutory pressures. The department further contends that while it has made significant progress, it will not be able to complete its backlog of required visits by December 31, 2008, the time frame provided for in the FY 2006-07 BCP that provided the current LT positions for this task.

At the end of the LT's current term (12/3/08), the department estimates that there will still be 4,923 facilities in need of a visit to meet the every five year requirement. In summary, the 29 positions are requested to continue from January 1, 2009 through June 30, 2010 to complete the rest of the visit backlog.

**STAFF COMMENT**

The backlog is likely to remain, or continue to accumulate, in some form even with the approval of these positions. Simultaneously, the administration is proposing to cut CCL's staff significantly in its BBR that proposes a lengthening of the time frame and a corresponding reduction of the percentage of random visiting. In light of these considerations, staff recommends rejection of the BCP.

**ISSUE 3: CONTINUING CARE CONTRACTS BRANCH WORKLOAD****BACKGROUND**

The administration requests three permanent positions (\$316,000 special funds) to meet the significant increase in the volume and complexity of the Continuing Care Contracts Branch (Branch) workload, which serves to protect the financial investments of senior citizens residing in Continuing Care Retirement Communities (CCRCs).

The department states that with the increased number of applications and the new financial submissions, the Branch has been unable to complete timely evaluations of applicants or providers' financial conditions. The Branch is presently staffed by six positions and also has consulting contracts in place to enable the use of industry experts, when needed, for marketing and financial reviews, but the department contends that this does not assist with the recent general increase in workload.

**STAFF COMMENT**

The positions will be funded from the Continuing Care Provider Fee Fund which is solely supported by continuing care providers. For this reason, staff recommends approval of the BCP as budgeted.

**ISSUE 4: INDIAN HEALTH CLINICS FUNDING TRANSFER****BACKGROUND**

The administration requests the authority to transfer effective July 1, 2008, responsibility for the direct administration and program oversight of the Indian Health Clinic (IHC) program from the Department of Alcohol and Drug Programs (DADP) to the Department of Social Services (DSS), and to establish a position at DSS to administer the project (\$157,000 GF). The program is funded by DSS and currently administered by the DADP, which has one position dedicated for this purpose. The BCP also requests an amendment to the Welfare and Institutions Code to give DSS the authority to provide funds to the Indian Health Clinics.

**STAFF COMMENT**

The proposal has no net impact on the number of state positions and will not result in any additional costs in the overall state budget. This action is consistent with the corresponding BCP from the DADP approved by the Subcommittee in a prior hearing. Staff recommends approval of the BCP and the accompanying language.

**ISSUE 5: BCP – PUBLIC SOCIAL SERVICE HEARINGS****BACKGROUND**

The administration requests an increase of one Administrative Law Judge (ALJ) II Specialist (\$54,000 GF) at the State Hearings Division (SHD) to conduct judicial review and provide legal grounds to grant or deny rehearing requests on behalf of the Directors of DSS and the Department of Health Care Services as required in Assembly Bill 921, Chapter 502 (2007).

The State Hearings Division (SHD) is required to provide full, impartial, and timely state hearings to recipients and applicants of various public assistance programs who have disputes with their local county welfare departments. The programs include CalWORKs, Child Support Services, Food Stamps, Medi-Cal, several Adult Programs, and In-Home Supportive Services (IHSS). Interagency agreements exist between SHD and DHCS to provide hearings on Medi-Cal issues, and with the Department of Child Support Services to provide hearings on issues related to child support payments.

The department contends that currently all existing staff have full caseloads and are not available to handle the additional workload associated with review of rehearing requests. Furthermore, the department states that existing resources are allocated to meet the normal caseload demands of the various programs in order to minimize financial penalties for failure to adjudicate hearing decisions within court-mandated timeframes.

**STAFF COMMENT**

The request for a new position in this area is difficult to assess in view of the proposed BBR related to state hearings, which would eliminate 13 ALJ positions and 6 Office Technician positions for an annualized reduction of \$780,000 GF and \$337,000 GF in 08-09. Moreover, in light of fiscal constraints and outstanding proposed cuts, GF expenditure in this area should be nonetheless prudently evaluated. In light of these considerations, staff recommends rejection of the BCP.

**ISSUE 6: BCP – RELOCATION OF RESIDENTS****BACKGROUND**

Currently, laws and regulations are in place to provide for the safe transfer of residents whose relocation is due to the temporary suspension of a Residential Care Facility for the Elderly (RCFE) license, or a change in a resident's health condition. These protective measures do not extend to residents that are transferred due to the licensee's surrender of the license or abandonment of the facility. Where seven or more residents are affected, AB 949, Chapter 686 (2007) requires the facility to prepare an overall proposed closure plan that includes specified requirements and a description of staff available to assist in resident relocations, to be submitted to DSS. Under this statute, CCL is required to approve or disapprove a proposed closure plan within 15 working days of receipt and monitor its implementation. No action by DSS within 20 working days of receipt of the plan would be tantamount to approval.

The administration requests two positions, one on a one-year limited term basis to inform licensing staff and licensees of the new requirements and to amend existing regulations, and the second on a permanent basis to review and approve relocation plans and oversee their implementation. The request is for \$176,000 General Fund.

**STAFF COMMENT**

In light of aforementioned considerations, staff recommends rejection of the BCP.



**ISSUE 7: BCP – CALWORKS SUBSIDIZED EMPLOYMENT MONITORING, DATA COLLECTION, AND REPORTING****BACKGROUND**

The administration requests one two-year limited term position (\$102,000) to meet the tracking and data collection needs required to produce a report to the Legislature by January 10, 2011 on the outcomes of the CalWORKs Subsidized Employment Program as mandated by AB 98, Chapter 589 (2007). The statute requires DSS to submit a report to the Legislature on the outcomes of implementing the program no later than January 10, 2001. To comply with the reporting provisions of AB 98, DSS would have to set up a new reporting structure to collect the data required for this report and contends that it currently does not have the staff resources needed to comply with these provisions.

**STAFF COMMENT**

In light of aforementioned considerations, staff recommends rejection of the BCP.

**ISSUE 8: BBR – STATE ADMINISTRATION****BACKGROUND**

The BBR proposed a reduction of \$440,000 GF for the department's Operating Expense and Equipment (OE&E) expenditures across all categories. The DSS states that will target in-state travel, out-of-state travel, contracts, and assess other OE&E costs to minimize the impact to the departmental mission.

**STAFF COMMENT**

Staff recommends approval of the BBR and the associated funding reduction for administrative support for the DSS for budget year.

## ITEMS TO BE HEARD

### 5180 DEPARTMENT OF SOCIAL SERVICES

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#### ISSUE 1: BBR- DEAF ACCESS PROGRAM

##### BACKGROUND

The administration proposes a reduction of \$281,000 GF (\$300,000 federal funds) to the Deaf Access Program (DAP). The DAP was created in 1980 to ensure that public programs and services are adapted to meet the needs of deaf and hard of hearing individuals and their families, so that they may receive the public services to which they are entitled, achieve economic independence, and fully participate in mainstream society. This is done through contracts with local, non-profit agencies that specialize in providing services to deaf and hard of hearing individuals. Services provided include communication services, counseling, advocacy services, independent living skill instruction, job development and placement, information and referral, and community education.

The administration acknowledges that reductions to the program will negatively affect the ability of the contracted, non-profit agencies to provide the mandated DAP services. Due to the discretionary nature of the use of fund through the agencies utilized, it is difficult to assess exactly where services will be restricted, as this will vary region to region and across the agencies involved in the DAP. The administration states that possible impacts include the reduction or elimination of certain mandated services due to staff eliminations and outreach office closures.

##### QUESTIONS

- What the funding history of the program?
- How does the cut affect access compliance for the state?

**ISSUE 2: CALWORKS PROGRAM****PANELISTS**

For this item, the following panel will address various aspects of the program and specifically the Governor's proposed reductions in this area.

- *General Program Background*  
Todd Bland, Legislative Analyst's office
- *County Efforts*  
Kelly Brooks, California State Association of Counties
- *Client Assessment and Discussion of Barriers*  
Richard Spiegelman, Consultant, Child and Family Policy Institute of California
- *Federal Context and State Challenges*  
Michael Herald, Western Center on Law and Poverty  
Frank Mecca, County Welfare Director's Association
- *Administration's Budget Proposals*  
CharrLee Metsker, Deputy Director, Welfare to Work, Department of Social Services

**PROGRAM BACKGROUND**

In response to federal welfare reform legislation, the Legislature created the California Work Opportunity and Responsibility to Kids (CalWORKs) program, enacted by Chapter 270, Statutes of 1997 (AB 1542, Ducheny, Ashburn, Thompson, and Maddy). Like its predecessor, Aid to Families with Dependent Children, the new program provides cash grants and welfare-to-work services to families whose incomes are not adequate to meet their basic needs. A family is eligible for the one-parent component of the program if it includes a child who is financially needy due to the death, incapacity, or continued absence of one or both parents. A family is eligible for the two-parent component if it includes a child who is financially needy due to the unemployment of one or both parents.

Information on grant levels is provided below.

CalWORKs Maximum Monthly Grant and Food Stamps 2007-08 and 2008-09 Family of Three				
	2007-08	2008-09 <sup>a</sup>	Change	
			Amount	Percent
<b>High-Cost Counties</b>				
Grant	\$723	\$761	\$38	5.0%
Food stamps	361	344	-17	-4.9
<b>Totals</b>	<b>\$1,084</b>	<b>\$1,105</b>	<b>\$21</b>	<b>1.9%</b>
<i>Percent of poverty<sup>b</sup></i>	73.9%	75.3%		
<b>Low-Cost Counties</b>				
Grant	\$689	\$725	\$36	5.0%
Food stamps	377	360	-17	-4.7
<b>Totals</b>	<b>\$1,066</b>	<b>\$1,085</b>	<b>\$19</b>	<b>1.8%</b>
<i>Percent of poverty<sup>b</sup></i>	72.7%	74.0%		
<sup>a</sup> Based on a grant COLA of 5.26 percent resulting from the actual change in the California Necessities Index.				
<sup>b</sup> Federal fiscal year 2008 federal poverty guidelines.				

The budget proposes an appropriation of \$4.8 billion (\$1.5 billion General Fund, \$107 million county funds, \$35 million from the Employment Training Fund, and \$3.1 billion federal funds) to the Department of Social Services (DSS) for the CalWORKs program in 2008–09. In total funds, this is a decrease of \$378 million, or 7.3 percent, compared to an estimated spending of \$5.2 billion in 2007–08. This decrease is primarily attributable to estimated savings from the Governor’s proposed policy changes to establish time limits for children whose parents cannot or will not comply with participation requirements.

General Fund spending for 2008–09 is proposed to be \$59 million, 4 percent, more than estimated spending for 2007–08. This General Fund increase is due to a higher federal maintenance-of-effort (MOE) requirement, partially offset by using more countable MOE funds from other departments.

<b>MAINTENANCE OF EFFORT AND CASELOAD REDUCTION CREDIT</b>
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Pursuant to federal law, any spending above the federally required maintenance-of-effort (MOE) level results in a caseload reduction credit (CRC) which reduces California's work participation requirement in the California Work Opportunity and Responsibility to Kids program. Recent federal changes are likely to reduce the amount of countable MOE spending and CRC available to California.

**Temporary Assistance for Needy Families (TANF) MOE Requirement.** To receive the federal TANF block grant, states must meet a MOE requirement that state spending on assistance for needy families be at least 75 percent of the federal fiscal year (FFY) 1994 level, which is \$2.7 billion for California. (The requirement increases to 80 percent if the state fails to comply with federal work participation requirements.) Because California is likely to fail the work participation requirement for FFY 2007, the required spending level rises to 80 percent beginning in the 2008–09 budget. Although the MOE requirement is primarily met through state and county spending on CalWORKs and other programs administered by DSS, state spending in other departments is also counted toward satisfying the requirement.

**Expanded Definition of MOE Spending.** The federal Deficit Reduction Act (DRA) of 2005 expanded the definition of what types of state spending may be used to meet the MOE requirement. Previously, countable state spending had to be for aided families or for families who were otherwise eligible for assistance. The DRA allows state expenditures designed to prevent out-of-wedlock pregnancies or promote the formation of two-parent families to count toward the MOE requirement, even if the program participants are not otherwise eligible for aid. Essentially, the act removes the requirement that countable spending for these purposes be on behalf of low-income families with children.

Because of this change, California now counts some existing spending on higher education tuition assistance (CalGrants and community college fee waivers) and after school programs toward the MOE requirement. The rationale for tuition assistance is that higher education is generally associated with better employment and life outcomes, which in turn may result in fewer out-of-wedlock births. Similarly, after school programs are associated with better school attendance and achievement, which in turn improves employment and life outcomes, potentially resulting in fewer teen pregnancies.

**Excess MOE Spending Results in CRC.** As discussed more fully in the next section, pursuant to DRA, states must meet federal work participation rates (50 percent for all families) less a CRC based on the decline in their caseloads since FFY 2005. Current federal regulations allow states that spend above their required MOE level to subtract out cases funded with excess MOE for the purpose of calculating CRC. Based on the amount of excess MOE spending during FFY 2006, California increased its CRC from 3.5 percent to a total of 14.4 percent. Pursuant to federal rules, the CRC percentage

that is due to excess MOE spending during FFY 2006 is subtracted from the federal work participation requirement for the subsequent year (FFY 2007).

**New Federal Regulations.** On February 5, 2008, the federal Administration for Children and Families published new regulations regarding the implementation of DRA. Although these regulations make many modifications to the prior rules, the most significant changes are to (1) the method by which CRC from excess MOE is calculated and (2) which types of expenditures may be counted as MOE. The new rules take effect on October 1, 2008.

**Change in Calculation of the MOE CRC.** Many states have claimed excess MOE spending and have submitted federal reports which calculate CRC based on their amount of excess spending. The new regulations limit the amount of countable excess MOE spending to that portion of the excess MOE spending that represents "assistance." Because California's assistance spending is about one-half of its total MOE expenditures, imposition of this calculation methodology will significantly reduce California's credit by about 50 percent compared to the existing California calculation method.

To date, the federal government has not yet notified California that its credit will be reduced, but such notification is expected in the near future.

**Limits on Spending Which May Be Counted as MOE.** As described earlier, DRA allowed states to count spending on individuals and families that were not eligible for TANF so long as the spending was reasonably calculated to reduce out-of-wedlock births or promote marriage. The new regulations only allow expenditures on specified programs that support marriage (such as mentoring programs, and marriage education) to be counted as MOE. States will no longer be able to count tuition assistance and other programs for families and individuals not otherwise eligible for TANF. Because these regulations go into effect on October 1, 2008, they impact how state spending is counted during FFY 2009 (October 2008 through September 2009), and impact the FFY 2010 CRC.

Given this recent federal change, further analysis of California's spending which is outside of the regular CalWORKs program, and used to satisfy either the MOE requirement and/or create excess MOE CRC, is needed. On a preliminary basis, we are concerned that these regulations would substantially reduce countable excess MOE spending, most likely eliminating the excess MOE CRC beginning in FFY 2010. Moreover, the ability to meet the base MOE requirement under the Governor's budget may be jeopardized. This problem is compounded by recent information suggesting that Proposition 49 after school funds may not be countable toward MOE because they are in part used to obtain federal education funds. On the other hand, it may be possible to create TANF fund shifts to restore the some of the excess MOE funds. After we have more carefully reviewed the regulations we will provide the Legislature with options for potentially mitigating this loss of MOE funds.

From FFY 2007 through FFY 2010, Figure 2 shows estimated excess MOE spending under both the Governor's budget and under current law. For comparison purposes, the current law version backs out the savings from the Governor's reforms discussed later in this chapter. The only difference is the credit for FFY 2009, which is based on spending in FFY 2008. The Governor's proposals reduce spending during 2007–08 and 2008–09, and approximately \$75 million of this savings impacts the FFY 2009 CRC. For FFY 2010, the figure shows no excess MOE spending because of the impact of the new federal regulations. Depending on the level of spending within the regular CalWORKs program, it may be possible, through fund shifts, to restore some of the excess MOE CRC in FFY 2010.

## WORK PARTICIPATION RATE

Federal law requires that states meet a work participation rate of 50 percent for all families and 90 percent for two–parent families, less a caseload reduction credit (CRC). The Deficit Reduction Act of 2005 and associated regulations significantly changed the calculation of the participation rate and CRC. We estimate California's work participation rate under these federal changes, and find that absent policy changes, California is out of compliance with federal requirements.

**Work Participation Requirement and Status.** To comply with federal work participation rates, adults must meet an hourly participation requirement each week. For single–parent families with a child under age six, the weekly participation requirement is 20 hours. The requirement goes up to 30 hours for single parents in which the youngest child is at least age six. For two–parent families the requirement is 35 hours per week. The participation hours can be met through unsubsidized employment, subsidized employment, certain types of training and education related to work, and job search (for a limited time period).

**Work Participation Penalties for States.** If a state fails to meet the work participation rates, it is subject to a penalty equal to a 5 percent reduction of its federal TANF block grant. For each successive year of noncompliance, the penalty increases by 2 percent to a maximum of 21 percent. For California, the 5 percent penalty would be approximately \$149 million annually, potentially growing by up to \$70 million per year. Penalties are based on the degree of noncompliance. For example, if a state is in compliance with the all–families rate, but is out of compliance for the two–parent rate, the penalty would be prorated down based on the percentage of cases that are two–parent cases. Pursuant to current state law, the state and counties would share in any federal penalty.

**State Impact of Penalties.** States that fail to meet their work participation requirements are required to (1) backfill their federal penalty with state expenditures and (2) increase their MOE spending by 5 percent. States out of compliance may enter into corrective action plans which can reduce or eliminate penalties, depending on state progress in meeting the negotiated goals of the corrective plan. Given past practice and regulations, if California were notified in late 2008 that it was out of compliance with



work participation in FFY 2007, California would have until FFY 2010 to meet the goals of a corrective action plan.

**Deficit Reduction Act Effectively Increases Participation Requirements for States.**

The DRA increased participation requirements on states in three different ways. First, it moved the base period for calculating CRC from 1995 to 2005. Because California's caseload decline mostly occurred before 2005, this substantially reduces the state's CRC, from about 46 percent to about 3.5 percent for FFY 2007 and an estimated 6.8 percent in FFY 2008. Second, it made families served in separate state programs subject to federal participation rates. Thus, beginning with FFY 2007, California is subject to the 90 percent federal work participation rate for two-parent families. In the past, these families were not subject to federal work participation requirements. Third, it provided the Secretary of Health and Human Services with broad authority to adopt federal regulations to (1) narrow the definition of work and participation and (2) expand the number of families who are included in work participation calculations.

**Current Participation Rate.** The most recent data on California's work participation rate are from FFY 2006. The DRA provisions, which became effective in FFY 2007, increase the number of families required to participate and also expand the definition of which families are meeting the rate. Based on data from FFY 2006, Figure 3 estimates California's work participation for 2007 under DRA. As the figure shows, DRA changes have the effect of reducing the participation rate from 25 percent to 21 percent. Most of this loss is attributable to changes requiring that families sanctioned for more than three months and families in the safety net program (who have been on aid for five years) be included in the work participation rate.

**Estimated Impact of Recently Enacted State Reforms.** Through enactment of Chapter 68, Statutes of 2005 (SB 68, Committee on Budget and Fiscal Review) and Chapter 75, Statutes of 2006 (AB 1808, Committee on Budget), the Legislature has made significant program changes that should increase work participation among CalWORKs families. Last year, DSS estimated that these measures would increase participation by 4 percentage points in FFY 2007 and 10 percentage points in FFY 2008. Now DSS is forecasting that these changes will have almost the same impact, but one year later. In other words, the 4 percent increase is projected to occur in FFY 2008 with an additional 6 percent in FFY 2009. Thus, given the current participation rate of 21 percent, DSS estimates that participation will be 25 percent in FFY 2008 and 31 percent in FFY 2009.

**GOVERNOR'S BUDGET  
PROPOSALS**

**COLA.** The Governor's budget provides \$131 million to fund the California Work Opportunity and Responsibility to Kids (CalWORKs) cost-of-living adjustment (COLA) based on an estimated California Necessities Index (CNI) of 4.25 percent. The Legislature took action in the Special Session to delay the effective date of the COLA until October 1, 2008 on a one-time basis.

**Policy Changes.** The Governor's budget proposes four major policy changes which would significantly alter the CalWORKs program. As a package, these proposals result in net savings of \$471 million in 2008–09, and are estimated to increase work participation by 9.7 percent in FFY 2009 and 19.8 percent in FFY 2010.

Governor's CalWORKs Package Summary of Fiscal and Work-Related Impacts <i>(Dollars in Millions)</i>					
Component	2008-09			Change in WPR <sup>a</sup>	
	Grants/ Administration	Child Care/ Services	Net Fiscal Impact	FFY 2009	FFY 2010
Graduated full-family sanction	-\$61.7	\$82.7	\$21.1	3.7%	5.7%
Modified safety net (5-year time limit)	-256.7	-2.5	-259.2	5.1	5.1
Work Incentive Nutritional Supplement (WINS) <sup>b</sup>	8.4	—	8.4	0.9	9.0
Child-only time limit	-241.5	—	-241.5	—	—
<b>Totals</b>	<b>-\$551.5</b>	<b>\$80.2</b>	<b>-\$471.3</b>	<b>9.7%</b>	<b>19.8%</b>

<sup>a</sup> WPR = Work Participation Rate.  
<sup>b</sup> In 2008-09, \$8.4 million for automation, rising to about \$24 million in 2010-11.

**Graduated Full-Family Sanction.** Currently, when an able-bodied adult does not comply with CalWORKs participation requirements, the family's grant is reduced by the adult portion, resulting in a "child-only" grant. The Governor proposes to increase this sanction to 50 percent of the remaining child-only grant after six months in sanction status, and completely eliminate the family's grant after another six months elapses, unless the adult comes into compliance. Families would be able to end the sanction and restore their grants by complying with program requirements.

Proposed trailer bill language "strongly encourages" counties to contact noncompliant cases by phone, letters, or home visits, before imposing the increased sanction. However, the budget does not include any additional funds for these activities (meaning that counties would have to absorb these contact costs within their existing block grants).

- **Impact on Families.** Currently, the maximum grant for a family of three is \$723 per month plus \$361 in food stamps, for a total of \$1,084 per month. When a family

moves into sanction status, the adult is removed, the grant drops to \$584 and the food stamps increase to \$416, for a total of \$1,000 per month. Under the Governor's proposal, after six months in sanction status, the grant for the non-complying family would drop by 50 percent to \$292 plus \$426 in food stamps (for a combined benefit package of \$718). After an additional six months, the grant would be completely eliminated and the family would retain its food stamps benefits of \$426 per month.

- **Behavioral Impacts on Families.** For 2007–08, the estimated number of families in sanction status is 41,700 (with an average of 1.9 children per family). The Governor's budget assumes that 13,000 families (31 percent) will participate sufficiently to come into compliance and avoid further sanction. The remaining 28,700 would receive a 50 percent reduction in their grant. Of this remaining group, the budget assumes that 5,800 families (20 percent) would comply with program requirements and avoid the full-family sanction. The remaining 23,000 families are estimated to experience the full-family sanction. This represents about 44,000 children. The budget further estimates that about 6,300 families experiencing the full-family sanction would subsequently comply with program requirements and return to aid within six months.
- **Impact on Work Participation.** There are two impacts on the state's work participation rate from this policy. First, some families will work sufficient hours to meet federal participation requirements. Specifically, the budget estimates there will be about 1,200 newly participating families in FFY 2008, rising to 8,400 in FFY 2009, and 11,500 in FFY 2010. This increases the numerator, thus raising the work participation rate. Second, the families which experience the full-family sanction exit the program and reduce the denominator. Together, the budget estimates that these changes will increase the work participation rate by about 0.44 percent in FFY 2008, rising to 3.7 percent in FFY 2009, and 5.7 percent in FFY 2010. We note that regardless of the success rate of this policy in encouraging families to work, the policy will increase the work participation rate, because families who experience the full-family sanction will go off aid and therefore be excluded from the denominator. The only question is the number who would leave aid and be excluded. In contrast to last year's proposal, families who are removed from aid under this policy would be able to return to the safety net under certain conditions.
- **Fiscal Impact.** Because of the estimated increase in compliance and work participation, the budget estimates increased child care and welfare-to-work services costs of about \$83 million in 2008–09. These costs would be offset by grant savings (\$62 million) from the families that experience the full-family sanction. Thus, the Governor's budget estimates these net costs to be about \$21 million in 2008–09.

**Five-Year Time Limit for Children in Safety Net.** Currently, after five years of assistance, a family's grant is reduced by the adult portion, and the children continue to receive a child-only grant in the safety net program. The budget proposes to eliminate the safety net grant for children whose parents fail to comply with the federal work participation requirements as of June 1, 2008. Families currently on the safety net

would be given 90 days to increase their work hours to remain eligible. Families unable to meet federal requirements would be removed from aid.

Specifically, the proposed trailer bill legislation allows former safety net children of adults who work sufficient hours to meet federal participation requirements to rejoin the safety net. This is because for the first six months after being removed from aid, the proposed trailer bill applies the income limits for recipients (about \$1,670 per month for a family of three) to this population, rather than the much lower income limits for applicants (about \$800 per month for a similar family). The income limits for recipients are higher than those for applicants because recipients have the first \$225, and one-half of all earnings above \$225, “disregarded” when calculating their grant.

- **Impacts on Families.** The budget estimates that there would be approximately 47,500 safety net cases in June 2008, rising to 48,500 cases during 2008–09. The budget assumes that in 2008–09, 26 percent of these families—about 12,400 cases—will work sufficient hours to maintain eligibility for the safety net. The DSS bases this 26 percent rate on data indicating that currently about 19 percent of safety net cases are meeting the federal participation requirements, and that when faced with complete benefit termination, an additional 7 percent who are working part time would increase their hours so as to remain eligible. The budget estimates that the other 35,100 cases, with approximately 67,000 children, would lose aid because of this policy.
- **Fiscal Impacts.** The budget estimates that the safety net time limit will result in savings of \$18 million in June 2008, rising to \$259 million in 2008–09.
- **Impact on Work Participation.** The safety net time limit would increase participation in two ways. First, it modestly increases the number of families working enough hours to meet federal requirements (the 7 percent of families on the safety net who are working part-time and are assumed to reach the federally required levels in response to potential benefit termination). Second, those unable to meet federal participation would have their benefits terminated. By removing these cases from assistance, it reduces the denominator, thus increasing the participation rate. The budget estimates that these combined impacts will raise the work participation rate by 1.6 percent in FFY 2008, and 5 percent in FFY 2009.

**Child-Only Time Limit.** The budget proposes to limit assistance to five years for most child-only cases (such as those with parents who are undocumented or ineligible due to a previous felony drug conviction). There are approximately 37,000 cases which have been aided for five years and would lose assistance under this proposal. Removing these families from assistance results in General Fund savings of \$18 million in June 2008, rising to \$242 million in 2008–09. There are about 70,300 children in these families.

- **No Impact on Work Participation.** Limiting benefits to other child-only cases to five years (where the parents are ineligible because they are drug felons or

undocumented) has no impact on work participation. This is because they are already excluded from the work participation calculation.

**Work Incentive Nutritional Supplement (WINS).** Beginning on July 1, 2009, the budget proposes to provide a \$40 per month nutritional supplement to working families who are not in the CalWORKs program but are working sufficient hours to meet the federal work participation requirements. The benefits would be provided in the form of additional food stamps, which are usually made available to recipients through the use of electronic benefit transfer cards. The budget estimates that approximately 40,000 families will be eligible for this supplement. For 2008–09, the budget proposes \$8.4 million to make necessary automation changes. The administration estimates that during 2009–10, the cost of providing benefits under this program would be \$18.6 million, rising to \$24 million each year thereafter.

- **Impact on Work Participation.** Besides increasing food benefits for the working poor, the primary advantage of this proposal is adding about 40,000 working families to the numerator for purposes of calculating the federal work participation rate. The administration estimates that this proposal will increase the work participation rate by 0.9 percent in FFY 2009, 9 percent in FFY 2010, and 10 percent in FFY 2011.

Because this proposal adds to the CalWORKs caseload, in isolation it reduces the natural caseload reduction credit of 7.3 percent in FFY 2010 and FFY 2011 as shown in Figure 4. This is because the cases receiving WINS would be new CalWORKs cases, creating a caseload increase, which would reverse the 7.3 percent reduction. However, federal rules allow caseload increases from eligibility changes such as this to be offset against eligibility changes that reduce the caseload.

#### STAFF COMMENT

The Subcommittee has heard these proposals in the past and the Legislature rejected the bulk of the Governor's current package of policy changes in CalWORKs last year that imposed full-family sanctions and cut off aid for safety net and child-only cases. Difficult barriers to work persist for participants on levels that are personal, programmatic, and, increasingly, economic. These complicated barriers and county efforts to thoughtfully engage families color the reception of these drastic proposals to eliminate aid for families and children.

The recently released CalWORKs Options study from the administration provides ideas for investments in the program that have foreseeable benefits and create real supports to families. These provide avenues toward meeting the federal standards in ways that genuinely address work barriers and without the adverse effects on families that may push them into homelessness and create increased demands in the child welfare system.

**ISSUE 3: BCP – CALWORKS PROGRAM PERFORMANCE MONITORING AND DATA VALIDATION****BACKGROUND**

The administration proposes 20 new, permanent positions (\$2.3 million) to meet two separate goals of the CalWORKs Performance Monitoring and Data Validation proposal: (1) meet the new quality assurance requirements which are mandated by the reauthorized Temporary Assistance for Needy Families (TANF) program and (2) ensure the State has timely and reliable data to monitor each county's work participation performance and to calculate valid county specific work participation rates (WPRs) to support the distribution of penalties to the counties. This proposal develops a system to monitor and improve the measurement of the performance of county WPRs and meet the new federal work verification and data quality assurance mandates as required by federal law.

**PANELISTS**

- Department of Social Services
- Department of Finance
- Legislative Analyst's Office

**STAFF COMMENT**

An aspect of workload for these new positions is to collect and supply county-specific data for Pay for Performance purposes. Action in the Special Session eliminated the appropriation for Pay for Performance in the current year, with the intent in the Assembly for this to extend into the budget year. Given the relief of this workload aspect and the general conservative posture regarding new positions and programs in the midst of BBR consideration, the Subcommittee may wish to hold this item open understanding its importance for meeting requirements, but with an urging to the administration to consider reducing the scope of the position request considerably prior to May Revision.

## ISSUE 4: BBR – ACROSS THE BOARD REDUCTION IN CHILD DEVELOPMENT

### BACKGROUND

**Overview of Governor’s Budget.** The state supports a variety of child care and development programs. It also supports efforts to improve the quality and availability of these programs through community, parent, and provider education. Although the specific objective of each program is unique, collectively the programs aim to provide high-quality supervision and/or early education experiences to children from birth through age 12, or longer for children with special needs. As shown in the figure below from the LAO *Analysis*, in 2008-09, the Governor proposes to spend nearly \$3.1 billion to provide these services to more than 437,000 children.

Please note that the California Department of Education, in addition to DSS, is asked to be present to address issues in child care at this Subcommittee No. 1 hearing.

<b>California Child Care and Development Programs</b>				
<i>2008-09 All Funds (Dollars in Millions)</i>				
Program <sup>a</sup>	2007-08	Proposed 2008-09	Change	
			Amount	Percent
<b>CalWORKs<sup>b</sup> Child Care:</b>				
Stage 1 <sup>c, d</sup>	\$511	\$554	\$43	8.4%
Stage 2 <sup>d, e</sup>	489	497	8	1.5
Stage 3	405	420	15	3.8
Subtotals	(\$1,405)	(\$1,471)	(\$66)	(4.7%)
<b>Non-CalWORKs<sup>b</sup> Child Care:</b>				
General child care	\$805	\$753	-\$52	-6.5%
Other child care programs	336	313	-24	-6.8
Subtotals	(\$1,141)	(\$1,066)	(-\$75)	(-6.6%)
<b>State Preschool</b>	<b>\$442</b>	<b>\$413</b>	<b>-\$29</b>	<b>-6.6%</b>
<b>Support Services</b>	<b>\$106</b>	<b>\$100</b>	<b>-\$6</b>	<b>-6.0%</b>
<b>Totals—All Programs</b>	<b>\$3,094</b>	<b>\$3,050</b>	<b>-\$43</b>	<b>-1.4%</b>

<sup>a</sup> Except where noted otherwise, all programs are administered by the California Department of Education.  
<sup>b</sup> California Work Opportunity and Responsibility to Kids.  
<sup>c</sup> Administered by California Department of Social Services.  
<sup>d</sup> Does not include reserve funding.  
<sup>e</sup> Includes funding for centers run by California Community Colleges.



**Child Care and Development Programs.** Of the entire CCD budget, approximately 83 percent is used for child care programs, 14 percent is for preschool programs, and about 3 percent is for related support activities. In general, child care programs are designed primarily to supervise children whereas child development programs have a focus on early childhood education. In reality, these programs frequently have many points of overlap and coordinate to serve the same children. The state programs serve children of families in the California Work Opportunity and Responsibility to Kids (CalWORKs) program as well as non-CalWORKs, low-income families.

- **CalWORKs Guarantees Families Child Care.** In exchange for engaging in work or work preparation activities, the state guarantees child care to CalWORKs recipients. Thus, the demand for CalWORKs child care is driven by CalWORKs caseload. CalWORKs child care is supported by state General Fund (Proposition 98), federal Temporary Assistance for Needy Families (TANF), and federal Child Care and Development Fund (CCDF) monies. The program involves three stages of child care.
- **CalWORKs Stage 1.** This stage begins when a participant enters the CalWORKs program. The child care component is administered by the Department of Social Services through county welfare departments. It is funded completely with TANF monies. In 2008-09, the Governor's budget includes \$554 million to serve more than 63,000 children in Stage 1 care.
- **CalWORKs Stage 2.** The CalWORKs families are transferred to Stage 2 when the county determines that participants' schedules become stable. Families remain eligible for Stage 2 as long as they are participating in CalWORKs and up to two years after the family stops receiving a CalWORKs grant. This stage is administered primarily by the California Department of Education (CDE), although the California Community Colleges also have a small administrative role. It is funded with a combination of Proposition 98 and TANF monies. In 2008-09, the Governor's budget includes \$497 million to serve approximately 75,000 children in Stage 2 care (including nearly 3,000 children served in community college centers).
- **CalWORKs Stage 3.** When they have exhausted their two-year limit in Stage 2 (referred to as "timing out"), a family is eligible for Stage 3 as long as their income remains below 75 percent of the State Median Income (SMI) level and their children are younger than age 13. Stage 3 also is administered by CDE. It is funded with a combination of Proposition 98 and CCDF grant monies. In 2008-09, the Governor's budget includes \$420 million to serve approximately 60,000 children in Stage 3 care.

**Role of Child Care in Work Participation and Family Well-Being.** Providers and advocates argue that state-funded child care and development services are essential to low-income parents finding work, achieving self-sufficiency, supporting children's developmental growth, and preparing children for school and life. Permanently reducing the funding base for child care and development subsidy programs will cause

parents' work stability to suffer and their steady income potentially could be compromised.

Access to care and education are viewed as key to achievement and maintenance of self-sufficiency for all working families. For families connected to the welfare system, especially in light of restrictive welfare policies, it is incumbent on the state to maintain its commitment to welfare reform policies that support parenting, offer early care and education subsidies, and other supportive services, making it possible for parents to parent, work, and become self-sufficient.

### **Governor's Proposed Reductions.**

<b>Governor's Proposed Child Care and Development Budget</b>	
<i>(In Millions)</i>	
<b>2007 08 Budget Act</b>	<b>\$3,094</b>
<b>"Workload Budget" Adjustments</b>	
Cost-of-living adjustment (4.94 percent)	\$80
Growth adjustment (.69 percent)	11
California Work Opportunity and Responsibility to Kids (CalWORKs) caseload adjustment	66
<b>Total Workload Adjustments</b>	<b>\$157</b>
<b>2008-09 "Workload" Estimate</b>	<b>\$3,249</b>
<b>Budget Bill Reductions</b>	
Reduce General Fund contribution to all non-CalWORKs programs proportionately	-\$199
<b>2008-09 Proposed</b>	<b>\$3,050</b>

**Attrition Question and Slot Capacity.** According to CDE, the reduction translates into the loss of approximately 8,000 slots that are currently being used. The administration proposes that normal attrition rates will reduce the likelihood of a currently-enrolled child losing their slot. The slot reduction is spread across programs, with an exemption for CalWORKs Stages 2 and 3 child care.

The LAO notes that the estimated number of "slots" does not translate to real children. One "slot" is one full-time equivalent child of service for a year, but that money might

serve a portion of a baby's care for a year, or multiple school age children in part time care. A method to determine "slots" is to use average cost of care per program, which was the LAO's approach to determine that the number of slots proposed to be reduced by the Governor is less than the number of slots currently unused.

Opponents of this analysis would argue that these numbers are state aggregate numbers and that the unspent funds and reductions may not be distributed evenly across providers so there is a chance that any given provider might need to turn away children. The LAO acknowledges this concern but urges the reductions to be made across programs proportionate with the carryover to mitigate this concern.

The LAO continues to concur with the Administration that due to unspent funds and normal attrition, it is unlikely that a child currently receiving care will be denied care in 08-09 under the Governor's funding level. However, the wait list may grow and time on the wait list might increase.

**Growth and COLA.** The proposal eliminates the COLA, which would have been at 4.94 percent, and growth, an increase of 0.69 percent, and thus reduces existing funding for the remaining programs proportionately regardless of fund source.

**SMI Freeze.** The proposal freezes the state median income (SMI) at the 2007-08 level. The family income eligibility ceiling is 75 percent of the SMI for a family of four for all child care and development programs. The administration's rationale here was to preserve in-demand slots for the neediest families at the lower end of the income eligibility range. Advocates in opposition to this freeze contend that families who lose their eligibility as a result of this could be forced to return to cash aid or leave their children in unsafe situations.

The decision of whether to freeze SMI is a complicated matter that the Legislature and the administration have debated frequently in recent years. Freezing SMI results in families becoming ineligible for service earlier than they would if SMI was increased with inflation. If a family at the upper end of the eligibility range received an income increase equal to inflation while SMI stayed flat, that family would lose eligibility for subsidized child care. This would, in turn, free up a child care slot—which would be filled by the lowest-income family on the wait-list. Thus, the LAO notes, the decision of whether to freeze SMI becomes a question of priorities—keeping higher-income families eligible for service or serving lower-income families now on the wait-list.

#### PANELISTS

- Legislative Analyst's Office
- Department of Social Services
- California Department of Education
- Department of Finance

**STAFF COMMENT**

The discussion around the question of slots may appear academic in nature, as real waiting lists and predictable reductions in service, especially in light of the growing costs of care, are certainties. The LAO's suggestion on methods to look more deeply at costs and carryover will be discussed in the next section and inform this overall debate. This item will be held open pending further review and consideration of its interaction with the overall Prop. 98 discussion.

**QUESTIONS**

- DOF and CDE, to what extent has the administration contemplated the effects of cuts in this area on the state's work participation rate and for indicators of family and child well-being?
- DOF and CDE, what do we know about unspent funds and attrition in particular programs and how can this inform decisions about where to reduce, if reductions are indeed chosen?
- How does the freeze in the SMI affect high cost areas, such as Alameda County, and does the freeze affect enrollment of sufficient numbers of eligible families in this areas to maintain program service levels?
- What effect on providers will the elimination of growth and COLA have on the natural, in the absence of the ten percent or other further reduction?

**ISSUE 5: CALWORKS CHILD CARE – SHORTFALL ISSUES IN CURRENT YEAR****BACKGROUND**

The administration is attempting to arrive at an accurate assessment of the need in CalWORKs child care in the current year and a status report from the administration is requested for this hearing as well as a sense of timeline to resolve the current shortfall in child care funding.

Counties receive funding for Stage One child care as part of their CalWORKs Single Allocation. Each year five percent of the Stage One child care budget is set-aside in a reserve that counties can apply for mid-year based on need. For the current year, there is \$21 million in the Stage One reserve and counties submitted \$20 million in requests last month. However, due to under funding in Stage Two child care, a number of Stage Two providers have indicated they will no longer accept new child care cases and/or have begun disenrolling existing Stage Two cases.

As a result, some Stage Two cases are being pushed back into Stage One, and are being funded by counties' CalWORKs Single Allocations, rather than Stage Two funding from CDE. This has already led to \$4.2 million in additional county costs through March 31, 2008 in the 26 counties that have been impacted by a freeze and/or dis-enrollment in Stage Two. All of these cases have been held or sent back to Stage One, increasing pressure on counties to cover the additional cost through reductions in other components of the Single Allocation, such as employment services.

The total estimated amount needed to fully fund both stages is approximately \$58 million. To the extent that Stage One and Stage Two funding is insufficient to fund current year child care costs, or that resolution of this issue is not imminent, counties have no choice but to immediately begin cutting their employment services program to cover the unfunded costs. Doing so would result in decreasing the CalWORKs work participation rate at the very time when there is significant attention to increase the rate to avoid federal penalties.

**PANELISTS**

- Legislative Analyst's Office
- Department of Social Services
- California Department of Education
- Department of Finance

**STAFF COMMENT**

Provider feedback on notices to cease enrollment and retain families in Stage 1 beckon a hasty resolution to the current year issue to ensure that child care capacity does not constrict. Staff recommends that the Subcommittee request a concrete timeline for response from the administration on addressing the shortfall issues in the current year.

**ISSUE 6: ANNUAL ESTIMATING ISSUES: CASELOAD, CONTRACTING, COSTS, AND CARRYOVER****BACKGROUND**

The Governor's budget provides \$3.1 billion for CCD in 2008-09. As with K-12 programs, the Governor first builds a workload budget for 2008-09—including a cost-of-living adjustment (COLA) for all programs, growth for non-CalWORKs programs, and caseload adjustments for CalWORKs programs. From that workload budget, the Governor proposes to reduce Proposition 98 General Fund support for CCD by \$199 million, resulting in a total year-to-year reduction of \$44 million, or 1.4 percent. As discussed in the prior issue, the Governor estimates this proposal will result in a loss of approximately 8,000 existing full-time equivalent (FTE) slots but assumes that normal attrition rates in these programs should reduce the likelihood of a currently enrolled child losing his or her slot. The Governor's proposal effectively results in eliminating funding for growth and COLA and proportional reductions across all programs (except CalWORKs child care, which would still receive a minor increase in an attempt to fully fund that entitlement program).

- **Unspent Funds.** For each of the past five fiscal years, at least \$200 million of the CCD appropriation has gone unspent (and has been “carried over” to fund future years of service). Although the bulk of unspent funds for a particular fiscal year are typically identified within 12 months after the close of that fiscal year, it may take up to five subsequent years to identify all unspent funds. There are many reasons that these funds go unspent but they generally fall into two categories:
- **Unobligated Funds.** The first situation is the result of CDE being unable to award contracts up to the level of the full appropriation. This could be due to staffing issues at CDE, the required to conduct a Request for Application, or lack of interest from providers.
- **Unearned Funds.** The second situation is the result of providers not serving the exact number of children, or spending money on allowable expenses, up to the full amount of their contracts. The reasons for this so-called “under-earning” are many but can include such things as delays in planned facilities expansions, difficulty filling slots when children exit the program, or just the sheer complexity of tracking allowable expenses and calculating earnings.

For CalWORKs child care there are two components to consider when estimating the total dollar amount of funding needed: caseload and cost of care. Caseload estimates are provided by DSS and CDE to Finance and there is not substantial variance across the three organizations on these estimates. Cost of care estimates however vary greatly between DSS and CDE because estimating the impact of the RMR increases as well as changes in number of hours in care is somewhat subjective and difficult process.

**Estimating for Budget Year.** CDE has revised their latest estimates for the 08-09 Stage 2 need at \$543 million and Stage 3 at \$475 million. The Governor's January proposal attempted to fully fund CalWORKs based on the latest estimate from CDE and DSS at the time.

For non-CalWORKs child care programs contracting issues have led to chronic carryover across nearly all programs every year. The LAO proposes the Legislature convene an informational hearing and begin to address some of the factors causing the chronic carryover.

**LAO Recommendation.** The LAO does not believe that chronic carryover can be eliminated in one year or that all issues can be solved immediately, but there are actions that can be taken to begin to address the problem and reduce the amount of money that is carried over instead of being used to serve kids as intended. The CDE is formulating a list of options in this area too. The LAO is willing to lead an effort to consolidate a list of ideas for the Legislature over the next month if desired.

If the Legislature does not take action to reduce chronic carryover, any reductions to child care and development funding will result in actual reductions of service. So these contracting issues should be addressed and considered in connection with estimates for the 08-09 budget. The LAO states that the result of chronic carryover is that fewer children are served than intended and more children remain on the waiting list. The LAO alternative includes a one-time alignment of funding with service. However, if the systemic issues that cause chronic carryover are not addressed, the problem will continue. Every year fewer children will be served than intended and funds will go unused.

Although there likely is not one easy solution to this problem, various groups have made valid reform suggestions. These include: (1) procedural changes enabling CDE to reallocate contract funds among existing providers in good standing who are under-earning or over-earning (shifting funds from under- to over-earners), (2) grant-based contracts with minimum attendance requirements instead of reimbursement-based funding, and (3) increasing flexibility to allow providers to shift funds between separate CCD programs. The LAO recommends that the Legislature hold an informational hearing this year to consider these various options. We believe that solving the problems that cause chronic carryovers likely will require a multifaceted approach, possibly with different solutions for different programs. The LAO also believes that new options might need to be explored to ensure the underlying incentive problems are adequately overcome.

**Request from Child Care Law Center.** The Child Care Law Center requests that the following language be adopted as BBL:

It is the intent of the Legislature to fully fund the third stage of child care for **former** CalWORKs recipients.



**Request from California Alternative Payment Program Association (CAPPA).** CAPPA requests consideration of the following language from BBL to TBL in the Education Code:

**Education Code Section 8223-** The reimbursement for alternative payment programs shall include the cost of child care paid to child care providers plus the administrative and support services costs of the alternative payment program. The total cost for administration and support services shall **be limited to no more than 20 percent of the total contract amount. Total contract amount for the purposes of determining the limit of allowable administrative and supportive services for Alternative Payment type programs means either the initial maximum reimbursable amount or the total of direct payments to providers, which includes family fees for certified children and interest earned on advanced contract funds, plus reimbursable administrative and support services costs, whichever is greater.** ~~not to exceed an amount equal to 23.4567 percent of the direct cost of care payments to child care providers.~~ The administrative costs shall not exceed the costs allowable for administration under federal requirements.

#### PANELISTS

- Legislative Analyst's Office
- Department of Social Services
- California Department of Education
- Department of Finance

#### QUESTIONS

- DOF, to what extent can we expect updates in the May Revision on your child care estimates for budget year? How do the reserve issues in the current year impact this?
- LAO, can you describe what changes in processes might be required to move from a reliance on carryover dollars? Please explain the assertion that reductions in services would occur if carryover isn't reduced.
- DOF and CDE, can you please comment on reform discussions within the administration in the areas of budgeting, contracting, and carryover?

## ISSUE 7: UPDATES ON CENTRALIZED ELIGIBILITY LIST AND REGIONAL MARKET RATE (INFORMATIONAL ITEM)

### CENTRALIZED ELIGIBILITY LISTS

The Budget Act of 2005 (SB 77, Chapter 278, Statutes of 2005) authorized \$7.9 million to an alternative payment program in each county to design, maintain and administer a countywide centralized eligibility list (CEL). All of these funds were allocated to the counties, with the same amount authorized in the 2006 and 2007 Budget Acts. Fiscal year 2005-06 was an implementation year, with all Child Development Division (CDD) contractors required to begin utilizing their county CEL as of July 2006, with three specific program-type exemptions. Los Angeles County was not required to fully implement its CEL until June 2007.

The CEL data indicates that there were 135,067 families and 204,063 children waiting for subsidized care on September 30, 2007. The CEL data from the Legislative Report for 2006 indicated 132,003 families and 206,974 children waited for subsidized child care for the third quarter of 2006. It should be noted that the data reported in the Legislative Report for 2006, and the data reported in this report, may not be comparable.

#### Characteristics of Families Who Are Waiting

Of the 135,067 families waiting, the reported reason for needing subsidized child care services is as follows:

Reason for needing care	Active Families	Percent
Working/Employed	111,641	82.7%
Actively Seeking Employment	28,194	20.9%
Education or Training	22,497	16.7%
Seeking Permanent Housing	2,588	1.9%
Incapacitated	3,498	2.6%
Looking for Part-day Educational Preschool program	14,121	10.5%

Note that families could have indicated more than one reason for needing care.

The majority (56.1 percent) of families waiting had two or three family members.

#### Characteristics of Children Who Are Waiting

Of the 204,063 children waiting, the age group of the children is as follows:

Age Group	Active Children	Percent
Up to three years of age	69,320	34.0%
Between three and five years of age	79,768	39.1%
Six years of age and older	54,975	26.9%

Note that age was calculated as of September 30, 2007.

Of the 204,063 children waiting, the reported time-base needed is as follows:

Time base needed	Active Children	Percent
Need Full time Care	156,056	76.5%
Need Part time Care	64,657	31.7%
Need Evening Care	13,312	6.5%
Need Weekend Care	8,021	3.9%

Note that families could have indicated more than one time base for needing care.

Of the 204,063 children waiting, the number of children reported with exceptional needs or in foster care is as follows:

Characteristics	Active Children	Percent
Exceptional Needs with either an Individual Family Service Plan (IFSP) or an Individualized Educational Program (IEP)	23,210	11.4%
Foster children or in the care of an adult who is neither their biological or adoptive parent	4,989	2.4%

The CEL data collected also captured the number of children who waited for subsidized child development services, at some time during the quarter, and were no longer waiting. There were 66,677 (24.63 percent) children who were no longer waiting at some time during the quarter. Of those no longer actively waiting, 18,062 (27.09 percent) children were enrolled in subsidized care, with the remaining records deactivated because either the families could not be contacted, they no longer needed care, or the information was no longer valid. The high "no longer actively waiting" statistic is reasonable as all county CEL Administrators updates records and purge files at least annually.

## REGIONAL MARKET RATE

Currently, the state funds child care and development programs through two main mechanisms: vouchers to families and direct contracts with providers.

**Most Families Receive Child Care Through a Voucher System.** The CalWORKs families in any of the three stages of child care usually receive a voucher from an Alternative Payment (AP) organization or their county welfare department. In addition,

the state provides vouchers for non-CalWORKs working poor families through AP organizations. In total, approximately 70 percent of the children in state-subsidized child care are served through a voucher system. Families may use vouchers in one of three settings: licensed centers, licensed family child care homes, and license-exempt care. The licensed programs must adhere to the requirements of Title 22 of the California Code of Regulations and are often referred to as Title 22 programs.

**Voucher Providers Are Reimbursed Using the Regional Market Rate.** Title 22 providers are reimbursed for services up to a maximum of 85 percent of the rates charged by private-market providers for the same service in the same region. License-exempt providers may earn a maximum of 90 percent of Title 22 providers in the same region. The cost of child care in specific regions of the state is determined via the Regional Market Rate (RMR) survey of public and private child care providers. The RMR survey is conducted every year, new regional maximums are posted in October, and providers may adjust their rates for their voucher clients after that time. Although the RMR increase for a particular region may vary from less than 1 percent to nearly 10 percent depending on market factors, the *average* RMR increase is typically around 2 percent each year. Thus, a slight increase in RMR is typically built into budget projections. The Governor has assumed an average cost of care increase of 2.8 percent for the CalWORKs voucher programs in his proposed 2008-09 budget. The Governor has assumed no cost of care increase for the non-CalWORKs voucher program.

**CDE Contracts Directly With Child Care and Preschool Centers.** For non-CalWORKs child care and preschool, CDE contracts directly with over 750 different agencies through approximately 1,300 different contracts. These providers must adhere to the requirements of Title 5 of the California Code of Regulations and are generally referred to as Title 5 providers.

**Title 5 Providers All Receive Same Rate.** These providers are reimbursed at the Standard Reimbursement Rate (SRR). The SRR is adjusted for factors such as the age of the child or for special needs. (For instance, the reimbursement rate for an infant is 1.7 times the SRR, and the reimbursement rate for a severely handicapped child is 1.5 times the SRR). It is not adjusted for regional market differences. The Governor has proposed to maintain the current SRR of \$34.38 per day per child for full-day care (either full-day child care or part-day preschool/part-day child care) and \$21.22 per day per child for preschool only.

#### PANELISTS

- Legislative Analyst's Office
- Department of Finance
- California Department of Education

**COMMENTS**

The RMR for the current year was delayed and is expected to be implemented at the beginning of the 2008-09 budget year. The Subcommittee is interested in the details on this delay, how it affects providers, how it fits with other proposed cuts, and what is expected for the BY RMR.

**QUESTIONS**

- DOF and CDE, is there a language request from the administration to require submission of information for the CELs under penalty of perjury?
- DOF and CDE, what is the reduction in funding for the CEL for BY and how will this affect the list?
- DOF and CDE, please explain the status of the implementation of the 2007 RMR. Why was it delayed and what is the net impact on providers?

**ISSUE 8: BBR – COMMUNITY CARE LICENSING****BACKGROUND**

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

The Governor's budget proposes total expenditures of \$118.2 million (\$37.3 million General Fund) for CCL in 2008–09. This is an increase of \$1.7 million (\$1.3 million General Fund) from the current year. These amounts include state operations and local assistance for the five counties that perform their own licensing operations. Most of the increase is due to the extension of limited-term staff to complete a backlog of facility inspections.

**BBR PROPOSAL**

The Governor's budget proposes to reduce the Community Care Licensing (CCL) random visits from 30 percent to 14 percent of facilities, resulting in estimated General Fund savings of \$2.3 million in 2008–09. Under this proposal, the majority of facilities would receive an inspection approximately once every seven years.

**Current Law.** The CCL Division of DSS performs different types of inspection visits to licensed facilities. Facilities with complaints filed against them or those with new applications receive prompt inspections. Those facilities that require close monitoring, due to their compliance history or because they care for developmentally disabled clients, receive annual inspections. Approximately 10 percent of community care facilities require these annual visits.

The remaining 90 percent of community care facilities are subject to a routine unannounced inspection only if selected as part of a 30 percent random sample of facilities. This equates to about 21,300 facilities per year. In practice, this sampling procedure means that most of the licensed facilities in California would receive a routine visit once every three years. In addition to the 30 percent random inspection protocol, there is a separate statutory requirement that a community care facility be visited at least once every five years.

**Governor's Proposal.** The Governor's budget proposes to reduce the current 30 percent random inspection protocol to 14 percent of facilities. This would result in a

reduction of 33 positions and an estimated General Fund savings of \$2.3 million in 2008–09, increasing to an annualized savings of \$4.7 million General Fund and 66 positions in the following year (these amounts include local assistance). Under this proposal, facilities with complaints would continue to receive prompt attention and those 10 percent of facilities that require close monitoring would continue to receive annual inspections. The remaining 90 percent of facilities would receive inspections at a substantially reduced frequency, as part of a 14 percent random sample of facilities. This proposal will require a change in statute, reducing the current random sample of unannounced visits from 30 percent to 14 percent of facilities. The Governor proposes to retain the existing statutory requirement to visit a facility at least once every five years.

LAO

*From the LAO:*

**Reduced Random Inspections May Impact Compliance With Existing Statute.**

Based on our review of CCL’s workload and staffing levels, we believe the proposed reduction in random inspections would result in a maximum of 70 percent of facilities receiving a visit at least once every five years. In other words, this proposed staffing level is sufficient to support one facility visit every seven years. Thus, this proposal would be in conflict with the existing statutory requirement to visit every facility at least once every five years.

**Alternatives for Legislative Consideration.** The proposed reduction to random inspections to community care facilities means that CCL would be unable to comply with the existing statute to visit a facility at least once every five years. To meet the current law standard, CCL would most likely ask for additional resources as it approaches 2013 (five years from now). The Legislature has two options for resolving this issue. First, the Legislature could reduce the current 30 percent random inspection level to 14 percent and amend the existing five–year statute to a minimum requirement of at least one facility visit every seven years. Second, the Legislature could raise the random inspection level from the Governor’s proposed 14 percent to 20 percent, to fund CCL at a level that corresponds with the existing five–year statute. This second alternative would reduce General Fund savings from \$2.3 million to approximately \$1.4 million.

**STAFF COMMENT**

This controversial proposal may place many facilities and their clients in jeopardy, particularly when juxtaposed against the current backlog and uncertainty about the status of facility visits and for what duration visits may not have occurred at particular facilities. Although there are severe objections, the Subcommittee has yet to consider reduction proposals that arguably have more direct client impact. In light of these considerations, staff recommends holding open the BBR proposal at this time.



**ISSUE 9: UPDATE ON TARP (INFORMATIONAL ITEM)****BACKGROUND**

Trustline Automated Registration Process (TARP) reduces the processing time for Trustline applications by electronically capturing the applicant information at the same time the Livescan information is captured. This is accomplished through the department's Livescan vendor IBT and is limited to only those counties where IBT has locations.

Currently, there are 17 counties using TARP. After the full roll-out, there will be a total of 24 counties using TARP: the existing 17, plus an additional 7 counties. The TARP roll-out is occurring on schedule. The last county will be Los Angeles and it is scheduled to roll-out in July 2008.

The TARP vendor did not charge DSS a development fee. However, the Department is paying \$5 per application processed through TARP.

**STAFF COMMENT**

The Subcommittee may wish to question the department on the TARP implementation.

**QUESTIONS**

- How quickly does TARP process the background check? Does it meet expectations?
- What is the timeline of implementation for the rest? What are barriers, if any, to implementation?
- Does the department track the number of parents who must decline or terminate employment due to lack of child care because of the change in policy?
- How many counties are "fully" implemented?

**ISSUE 10: BBR – STATE HEARINGS WORK FORCE****BACKGROUND**

The administration proposes to eliminate 13 Administrative Law Judge (ALJ) positions and 6 Office Technician positions for an annualized reduction of \$780,000 GF and \$337,000 GF in 08-09 in the State Hearings Division (SHD).

The SHD is required to provide full, impartial, and timely state hearings to recipients and applicants of various public assistance programs who have disputes with their local county welfare departments. The programs include CalWORKs, Child Support Services, Food Stamps, Medi-Cal, several Adult Programs, and In-Home Supportive Services (IHSS). Interagency agreements exist between SHD and DHCS to provide hearings on Medi-Cal issues, and with the Department of Child Support Services to provide hearings on issues related to child support payments.

The administration states that as a result of the BBR proposal, ALJ staff would minimize travel unless required for complex cases and would issue a summary decision containing only a brief summary of the findings of fact and the legal conclusions in most cases. Time savings achieved by reducing travel time and decision writing time would be redirected to increase the number of hearings each ALJ conducts and decides. Nearly all hearings would be conducted by telephone or videoconference by an ALJ.

In addition, support functions such as scheduling, compliance, and decision releasing would be centralized. ALJs would work from a home office conducting telephone and possibly videoconference hearings. Evidence received for a case would be transmitted electronically to the ALJ's home office. Nearly all hearings would be conducted by telephone or videoconference by an ALJ. In-person hearings will only occur on a very limited basis. Some examples of cases requiring an in-person hearing would be hearings with a large number of witnesses, multiple parties, and cases with substantial animosity between the parties, or cases with mental or physical disabilities of a party.

**STAFF COMMENT**

Due to the complexity and severity of these proposed changes and the unknown harm predicted for due process and client outcomes, staff recommends rejection of the proposed trailer bill language associated with the BBR and to hold open the BBR GF reduction proposal for further consideration.