AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES

ASSEMBLYMEMBER DR. JOAQUIN ARAMBULA, CHAIR

WEDNESDAY, APRIL 5, 2017
2:30 P.M. - STATE CAPITOL, ROOM 444

ITEMS TO BE HEARD

ITEM	DESCRIPTION	
4700	**DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT**	
ISSUE 1	PROGRAM AND BUDGET REVIEW	4
ISSUE 2	LOW-INCOME WEATHERIZATION FUNDING BACKGROUND AND CURRENT SITUATION	8
ISSUE 3	BUDGET CHANGE PROPOSAL (BCP) FOR LOW-INCOME WEATHERIZATION PROGRAM REAPPROPRIATION	13
5175	**DEPARTMENT OF CHILD SUPPORT SERVICES**	
ISSUE 1	PROGRAM AND BUDGET REVIEW	14
ISSUE 2	TRAILER BILL LANGUAGE (TBL) PROPOSAL #620 – EXTEND SUSPENSION OF IMPROVED PERFORMANCE INCENTIVES	19
ISSUE 3	TBL PROPOSAL #621 – REPEAL HEALTH INSURANCE INCENTIVES PROGRAM	20

LIST OF PANELISTS IN ORDER OF PRESENTATION

4700 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

ISSUE 1: PROGRAM AND BUDGET REVIEW

- Linné Stout, Director, and Jason Wimbley, Chief Deputy Director for the Department of Community Services and Development (CSD)
- Justin Freitas, Department of Finance
- Ginni Bella, Legislative Analyst's Office
- Public Comment

ISSUE 2: LOW-INCOME WEATHERIZATION FUNDING BACKGROUND AND CURRENT SITUATION

- Linné Stout, Director, and Jason Wimbley, Chief Deputy Director for the Department of Community Services and Development (CSD)
- Justin Freitas, Department of Finance
- Spokesperson (name pending), California's Weatherization Providers Network
- Ginni Bella, Legislative Analyst's Office
- Public Comment

ISSUE 3: BUDGET CHANGE PROPOSAL (BCP) FOR LOW-INCOME WEATHERIZATION PROGRAM REAPPROPRIATION

- Linné Stout, Director, and Jason Wimbley, Chief Deputy Director for the Department of Community Services and Development (CSD)
- Justin Freitas, Department of Finance
- Ginni Bella, Legislative Analyst's Office
- Public Comment

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

ISSUE 1: PROGRAM AND BUDGET REVIEW

- Alisha Griffin, Director, and Mark Beckley, Chief Deputy Director, California Department of Child Support Services (DCSS)
- Justin Freitas, Finance Budget Analyst, Department of Finance
- Ginni Bella, Fiscal and Policy Analyst, Legislative Analyst's Office
- Public Comment

ISSUE 2: TRAILER BILL LANGUAGE (TBL) PROPOSAL #620 – EXTEND SUSPENSION OF IMPROVED PERFORMANCE INCENTIVES

- Alisha Griffin, Director, and Mark Beckley, Chief Deputy Director, California Department of Child Support Services (DCSS)
- Justin Freitas, Finance Budget Analyst, Department of Finance
- Ginni Bella, Fiscal and Policy Analyst, Legislative Analyst's Office
- Public Comment

ISSUE 3: TBL PROPOSAL #621 – REPEAL HEALTH INSURANCE INCENTIVES PROGRAM

- Alisha Griffin, Director, and Mark Beckley, Chief Deputy Director, California Department of Child Support Services (DCSS)
- Justin Freitas, Finance Budget Analyst, Department of Finance
- Ginni Bella, Fiscal and Policy Analyst, Legislative Analyst's Office
- Public Comment

ITEMS TO BE HEARD

4700 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

ISSUE 1: PROGRAM AND BUDGET REVIEW

PANEL

- Linné Stout, Director, and Jason Wimbley, Chief Deputy Director for the Department of Community Services and Development (CSD)
  - Please present on the CSD budget and major programs.
  - Please discuss your federal funding and how/why California qualifies for this funding.
- Justin Freitas, Department of Finance
- Ginni Bella, Legislative Analyst's Office
- Public Comment

BUDGET AND PROGRAM REVIEW

The Department of Community Services and Development's (CSD) mission is to reduce poverty by leading the development and coordination of effective and innovative programs for low-income Californians. The Governor's budget proposes total spending of $252.7 million (no General Fund) for CSD for 2017-18, a decrease overall of $152.9 million or almost 38 percent from the current year.

Overview of Department's Major Areas

- **Energy Programs.** The Energy Programs assist low-income households in meeting their immediate and long-term home energy needs through financial assistance, energy conservation, weatherization and renewable energy services.

  The Low-Income Home Energy Assistance Program (LIHEAP) provides financial assistance to eligible low-income households to offset the costs of heating and/or cooling residential dwellings, assistance for weather-related or energy-related emergencies, and weatherization services to improve the energy efficiency of low-income residential dwellings and safeguard the health and safety of household occupants. This program may include a leveraging incentive program in which supplementary LIHEAP funds can be obtained by LIHEAP grantees if non-federal leveraged home energy resources are used along with LIHEAP weatherization related services.

  The Department of Energy Weatherization Assistance Program provides weatherization to improve the energy efficiency of low-income residential dwellings and safeguard the health and safety of household occupants.

The Lead-Based Paint Hazard Control Program provides services to fully abate or control lead paint hazards in low-income privately owned housing with young children.

The Low-Income Weatherization Program (LIWP) provides weatherization and renewable energy services in low-income single-family and multi-family dwellings, within disadvantaged communities to help reduce Greenhouse Gas (GHG) emissions. LIWP will include projects such as weatherization, solar water heater and solar photovoltaic systems installations.

- **Community Services.** The Community Services Block Grant (CSBG) is designed to enable local government and private nonprofit community organizations to help low-income families achieve and maintain self-sufficiency through a broad range of activities. These activities include education, employment services, emergency services, housing, income support and management, and health and nutritional services. Additionally, CSBG funds are used by local community organizations to revitalize low-income communities.

CSD Federal Funding (dollars in millions)	
	Federal Fiscal Year (FFY) 2016
Low Income Home Energy Assistance Program	$176.8
Community Services Block Grant	63.0
Dept. of Energy Weatherization Assistance Program	5.8
Greenhouse Gas Reduction Fund [1/]	20.0
	FFY 2017 [2/]
Low Income Home Energy Assistance Program	151.8
Community Services Block Grant	63.0
Dept. of Energy Weatherization Assistance Program	5.8
Greenhouse Gas Reduction Fund [3/]	-

Footnote 1: $20M in LIWP Funding is for the 2016/17 State Fiscal Year

Footnote 2: 2017 Funding is on Continuing Resolution. Funding received to date.

Footnote 3: GGRF reflects funding for the 2017/18 State Fiscal Year

FEDERAL BUDGET IMPLICATIONS

There is much uncertainty about whether or not Congress will adopt the President's Budget Proposal, which proposes eliminating three federal grant programs administered in California by CSD that provide supportive services for California's low-income population. The proposed budget calls for eliminating two U.S. Department of Health & Human Services' grant programs, the Low Income Home Energy Assistance Program (LIHEAP) and the Community Services Block Grant (CSBG). In addition, the budget calls for eliminating Department of Energy's Weatherization Assistance Program (DOE WAP). LIHEAP, CSBG and DOE WAP are currently funded under a continuing resolution at prior year funding levels.

LIHEAP Federal Fiscal Year (FFY) 2016 Grant Award - $176.5 million (90% or $151.8 million received for FFY 2017 to date). Based on the LIHEAP FFY 2016 Household Report, CSD estimates that 219,265 households were served under the program. CSD anticipates serving approximately the same number of households in FFY 2017 if funding continues at prior year levels. Of the 219,265 households served in FFY 2016, 161,380 of the households assisted were considered a vulnerable population such as elderly, disabled or children under five.

If Congress adopts the President's Budget Proposal, eliminating funding for the U.S. Department of Health & Human Services' Low Income Home Energy Assistance Program (LIHEAP) will remove the primary source of financial assistance for eligible low-income households in California to manage and meet their immediate home heating and/or cooling needs. LIHEAP is also provides emergency assistance for households facing life-threatening energy-related emergency created by a natural disaster. The weatherization component of LIHEAP provides energy efficiency upgrades for low-income households, helping to reduce utility costs, while improving the health and safety of the occupants.

CSBG FFY 2016 Grant Award - $63 million ($35.8 million received for FFY 2017 to date). CSD estimates that CSBG in FFY 2016 served approximately 1,890,319 low-income individuals in 691,455 families. These outcomes represent leveraging of CSBG funds with other funding available to our local agencies. CSD estimates serving approximately the same number of households in FFY 2017 if funding remains stable.

If Congress adopts the President's Budget Proposal, eliminating funding for the U.S. Department of Health & Human Services' Community Services Block Grant (CSBG) will impact the ability of local Community Action agencies to provide services to Californians living in poverty. CSBG funds support a broad range of locally determined services, including homeless assistance, employment services, education, income support/management, housing, emergency services, health, and nutritional services, among others.

DOE WAP FFY 2016 Grant Award - $5.9 million (No funds received for FFY 2017 to date). CSD's DOE WAP State Plan projects to serve 1,866 households for the FFY 2016 DOE WAP program. CSD anticipates serving approximately the same number of households in FFY 2017 if funding continues at prior year levels. If Congress adopts the President's Budget Proposal, eliminating the Department of Energy's Weatherization Assistance Program will remove a source of funding for energy efficiency improvements to low-income households in California. Weatherization reduces energy usage and energy costs for vulnerable low-income households while improving the health and safety of homes.

Staff Recommendation:

This first item is an informational one. Staff recommends that the overall CSD budget be held open pending the May Revision.

ISSUE 2: LOW-INCOME WEATHERIZATION FUNDING BACKGROUND AND CURRENT SITUATION

PANEL

- Linné Stout, Director, and Jason Wimbley, Chief Deputy Director for the Department of Community Services and Development (CSD)
  - Please present on (1) past LIWP funding, (2) the changes in procurement and contracting and how you arrived at these for LIWP 2.0, and (3) the current situation for LIWP 2.0 awardees and the schedule for implementation moving forward.
- Spokesperson (name pending), California's Weatherization Providers Network
- Justin Freitas, Department of Finance
- Ginni Bella, Legislative Analyst's Office
- Public Comment

BACKGROUND

Low-Income Weatherization Program Procurement History. The first phase of the Low-Income Weatherization Program (LIWP) was developed in 2014 when the Department of Community Services and Development (CSD) received what was anticipated to be a one-time appropriation of $75 million cap-and-trade funds.
CSD allocated LIWP funding to the three program components as follows:

- Single-Family/Small Multi-Family Energy Efficiency and Solar Water Heating: Weatherization funding under this program component allocated to CSD's **existing network** of local service providers serving disadvantaged community areas.

- Single-Family Solar Photovoltaics: A **Request for Information** was released in 2014 and GRID Alternatives selected as the statewide program administrator. A solar pilot project coordinated by Fresno Economic Opportunities Commission was also awarded funds.

- Large Multi-Family Energy Efficiency and Renewables: A **Request for Qualifications** was issued in 2015, with the Association for Energy Affordability selected as the statewide program administrator.

After receiving an additional cap-and-trade appropriation in 2015-16, CSD recognized the need to open up LIWP's single-family energy efficiency component to new potential service providers through a competitive procurement in order to adhere to principles of good government and the state contracting code, which calls for open competition for state funds.

In addition, based on input from stakeholders and potential providers, and experience gained from the initial implementation of LIWP, CSD determined it advantageous to pursue a stand-alone program model that would overcome challenges identified under LIWP. This new model is designed to improve program administration, promote the leveraging of existing resources, and provide more cost effective greenhouse gas (GHG) reductions, a key objective and requirement of California Climate Investments funding, which is unique to LIWP and not required under the federal energy programs CSD administers.

In order to develop a fair and open procurement, CSD states that it took extensive measures to ensure a level playing field for all prospective service providers. To this end, CSD retained an independent consulting firm that specializes in state procurements to help design and administer the LIWP Regional Administrator Request for Proposals (RFP).

CSD states that it actively sought public input in developing the program design, guidelines and subsequent RFP for this phase of LIWP. Beginning in the Spring of 2016, the Department convened a series of stakeholder meetings and workshops to solicit public contributions on the program design and procurement procedures and criteria to utilize for LIWP.

Public comment on the program and RFP was solicited as follows:

- CSD distributed a **Request for Information** on March 21, 2016, to solicit input on LIWP program design from interested parties.
- Held **public workshops** on LIWP on June 2, 2016 and October 7, 2016.
- Issued **draft program guidelines** for the 2015-16 LIWP funding on October 5, 2016 and held a **public hearing** on the guidelines on October 7, 2016.
- Circulated a **draft LIWP RFP** on October 28, 2016, to provide stakeholders an opportunity to comment on the document and the solicitation process. The Department also circulated responses to questions posed by interested parties.
- The **final LIWP RFP** was released on November 10, 2016, followed by a **bidders' conference** and workforce partnership development meeting on November 15, 2016.

CSD issued the LIWP RFP in November 2016 to award approximately $57 million of 2015-16 cap-and-trade funds towards LIWP's single-family program component. The RFP sought to identify up to five regional administrators to cover disadvantaged communities across California. These regional administrators are tasked to oversee and implement all aspects of the single-family component of LIWP in their respective regions, including service delivery and quality assurance for energy efficiency measures and rooftop solar PV, marketing and outreach, and workforce development, while also minimizing duplicative efforts among providers and streamlining referrals and coordination efforts.

CSD received proposals from nine prospective non-profit and local governmental regional administrators in response to the RFP. Of these nine, four proposals were submitted by existing LIWP service providers, and five were submitted by new entities.

CSD argues that it structured the LIWP RFP to ensure services are delivered at a competitive price with deliverable based contracts. Awardees were identified by balancing the strength of their proposals with the costs, allowing for a broad range of organizations to compete and giving priority to the best overall proposal, not simply the lowest cost.

Four non-profit regional administrators received notices of intent to award. Of the four, two are existing CSD local service providers and two are non-profits with no prior experience as LIWP providers. One proposer in the latter group prevailed in two regions. CSD states that each awardee and their partners have demonstrated experience providing these vital services in their respective regions. After resolving a protest period, CSD is now in process of moving forward to execute contracts with the selected organizations.

The providers selected under the LIWP RFP are specified in the table below:

Region	Proposed Awardee	Existing LIWP Provider
Region 1 – Northern California	Community Resource Project, Inc.	Yes
Region 2 – Bay Area	Build It Green	No
Region 3 – Central Valley	Community Action Partnership of Orange County	Yes
Region 4 – Los Angeles	Build It Green	No
Region 5 – Southern California	La Cooperativa Campesina de California	No

STAKEHOLDER INPUT AND FEEDBACK

Members of the California Weatherization Providers Network (Network) have submitted comments and concerns to the Subcommittee regarding the recent restructuring of the LIWP 2.0 (also called Phase II) funding. The Network states that these issues will lead to instability and vulnerability in low-income communities in need of these weatherization and environmental improvements. They cite the following issues with the latest procurement, summarized below:

- **Geographic negligence.** As a result of removing geographic preference, an award was made to a Southern California organization to serve the Central Valley. The Network cites the long-standing service reputation of the other competitors and the innate trust and familiarity with the local community that is necessary to facilitate effective service-delivery, which it states would be more difficult for a provider external to the region.

- **Process issues.** The Network states that the process was overly competitive, with the selection of one regional administrator per region (five total), with an emphasis on partnerships and subcontracts versus more open, diverse competition. The Network also cites that the process toward the procurement and ultimate award selection was not transparent, did not adequately involve stakeholders and incorporate input when offered, and did not include notice to and collaboration with the Legislature. The justification for a deviation from Phase I to the new method for procurement under Phase II they also say is lacking.

The Network asks for the Subcommittee's consideration of the following requests to be made of CSD:

1. Extension of the current Phase I LIWP contracts for at least six months (or until there is no gap in service delivery due to a requested revised implementation of Phase II).
2. A rescoring of Phase II LIWP applications with, at minimum, preference for applicants geographically located in the region they propose to serve.
3. Delay of any future appropriation to CSD until agreement for a new bid process, if one is needed, that will result in strong industry protocols, a priority for local contracting, efficient and productive performance standards, and that will meet the energy savings needs of the greatest number of qualified consumers. The Network requests trailer bill language to ensure that any new funding to CSD is designed with appropriate parameters and that Supplemental Report Language is developed, instructing CSD to provide regular check-ins and reports to the Legislature on their program effectiveness.

STAFF COMMENTS AND QUESTIONS

On March 30, 2017, CSD released its responses to the protests from bidders in Phase II, addressing the individual issues. The responses contradicted the protests and denied their requests. Staff is reviewing these responses. Presumably, absent further administrative action, the awards would begin to be made in Phase II pursuant to the selected awardees announced above.

Staff suggests the following questions for the Subcommittee:

- What are the dollar amounts associated with each Phase II awardee?

- Stepping back to the origin of Phase II and the change in procurement processes per your consultant, what were the challenges specifically in Phase I that CSD was trying to mitigate and/or address?

- What attempts/efforts did you make to inform the Legislature (through staff, committees, offices, etc.) of your changes as you transitioned from Phase I to a new Phase II approach?

- What are the rules around subcontracting in Phase II? Did these need to be stated in the RFP application and thus are now closed to only those delineated, or is a prospective awardee entitled to negotiate subcontracts at will irrespective of if and who they listed previously?

- What plans does CSD have to formally brief and update the Legislature on the implementation and outcomes for Phase II going forward?

Staff Recommendation:

A recommendation on this item is pending.

ISSUE 3: BUDGET CHANGE PROPOSAL (BCP) FOR LOW-INCOME WEATHERIZATION PROGRAM REAPPROPRIATION

PANEL

- Linné Stout, Director, and Jason Wimbley, Chief Deputy Director of the Department of Community Services and Development (CSD)
  - Please present briefly on the Governor's Budget Change Proposal for CSD.
- Justin Freitas, Department of Finance
- Ginni Bella, Legislative Analyst's Office
- Public Comment

BUDGET CHANGE PROPOSAL

The Governor's Budget requests reappropriation of any unexpended balances of fiscal year 2014-15 local assistance appropriations received from the Greenhouse Gas Reduction Fund (GGRF) to be available for encumbrance until the end of 2017-18 and liquidation until the end of 2018-19. All of CSD's 2014-15 $70.3 million local assistance appropriation has been awarded to vendors. However, there have been a series of impediments that make the liquidation of all of the funds by the end of 2016-17 difficult or impossible. If the Reappropriation authority is not granted, CSD anticipates reverting a total of $11 million in GGRF.

STAFF COMMENTS AND QUESTIONS

No issues have been raised with this proposal, however, the Subcommittee may want to inquire further as to the reason(s) for the underspending that necessitates this request for reappropriation to prevent reversion.

Staff Recommendation:

Hold open.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

ISSUE 1: PROGRAM AND BUDGET REVIEW

- Alisha Griffin, Director, and Mark Beckley, Chief Deputy Director, California Department of Child Support Services (DCSS)
- Justin Freitas, Finance Budget Analyst, Department of Finance
- Ginni Bella, Fiscal and Policy Analyst, Legislative Analyst's Office
- Public Comment

PROGRAM AND BUDGET REVIEW

The Department of Child Support Services (DCSS) establishes and enforces child support orders, locates parents, establishes paternity, and collects and distributes support. DCSS is also responsible for oversight of county and regional local child support agencies that work directly with families in the community. The Governor's budget proposes total spending of just over $1 billion ($314.1 million General Fund) for DCSS for 2017-18, with a slight increase from the current year.

DCSS is the single state agency designated to administer the federal Title IV-D state plan. The Department is responsible for providing statewide leadership to the Local Child Support Agencies (LCSAs) to ensure that all functions necessary to establish, collect, distribute and enforce child support in California, including securing child and spousal support, medical support, and determining paternity, are effective and efficient. The objective of the Child Support Program is to provide an effective system for encouraging and, when necessary, enforcing parental responsibilities by establishing paternity for children, establishing court orders for financial and medical support, and enforcing those orders. DCSS and the LCSAs utilize a statewide automation system called the Child Support Enforcement (CSE) system to provide for the case and financial management of child support cases consistent with federal law. All child support collections are received and disbursed through a central State Disbursement Unit (SDU).

DCSS and the 49 LCSAs serve California’s children and families. As of federal fiscal year (FFY) 2016, there are 1.2 million active cases, or 8 percent, of the total federal support caseload, serving over 3 million families and children.

Collections. Total child support distributed collections are estimated to increase from $2.4 billion in 2016-17 to $2.5 billion ($2.1 billion non-assistance payments and $402 million assistance payments) in 2017-18. Wage withholding continues to be the most effective way to collect child support, constituting 68 percent ($1.62 billion) of the total collections received.

Child Support Collections (in millions)	2013-14 Actuals	2014-15 Actuals	2015-16 Actuals	2016-17 Estimated	2017-18 Estimated	Percent Change (2013-14 thru 2017-18)
Non-Assistance	$1,858,798	$1,906,042	$1,975,159	$2,050,913	$2,126,667	14.4%
Assistance	$ 439,273	$ 427,186	$ 419,730	$ 411,333	$ 402,951	-8.3%
Total	$2,298,071	$2,333,228	$2,394,889	$2,462,246	$2,529,618	10.1%

Total Collections Received, by source (FY 2015-16)	
Wage Withholding	$1.62 billion
IRS federal income tax refund	$147 million
FTB state income tax refund	$36 million
Unemployment Insurance Benefits	$40 million
Collections from other IV-D states	$96 million
Non-custodial parent regular payments	$345 million
Other sources* (Liens, workers' compensation, disability insurance benefits offset, California insurance intercepts, and full collections program without wage levies)	$105 million
Total	**$2.4 billion**

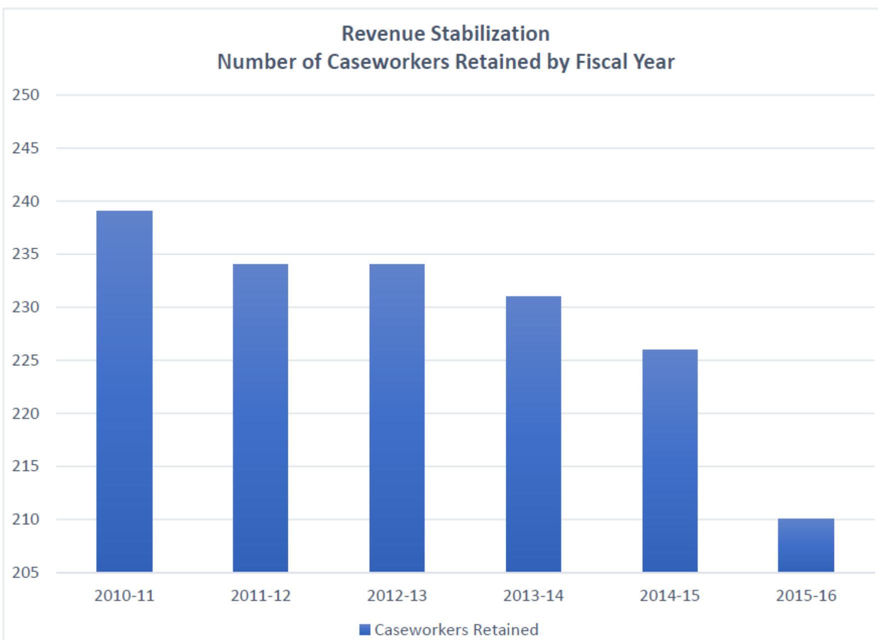
Budget Authority. The proposed 2017-18 budget totals $1.0 billion ($314 million General Fund (GF), $692 million Federal Funds (FF)) and position authority totaling 685 positions. Approximately 76 percent of the department's budget is directly allocated to California's 49 LCSAs to fund 6,438 county staff and local operational costs. The remaining 24 percent is expended at the state level to support the Child Support Enforcement system, State Disbursement Unit, child support court commissioners and family law facilitators, central print and mail of child support forms and notices and costs for state staff and administration. The department is funded 34% state GF and 66% FF.

	FY 2016-17 Budget Act	FY 2017-18 Governor's Budget
General Fund	**$314M**	**$314M**
Federal Fund	**$691M**	**$692M**
State Operations	***$173M***	***$174M***
Local Assistance	***$833M***	***$833M***
Total	**$1.0B**	**$1.0B**

Revenue Stabilization Funding. The Department issues a report every year that evaluates the impact of Revenue Stabilization Funding that was provided at $18.7 million ($6.4 million General Fund) in the 2009-10 Budget to the 49 LCSAs to stabilize caseworker staffing, and to avoid a loss in child support collections. In its most recent report released in January, 2017, DCSS has continued to find that the revenue stabilization funds are having the effect of maintaining statewide child support collections. DCSS states that in the absence of the revenue stabilization funding, the impact of staffing reductions would have decreased assistance collections by $15.2 million and non-assistance collections by $120 million, or a total loss of $135.2 million ($7 million General Fund) for 2015-16.

To receive an allocation of revenue stabilization funds, Family Code requires that revenue stabilization funds are distributed to counties based on their performance on two key federal performance measures: 1) collections on current support and 2) cases with collections on arrears. DCSS reported that revenue stabilization funds in 2015-16 continue to produce positive effects on maintaining statewide child support collections. Specifically, the stabilization funds have assisted in retaining:

- 210 child support caseworkers
- $135.2 million in total distributed collections
- $15.2 million in net total assistance collections
- $7 million General Fund recoupment of assistance collections
- $120 million in total non-assistance collections



The number of caseworkers retained by DCSS with the Revenue Stabilization Fund has declined over the years due to rising local staff costs.

Federal Performance Measures. DCSS implemented the incentive funding system based on program performance as required by The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). The Child Support Performance and Incentive Act of 1998 enacted significant changes in the way federal incentives are paid to states. The methodology changed from being based on cost-effectiveness only, to five federal performance measures implemented over a three year period, beginning

October 1, 1999. The federal Office of Child Support Enforcement's (OCSE) Action Transmittal 01-01, dated January 3, 2001 contains the federal regulations that govern the system. Since Federal Fiscal Year (FFY) 2000, states have been evaluated for federal incentive funds based on five performance measures.

Performance Measure	Federal Minimum	FFY 2012	FFY 2013	FFY 2014	FFY 2015	FFY 2016	Percent Change 2012 - 2016
IV-D PEP or	50.00%	98.4%	100.5%	101.2%	102.0%	101.7%	3.4%
Statewide PEP	50.00%	101.6%	98.6%	98.2%	98.0%	98.6%	-3.0%
Percent of Cases with Orders	50.00%	87.9%	89.0%	89.2%	89.4%	90.4%	2.8%
Current Collections Performance	40.00%	61.4%	63.3%	64.9%	66.5%	67.0%	9.1%
Arrearage Collections Performance	40.00%	63.5%	65.1%	65.8%	66.2%	66.7%	5.0%
Cost-effectiveness	$2.00	$2.47	$2.54	$2.43	$2.51	$2.51	1.6%

New Federal Rule. On December 20, 2016, the federal Office of Child Support Enforcement published the Flexibility, Efficiency, and Modernization in Child Support Programs Final Rule (also called the "Final Rule"). Effective January 19, 2017, the Final Rule makes changes to the child support program intended to increase the effectiveness of the program for all families, states, territories and tribal programs and to ensure that child support services are accessible to families and delivered in a fair and transparent manner. Some of the changes include: clarifying and streamlining regulations to improve the efficiency of child support programs; clarifying the variables that should be considered or included when calculating a child support order amount in order to improve the fairness and accuracy of child support orders; expanding criteria for closing child support cases; and expanding the types of services for which federal financial participation is available.

The Final Rule places emphasis on procedural justice principles of transparency, fairness, and accuracy in the establishment, enforcement, and modification of child support orders. The following are examples of areas in the Final Rule that address procedural justice principles.

§302.56 Guidelines for setting child support awards:

- The child support order takes into consideration all of the non-custodial parent's (NCP's) earnings, income, ability to pay, basic subsistence needs, and if necessary incorporates a low-income adjustment. (**Note**: California has already implemented a low-income adjustment and State DCSS convened a workgroup of state and local child support attorneys to standardize child support order setting practices in the state.)
- When reviewing the child support guideline, the State must consider economic labor market data; the cost of raising children; the impact of guideline policies on CPs and NCPs below 200% of the Federal poverty level; analyze case data on the use and deviation of the guideline; presumed income imputed, income low-income adjustment orders. (**Note**: these factors are being taken into consideration in the current quadrennial child support guideline review.)

§303.4 Establishment of support obligations:

- Develop a factual basis for the support obligation through gathering information regarding the earning and income of the NCP, investigations, case conferencing, interviews, appear and disclose procedures, parent questionnaires, testimony, and electronic data. (**Note**: State DCSS convened a workgroup of state and local child support attorneys to standardize child support order setting practices in the state.)

§303.8 Review and adjustment of child support orders:

- The State may initiate review of an order after learning that an NCP will be incarcerated for more than 180 calendar days and, if appropriate, adjust the order. (**Note**: California already follows a 90-day provision for administrative adjustments in accordance with Family Code Section 4007.5 and current state regulations allow modifications to zero after 90 days of incarceration.)

DCSS in collaboration with the local child support agencies is in the process of conducting an in-depth review of the Final Rule in order to determine how this impacts California's Child Support Program. In addition, DCSS will work with the Judicial Council of California (JCC) to see how the provisions pertaining to child support order setting guidelines will impact California's child support guidelines. The JCC is currently in progress of conducting a quadrennial review of the state's child support guidelines.

STAFF COMMENTS AND QUESTIONS

While the yield from the revenue stabilization funds have decreased over time, as shown in the chart above, they continue to prove cost-effective for child support collections. The Legislature should continue to monitor the effects of the funding going forward and the performance of LCSAs in collections and other outcome measures.

The DCSS budget does not raise concerns at this time and no stakeholders have weighed in with issues. The only issue identified by staff as raising a question is around the positions funded in the 2016 Budget for the California Child Support Automated System, or 27 positions for the current year. Information from DCSS shows that these 27 positions remain vacant, and the Subcommittee may wish to inquire as to the cause. DCSS has stated that it is recruiting for the positions, in addition to 17 unfilled positions from the prior fiscal year, and has been focused on hiring experienced candidates that possess the information technology skillsets required to maintain this automation system.

Staff Recommendation:

This first item is an informational one. Staff recommends that the overall DCSS budget be held open pending the May Revision.

ISSUE 2: TRAILER BILL LANGUAGE (TBL) PROPOSAL #620 – EXTEND SUSPENSION OF IMPROVED PERFORMANCE INCENTIVES

PANEL

- Alisha Griffin, Director, and Mark Beckley, Chief Deputy Director, California Department of Child Support Services
- Justin Freitas, Department of Finance
- Ginni Bella, Legislative Analyst's Office
- Public Comment

GOVERNOR'S TBL PROPOSAL

Family Code Section 17706 has been suspended since 2002-03. The performance incentive, when not suspended, provides additional payments for the top 10 performing Local Child Support Agencies (LCSAs). The incentives are paid for with 100% General Fund. There are no federal matching funds available. The payment to LCSAs has already been suspended for several years. The Governor's Budget proposes trailer bill language that the performance incentive be further suspended for the 2017-18 and 2018-19 fiscal years.

DCSS is currently evaluating how this program should be restructured to better direct incentives towards specific reforms or innovations that could improve collections, the reliability of child support payments owed by non-custodial parties, and increase the pool of eligible LCSAs. Improving program performance and increasing efficiencies are the primary focuses of DCSS' Strategic Plan for 2015-2019. Local performance is closely monitored by the DCSS

Current statute would not permit incentive funding to be directed at LCSAs that may have strong innovative ideas and reforms, but are not within the top 10. Repetitive cycles of being in the top 10 may provide an unfair advantage to those LCSAs continually receiving additional funding and thus leading to continued performance advantages over other LCSAs. Allowing the suspension of FC 17706 to expire would result in a 100% GF liability. Based on 2015-16 data, the estimated impact would be over $500,000. However, the top 10 performing counties fluctuate from year to year and the annual GF impact could be as high as $6 million.

Staff Recommendation:

No issues have been raised with this proposal. Staff recommends that the trailer bill be held open pending action at the May Revision hearings.

ISSUE 3: TBL PROPOSAL #621 – REPEAL HEALTH INSURANCE INCENTIVES PROGRAM

PANEL

- Alisha Griffin, Director, and Mark Beckley, Chief Deputy Director, California Department of Child Support Services
- Justin Freitas, Department of Finance
- Ginni Bella, Legislative Analyst's Office
- Public Comment

GOVERNOR'S TBL PROPOSAL

When not suspended, W&I Code Section 14124.93 requires the DCSS to provide a $50 administrative incentive to LCSAs for identifying and obtaining third-party health coverage or insurance of beneficiaries available through non-custodial parents' health benefit plans. The health incentive statute was suspended beginning in 2003-04, and continuing through 2016-17. The health care incentive was originally suspended due to the decline in California's General Fund revenues and subsequently extended due to ongoing budget constraints. More recently, the suspension was extended from 2015-16 through 2016-17 to allow DCSS to reevaluate the incentive program and determine if it's still relevant considering today's child support and health care laws.

Federal and state laws already require the enforcement of medical support. Under Title 45 Code of Federal Regulations (CFR) 303.31, every child support order established by a state IV-D agency shall include a provision for medical support for the child to be provided by either or both parents, and shall be enforced, where appropriate. Title 45 CFR 303.32 further stipulates the use of the National Medical Support Notice (NMSN), a federal document that serves as legal notice that the employee identified is obligated by a court or administrative child support order to provide health care coverage for the identified child. The administrative costs for identifying and obtaining health insurance coverage are funded within the LCSA budget. LCSAs were required to continue to find alternatives to Medi-Cal without health insurance incentives and the agencies are funded to perform enforcement and collection duties, therefore suspension of the health incentive program did not have an impact on the child support program. Furthermore, implementation of the Patient Protection and Affordable Care Act (P.L. 111-148; ACA, as amended) should further improve health care coverage for children. The ACA offers affordable new health care coverage options for children and parents as well as resources to help pay for coverage are available for parents with low to moderate income.

Staff Recommendation:

No issues have been raised with this proposal. Staff recommends that the trailer bill be held open pending action at the May Revision hearings.