

# AGENDA ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES

**ASSEMBLYMEMBER GILBERT CEDILLO, CHAIR**

**WEDNESDAY, APRIL 28, 1999  
STATE CAPITOL, ROOM 444  
1:30 P.M.**

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## 5180 DEPARTMENT OF SOCIAL SERVICES

### ISSUE 1: CHILD SUPPORT MANAGEMENT REVIEWS

The department proposes \$269,000 (\$91,000 General Fund) and the establishment of four positions to conduct mandated management reviews of the Child Support Program and to provide technical assistance in any county whose measured performance score is in the bottom quartile of all counties and whose rate of improvement over the prior year is less than the statewide average.

**Recommendation: Approve the positions on a one-year limited term basis.**

### ISSUE 2: PATERNITY OPPORTUNITY AND STATE INVESTMENT FUND PROGRAMS

The budget proposes \$62,000 (\$21,000 General Fund) and two half-time positions to maintain and operate the Paternity Opportunity Program and the State Investment Fund program.

**Recommendation: Approve as budgeted.**

### ISSUE 3: NEW EMPLOYEE REGISTRY

The budget proposes \$4,648,000 (\$1,580,000 General Fund) as a pass through to the Employment Development Department (EDD) to support the New Employee Registry (NER). The subcommittee approved the EDD's budget proposal for the NER at a previous hearing.

**Recommendation: Approve as budgeted.**

### ISSUE 4: ELECTRONIC BENEFITS TRANSFER

The budget proposes \$272,000 (\$68,000 General Fund) and the establishment of four positions on a two-year limited term basis and one position on a permanent basis to support the implementation of the Electronic Benefits Transfer project.

**Recommendation: Reject the one proposed permanent position.**

### ISSUE 5: FRAUD DETECTION MATCHING SYSTEMS

The budget proposes \$110,000 (\$19,000 General Fund) and 1.5 permanent positions to provide ongoing evaluation, maintenance, and operation of the Fleeing Felon match, the Drug Felon match, and the Jail Reporting System.

**Recommendation: Approve as budgeted.**

**ISSUE 6: WELFARE FRAUD PROGRAM SAVINGS INVESTMENT**

The budget proposes \$439,000 (\$110,000 General Fund) and to establish five existing positions on a permanent basis to implement and maintain activities for fraud prevention, detection, evaluation, investigation, and overpayment recovery and collections.

**Recommendation: Approve as budgeted.**

**ISSUE 7: STATEWIDE FINGERPRINT IMAGING SYSTEM**

The budget proposes \$177,000 (\$44,000 General Fund) and the extension of three positions for one-year only to assist in the development and implementation of the Statewide Fingerprint Imaging System.

**Recommendation: Approve as budgeted.**

**ISSUE 8: CALWORKS ADMINISTRATION**

The budget proposes \$447,000 in federal TANF funds and to extend seven positions on a two-year limited term basis to support implementation of the CalWORKs program.

**Recommendation: Approve as budgeted.**

## 5180 DEPARTMENT OF SOCIAL SERVICES

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### ISSUE 9: CHILD SUPPORT SYSTEM REFORM

On January 26, 1999, the Assembly and Senate Judiciary Committees, the Assembly Human Services and the Senate Health and Human Services Committee held a hearing regarding the reform of California's Child Support System. The Legislators heard testimony regarding the current structure of California's child support system, the major problems with the current child support enforcement system, elements of an effective child support system, and proposals for reform.

#### BACKGROUND:

Some of the proposals for improvement that have been presented to the Legislature include the following:

- ***Demand Accountability of All Key Players and Impose Strict Oversight and Management Requirements.*** These activities might include adoption of standardized practices, setting priorities for the use of specific enforcement mechanisms, establishing standard caseworker to case staffing ratios as well as appropriate attorney to caseworker ratios, instituting a consistent state policy on the appropriateness of closing cases, and implementing standard complaint resolution procedures at the local level.
- ***Allow the Possibility That County Agencies Other Than, or in Addition to, the District Attorney Can Operate the Child Support Program at the Local Level.*** One option would be to eliminate the statutory mandate that the district attorney run the program at the local level, and permit the state to decide on a county-by-county basis the agency best suited to most effectively operate the program.
- ***Institute "Best Practices".*** The Department of Social Services would study the "best practices" of other state child support programs, as well as innovative practices of individual California counties which appear to be particularly effective, and determine how to implement these practices in California to maximize collection of support for children and families.
- ***Vest Authority and Responsibility for the Child Support Program in a High Level Official Within the Administration.*** Because there are at least four different state departments that administer different components of the child support enforcement system, one option might be to designate an individual in the administration with the responsibility to ultimately oversee and manage the program.

- **Create an Advisory Commission.** The Advisory Commission would be comprised of key players in the child support process and review practices and procedures, address issues regarding coordination between different agencies, and encourage the flow of information to determine how to maximize collection for children and families.
- **Remove the Department of Social Services as the State IV-D (Title IV-D of the Social Security Act) Agency.** There have been suggestions that a new state agency, whose sole mission is administering the child support enforcement program, should be created.
- **Centralize California's Child Support Program in a Single State Agency.** Some believe that the program must be operated by a single, statewide child support agency, without delegating the operation of the program to the counties. However, the state agency might operate local offices for ease of access for families.
- **Administrative Process.** Another approach would be to create an administrative process to hear child support matters, removing at least certain aspects of the child support enforcement program from the courts.
- **Focus on Self-Sufficiency, Not Welfare Cost Reimbursement.** Welfare recoupment and state debt policies present obstacles for many low-income noncustodial parents in connecting with the child support system, even when they are employed.
- **Child Support Automation.** The state should devise a backup plan for automating basic child support functions until the federally required statewide automation system is operational.
- **Performance Standards.** The state should collect reliable data from the counties, conduct sound evaluations and enforce minimum performance standards.

The Legislative Analyst's Office (LAO) also released a report in April 1999 which included the following options to improve performance from a fiscal perspective:

- **Transfer Administration of the Program to the State.** The state would have control over the allocation of program resources.
- **Establish a New Fiscal Incentive Program.** County administration would be retained, but a new fiscal incentive program would be designed to specifically address the reasons the counties often do not increase program spending even when such spending would result in net savings on a statewide basis.

**COMMENTS:**

- Several Legislators have introduced bills regarding child support system reform. These include: (1) AB 196 (Kuehl) which would establish the Department of Child Support Services within the Health and Human Services Agency and transfer the responsibility of local child support enforcement from the district attorney to a local child support agency, and (2) SB 542 (Burton) which would establish the Department of Child Support Enforcement to administer the child support program and to develop a plan for a system of local child support agencies directly accountable to the department.
- To the extent that legislation is enacted this year and major reforms in the child support enforcement system are adopted, there would be a need for additional resources in the budget year for planning and transition activities to minimize disruptions to child support collections.
- There have been concerns raised regarding the impacts of delayed child support automation development and federal automation penalties which could hinder successful child support system reform.

<b>ISSUE 10: FEDERAL CHILD SUPPORT AUTOMATION PENALTIES</b>
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The budget estimates that federal reimbursements to California will be reduced by \$37.1 million in the current year and \$52.8 million in the budget year, due to the penalty on the state for not meeting the deadline for implementing a statewide child support enforcement automation system. The budget proposes to pass the full penalty on to the counties which, according to the Legislative Analyst's Office (LAO), is inconsistent with current law. In addition, the budget proposes to pass Los Angeles County's proportional "share" of the penalty onto the other counties rather than the state.

The LAO recommends adjusting the budget to reflect the state's proportional share of the penalties, for a General Fund cost of \$2.2 million in the current year and \$3.2 million in the budget year.

The budget also proposes \$379,000 (\$129,000 General Fund) and the establishment of five positions to support the consortia-based approach to the development of the statewide child support enforcement automation system.

<b>BACKGROUND:</b>
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The state is subject to the following "alternative penalties" over several federal fiscal years (FFY) if the state fails to implement the federally required statewide child support enforcement automation system:

- FFY 1998: \$12 million
- FFY 1999: \$25 million
- FFY 2000: \$53 million
- FFY 2001: \$87 million
- FFY 2002: \$109 million
- FFY 2003: \$115 million

**State Share of Penalties.** The LAO indicates that current state law provides that federal penalties shall be considered a reduction in federal financial participation in county and state administrative costs of the child support program. The budget, however, proposes to pass the full amount of the penalty on to the counties, with the state bearing no share. The LAO notes that the budget assumes the counties will maintain the level of spending on the program to backfill for the federal reductions. Because the counties are not required to backfill for reductions in federal funds, there is no assurance that the budget assumptions for county spending will be realized. Because of the strong relationship between county administrative effort and child support collections, collections could be affected if the counties reduce their spending below the amount assumed in the budget. The LAO also notes that on the other hand, the estimated amount of federal reimbursements after the penalty, when combined with state and federal incentive payments that are distributed to the counties exceeds the budget estimate for administrative spending. The LAO indicates that this suggests that most of the counties probably have the ability to meet the budget expectations for administrative spending in spite of the federal penalty.

**Los Angeles County's Share of Penalties.** Los Angeles County, with the approval of the federal administration, developed and implemented its own child support automation system as part of the required statewide system. Because of this, current statute provides that no portion of the federal penalty for delayed implementation of the statewide system shall be assessed against Los Angeles County (unless the county system fails to interface with the statewide system, which has not yet been implemented).

Current law also permits the department to backfill with state funds "any dollar reduction to county administrative funding," subject to the availability of funds in the annual Budget Act. The budget, however, proposes to pass Los Angeles County's proportional "share" of the penalty (about \$8 million in the current year and \$11 million in the budget year) onto the other counties.

The LAO does not believe that it is reasonable to expect the other counties, rather than the state, to backfill for the reduction in federal reimbursements attributable to Los Angeles County's share of those reimbursements.

<b>COMMENTS:</b>
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- On April 6, 1999, the state received a letter from the federal government which essentially disapproved the state's consortia-based approach to develop four systems rather than a single statewide system for child support automation. The administration has now developed an implementation strategy to develop a single statewide system. Meanwhile, the implementation date for the federally required system will be further delayed.

The new project would be procured in two phases. The Phase 1 contract would be awarded to up to four vendors. These vendors would spend six months generating preliminary design documents for a child support enforcement automation system. The Phase 2 contract would be awarded to the Phase 1 vendor whose design provides the best value to the state. Vendors would be able to bid any of the California child support systems or a system from another state. The administration projects that the Phase 1 contract would be awarded December 1999 and the Phase 2 contract would be awarded November 2000.

- The California District Attorneys Association have urged that the state backfill the federal penalties in order to ensure that counties are able to continue improving their programs and provide services, while preparing to address the new approach for automation.
- The department disagrees with the LAO regarding whether current statute requires the state to pay a share of the penalties.
- Due to the termination of the consortia-based approach for child support automation development, the department indicates that the proposal for the five staff positions will be adjusted during the May Revision.

**ISSUE 11: CHILD SUPPORT COMMISSIONER SYSTEM (FINANCE LETTER)**

The department requests an increase of \$348,000 (\$67,000 General Fund) to the budget proposal to reimburse the Judicial Council to support the Child Support Commissioner System.

**BACKGROUND:**

The Child Support Commissioner System was created to expedite the process for the establishment and enforcement of child support orders in the courts. Each county is required to have a child support commissioner to hear certain child support cases. The Judicial Council is required to establish procedures to distribute funding and offer technical assistance to the courts in order to insure the successful implementation and operation of the Commissioner System. Funding for the Commissioner System and the Judicial Council's administrative costs is provided by the Department of Social Services through an interagency agreement with the Judicial Council.

The Finance Letter request consists of the following components:

- An increase of \$152,000 in federal funds for the Judicial Council to conduct an evaluation of the Child Support Commissioner System and to conduct a review of the child support guidelines;
- An increase of \$56,000 for a new position at the Judicial Council to improve the quality of services provided to the local courts; and
- An increase of \$140,000 to cover the costs of a three percent cost-of-living increase for child support commissioners that was effective July 1, 1998.

**COMMENTS:**

According to the department, the three percent cost-of-living increase is authorized under current statute.

**ISSUE 12: CALIFORNIA FOOD ASSISTANCE PROGRAM**

The Governor's budget includes \$78.8 million from the General Fund to continue the California Food Assistance Program (CFAP) which provides state-only food stamp benefits for noncitizens. Of this amount, approximately \$53 million would be used to meet the state's federal TANF maintenance-of-effort (MOE) requirement. The budget projects that the average monthly CFAP caseload will be 85,215 in 1999-00.

**BACKGROUND:**

The Food Stamp program provides monthly coupon benefits to assist low-income households in purchasing food to maintain adequate nutritional levels. The federal government funds the total costs of the benefits, while the state and county share the costs for administration. Currently the average benefit per person in California is about \$72 per month.

Federal welfare reform law made all non-citizens ineligible for the Federal Food Stamp program. This law denied eligibility to approximately 120,000 adults, children, and seniors for food stamps in California. Subsequent federal legislation restored eligibility for noncitizen minors under the age of 18 and seniors 65 and older.

The Governor's budget includes funding to continue the CFAP which provides state-only food stamp benefits for noncitizens ages 18 through 64. Noncitizens who entered the United States on or after August 22, 1996 are eligible for the program only if he or she is sponsored and the sponsor has either died, is disabled, or is abusive. Recipients (with certain exceptions) in this program must meet various CalWORKs work requirements, even though they may not be CalWORKs recipients. However, recipients of food stamp benefits who are citizens and are not CalWORKs recipients are not subject to the CalWORKs work requirements. This program sunsets on July 1, 2000.

**COMMENTS:**

- Assembly Speaker Villaraigosa has introduced AB 873, which would (1) expand eligibility for the CFAP for all noncitizens who meet the eligibility criteria of the federal Food Stamp program in effect August 21, 1996, but are not eligible for benefits solely due to his or her immigration status under federal welfare reform, (2) repeal the sunset date, and (3) apply the same work requirements to noncitizens that are applied to citizens.
- On March 6, 1999, the Assembly Budget Subcommittee No.1 held a hearing in Los Angeles and heard from a panel of local administrators, advocates, and recipients on the implementation and impacts of the CFAP program. The subcommittee heard testimony regarding support for passage of AB 873.

- The Budget Act of 1998-99 required the department to provide the following information during the 1999 budget hearings: (1) the estimated number of persons receiving CFAP benefits, (2) the number of CFAP recipients also participating in CalWORKS, (3) the number of CFAP recipients in non-subsidized and subsidized employment, and (4) the range of hours required by each county for program administration.
- The budget does not reflect savings from the following: (1) federal restoration of benefits for the Hmong and Laotian veterans, (2) extended federal eligibility of benefits for refugees from the first five years in the U.S. to the first seven years, and (3) naturalization (the budget assumes that none of the CFAP population will naturalize in the budget year, even though Immigration and Naturalization Service (INS) data shows that for California, 411,758 cases naturalized in federal fiscal year (FFY) 1996, 182,414 in FFY 1997, and 159,238 in FFY 1998).

These savings would be offset by costs if AB 873 is enacted. As a note, any net costs or savings in the program would affect the state's TANF MOE level of expenditures for 1999-00.

- Federal legislation has been introduced to restore benefits to noncitizens who entered the U.S. on or after August 22, 1996.

**ISSUE 13: FOOD STAMP EMPLOYMENT AND TRAINING PROGRAM**

The budget includes \$58 million (\$1.3 million General Fund) for the Food Stamp Employment and Training (FSET) program in 1999-00.

**BACKGROUND:**

The FSET Program provides job search assistance, work experience and supportive services to eligible non-assistance Food Stamp program recipients. The goal of the FSET program is to help individuals become self-sufficient and reduce their need for food stamps. The program requires food stamp recipients to register for work and participate in the FSET. Counties develop plans which specify the job services, training and supportive services available to participants. Some recipients are geographically excluded due to reasons such as sparse population, great distances and lack of available transportation. Not all counties operate an FSET program. Federal law reduced the amount of federal funding for the program for federal fiscal year 1999.

Each additional state dollar would draw down an additional federal dollar for the program. Last year, the Legislature provided an \$8 million (\$4 million General Fund) augmentation for the FSET. However, Governor Wilson vetoed these funds. The expansion of the FSET program was intended help counties in establishing and operating effective work activity programs for individuals subject to the federal Food Stamp work requirements. The federal welfare reform law linked food stamp eligibility to work requirements for some recipients. Specifically, able-bodied recipients age 18 to 50 *without dependents* are not eligible for food stamp benefits for more than three months in any three-year period, unless they are working at least 20 hours per week.

Many of the individuals who are eligible for FSET services are General Assistance (GA) recipients. The GA program is designed to provide assistance to indigent individuals not supported by family, friends, or other private or public sources. Most often, GA recipients are single adults with no children. Current law requires that counties operate GA programs; however, considerable latitude is left to the counties to determine program regulations. GA programs are funded 100 percent with county resources.

**COMMENTS:**

- Assemblymember Cedillo has introduced a bill, AB 362, which would provide additional state funds to counties for the FSET program if the county elects not to implement the current statutory time limit for GA benefits and meets the county maintenance-of-effort requirement for the FSET program. The bill also expresses legislative intent that the additional state funds would not exceed \$16,025,000 in 1999-00. This amount represents the level of proposed county expenditures that are above the counties' maintenance-of-effort level in 1999-00.

- The state may seek a waiver of the federal work requirement for non-assistance food stamp recipients for all or part of the state that: (1) has an unemployment rate of over ten percent or (2) does not have a sufficient number of jobs to provide employment for the individuals. In the past few years, several counties have been granted waivers which have expired. In January 1999, the state requested waivers for Fresno and Tulare Counties due to the severe crop damage from the freezing weather which resulted in the temporary loss of employment for agricultural workers. These waivers were approved by the federal government for the period February 1, 1999 through July 31, 1999. The department indicates that four other counties (Kern, Kings, Madera, and Monterey) which were also affected by the freeze have not requested waivers.

**ISSUE 14: FOOD STAMPS UNDERISSUANCE ERROR RATES**

California's Food Stamp underissuance error rate has been historically very high compared to other states. In December 1998, the department completed a report which attempted to: (1) identify the causes of California's disproportionately high underissuance error rate, and (2) propose some interventions which could reduce future errors and related federal fiscal sanctions.

**BACKGROUND:**

An underissuance error occurs when an eligible household is issued at least \$6.00 less than they were entitled to, in a designated review month. The federal Food Stamp Quality Control program combines each state's underissuance error rate with their overissuance error rate to establish their Combined Payment Error Rate (CPEP). The CPEP serves as the basis of fiscal sanctions or enhanced funding. If the state's CPEP exceeds the national average CPEP, the state may be sanctioned. California's overissuance error rate is usually below the national average. However, California's underissuance error rate is always above the national average and is often the worst in the nation.

The department indicates that the state expects a penalty of \$8 million in FFY 1998 but that an appeal is currently in process. Under current statute, a portion of the state's penalty must be passed on to counties that are responsible for the error rates above the federal tolerance levels. In the past, however, the penalties have been reinvested into the program.

The following lists some of the recommendations in the report that pertain to activities that California could address at the state level:

- Coordinate a skills-sharing training curriculum for counties;
- Develop, disseminate, and enforce a reasonable shelter cost allowance policy;
- Pursue a seasonal farm worker policy which precludes prospective budgeting errors;
- Simplify the CFAP budgeting process; and
- Adopt a system of proactively regulating for Food Stamp error rate control.

**COMMENTS:**

- Currently, the department does not have staff resources dedicated solely to addressing the underissuance error problems or to implement the report's recommendations. Additional staff for these purposes could help to ensure that recipients receive the benefits they are entitled to receive and could help reduce federal penalties.
- On March 6, 1999, the Assembly Budget Subcommittee No.1 held a hearing in Los Angeles and heard testimony regarding the need for more outreach funds for the Food Stamps program. According to food policy advocates, California has one of the highest rates of nonparticipation of eligible individuals in the Food Stamps program.

**ISSUE 15: EMERGENCY FOOD ASSISTANCE PROGRAM**

The California Association of Food Banks (CAFB) requests that the Legislature consider an augmentation of \$12 million in state funding for the Emergency Food Assistance Program (EFAP). Of this amount, the \$12 million would be allocated as follows:

- \$6 million for local food bank programs to expand refrigeration space, purchase vehicles or other equipment that would be directly used to purchase, deliver, or distribute food products, or for other uses that would allow food banks to increase the amount of food they can receive and distribute,
- \$6 million as an ongoing augmentation for food purchase, or to aid in the collection of donated food, with 90 percent distributed to local food distribution programs and ten percent for regional/statewide efforts.

**BACKGROUND:**

The EFAP is a federal program that provides funds to purchase and distribute food to low-income individuals and households, and to community agencies that directly feed the hungry. In California, the EFAP is administered by the Department of Social Services. The type and amount of commodities are determined by the amount of federal funds provided, options available from the U.S. Department of Agriculture, and decisions made by the state. In addition, the program provides private donated food to supplement the purchased food. The food is distributed through a voluntary emergency food network comprised primarily of food banks and community action agencies. The state has never provided funds for food purchasing for emergency food providers.

The CAFB is comprised of 33 food banks and advocacy organizations. California's food bank network distributes over 150 million pounds of food to 5,000 community-based agencies each year. These agencies distribute food to over two million hungry families and individuals.

Last year, the Legislature provided an augmentation of \$6 million for the EFAP. This includes a one-time appropriation for local food bank infrastructure building and \$3 million for food purchase. However, Governor Wilson vetoed these funds. Subsequent legislation was signed by the Governor which provided a one-time appropriation of \$2 million for local food bank infrastructure.

**COMMENTS:**

- Information from California food bank studies shows that over 50 percent of individuals receiving emergency food do not receive food stamps and that of the individuals who do receive food stamps, over 80 percent report that benefits do not last the entire month. In addition, the 14<sup>th</sup> Annual U.S. Conference of Mayor's Survey of Hunger and Homelessness found that the demand for emergency food rose an average of 14 percent in 1998. Low-paying jobs were the main causes of hunger. Of the people requesting emergency food assistance, 61 percent are members of families with children and more than 20 percent of requests for emergency assistance go unmet.
- On March 6, 1999, the Assembly Budget Subcommittee No.1 held a hearing in Los Angeles. At the hearing, the subcommittee heard testimony regarding the following: (1) there has been a shift in responsibility in California for providing food from the government to emergency food providers, (2) there is still a lack of supply of food, and (3) studies show that many low-income school children are undernourished.

**ISSUE 16: CALWORKS - ADDITIONAL MOE EXPENDITURES**

The Legislative Analyst's Office (LAO) recommends that the department count toward the CalWORKs maintenance-of-effort (MOE) requirement \$4.8 million in General Fund expenditures in the California Department of Corrections (CDC) on programs for women offenders and parolees.

The LAO notes that based on the Governor's budget, these General Fund expenditures could be counted toward the state match for the federal Welfare-to-Work block grant. Alternatively, any federal TANF savings identified by the Legislature could be used to replace General Fund monies to bring the budget down to the minimum MOE level.

**BACKGROUND:**

The federal maintenance-of-effort (MOE) provision under TANF requires that California spend at least 80 percent of their 1994 state and county expenditure levels on the CalWORKs (former AFDC) program. The budget proposes state and county expenditures of \$2.9 billion to meet the federal MOE requirement, which is the minimum level required.

Pursuant to the federal welfare reform legislation, states may count all state spending on families eligible for CalWORKs, even if they are not in the CalWORKs program in order to meet the MOE requirement. In general, spending must be consistent with the purpose of providing assistance to families so that they can become self sufficient.

The CDC operates three programs for women offenders and parolees with children. These programs provide services (such as drug treatment, child care, and education) to assist women reintegrating into society. The LAO indicates that spending in these programs can be counted toward meeting the MOE requirement.

Total spending for these programs in 1999-00 is projected to be about \$11 million. The LAO notes that about 45 percent of the women in the programs are likely to have had a drug-related felony conviction. Because current state law makes drug felons ineligible for CalWORKs, the spending on program services that go to drug felons, would not count toward the federal MOE requirement. After reducing total spending by 45 percent to account for women who are likely to have drug-related felony convictions, and reducing the remaining amount by an additional 20 percent to account for other spending (such as health care) that may not meet the federal requirements, the LAO estimates that at least \$4.8 million of spending in the budget year for these programs operated by CDC (and \$4.2 million in the current year) would count toward the MOE requirement. The administration, however, has not included these expenditures in its MOE calculations.

**COMMENTS:**

- The department indicates that it will reflect the LAO's recommendation in the May Revision.
- Senator Wright has introduced a bill, SB 659, which would allow drug felons to be eligible for CalWORKs services if they meet one of several specified conditions related to drug treatment, and submit to required drug testing. If the legislation is enacted, spending on program services that go to drug felons, would count toward the federal MOE requirement.
- On March 24, 1999, the Assembly Budget Subcommittee No. 1 augmented the budget by \$500,000 General Fund to backfill for the loss in federal funds for perinatal substance abuse treatment programs within the Department of Alcohol and Drug Programs. Part of the expenditures could be counted towards the CalWORKs MOE requirement and should also be reflected in the budget.
- The budget includes \$395 million in MOE expenditures in departments other than the Department of Social Services in 1999-00. However, there are additional expenditures which could meet the MOE requirement but are not being counted towards the MOE. The department indicates that there are currently no methods to verify these additional expenditures for purposes of reporting to the federal government. If the state were able to verify these expenditures, it would result in General Fund savings.

**ISSUE 17: CALWORKS - COMMUNITY SERVICES EMPLOYMENT**

Under current law, the state pays for all CalWORKs employment services costs above the 1996-97 level. The Governor's budget assumes the workfare approach to community service, with no funding for the incremental cost of the wage-based approach. Specifically, the budget includes about \$20 million for community service employment. The LAO presents two alternative approaches to budgeting the incremental costs for the wage-based approach.

**BACKGROUND:**

Current statute requires that after 18 months, or at a county's option of 24 months, a parent must meet his or her CalWORKs participation mandate either through unsubsidized employment, community service, or a combination of the two. Community service must be (1) performed in the public or private nonprofit sector, (2) provide participants with job skills that lead to unsubsidized employment, and (3) not displace anyone from a job. Counties must develop community service plans that identify (1) unmet community needs that could be met through community service activities, (2) entities responsible for community service job development, fiscal administration, and case management services, and (3) supportive effort (including job search, education, and training) that will be provided to participants. The monthly compensation for community service is limited to the amount of the recipient's CalWORKs grant. Welfare recipients who were receiving aid when CalWORKs was implemented will be reaching the community service employment requirement in 1999-00.

There are two broad approaches to community service: workfare and wage-based. Under workfare, recipients are required to participate in community based services as a condition of receiving their grant. Under wage-based community services, the recipient's grant is "diverted" to an employer and paid as wages to the recipient.

The LAO notes that there are several advantages of the wage-based community service approach: (1) the recipient experiences more income since he or she would be eligible for the federal earned income tax credit (EITC) and would receive additional food stamps because of the use of an earned income disregard, (2) recipients could report to prospective employers that they have received wages rather than welfare grants which would generate a more formal work history and could increase the recipients' self esteem and confidence in seeking a job in the labor market, (3) the increase in sales tax revenues associated with expenditure of EITC funds, and (4) increased savings from reduced welfare payments that would result if wage-based community service is more effective than workfare in assisting clients to obtain unsubsidized jobs.

The cost of developing or creating a community service work slot is common to both the wage-paying and workfare approaches. Similarly, under either approach there will be a cost for providing supervision, although it is usually absorbed by the employer. An optional cost for both types of programs is for support services such as job coaching. A major difference between workfare and wage-based community service is employer costs for Federal Insurance Contribution Act (FICA) taxes, workers' compensation insurance, and possibly unemployment insurance. In most wage-based community service programs, these costs have been picked up by the government agency administering the program. In a wage-based system, recipients might also be provided supplemental grant payments or expense allowances. Also, the costs for documenting or monitoring the number of hours worked would differ under the two approaches.

The decision to provide either wage-based community service or workfare is made by the counties. As indicated above, the budget assumes the workfare approach to community service only. As a result, incremental costs for the wage-based approach would be borne by the counties. The LAO presents two alternative approaches for budgeting these incremental costs:

- **State Funding: Include the Incremental Cost in County Block Grants.** The incremental cost of wage-based community service could be viewed as a base program cost for CalWORKs employment services and incorporated into the funding model for the program.
- **Matching Program.** Under this approach, the state would match dollar-for-dollar any investment by the counties in wage-based service.

<b>COMMENTS:</b>
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- The LAO recommends that the state fund the incremental costs of wage-based community service since this approach to community service is specifically authorized by current law, provides substantial benefits to the recipient, and may provide a better bridge to nonsubsidized employment and self-sufficiency. The LAO believes it should be considered a base program cost and be fully funded in the budget for any county that elects this option. The LAO estimates that funding the wage-based approach would require an additional \$3.5 million in 1999-00.

**ISSUE 18: CALWORKS - COUNTY ALLOCATIONS**

Current law requires the welfare reform steering committee to report to the Legislature on alternative ways of budgeting and allocating funds for CalWORKs services and administration.

The Legislative Analyst's Office (LAO) has presented different approaches for consideration by the steering committee and the Legislature.

**BACKGROUND:**

Currently, the budget process for CalWORKs services and administration includes the following features:

- **County Block Grant.** Funds for administration, employment services, and child care are provided to counties in the form of a block grant, known as the single allocation. The counties may transfer funds within these program components.
- **County Share Fixed at 1996-97 Level.** Under prior law, the counties generally paid for 15 percent of the total costs of AFDC and Food Stamps Program administration and services. Under CalWORKs, the county share of these costs is fixed at the 1996-97 level. Thus, as the budget for these components increases, the state bears 100 percent of the marginal cost.
- **Budget for County Administration of Welfare and Food Stamps Based on County Plans.** As with the former AFDC program, the department reviews individual county plans for program administration and recommends a budget based upon this review.
- **Budget for Employment and Support Services Based on Statewide Model.** Although counties are required to submit individualized plans stating how they will implement CalWORKs, the budget for CalWORKs employment services and child care is based on a statewide model. The model uses assumptions based primarily on the former Greater Avenues for Independence (GAIN) program.
- **Allocation of Funds Among Counties Based Largely on Historical Budget Allocations Rather Than Caseload.** Counties receive employment service and child care funds based largely on the share of funds that they received under the former GAIN program. Although current law directed that some of the increased funding for employment services and child care be allocated in a manner that helps to equalize funding among the counties, funding on a per-case basis remains inequitable. For example, the 38 largest counties had allocations per aided adult ranging from \$2,000 to \$7,000 in 1998-99.

- **County Carry-Over Authority.** The CalWORKs legislation provides that unexpended block grant funds remain available to each county until July 2000. The budget proposes to extend the county roll-over authority until 2000-01.

In contrast to 1998-99, the budget proposes to use \$251 million in projected county roll-over funds as a source of funding for the estimated need for CalWORKs employment services in 1999-00. Specifically, the Budget Act of 1998-99 included \$200 million in prior-year unexpended funds for reappropriation for use by counties even though the estimated need for services was fully funded. In 1999-00, the estimated need for employment services is \$1,258 million. The budget, however, proposes to use \$251 million in estimated unexpended county block grant funds from 1998-99 as a funding source in 1999-00 so that only \$1,007 million in new funding is proposed for employment services.

The LAO has presented the following alternatives:

- **Determining the Total Budget for Employment Services and Child Care:** Three options include: (1) current policy, whereby the single statewide model for projecting costs is applied to the statewide caseload, (2) basing the budget on individual county budget plans (the current process for budgeting county administrative costs, and (3) adjusting the statewide model to reflect updated county cost estimates as well as new program components and changes developed by the counties.

The current model does not reflect county variation in program implementation. Given that counties have the broad authority to design their own CalWORKs programs, the LAO believes that basing the budget on individual county plans has some merit. However, the LAO also indicates that the problem with this approach is that counties have no share of marginal program costs, so there are no built-in incentives for counties to control costs. Therefore, the LAO recommends the third option, which would be based on a statewide model that could incorporate new cost and program assumptions.

- **Achieving More Equity in the Allocation of Funds to Counties.** Because the single allocations per aided adult varies significantly among the counties, the LAO notes that these differences mean that where a recipient lives will affect the level of resources that are available for that recipient for services. The LAO believes that the variation among counties should not be greater than what would be warranted by these local cost differentials and economic conditions. Two options include: (1) reduce funding to counties with high allocations and use these savings to increase the allocation to counties with low allocations, and (2) increase funding for low-allocation counties and “hold harmless” counties above the average.

The LAO indicates that the first option is budget neutral, but results in significant reductions for high-allocation counties. The second approach increases state costs and tends to work slowly towards equalization. The LAO therefore suggests a third approach, which would be to consider the first option with a limit on the annual reduction that any county would incur.

**COMMENTS:**

When CalWORKs was first implemented, the state realized that it would be difficult to estimate the costs for the new program. The state decided to use the former GAIN model to estimate the costs of the program. However, the funds were allocated to counties based largely on a caseload driven formula (in response to the previous inequities in the GAIN base). The County Welfare Directors Association (CWDA) agreed to this formula for two years, after which the issue would be revisited based on more experience with CalWORKs implementation.

As mentioned above, the budget proposes to use roll-over funds as a funding source for county block grants in 1999-00. The CWDA indicates that because the roll-over is not evenly distributed among counties, the current allocation formula does not work well. This is because the allocation formula distributes funds based on a base amount plus caseload adjustments, rather than on the county need after the county has expended its roll-over funds.

Given the need to revisit the county allocations issue, the CWDA Task Force has recommended the following:

**Proposal for 1999-00:**

Essentially, the roll-over funds would be combined with the new budget year appropriation and allocated in a way that ensures that each county receives at least the amount the county would have received according to the department's statewide model, had roll-over not been used as a funding source.

- Each county would absorb its share of the \$251 million carry-over to the extent that it has sufficient employment services roll-over to do so.
- For those counties that do not have sufficient roll-over, other counties who have more roll-over than their share of the \$251 million would make up the difference by receiving a lesser allocation of new budget year funds.
- If the roll-over is greater than \$251 million (which is likely) some counties will have funds available above the amount of funds they would have received using the current state model, or "surplus roll-over".

- If counties need additional funding beyond the amount allocated to them, counties could access a Reserve Fund, which would be funded by reducing incentives funds. This reserve could only be accessed by counties who have spent both their single allocation and all of their roll-over. The counties with surplus roll-over would be required to spend their entire allocation and their entire surplus roll-over before they could access the reserve.
- Any amount of funds left unused from the Reserve Fund would be returned to the counties' incentive allocation.
- The child care allocation would be separated out from the single allocation so that child care funds could only be spent on child care.
- Unspent child care funds at the end of the year would be reallocated to counties who have overspent their child care allocation.

**Proposal for 2000-01 and Beyond:**

- The state would shift the allocation methodology from a caseload-driven formula to a cost-based approach.
- The state would allocate the funds based on county requests/needs consistent with the CalWORKs local plan.
- County staff would work with the department on defining reasonable parameters that would guide county requests.
- Any county roll-over from 1999-00 to 2000-01 would be offset against the allocation the county would receive based on the reported need.
- If the state were unable to fully budget the need as identified by counties, the counties would be held harmless to the base year currently in statute.

**ISSUE 19: CALWORKS - COUNTY INCENTIVE PAYMENTS**

Of the \$479 million proposed for county performance incentive payments, \$287 million (60 percent) is the result of the baseline level of recipient earnings, rather than savings attributable to improved county performance in CalWORKs.

The Legislative Analyst's Office (LAO) recommends enactment of legislation to modify the methodology for calculating the incentive payments so that counties retain 50 percent of savings attributable to earnings (rather than the 100 percent included in the budget) because the rest of the savings would have occurred in the absence of CalWORKs. This change would result in budget savings of \$193 million in federal TANF funds in 1999-00.

**BACKGROUND:**

Under the CalWORKs program, 100 percent of certain grant savings are provided to counties. Specifically, counties receive 75 percent of the state's grant savings (in the form of incentive payments) resulting from (1) program exits due to employment lasting six months, (2) diversion of applicants from the program, and (3) increased earnings due to employment. The remaining 25 percent of such grant savings are allocated to counties that have not achieved savings but have performed in a manner "worthy of recognition." Counties must use these savings in the CalWORKs program unless expenditure of these funds is not needed to meet the federal TANF maintenance-of-effort requirement. Because the Governor's budget is set at the MOE floor, counties will be required to expend the state share of the fiscal incentives in the CalWORKs program in the year they are paid to the counties.

- ***Savings from Exits Due to Employment.*** For 1998-99, the welfare reform steering committee recommended that county performance incentive payments attributable to savings from exits due to employment be based on the increase in exists compared to the average number of exists during 1994-95, 1995-96, and 1996-97. By estimating the savings from exits due to employment compared to a baseline, the incentive payments for exits are directly related to improved county performance.
- ***Savings from Diversion.*** The budget proposes to provide all net savings that are attributable to diversion as county performance incentives. Because the diversion payment is a new program component, any savings should be attributable to CalWORKs.

- **Savings from Increased Earnings.** In contrast to its approach with respect to exits, the steering committee did not incorporate a baseline for savings due to increased earnings. Specifically, the steering committee recommended that all savings attributable to earnings (regardless of whether they resulted from CalWORKs intervention or would have occurred absent any change in program implementation) be paid as fiscal incentives. This is partly due to the administrative difficulty in separating baseline savings from CalWORKs savings at the individual county level. For 1999-00, the department estimates that of the \$385 million in savings resulting from increased earnings, \$287 million would have occurred without CalWORKs. Thus, the steering committee approach provides counties with \$287 million in "performance incentives" that they would "earn" even if CalWORKs recipients show no improvements in earnings from county implementation of the program.

To address this problem, the LAO recommends providing counties with 50 percent of all savings attributable to earnings. The LAO notes that although this approach would leave counties with more in incentives than can be strictly justified on the basis of improved performance, it does not rely on a county-level estimate of the baseline and still provides counties with a significant fiscal incentive to assist recipients in obtaining employment. This would result in savings to the state which, in years when CalWORKs spending is above the maintenance-of-effort level, would accrue to the General Fund, and in other years would be in federal TANF funds that could be used according to the Legislature's priorities for the CalWORKs program.

#### COMMENTS:

- Although the steering committee developed the methodology for incentive payments for increased earnings without incorporating a baseline, there was discussion among the committee members regarding the same concerns raised by LAO. In order to address the issue, there was some acknowledgement that if the Legislature and the Governor agreed that the amount was too high, then the Legislature would reduce it on a pro-rata basis. For example, each county might get 50 percent of the amount of incentives associated with increased earnings, or some other percentage agreed on during the budget process. Last year, the Legislature reduced the amount proposed for county incentives based on the LAO's recommendation. However, during the budget negotiations, the full amount for incentives was restored.
- The County Welfare Directors Association has presented a proposal for allocating CalWORKs funds to counties which includes redirecting part of the amount proposed for incentive funds to a new Reserve Fund, which counties could draw upon during the budget year. Any amount of funds left unused from the Reserve Fund would be returned to the counties' incentive allocation. (See *Issue 19: CalWORKs - County Allocations*).

- The budget proposes that the entire \$479 million for county incentives would be funded by federal TANF funds. The use of federal TANF funds triggers requirements such as time limits, work participation and data reporting and collection. The state General Fund can be used to provide assistance without triggering these requirements. Therefore, funding some portion of the county incentives with state General Fund rather than TANF funds (while still maintaining the same level of overall General Fund CalWORKs expenditures) would provide greater flexibility for counties. As indicated above, current law requires that incentive payments that are funded by General Fund dollars must be expended for the CalWORKs program, unless the General Fund dollars are not needed to meet the MOE requirement.

Even so, the General Fund can only be used for CalWORKs recipients or individuals who are eligible for CalWORKs. Counties are interested in being able to provide assistance to families who are not receiving or eligible for CalWORKs but who are needy families at risk of dependence on government benefits. For example, mothers who are participating in a drug treatment program with the goal of reunifying with their children who have been temporarily removed from their custody, cannot be provided treatment services with CalWORKs dollars. There are two options to address this issue: (1) the department could amend the state TANF plan to expand the definition of "needy families", and (2) the state could authorize counties to transfer part of their TANF funds into the federal Title XX Social Services Block Grant which can be used for broader purposes.

<b>ISSUE 20: CALWORKS - CHILD CARE</b>
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The budget proposes a total of \$1.2 billion for CalWORKs child care in 1999-00. The following chart shows the allocation for the three child care stages, by fund source:

<b>CalWORKs Child Care Budget Proposal 1999-00 By Fund Source (in millions)</b>		
<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<b>Child Care Reserve: \$183</b> (TANF or TANF transfer to Title XX)		
\$392.6 (TANF/GF) \$ 87.7 Reappropriation _____ (TANF)	\$353.5 (TANF to CCDF) \$ 73.7 (Prop. 98) \$ 43 (CCDF) \$ 15 (TANF)	\$50 (Prop. 98) \$25.8 (TANF to CCDF) \$7.2 (CCDF)
<b>\$480.3</b>	<b>\$485.2</b>	<b>\$83</b>
GF: General Fund TANF: Temporary Assistance for Needy Families CCDF: Child Care and Development Fund Title XX: Social Services Block Grant		

<b>BACKGROUND:</b>
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Prior to welfare reform, the State Department of Education (SDE) and the Department of Social Services (DSS) each received an allocation to provide child care services. There were a total of 18 child care programs operated by the DSS and SDE. Under CalWORKs, the child care programs were restructured and replaced with a three-stage child care delivery system for families in the CalWORKs program and for the working poor. The DSS administers all services in Stage 1 and the SDE administers the services provided in Stages 2 and 3.

Stage 1 begins upon entry into job search services and is intended to last for up to six months. Participants may remain in Stage 1 for more than 6 months if their situation is too unstable to be transferred to Stage 2 or there is no funded slot available in Stage 2. Former CalWORKs participants can be served for no more than 24 months after they are no longer receiving cash aid. Stage 2 begins when the recipient's schedule for training or work stabilizes or when a recipient is transitioning off of aid and child care is available through a local Stage 2 program. Participants may remain in Stage 2 for no more than 24 months after they are no longer receiving cash aid. Stage 3 begins when an individual is receiving diversion services, in long-term training, or is regularly employed at a wage that does not exceed 75 percent of the state median income. There are currently no time limits for Stage 3 child care.

Although Stage 1 and Stage 2 are administered by different agencies, the three-stage system was established with the intent that families would not need to switch child care providers when they move from Stage 1 to Stage 2. The real difference between the stages is who pays providers. In Stage 2, Alternative Payment (AP) programs operating under contracts with SDE pay the provider, instead of county welfare departments who pay providers in Stage 1.

**COMMENTS:**

There are several issues that have been raised regarding CalWORKs Child Care:

- ***The LAO recommends that the Legislature reject the Governor's proposal to cut off child care to former CalWORKs recipients who have been unable to secure subsidized child care outside of the CalWORKs program.*** Instead, the LAO recommends that the Legislature adopt budget bill language to establish a waiver provision which would allow former CalWORKs recipients to continue to receive CalWORKs subsidized child care even after they have been off aid for two years under the Stage 3 set aside, if certain conditions are met. Specifically, the provision would require county welfare departments to review the cases of families reaching the end of the two-year period and to determine whether the family needs subsidized child care in order for the parent or parents to continue working.

If the Legislature rejects the proposal regarding the time limit for Stage 3, the Department of Finance indicates that the Legislature would have to shift \$25.8 million currently budgeted for Stage 3 to Stage 2. On April 13, 1999, the Assembly Budget Subcommittee No. 2 on Education Finance held this issue open pending a recommendation by Assembly Budget Subcommittee No. 1.

- ***The California State Association of Counties (CSAC) has requested that the Legislature consider the elimination of time limits for Stage 1 and Stage 2 Child Care and the proposed time limit for Stage 3.*** The CSAC has expressed concern that the combination of time limits and insufficient funding for the broader subsidized child care system could threaten the long-term self-sufficiency of families leaving CalWORKs for employment.
- ***The Governor's Budget proposes budget bill language authorizing the SDE to develop a pilot project to develop child care centers in neighborhoods with high concentrations of CalWORKs participants.*** Under this proposal, the Department of Education would develop a pilot program with the goal of establishing new direct contracted child care centers in neighborhoods in which high concentrations of CalWORKs recipients reside, but which are significantly underserved in proportion to other neighborhoods by center based care. On April 13, 1999, the Assembly Budget Subcommittee No. 2 on Education Finance approved the proposal, with some adjustments to the budget bill language.

- **The CWDA proposal for a revised county allocation method includes the separation of the Stage 1 child care allocation from the single county allocation so that child care funds could only be spent on child care.** The child care allocation would be separated out from the single CalWORKs allocation so that child care funds could only be spent on child care. Unspent child care funds at the end of the year would be reallocated to counties who have overspent their child care allocation.

If the child care allocation is not separated, the Legislature could consider the LAO's recommendation regarding roll-over child care funds. Specifically, the LAO recommends that in order to ensure that child care funds are available to recipients who need them and used for their designated purpose, the Legislature should transfer \$88 million in child care roll-over funds from 1998-99 from the single CalWORKs allocation to the child care reserve in 1999-00.

- **Budget Bill Language Regarding the Child Care Reserve Needs Clarification.** The child care reserve was established during the budget process in order to address the uncertainty of required funding levels for Stage 1 and Stage 2 child care during the fiscal year. However, the current budget bill language which authorizes the child care reserve does not specify that the funds can only be drawn for these two stages, and not for Stage 3.
- **Legislature may want to consider different funding sources for Stage 2 and Stage 3 Child Care.** As indicated above, the budget proposes to transfer approximately \$379.3 million in TANF funds to the CCDF to fund Stage 2 and Stage 3 child care. The main reason for transferring the TANF funds to the CCDF, rather than providing TANF funds directly to the CDE, was that under federal statute every month of child care paid with TANF funds would count toward the family's five-year time limit for welfare benefits, even if the family was no longer receiving a CalWORKs cash grant. However, federal TANF regulations have recently been released which allow states to use TANF funds for child care without incurring the time limit provisions. As a result, the state now has the option to fund Stage 2 and Stage 3 child care with TANF, rather than transferring TANF to CCDF.

There are three significant issues that need to be considered, however, if the \$379.3 million in TANF funds for Stage 2 and 3 CalWORKs child care were not transferred to the CCDF as proposed in the Governor's Budget:

1. The main issue is the potential loss of \$15.2 million in CCDF quality-related expenditures, although the funds could then be used to fund service slots. Under federal CCDF requirements, at least 4 percent of CCDF funds must be used for "quality improvement" activities. When the TANF funds are transferred to the CCDF, this increases the amount of funds that must be spent on the "quality" activities. However, many argue that investments through the CCDF "quality" dollars fund the infrastructure for quality child care and are critical to the state's ability to increase and maintain the supply of child care. Recruitment and training of preschool teachers and child care providers and start-up grants for new programs all increase the number of providers, as well as the quality of care that they offer. Funding of slots alone cannot create and maintain adequate spaces nor provide the teachers and child care workers needed.

The following are the major categories in the proposed 1999-00 CCDF Quality Plan:

<b>CCDF Quality Plan Description of Activities 1999-00</b>
<p><b>Parent Education and Assistance:</b> Activities in this category are designed to disseminate consumer education materials, refer parents to child care, train child care providers, and maintain data on supply and demand. The primary purpose is to enable parents to make informed choices about the type of child care that best meets their needs.</p>
<p><b>Professional Development:</b> Activities in this category are designed to recruit staff, insure access to training (including the education requirements of SDE and DSS), develop teachers and site directors, offer incentives to retain qualified child care providers, and provide outreach at the local level to assist in the recruitment and preparation of underrepresented groups.</p>
<p><b>Early Literacy:</b> Activities in this category are designed to increase the effectiveness of early literacy development in state preschool and child development programs and to increase the accountability of these programs for child and family outcomes.</p>
<p><b>Child Care Capacity Building:</b> Activities in this category are designed to increase the supply of child care providers, especially in underserved areas, enable local planning councils to meet their responsibilities under CalWORKs, and improve services to disabled children.</p>
<p><b>Health and Safety:</b> Activities in this category are designed to improve the health and safety of children in child care by assisting parents in screening license-exempt providers and providing health and safety training for child care providers.</p>
<p><b>Program Evaluation:</b> These funds are used to evaluate program quality activities in order to improve future expenditures for these activities.</p>

The federal government recently announced additional funds for "quality" expansion for federal fiscal year 2000. California is scheduled to receive an additional estimated \$16.2 million in the budget year. At a previous hearing, the subcommittee adopted language to allocate \$2.7 million of these funds to provide comprehensive visits to child care facilities by licensing workers.

1. The second issue would be the need for separate contracts, with new fiscal and data reporting requirements, for SDE CalWORKs Stage 2 and 3 contractors. The SDE CalWORKs contractors are already required to have separate contracts for their CCDF and General Fund monies.
2. The third issue is that the new federal TANF regulations are not effective until October 1, 1999. TANF funds could not be spent in the first three months of state fiscal year 1999-00 for CalWORKs recipients who have left aid without causing them to use a portion of their five-year lifetime limit on TANF assistance.

If TANF funds are transferred directly to SDE without being transferred first to the CCDF, one option would be to increase the amount of TANF funds by \$15.2 million to maintain the proposed level of quality funding while fully funding the CalWORKs estimate. While this would still create additional administrative burdens for SDE and its contractors, it would avoid significant cuts in quality improvement and capacity building activities.

In addition, the Legislature may want to consider a different funding source for the Stage 2 reserve. Currently, if funds are drawn from the reserve for Stage 2 child care, TANF funds are transferred to the Title XX Social Services Block Grant and then given to the SDE. Due to some difficulties in administering Title XX funds for CalWORKs child care, the Legislature could fund the Stage 2 reserve for SDE with either TANF funds or transferring TANF to CCDF.

<b>ISSUE 21: CALWORKS - NONPARTICIPATION</b>
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Although the budget for grants includes a reduction of 13 percent to account for adults who will be sanctioned for failing to comply with program participation requirements, the budget for employment services and child care includes no such reduction.

In February 1999, the LAO had recommended reducing the budget for employment services and child care to account for nonparticipation, for a savings of \$150.8 million in federal TANF funds. Since then, the LAO has revised its savings estimate to \$25.5 million.

<b>BACKGROUND:</b>
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Based on data from the Greater Avenues for Independence (GAIN) program (which provided employment services to AFDC recipients prior to CalWORKs) the budget for CalWORKs grants reflects savings of \$95 million to account for sanctions on adults who fail to meet various program participation requirements. Specifically, the budget estimates that during 1999-00 an average of almost 53,000 adults per month (13 percent of all cases with adults) will be sanctioned. The budget for welfare-to-work services and child care, however, has not been adjusted to reflect this nonparticipation.

The LAO indicates that since adults who are sanctioned will not receive welfare-to-work services, the budget for services and child care should be reduced to reflect the anticipated savings from nonparticipation. Based on discussions with the department regarding recent data and a better understanding of past data, the LAO indicates that the revised reduction would reflect a 2.2 percent sanction rate, rather than 13 percent. This would result in savings of \$25.5 million and be divided as follows:

CalWORKs Employment Services:	\$13,730,000
Substance Abuse:	\$ 1,550,000
Mental Health:	\$ 1,140,000
Child Care	\$ 9,090,000
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TOTAL	\$25,510,000

The LAO notes that its estimate is based on the number of cases actually sanctioned. (Some individuals might fail to participate, but correct their non-compliance issue prior to an actual sanction is imposed.)

**COMMENTS:**

- The department indicates that it will be addressing this issue in the May Revision.
- On March 6, 1999, the Assembly Budget Subcommittee No.1 held a hearing in Los Angeles and heard testimony regarding the need to collect data on the reasons for sanctions in the CalWORKs program. Currently, the state only collects data on the number of individuals being sanctioned.
- Since CalWORKs was implemented, there have been very low referral rates for mental health, substance abuse, and domestic violence services. Due to the “work-first” emphasis in CalWORKs, necessary screening, assessments, and treatment services are not always provided in a timely manner to help those recipients with greater barriers to employment. The inability to detect these barriers early on could contribute to nonparticipation in some cases. There has also been concern that individuals with learning disabilities are not receiving the necessary screening and services which are allowed under the CalWORKs program.

**ISSUE 22: HOMELESS ASSISTANCE PROGRAM**

According to the department's data, expenditures for the Homeless Assistance Program will be approximately \$13 million in 1999-00.

**BACKGROUND:**

The Homeless Assistance Program (HAP) was established in 1987 in response to both the increase in homelessness among families and the state's loss of a lawsuit which established the right of homeless families to emergency shelter under federal and state child welfare laws. The program was created as a means of settling the case and providing benefits to allow families to move into permanent rental housing rather than merely subsist in emergency shelters. It had been recognized that poor families relying on public aid could not afford the added costs for moving into a home beyond the monthly rent. For eligible homeless families, it provided up to four weeks of temporary shelter (up to \$30 per night) and once they had found permanent housing, it paid for security deposits and the last month's rent, if charged.

In 1991, the program was cut substantially due to increasing costs and complaints by some counties about inadequate controls. Eligibility was limited to once in 24 months instead of 12, temporary shelter was restricted to 16 days instead of 28, counties were given more time to verify homelessness, and other limits were placed on the manner of payment and the identification of the housing providers. As a result, costs of the program decreased significantly.

Beginning in 1995-96, as part of the budgetary cuts regarding welfare grant reductions, eligibility was restricted further from once in 24 months to once in a lifetime. Exceptions include cases involving natural disasters, domestic violence, physical or mental illness, and uninhabitability of the former residence caused by sudden and unusual circumstances beyond the individual's control.

As a result of these program reduction measures, monthly expenditures have decreased from \$4.4 million to \$0.9 million and monthly caseloads have dropped from 8,948 to 2,085 from the period between January 1993 and January 1999.

**COMMENTS:**

- On March 6, 1999, the Assembly Budget Subcommittee No.1 held a hearing in Los Angeles and heard testimony regarding the need to expand benefits beyond the current once-in-a-lifetime limit for homeless assistance benefits, especially since the establishment of CalWORKs imposed a five-year time limit for CalWORKs benefits. There has been concern that as families leave CalWORKs, homelessness remains a problem.
- There has also been some concern that the daily temporary shelter allowance should be increased from \$30 to \$40. The \$30 amount has not changed since 1987, even though the costs for finding temporary shelter have increased significantly in the last 12 years. Current law provides that the amount could be increased if authorized by the Budget Act.

**ISSUE 23: CHILD SUPPORT ASSURANCE**

Current law authorizes the establishment of Child Support Assurance (CSA) demonstration projects. Three counties have been selected by the department to implement these projects.

**BACKGROUND:**

Under a CSA program, the custodial parent receives a guaranteed minimum level of child support each month based on the number of children in the family. The monthly check represents a reliable source of income with which the custodial parent can provide food, clothing, shelter and childcare for the children. In combination with wages or income from other sources the custodial parent may have, the CSA payment is used to raise family income to at least the poverty line. With a CSA allowance, a substantial number of families would not need public assistance, potentially saving the state and federal governments from unnecessary expenditures. Moreover, by emphasizing the importance of child support as an income source, CSA reinforces the notion of parental responsibility.

In 1988, New York developed and implemented a demonstration project to test the CSA as an alternative to AFDC. New York's program, called the Child Assistance Program, was evaluated and showed the following outcomes: increased employment and earnings, increased child support orders and collections, lower expenditures for public assistance, slightly higher administrative costs than AFDC, and saved \$10 for every dollar increase in administrative expenses.

The success of the New York program increased interest in California and led to its inclusion in the state's welfare reform legislation. Current statute authorizes the department to approve up to three CSA demonstration projects. One of the projects must meet specific criteria similar to those of the New York program. The demonstration projects must meet the following requirements:

- Be consistent with federal welfare reform law,
- Encourage custodial parents to be employed and noncustodial parents to financially support their children,
- Maximize cost effectiveness while lifting children out of poverty,
- Offer an alternative to welfare for families with earnings and a child support order, and
- Serve a number of participants that does not exceed five percent of the county's CalWORKs caseload or eight thousand persons, whichever is greater.

Support for the administrative costs of the CSA program is to come from the counties' CalWORKs single allocation.

The department has selected three counties to participate in the CSA demonstration project: Alameda, Contra Costa, and San Francisco. Alameda and Contra Costa are implementing a joint project. Napa and Santa Clara Counties had also submitted proposals. According to the department, San Francisco County is expected to begin implementation in 1999-00 and it is uncertain when the other two counties will begin their projects. At this point, none of the selected projects are modeled after the New York program. The department indicates that it may seek a waiver to this statutory requirement.

<b>COMMENTS:</b>
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- Although current statute requires that the administrative costs for the CSA projects must be funded through the county's CalWORKs single allocation, counties have expressed the need for additional start-up funds to implement the projects.
- Assemblymember Aroner has introduced a bill, AB 1233, which would provide authority for any county to implement a CSA project and to eliminate the requirement that one of the projects must conform to the New York program.