THE 2005-2006 STATE BUDGET

Human Services

Department of Social Services

The mission of the California Department of Social Services (DSS) is to serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Governor's budget proposes $17.7 billion (8.4 billion General Fund) in funding for the Department of Social Services in fiscal years 05-06, a decrease of $463 million or 2.5 percent from the fiscal years 04-05 appropriation level.

The Governor's budget proposes over $1 billion in reductions to Department of Social Services programs that will affect over 2.4 million individuals in California, nearly seven percent of the state's total population.

MAJOR PROVISIONS

CalWORKs

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, and replaced the Aid to Families with Dependent Children (AFDC) program on January 1, 1998. The CalWORKs program is California's largest cash-aid program for children and families, and is designed to provide temporary assistance to meet basic needs in times of crisis. While providing time-limited assistance, the program also promotes self-sufficiency by establishing work requirements and encouraging personal accountability. The program recognizes the difference among counties and affords them maximum program design and funding flexibility to better ensure successful implementation at the local level.

Over 1.2 million individuals (3.4 percent of California's population) are currently connected to a CalWORKs case.

- **CalWORKs caseload trends.** From 1994-95 through 2002-03, the CalWORKs caseload declined by 48 percent. This decline in caseload is attributable to a number of factors including the strong economy of the late 1990s, annual reductions in the teen birth rate, and CalWORKs program changes which emphasized welfare-to-work services. However, since October 2002, the caseload has remained essentially flat at about 480,000 cases.

The Governor's budget estimates that CalWORKs caseload will increase during the current fiscal year from 478,137 to 489,804, an increase of 1.9 percent. The Department of Social Services believes that the increase in caseload is due to the expiration of extended Unemployment Insurance Benefits and a one time increase of Hmong refugees into the State. In the budget year, the caseload is estimated to decrease from 489,804 to 485,814, a decrease of 0.8 percent.

- **The (Maintenance of Effort) MOE.** Since federal Welfare Reform took effect in 1998, California has been required to spend $2.7 billion in state or county funding as its maintenance-of-effort (MOE) to draw down the federal TANF block grant of $3.7 billion per year. The State cannot fund below the MOE level without losing significant amounts of federal funding in subsequent fiscal years, thus the MOE has essentially served as the minimum funding floor for the CalWORKs program.

  However, since CalWORKs began, the state has also treated the MOE as the ceiling of state participation in the CalWORKs program. Since 1998, the amount of General Fund budgeted for CalWORKs has been set exactly at the MOE level. Thus, any increase in expenses for CalWORKs programs would have to come out of reductions and savings in other areas of the program.

  The steep caseload decline over the last six years has provided sufficient savings to allow some increases in CalWORKs expenditures and still budget the program within the MOE level. Now that the caseload projections have flattened, any increases in costs to the program must be funded through programmatic reductions in other areas, if the State is to continue to treat the MOE level as the maximum funding level for CalWORKs.

  In addition, over the last five years, the state has expanded its definition of expenses that could use federal TANF funding or could be counted as part of the State's MOE. The core components of the CalWORKs program have been reduced or frozen so that the State could save General Fund by incorporating other programs in TANF. A shortage in CalWORKs funds has necessitated the suspension of the CalWORKs COLA for the fiscal years 01-02, and 03-04 fiscal year. Counties have not received a cost-of-doing business increase in their administrative and employment services allocations since 1999 and had their administration allocations reduced by $76 million in 2002.

- **Use of CalWORKs and TANF to achieve General Fund Savings.** The Governor's budget achieves $519.8 million in General Fund savings by making substantial reductions to the CalWORKs program within the TANF MOE and then using the resulting savings to offset other General Fund expenditures. The chart below illustrates the mechanisms used in the Governor's Budget to achieve these savings:

Program Area	Method of Getting General Fund Savings	General Fund Savings (millions)
Child Care	Counts expenditures for low income families receiving CDE child care that are not on CalWORKs as part of the State's contribution toward the TANF program and eliminates an offsetting amount of General Fund.	$201.6
Juvenile Probation	Uses federal TANF funds that are cut from CalWORKs to pay for county juvenile probation costs.	$201.4
DDS/Foster Care	Transfers federal TANF funds that are cut from CalWORKs to Title XX so they can be used to offset General Fund in the Developmental Disabilities and Foster Care programs.	$116.8
Total Moved Out of CalWORKs		**$519.8**

- **Reductions to the CalWORKs Program.** The Governor's budget reduces the program by over $652.8 million. As noted above, most of these reductions are needed to free up resources in the CalWORKs program to supplant other General Fund expenditures. However, caseload increases have resulted in an additional $133 million of costs in the CalWORKs program above the state MOE. Thus, if the budget had not proposed using CalWORKs and TANF funding to save $519.8 General Fund, the state would have to cut at least $133 million to remain at the minimum level of funding required by the state MOE.

The Table below illustrates the proposed reductions to the CalWORKs program:

CalWORKs Program Reductions	Reductions (millions)
CalWORKs Grant Reduction	$212.3
CalWORKs COLA Deletion	$163.8
CalWORKs Employment Services	$50
Child Care Reform	$62.6
CalWORKs Sanctions	$12
Pay for Performance	$22.2
Earned Income Disregard	$82
CY Tribal TANF	$5
Unexpected Savings for CY Unspent Funds	$42.9
Total CalWORKs Reductions	**$652.8**

The details of specific reductions are discussed separately below.

- **CalWORKs Grant Reductions and COLA deletion.** The Governor's budget proposes to reduce CalWORKs grants by 6.5 percent, suspend the COLAs for the fiscal year 2005-2006, and delete the statutory requirement that the State provide an annual COLA to CalWORKs. The net effects on the grant level would be a reduction of $47 from the current $705 per month to $676 per month for a family of three. The grant level, for a family of three, after the July 2005 COLA would have been $757, $81 (10.1 percent) more than the grant level proposed in the Governor's Budget.

  The *Governor's Budget Summary* notes that California's grant level is higher than several other large states. However it is important to note that the proposed CalWORKs grant level of $676 per month is lower than the amount given to AFDC recipients in 1989. Since 1990, net results of frozen COLAs and reductions to the grant levels have reduced the purchasing power of the grant by 33.8 percent. Under the Governor's proposed reduction, the purchasing power of CalWORKs grant in fiscal year 05-06 would be 60.7 percent of its 1989 level. The table below illustrates the grant level over the last 15 year.

AFDC/CalWORKs Benefits, 1988 - 2005

Effective Dates	Maximum Aid (MAP) family of 3	Final Action	California Necessity Index (inflation)	Maximum Aid Payment if full COLA adopted
July 88	$663	4.7%	4.7%	$663
July 89	$694	4.7%	4.7%	$694
July 90	$694	0.0%	4.6%	$726
July 91	$663	-4.4%	5.5%	$766
July 92	$624	-5.8%	1.8%	$780
July 93	$607	-2.7%	2.4%	$798
July 94	$594	-2.3%¶	1.7%	$812
July 95	$594	-4.9%¶	1.3%	$822
July 96	$594	0.0%	0.5%	$827
Jan 97	$565	0.0%	2.6%	$848
Nov 98	$611	8.1%§	2.8%	$872
July 99	$626	2.4%	2.4%	$893
Oct 00	$645	2.9%	2.9%	$919
Oct 01	$679	5.3%	5.3%	$968
Oct 02	$679	0.0%	3.7%	$1,004
June 03	$704	3.7%	---	$1,027
Oct 04	$705**	---	2.8%	$1092
July 05	$676**	-6.5%	4.6%	$1142

NOTE: MAP is for family of 3 in Region 1 (higher cost counties)
§ – included scheduled COLA plus expiration of 1995 4.9% reduction.
¶ – passed but enjoined by court in *Welch v. Anderson* until Jan. 1, 1997.
* - suspended due to increase of VLF [W.I.C. §11453 (c)(3)]; not restored despite reduction in VLF in October 2003. Subject of litigation [*Guillen v. Schwarzenegger*].
** - as proposed by Governor (5% reduction from June 2003 level)

- **CalWORKs Program Reforms** The Governor's budget includes several policy changes that would render some savings in the program. Some of these changes are intended to encourage additional work participation in the CalWORKS program. The Assembly will need to consider how these proposals taken as a whole will affect the future employability of CalWORKs participants.

Currently, the federal TANF program is being reauthorized in Congress. The Governor's proposed reform mirrors some of the various proposals that have been discussed over the last two years in Congress. One of the central elements of the TANF discussion is a requirement for higher levels of work participation by participants in the program. The *Governor's Budget Summary FY 05-06* makes some references to these requirements in its description of the proposed reforms. However, it is unlikely that the Governor's proposal will replace the need to make substantial changes to CalWORKs program when TANF is reauthorized. One of the key decisions before the Assembly this year will be whether California should enact a reform prior to an anticipated change in federal requirements or should wait until the federal government has agreed upon the new requirements that impact California.

Last year's budget trailer bill included enhanced work participation requirements mandates CalWORKs families to participate in at least 20 hours per week in "core work activities" within 60 days of receiving aid. Core work activities primarily consist of unsubsidized work, community service, and on-the-job training. Currently CalWORKs participants must perform up to 35 hours (32 hours in most counties) of employment-related activities to receive their grant. The range of activities that a participant can perform is currently much broader than those proposed by the administration and include education, training, domestic violence services, and alcohol/drug and mental health treatment. Under the new law, these participants are still required to meet the 32/35-hour requirement, but 20 of those hours have to be core-work activities.

- **Enhanced Sanction Policy.** The Governor's Budget proposes a $12 million savings from the enactment of sanction policy. The specifics of the policy would be based upon the findings of a CalWORKs sanction study, which has not yet been released.

  The Legislature requested a sanction study last year to better understand the linkage between sanction levels and the level of participation of CalWORKs families in the program. Last year's budget proposed a 25 percent grant sanction for noncompliance that would occur after one month of noncompliance. An increased sanction was also proposed for families that have reached their 60-month time limit for federal eligibility. Noncompliant families receive the child-only grant level. The proposed reduction to safety net child-only cases is on top of the elimination of the adult's portion of the grant level. The proposed increases in sanctions were predicated upon creating an incentive for families to participate in the program requirements.

- ***Reduced CalWORKs Earned Income Disregard.*** The Governor's Budget decreases the CalWORKs Earned Income Disregard for $82 million in savings. The Earned Income Disregard encourages CalWORKs participants to work by allowing them to keep the first $225 they earn through each month of work without impacting their grant level. The grant levels of participants are then reduced by $.50 of each dollar they earn above $225 per month. The Governor's proposal would allow CalWORKs participants to earn $200 per month without impacting the grant and would reduce their grant by $.60 for each dollar they earned above that amount.

  California's Earned Income Disregard policy has been cited as one of the more successful components of our CalWORKs program. Unlike other States that lack this policy, CalWORKs families that earn income through work are insured an immediate financial gain from their efforts. The Assembly will need to consider how adopting a policy that reduces the incentive for CalWORKs families to work will impact the program.

- **Pay-for-Performance.** This proposal would set aside 5 percent of the non-child care CalWORKs Single Allocation and award this funding to counties that meet certain performance goals during the prior fiscal year. Counties use the CalWORKs Single Allocation to pay for Stage 1 Child Care, employment services and eligibility expenses. Counties that met certain goals would receive their 5 percent share of the Single Allocation, while counties that failed could receive only 95 percent and counties that exceed their goals could receive up to 105 percent of their Single Allocation. This proposal would be a three-year pilot beginning with the fiscal year 06-07 Single Allocation. The budget assumes $22.2 million savings from a reduced caseload that results from counties improving their performance.

  The Assembly may wish to consider alternatives to increase county performance that may function better than the Pay-for-Performance proposal. The State has already developed a system of performance measures that counties used to receive Performance Incentive funds during fiscal year 1998-2002. This broader group of measures has been effective at improving and rewarding county performance. In addition, the Assembly may wish to use a mechanism for rewarding performance that is not as disruptive and complicated as a holdback from the Single Allocation. Under the current proposal, even a high performing county could have to make baseline reductions to its CalWORKs program if demographic shifts, like the recent arrival of Hmong refugees, changed it caseload characteristic.

- **Reductions to Employment Services**. The Governor's Budget eliminates a $50 million CalWORKs Employment Services augmentation that was included in the 2004-2005 budget. The Legislature provided this increase to correct problem in the DSS CalWORKs estimate that projected too much savings from a change in the CalWORKs reporting process and cases hitting their 60-month time limits. Although the Budget eliminated the additional funding, it failed to correct the over estimation of savings that prompted the augmentation.

In Home Supportive Services

The In-Home Supportive Services (IHSS) program provides services to eligible low-income aged, blind, and disabled persons to enable them to remain independent and continue to live safely in their homes. Services include meal preparation, laundry, and other personal care assistance.

The program remains segmented into two components that reflect a historic difference in whether the IHSS client and services qualified for federal funds prior to 2004. The biggest component is the Personal Care Services Program (PCSP) with over 308,363 cases projected in the budget year. The other component, the Residual Program is projected to have 73,761 cases in the budget year.

Last year's budget contained the "IHSS Plus" waiver that allows almost all IHSS Residual Program cases to get federal funding. Previous to the approval of the waiver, only PCSP cases were eligible to receive federal funds that match approximately 50 percent of the costs and Residual Cases were funded with a 65 percent State and 35 percent county splint in funding. With the approval of the waiver, only 767 out of 382,124 cases are not expected to qualify for enriched federal funding. As a result, the waiver will save the State over $230.9 million in the budget year and counties will also have reduced expenses for the Residual cases.

The budget proposes $1 billion General Fund for the IHSS program for 2005-06, a 11.6 percent decrease from the 2004 Budget Act.

- **IHSS caseload trends.** Caseload Increases are expected to continue to increase costs for the IHSS program. Overall, caseload is projected to increase from 354,893 in 2004-05 to 382,124 in 2005-06, an increase of seven percent.

- **Reduction of State Participation in Wages.** The Governor's budget proposes to reduce the state's participation in the In Home Supportive Services Wages for savings of $194.8 million in the budget year. On July 1, 2005, the state would reduce reimbursements to the July 1, 2004 levels, reducing reimbursements to counties that increased wages in the current year. On October 1, 2005, the state would reduce reimbursements to all counties to the minimum wage. Unlike the proposal in 2004-05 budget, this reduction would include a reduction to counties that had existing MOU agreements with labor unions.

Only 36 counties currently offer wages and benefits above the minimum wage level. If the Governor's proposal is adopted, counties will either have to backfill the lost State participation in the IHSS programs or reduce wages and benefits for homecare workers. The table below illustrates the wage and benefit rates for all counties that reimburse above the minimum wage:

Counties that Offer Above the Minimum Wage for IHSS
Wages Rates For July 1, 2005

COUNTY	Wages	Health Benefits	Combined
SANTA CLARA	$10.50	$1.53	$12.03
SAN FRANCISCO	$10.28	$1.70	$11.98
CONTRA COSTA	$9.50	$1.45	$10.95
SAN MATEO	$9.50	$0.88	$10.38
MARIN	$9.75	$0.60	$10.35
YOLO	$9.60	$0.60	$10.20
ALAMEDA	$9.50	$0.60	$10.10
MONTEREY	$9.50	$0.60	$10.10
NAPA	$9.50	$0.60	$10.10
SACRAMENTO	$9.50	$0.60	$10.10
SANTA CRUZ	$9.50	$0.60	$10.10
SOLANO	$9.50	$0.60	$10.10
SONOMA	$9.50	$0.60	$10.10
SAN BENITO	$9.50		$9.50
RIVERSIDE	$8.50	$0.60	$9.10
SAN DIEGO	$8.50	$0.60	$9.10
SAN JOAQUIN	$8.50	$0.53	$9.03
SAN BERNARDINO	$8.50	$0.38	$8.88
ORANGE	$8.00	$0.60	$8.60
PLACER	$8.00	$0.60	$8.60
SANTA BARBARA	$8.00	$0.60	$8.60
VENTURA	$8.00	$0.60	$8.60
MENDOCINO	$8.50		$8.50
LOS ANGELES	$8.10	$0.36	$8.46
FRESNO	$7.75	$0.60	$8.35
NEVADA	$7.11	$0.60	$7.71
PLUMAS	$7.11	$0.60	$7.71
SIERRA	$7.11	$0.60	$7.71
ALPINE	$7.11		$7.11
BUTTE	$7.11		$7.11
GLENN	$7.11		$7.11
MONO	$7.11		$7.11
AMADOR	$6.95		$6.95
MERCED	$6.95		$6.95
SAN LUIS OBISPO	$6.95		$6.95
STANISLAUS	$6.95		$6.95

Workers in the IHSS program already live in poverty and many are eligible for food stamps, and few have access to health insurance. A reduction in the IHSS wages will result in a loss of workers available, a higher rate of worker turnover, a loss of services, and very likely a reduction in the quality of care.

The Administration argues that the reduction in reimbursement will not result in a reduction to IHSS worker wages because counties can use savings they received from the IHSS Plus Waiver to retain wages at their current levels. However, the state is projecting to save $194.8 million by reducing wage reimbursements while counties will only receive about $124 million in savings from the waiver. In addition, this savings will not all be directed towards counties that pay above the minimum wage. Therefore, it is not possible that counties will be able to make up their lost wages with savings from the IHSS Plus waiver.

- **IHSS Wage Trigger.** Current law includes a statutory trigger that increases state participation in IHSS wages if certain revenue conditions are met. The Governor's budget assumes that this provision would be eliminated as part of the reduction in State participation in IHSS wages. However, if this provision were to remain in statute, the revenue trigger would be met in the budget year and the State's participation in IHSS wages would increase to $11.10 per hour (up to $10.50 per hour for wages and $.60 for benefits).

- **Quality Assurance and Program Integrity.** The Governor's budget assumes a ten percent reduction in IHSS hours per case from the implementation of a Quality Assurance program across counties. The Quality Assurance program was established in the fiscal year 04-05 Human Services Trailer Bill to ensure that all counties assessed IHSS benefits in a uniform manner. The program is based upon Los Angeles County's standards for assessment, which results in fewer hours per case than many other counties. The goal of this initiative is to increase the uniformity of assessment across California, not to simply reduce the number of hours IHSS clients receive. The Assembly may need to take a closer look at whether the aggressive savings estimates for this initiative may incentive punitive measures against clients by counties rather than better administration by counties.

- **CMIPS 2.** The Governor's Budget assumes that a replacement to the Case Management Information and Payrolling System (CMIPS), called CMIPS 2 will begin implementation in the budget year.

Child Care and Development

California spends nearly $3 billion for various child care and development programs administered by the California Department of Education, Department of Social Services and the California Community Colleges. Child care is provided through center-based contracts and child care vouchers. Child care is provided to low income families and for families that are currently or formerly participants in the CalWORKs program. The program is funded with a mix of federal TANF funding, federal Child Care and Development funding and State General Fund under Proposition 98.

- **Child Care Reform Results in Savings.** The Governor's proposed 2005-06 Budget includes several policy changes resulting in $69.5 million savings to the CalWORKs program and $102.6 million savings to Proposition 98 funds. The chart below details the impact on the budget from the proposal:

Summary of Savings (by program) Fiscal Year 05-06

Proposal	11-12 Shift	In and out of market	Tiered Reimbursement	Total Savings
Assumption	Budget year 25% 11-12 shift to After school care.	Not in market FCCH estimate - Moves 30% of FCCH to average FCCH payment.	RMR - Exempt providers savings based on 90% moving to 60% of the FCCH RMR rate and 10% moving to 55% of the FCCH RMR rate.	(millions)
Stage 1	$6.8	$1.8	$60.8	$69.5
Stage 2	$8.7	$3.4	$52.5	$64.6
Stage 3	$4.3	$1.8	$5.8	$12.0
GCC	$1.5	$0.0	$0.0	$1.5
AP	$2.5	$1.1	$21.0	$24.6
Total	**$23.8**	**$8.2**	**$140.1**	**$172.1**

- **Shift of 11-12 year olds from child care to after school programs.** The Governor's budget proposes to change the certification process so that parents of 11 and 12 year olds that receive subsidized child care must certify that a before or after school program does not meet their needs in order to continue receiving subsidized child care. The Department of Finance estimates that this change in the certification process will result in $23.8 million in savings in the budget year.

SB 1104, the 2004-05 Human Services Trailer Bill, designated after school programs as the "preferred placement" for children aged 11-12. Funding was provided in the budget to expand before and after school slots for 11 and 12 year old children and their siblings currently receiving subsidized child care. Parents could then certify that the before or after school program met their child care needs and use the before or after school program in place of all or part of their subsidized care. As a result, the fiscal year 04-05 savings to subsidized child care programs was set-aside pending the actual utilization of before or after school programs by this targeted group.

- **In-and-out of Market Regulations.** The Governor's budget proposes to implement the in-and-out of market provisions in the budget year saving $8.2 million.

  SB 1104 also suspended regulations that would have based the rate child care providers are paid to be the amount paid by an unsubsidized private paying family receiving the same care. If the child care provider did not serve private paying families, the regulations would arbitrarily pick five providers in the area to ascertain their rates for private pay families. The regulations that were suspended would enforce current law which requires that the State not pay more for child care services for subsidized families than what is paid by private pay or unsubsidized families for the same service.

  The Legislature had expressed interest in addressing this issue through a statutory process for three reasons: First, such a mechanism would undermine efforts to tie the rate of child care providers to quality because the private pay rate would be the sole determinate of the subsidized rate. Second, the mechanism could create a disincentive for child care providers to reduce their rates to other working poor families. Third, the administration of such a provision would be cumbersome and would require unsubsidized private paying families to submit personal information to the State or its contractors.

- **Tiered Reimbursement.** The Governor's budget tiered reimbursement proposal results in $140.1 million in savings in the budget year, over 80 percent of the total savings assumed for child care reforms in the budget year. The concept behind tiered reimbursement is that the reimbursement level for child care is based upon the quality of the provider. The Administration's fiscal year 2004-05 Child Care Reform Proposal and the California Performance Review both included tiered reimbursement proposals.

- **Reduction of Licensed Exempt Rates.** The Governor's budget proposes to achieve savings through the reduction of licensed exempt reimbursement rates. Families that receive a child care voucher through the Alternative

Payment Program or CalWORKs child care can choose to have their care provided by an unlicensed individual, provided that the individual meets certain minimum criteria. Under current law, Licensed Exempt providers are paid 90 percent of the maximum rate that licensed Family Child Care Home providers are reimbursed.

Under the proposed change, there would be two tiers of licensed exempt care. Upon enactment of the budget, all licensed exempt provider reimbursement rates would be reduced to 60 percent of the regional market rate ceiling. Licensed exempt providers will then have 90 days to demonstrate higher quality as outlined in the following chart or their rates would be reduced to 55 percent of the market rate ceiling.

Tier of Reimbursement	Qualifications	Reimbursement Rate
Higher Quality	License-exempt providers that have completed health and safety training, or CDD license-exempt training, or have an assistant teacher's permit.	60 percent of the Family Child Care Home's reimbursement rate.
Base rate	Current Licensed Exempt Trustline requirements.	55 percent of the Family Child Care Home's reimbursement rate.

The table below compares the impact of reducing the licensed exempt child care rates for full time care for school-aged children in three counties (monthly rate):

County	Los Angeles	Contra Costa	Santa Cruz
Existing Licensed Exempt Rate	$565	$565	$604
Proposed Higher Quality Rate	$377	$377	$ 403
Difference	$(188)	$(188)	$(201)
Percent Change	-33%	-33%	-33%
Proposed Base Rate	$345	$345	$369
Difference	$(220)	$(220)	$(235)
Percent Change	-39%	-39%	-39%

- **Tiered Reimbursement for Licensed Family Child Care and Licensed Child Care Centers.** The Governor's Budget also proposes tiered reimbursement for Licensed Family Child Care Homes and Licensed Child Care Centers and allots two years for those providers to obtain the higher quality levels. Under the proposal, for operators of Family Child Care Homes to be eligible to receive the maximum reimbursement rates in fiscal year 07-08, they must demonstrate an average score of 5.5 on an environmental rating scale, or have received accreditation through the

National Association for Family Child Care, or have a teacher's permit or an AA degree. Similarly, for licensed child care centers to be eligible to receive the maximum reimbursement rate, they must demonstrate an average score of 5.5 on an environmental rating scale, or all their teachers must have a BA degree, or they must have received accreditation from either the National Association for the Education of Young Children or the National After School Association (formerly the National School-Age Care Alliance). To allow time for licensed providers to seek out and use these measures, the current reimbursement ceiling for licensed providers will be maintained for two years, after which time reimbursement ceilings will be set according to a provider's quality-of-care. The Governor's Budget includes $10 million for the training and continued calibration of the provider ratings.

The proposed tiered reimbursement rate would determine the rate ceiling; the actual rate that a provider would receive would be based upon the rates of private paying families utilizing the same type of care for the same age child in that area.

- **CalWORKs Stage 3 Child Care Two-Year Time Limit.** The Governor's budget proposes a two step process to impose a limit on CalWORKs Stage 3 Child Care. Currently, families receive Stage 3 child care after the county has found their child care situation to be "stable" and have received an entitled two years of CalWORKs Stage 2 child care. The State has provided funding each year for families to receive services in Stage 3, in effect allowing families to remain continuously eligible for child care until their children age out of the system or the family income exceeds child care eligibility limits.

  The first step in the proposal would transfer all existing Stage 3 cases to the Alternative Payment Program, which is a means tested child care voucher program for working parents. Thus, the Governor's budget increases the Alternative Payment Program budget by $248.6 million or 137.4 percent to reflect the transfer of these cases. Unlike CalWORKs child care programs, there are a fixed number of slots in the Alternative Payment program that are allocated to families based upon income and other factors of need. Throughout the State, the number of families eligible for the Alternative Payment Program exceeds that of the number of slots available in the program, creating waiting lists.

  Beginning in 2005-2006 the budget proposes that families who are off cash aid but still in either Stage 1 or Stage 2 CalWORKs child care will be allowed to remain in these programs for up to two years from the date they left cash aid, and will immediately put their name on a waiting list and be allowed to access services in the general Alternative Payment program as slots become available. At the end of the two years, they will move to Stage 3, where they will have a maximum of two additional years before their CalWORKs child care entitlement expires, thus enabling them enough time to obtain a slot in the general Alternative Payment program.

The budget also proposes to change the waiting list process for the Alternative Payment Program waiting list process so that families who are still receiving cash aid will continue to receive subsidized child care until they leave aid, their names will be added to the waiting list concurrently with earned income while on aid, and they will be assured a maximum of three additional years of CalWORKs child care after they leave cash aid to allow them time to access a slot in the general Alternative Payment program.

- **Centralized Eligibility Lists.** The Governor's budget includes $7.9 million for counties to develop and maintain a centralized child care waiting list. The County Local Child Care Planning Councils would receive the funding to create the lists, which will be divided into two parts. The first part will be for families with monthly income below the income level at which family fees begin to be charged. These families will receive child care on a "first come, first serve" basis. In the second part, services for families with monthly income at or above the level at which fees begin to be charged will be received based on lowest income served first, consistent with current practice.

- **Family Eligibility Levels Based Upon the Federal Poverty Level.** Families are currently eligible for subsidized child care services if their income is at or below 75 percent of the State median income, as adjusted for family size. The Governor's Budget proposes, beginning in 2005-06, income eligibility for child care programs be based upon a percentage of the Federal Poverty Level. The Department of Finance believes that this change will provide greater consistency between California's child care programs and other State and national health and human services programs. According to the Department of Finance, statutory provisions are included in this proposal to ensure that no family currently receiving subsidized child care will lose its eligibility under this proposal.

Child Welfare and Foster Care

The Child Welfare Services (CWS) program provides various services to abused and neglected children, children in foster care, and their families. These services include:

1) Immediate social worker response to allegations of child abuse and neglect;

2) Ongoing services to children and their families who have been identified as victims, or potential victims of abuse and neglect; and

3) Services to children in foster care who have been temporarily or permanently removed from their family because of abuse or neglect.

The Foster Care Program provides out-of-home care on behalf of children meeting the following criteria: removal from the physical custody of a parent or guardian as a result of a judicial determination that remaining in the home would be contrary to the child's welfare and adjudication as a dependent or ward of the court; residing with a non-related legal guardian; voluntarily placed by a parent or guardian; relinquished for the purposes of adoption; or placed pursuant to the Indian Child Welfare Act.

The table below describes the different types of foster care placements.

Foster Care Placements

Placement Type	Description
Foster Family Homes	♦ A residential facility that serves no more than six foster children. ♦ Provides 24-hour care and supervision in a licensee's home. ♦ Foster care grant may be supplemented for care of children with special needs.
Foster Family Agency Homes	♦ Homes operating under nonprofit foster family agencies which provide professional support. ♦ These placements are required by law to serve as an alternative to group home placement.
Group Homes	♦ A facility of any capacity that provides 24-hour non-medical care, supervision, and services to children. ♦ Generally serve children with more severe emotional or behavioral problems who require a more restrictive environment.

- **State Fares Poorly in Federal Review.** In the mid-1990's, a package of new federal legislation made sweeping changes to state child welfare services and foster care programs. The principles of these reforms were to achieve child safety, permanency, and well-being. One significant requirement was that the federal Department of Health and Human Services develop a set of outcome measures and overhaul the state performance review processes in the child welfare services and foster care programs. Toward that end, the federal government developed the Child and Family Service Reviews, which has been conducted for the last two years. The reviews include seven measures for safety, well-being, and permanency. They also cover seven systemic measures that examine training for foster parents and caseworkers, the status of the statewide data system, the quality assurance process, and the state's case review system.

Of the 28 states reviewed in 2001 and 2002, none have "passed" all components evaluated during the reviews. California, along with nine other states, failed all seven safety, well-being, and permanency outcomes. Of the seven systemic measures, California is the only state that has failed more than four.

The state's poor performance also results in higher costs for the state. For example, the review cited the state's longer length of time to achieve reunification or an adoption than the federal standard. Not only do these longer time-frames hinder the success of California's Foster Children, the state must also pay for additional months of Foster Care that would not be necessary if the state could place children within the federal standard timeframe.

- **County Share of Federal Penalties.** If the state does not improve its performance in federal child welfare outcomes, then it may receive federal penalties from the federal government. These penalties could initially be as high as $18 million in the budget year, but could dramatically increase if the State’s performance does not improve in subsequent years.

  The Governor’s budget includes a proposal to shift a portion of these penalties to counties. The Department of Social Services believes that such a shift is permissible under the recently adopted local government protections enacted in Proposition 1A.

  County-level initiatives that improve performance are the only way the State will improve its overall performance. While passing on the penalties to counties may seem like an incentive for counties to increase performance, it may not be fair. The state has determined through an extensive study that the counties do not receive sufficient funding to meet even current state mandates for service delivery levels. In addition, the counties would be penalized for the state failing to meet goals that were set at the state level, without significant county feedback.

- **Program Improvement Plan Continues.** The Governor’s budget continues to fund required Program Improvement Plan activities. The Program Improvement Plan is a plan that the state submitted to the federal government to illustrate the steps California would take to improve performance. In the Budget Year, the state must implement a differential response system, a practice to increase foster youth permanency, and the California Standardized Safety Assessment System in 11 additional counties to comply with the terms of its plan. The Budget contains $25.5 million ($14.1 million General Fund) for these activities.

Supplemental Security Income/State Supplemental Program (SSI/SSP)

The (SSI/SSP) provides cash assistance to eligible aged, blind, and disabled persons. The federal government funds SSI cash benefits for eligible persons. The state contributes the SSP portion of the grant as a supplement to the SSI grant.

- **Caseload Continues to Increase.** The SSI/SSP caseload is projected to be approximately 1.2 million (3.4 percent of California's total population), which is a 2.3 percent increase over the current year estimated caseload. Disabled and blind persons make up 70.6 percent of the caseload, and elderly persons over 65 years of age make up 29.4 percent of the caseload. The budget proposes $3.5 billion in General Fund support for the program in fiscal year 2005-06, which represents a 1.1 percent increase over estimated current-year General Fund expenditures.

- **Budget Suspends Both State and Federal COLAs.** The Governor's budget proposed to suspend both the State and Federal Cost of Living Adjustments (COLAs) for the (SSI/SSP) for a General Fund savings of $258.8 million in the budget year. A grant for an aged recipient would remain at $812 per month; it would have increased by $37 (4.6 percent) to $849 per month in January, 2006 if it was not suspended.

Community Care Licensing Division

The Community Care Licensing Division (CCLD) within the Department of Social Services develops and enforces regulations designed to protect the health and safety of individuals in 24-hour residential care facilities and day care. Licensed facilities include day care, foster family homes and group homes, adult residential facilities, and residential facilities for the elderly. The Governor's budget proposes expenditures of $162.3 million ($48.4 million General Fund) for the Community Care Licensing Division in fiscal year 2005-06.

- **Reducing Targeted Visits**. The Governor's budget assumes enactment of a statutory change that would reduce the number of visits

DEPARTMENT OF CHILD SUPPORT SERVICES

The Department of Child Support Services (DCSS) is designated as the single State agency to administer the statewide program to secure child, spousal, and medical support, and determine paternity. The primary purpose is the collection of child support payments for custodial parents and their children. DCSS promotes the well-being of children and the self-sufficiency of families by delivering child support establishment and collection services that assist parents in meeting the financial, medical, and emotional needs of their children. The

Governor's budget proposes approximately $1.4 billion ($508.1 million General Fund) in the budget year.

MAJOR PROVISIONS

Child Support Collections Continue to Increase. The Governor's budget projects a steady growth in child support collections during the budget year. The increase in Assistance Collections is expected to save the State an additional 2.3 million General Fund.

Child Support Collections

Collections ($ millions)	2003-04 Actual	2004-2005 Estimated	2005-2006 Projected
Non-Assistance Collections (Payments to Families)	$1,625.0	$1,681.0	$1,709.0
Assistance Collections (Payment to Government)	$687.3	$698.6	$712.0
Total Collections	**$2,312.3**	**$ 2,379.6**	**$2,421.0**

- **Child Support Statewide Automation Project.** Federal law mandates that each state create a single statewide child support automation system that meets federal certification. The Department of Child Support Services, in collaboration with the Franchise Tax Board and a private vendor, is in the process of developing a single statewide automation system, termed the California Child Support Automation System (CCSAS). The department anticipates full completion of the new system by September 2008. There are two components of the single statewide system (CCSAS), the first is the Child Support Enforcement (CSE) system and the second is the State Disbursement Unit (SDU). The CSE component will contain tools to manage the accounts of child support recipients and to locate and intercept assets from non-custodial parents who are delinquent in their child support payments. The SDU will be a system managed by a private vendor and will collect child support payments from non-custodial parents and disburse these payments to custodial parents.

OTHER KEY PROVISIONS

- **Federal Child Support Penalties** The Governor's budget includes $218 million General Fund to pay the 2005 Alternative Federal Penalty due in September 2005. This proposal will allow the state to continue operating the Child Support Program in fiscal year 2005-06 without loss of the program's federal share of funding or jeopardizing the Temporary Assistance for Needy

Families Program in the Department of Social Services. Completion of the new California Child Support Automation System is expected to be finalized and fully functional on a statewide basis as required by the federal government in September 2008.

DEPARTMENT OF AGING

The Department of Aging is responsible for developing systems of home and community-based services that maintain individuals in home-like environments; developing, coordinating, and using resources to meet the long-term care needs of older individuals; and working with the Area Agencies on Aging to manage federally and State-funded services at the community level. The Governor's Budget proposes $187.8 million ($37 million General Fund) for the Department of Aging in the budget year, a less than one percent decrease from current year funding levels.

KEY PROVISIONS

- **Increased Funding for Senior Nutrition programs.** The Governor's budget proposes an additional $96,000 for Congregate and Home Delivered Meals for seniors. This increase is funded with federal funds.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

The Department of Alcohol and Drug Programs (DADP) administers State and federal statutes pertaining to alcohol and drug treatment programs, and promotes access to appropriate statewide information, prevention, and treatment services. As the State's alcohol and drug authority, DADP is responsible for inviting the collaboration of other departments, local public and private agencies, providers, advocacy groups, and individuals in establishing standards for the statewide service delivery system. DADP is also the lead agency in the implementation of the Substance Abuse and Crime Prevention Act of 2000 (Proposition 36-SACPA).

The DADP funds prevention, treatment and recovery programs for approximately 500,000 Californians with some form of alcohol and or other drug abuse problem. The Governor's budget proposes to provide $613.7 million ($247 million General Fund) for substance abuse treatment programs, a increase of $7.7 million total funds (1.3 percent).

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

The Department of Community Services and Development (DCSD) administers the Low-Income Energy Assistance Program (LIHEAP) and the Community Services Block Grant (CSBG). In addition, the DCSD plans, coordinates, and evaluates programs that provide services to the poor and advises the Governor on the needs of the poor. The Department of Community Services and Development has also administered the Naturalization Services Program (NSP), which was re-established in the current year. The NSP program provides citizenship training to immigrants using a network of community based organizations.

The LIHEAP provides cash grants and weatherization services, which assist low-income persons in meeting their energy needs. The CSBG provides funds to community action agencies for programs intended to assist low-income households. The Governor’s proposed budget includes $170.4 million federal funds for the DCSD in fiscal year 2005-06.

KEY PROVISIONS

- **Naturalization Services Program:** The Governor's budget proposes to eliminate all funding for the Naturalization Services program for $1.5 million in General Fund savings. The Governor's budget argues that federal funding at the Department of Education could be used for the same purpose. However, these funds have not been allocated for such a purpose.