



CWDA

February 18, 2004

To: All County Social Service Directors

From: CWDA Staff

Re: **State Budget Update #2 - Summary of Major Findings by the Legislative Analyst's Office (LAO)**

Pages: 4

Today, the LAO released its *Analysis of the 2005-06 Budget Bill*, which can be found on the Internet at <http://www.lao.ca.gov>. The majority of our issues are discussed in the Health and Social Services Section of the report. The Child Care issues are in the education section starting on page E-106.

The LAO's *2005-06 Budget: Perspectives and Issues*, issued earlier this week, summarizes the state fiscal picture with analyses of major issues facing the Legislature. While noting that revenues are likely to be significantly higher and expenditures slightly lower than forecasted in the Governor's budget (in excess of \$2 billion), they conclude that the state continues to face a structural budget. The budget year shortfall is bridged with a combination of program savings, funding shifts, \$1.7 billion in deficit-bond proceeds, and a \$0.3 billion drawdown of the general reserve.

Of particular interest in the *Analysis* and *Perspectives and Issues* are the following items:

### **CalWORKs**

#### **Maintenance of Effort**

The LAO has a detailed discussion about the CalWORKs Maintenance of Effort (MOE) requirement and TANF fund transfers to other programs that account for \$442.6 million in the Governor's proposal. While the LAO notes that the transfers offset other General Funds cost, it believes that the funding and policy priorities for both CalWORKs and other eligible programs should be made by the Legislature and not be an "assumed constraint of remaining below the MOE."

#### **Unspent TANF funds**

The LAO discusses the reasons associated with large unspent TANF balances and offers two recommendations to help solve the problem. The reasons described include: 1) counties receiving mid-year and late in the fiscal year funding; 2) the holdback of child care estimated need; and 3) general county fiscal concerns related to proposals by the administration (i.e. VLF payments to counties). The LAO recommends that the Legislature have discussions about eliminating the child care holdback and ending the mid-year augmentations to the Single Allocation. The LAO also recommends that stakeholders develop a "county request" program for counties who can demonstrate need and an ability to expend additional funds.

#### **Earned Income Disregard**

The LAO comments on the Governor's proposal to reduce the Earned Income Disregard to \$200 and 40 percent on all other earnings, and includes a lengthy

discussion about how disregards work in other states. The LAO argues that the proposal could both increase the incentive to work for families who will work more to make up the reduction in the grant, or could result in a disincentive to work by reducing the amount of income retained from starting work or increasing the hours worked. The LAO suggests alternative approaches to the Governor's proposal which include disregarding more income at higher earnings and incentivizing work by increasing the disregard for individuals with higher incomes (those who earn above \$600/month).

### **County Performance Rewards and Sanctions**

The LAO believes that a system to improve county performance with respect to employment and federal work participation rates is warranted. However, the LAO also believes that the Governor's proposal to apply a holdback to the county single allocation would be problematic and create similar problems with county underspending as discussed above. The LAO also discusses the differences in work participation between the CalWORKs program and TANF law. They note that if the Legislature adopts new performance measures for counties that the criteria for such performance should be consistent with state participation activities. The LAO suggests that the Legislature could adopt new county performance measures and incentivize county performance using the \$300 million of earned but not yet paid Performance Incentives. The LAO also suggests that another approach to increase county incentives would be for counties to have a larger share of cost of the CalWORKs grants (i.e. 10 percent). Under this proposal the LAO also suggests that there should be offsetting savings in another program, such as reducing the share of cost of the Adoptions Assistance Program (AAP) where counties have little control over policy and costs.

### **In-Home Supportive Services**

The LAO withholds any recommendation concerning the Governor's two-part proposal to reduce the state's participation in IHSS provider wages, specifically: (1) rollback of state participation in wages effective July 1, 2005 to levels effective in counties in the 2003-04 budget year and (2) reduce state participation in provider wages to the minimum wage (\$6.75/hr) effective October 2005.

The LAO analysis considers several issues relating to this proposal, including:

- Absent the Governor's proposed reduction in state participation, the "trigger" would have been met to increase state participation in wages up to \$11.10/hour.
- Counties have not realized savings from the IHSS Independence Plus waiver due to delays in implementing claiming system changes. Once savings are realized, annual county savings will not be sufficient for counties to maintain wages at their current levels in the absence of additional county funding.
- Eleven counties would be impacted by the proposed wage participation rollback to the 2003/04 rate effective July 1, 2005, and 38 total counties would face reductions in state participation to the minimum wage by October 1, 2005. These counties represent more than 90 percent of the state's IHSS providers.
- For impacted counties with no automatic "out" clause in their bargaining agreements, the LAO suggests the potential for a reimbursable state mandate claim until such a time as the county can reduce wages.

The LAO dedicates significant discussion around child welfare workload standards, and states that California has made “significant progress” towards meeting the minimum SB 2030 workload standards. The LAO goes on to recommend the enactment of legislation requiring CDSS to submit an annual report to the Legislature on county-specific social worker staffing ratios and the progress made towards meeting both minimum and optimal SB 2030 workload standards. Their analysis is based on a consideration of counties’ base allocation plus the CWS augmentation, as well as past policy decisions and potential budgeting errors. Specifically:

- The LAO asserts that funding to support non-related legal guardians (NRLG’s) placed by the Probate Court are erroneously applied to the CWS caseload, because these cases do not receive social worker visits (5,000 children statewide). The LAO analysis states that these funds inflate the funding for the state’s permanent placement caseload by 9 percent. The LAO recommends a corresponding reduction to the CWS basic allocation of \$4.8 million General Fund (\$17.5 million total).
- The LAO points out that the policy decision to “hold harmless” counties’ base allocation since implementation of CWS/CMS will result in an additional \$240 million in 2005-06, despite declining caseloads and improved reliability of CWS/CMS data.
- The LAO analyzes the extent that the 2005-06 budget would close the gap between SB 2030 *minimum* workload standards and the current 1984 workload standard. The LAO notes the most significant improvements in Emergency Response and Family Reunification, and least in Emergency Response Assessments. However, the LAO notes these are statewide averages since counties determine locally how funding the augmentation and hold harmless funding is spent.

The LAO states that the Foster Care administrative budget is overbudgeted and recommends a corresponding decrease of \$6.4 million (total funds) because of reduced foster care caseloads and reductions in 2004-05 foster care grants.

The LAO also recommends reductions to the Foster Care Program by \$10 million in 2004/05 and \$20.8 million in 2005-06 due to overestimations in the foster care caseload, specifically for children in group homes and FFA,s as well as payments made in support of SED children.

## **Child Care**

### **Centralized Waiting Lists and Stage 3**

The Governor’s budget proposes to limit Stage 3 Child Care to one year and require each county to create a centralized waiting list. The LAO supports both concepts while making the following recommendations regarding implementation:

- Allow six months to create the waiting list before dismantling Stage 3.
- Give current CalWORKs clients who have earned income a 120-day window after they first begin earning income to ask to be placed on the waiting list. They would be placed on the list according to the date they first became employed. After the 120-day window, CalWORKs clients would be placed on the list on a first-come, first-served basis.

### **11- and 12-Year-Olds**

The LAO restates concern noted in last year’s *Analysis* regarding the Governor’s proposal to shift 11- and 12-year old care to after school programs.

### **Reimbursement Rates**

The LAO finds merit in the Governor’s tiered reimbursement proposal. noting that it:

- Promotes what research suggests are the characteristics of high quality care,
- Better reflects the cost of providing care, and
- Allows parents to easily identify quality options.

## **Automation Projects**

### **Organizational Placement of Automation Projects**

The LAO recommend that management of the social services automation projects be placed with CDSS rather than in the Health and Human Services Agency as proposed in the Governor's Budget. They note that this organizational placement is more consistent with the operational responsibility of CDSS, leaving the Agency with a focus on policy direction and oversight.

### **CWS/CMS "Go-Forward" Plan**

Recommendations on the CWS/CMS system were withheld pending completion of the Technical Architecture Alternative Analysis (TAAA), which is due to the Legislature on April 1, 2005. This analysis will examine which of three future alternatives is the most beneficial.

## **Medi-Cal**

- The LAO recommends that the Legislature adopt the proposal to allow the Single Point of Entry (Maximus) to process eligibility determinations for mail-in applications for children. The LAO makes this recommendation due to "significant problems in the existing system for processing applications for Medi-Cal" and in order to test "the merit of centralizing all eligibility processing at the state level."
- The LAO recommends rejection of the proposal to hire a private vendor to conduct county performance oversight, noting that the Legislature provided nine staff positions at DHS for this purpose two years ago. Instead, the LAO recommends the creation of four positions on a two-year, limited-term basis for the purpose of county oversight.
- In its analysis of the Los Angeles County Section 1115 Waiver, which is ending, the LAO recommends withholding \$14.5 million from Los Angeles County's Medi-Cal administrative allocation, pending release of required monitoring reports, which are completed but have not yet been released, to the Legislature.
- In its analysis of the new Part D Medicare Modernization Act prescription drug program scheduled to begin in January 2006, the LAO acknowledges that this new federal program will create county administrative costs. The size of the impact on counties depends on the way in which the program is implemented and how much demand there is once the program is up and running.