SUBCOMMITTEE #3:
Health & Human Services

Chair, Senator Bill Monning

Senator Mark DeSaulnier
Senator Bill Emmerson

March 21, 2013

9:30 a.m. or Upon Adjournment of Session

Room 4203
(John L. Burton Hearing Room)

Staff: Jennifer Troia

PLEASE NOTE: *Only* those items contained in this agenda will be discussed at this hearing. Please see the Senate Daily File for dates and times of subsequent hearings. Issues will be discussed in the order noted in the Agenda unless otherwise directed by the Chair.

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ISSUES RECOMMENDED FOR VOTE-ONLY

A. 5180 Department of Social Services

1. Proposed Transfer of CalFresh Outreach Plan from the Department of Public Health (DPH) to the Department of Social Services (DSS)

Given DSS's role as the state agency that oversees administration of CalFresh (California's Supplemental Nutrition Assistance Program), the Governor's budget proposes to transfer, as of January 1, 2013, operational management of the CalFresh Outreach Plan from DPH to DSS. This includes proposed expenditure authority of $661,000, the transfer of 3.8 existing positions, and the establishment of two additional new positions. All 5.8 positions have been approved by the U.S. Department of Agriculture's Food and Nutrition Service and are 100 percent federally funded.

Recommendation: APPROVE the proposed move of the program to DSS.

ISSUES FOR DISCUSSION

A. Some Context Setting: The Recession, Unemployment, and Poverty in California

The Recession & Recovery: The 2007–2009 "Great Recession" was the most severe economic contraction since the Great Depression. Additionally, according to the Legislative Analyst's Office (LAO), the nation's recovery has been slow by historical standards. In its November 2012 report, *The 2013-14 Budget: California's Fiscal Outlook,* the LAO indicated that up to that time, national Gross Domestic Product growth since the recession had been in the range of two percent per year, and forecasted that it would remain between two percent and three percent per year in all but one year between now and 2018. The LAO also indicated that United States employment is forecast to grow at 2 percent or less each year through 2018.

With respect to California, the LAO indicated that the state's recovery is similarly "tepid" compared to historical standards. For example, the LAO indicates that:

> "…after the 1981–1982 recession, it took over two years for the number of jobs in California to return to the pre–recession peak. After the 1990–1991 recession and the resulting cutbacks in the defense industry, it took over five years. After the 2001 recession and the bust of the "dot–com" bubble, it took four years. [As shown in a chart within the report], the total decline in jobs during and after the 2007–2009 recession—about 1.4 million jobs (9 percent of seasonally–adjusted employment)—was far greater than in the prior recessions shown. Moreover, the projected recovery period is *much* longer than for the prior recessions shown. Our forecast assumes that seasonally adjusted employment in California reaches its pre–recession peak in early 2015, or 7.5 years after its pre–recession peak in July 2007."

<u>Unemployment in California</u>: The LAO noted that despite the slowness of the recovery from the recession, some improvements in the state's job market are evident. Still, according to the California Employment Development Department, unemployment rates continue to be high, at 9.8 percent in December 2012. Low-income families are also more likely to be unemployed than the workforce as a whole, and during economic downturns less educated workers sustain bigger job losses than those with more education.[1] Recent reports additionally indicate that women, who are heads of most CalWORKs recipient households, are recovering from the recession more slowly than men, and that the economic downturn reduced employment for single mothers far more than for married parents.[2]

<u>Poverty in California</u>: Measures of poverty are intended to draw a line between whether or not a family has minimal resources necessary to meet the most basic needs (i.e., food, shelter, and clothing). Relying on the U.S. Census Bureau's official Poverty Measure, California had more than 6 million residents who lived in poverty in 2011 (or 16.6 percent of the population). In 2010, nearly one in four (23 percent) of California's children was considered impoverished. Federal poverty guidelines vary by household size, with recent estimates below:

2012 Preliminary Federal Poverty Thresholds	Source: U.S. Census Bureau
Persons in family	**Annual Poverty Guideline**
1	$11,722
2	$14,960
3	$18,287
4	$23,497
5	$27,815
8	$39,872
9 or more	$47,536

As discussed later in this agenda, at $638 per month, today's highest CalWORKs grants available for a family of three (the grant level for families in a high-cost county that include an aided adult and have no other income) result in income of $7,656 annually, or roughly 40 percent of the income federal guidelines indicate it would take to meet basic needs.

<u>Government Programs Intended to Lessen Poverty & the Supplemental Poverty Measure (SPM)</u>: The Senate and Assembly Human Services Committees recently held a hearing on the U.S. Census Bureau's SPM (materials available here: http://shum.senate.ca.gov/hearings). After decades of criticism of the official poverty measure, the SPM was created to provide a more refined look at poverty in the nation. This measure, for

[1] Wonho Chung, Phil Davies, and Terry J. Fitzgerald, *Degrees of Job Security* (Federal Reserve Bank of Minneapolis: December 2010); available online at: http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4592.
[2] *Falling Behind: The Impact of the Great Recession and the Budget Crisis on California's Women and their Families* (California Budget Project; February 2012).

the first time, attempts to balance a family's receipt of tax credits, food and other aid, and child support against a greater accounting of costs that otherwise are not considered, such as housing expenses, work-related transportation costs, child care, health care, and others. Under the SPM, California became the state with the highest poverty rate in the country, with nearly a quarter (23.5 percent) of the state's residents living in poverty. One of the main reasons for this change is the SPM's adjustment for California's high housing costs.

<u>The Consequences of Poverty</u>: Research indicates that children who live in poverty are at significantly higher risk for health problems, lower educational attainment, and a number of other negative outcomes well into their adulthood. These challenges can include poor socio-emotional functioning, developmental delays, behavioral problems, asthma, poor nutrition, low birth weight, and pneumonia. Language ability, such as vocabulary, phonological awareness and syntax, also differs sharply as a function of high poverty at many different stages of development.

<u>Staff Comment & Recommendation</u>: These issues are informational and no action is required. Testimony will be provided by:

- Sarah Bohn, Economist & Researcher, Public Policy Institute of California
- Ann Stevens, Director, University of California, Davis Center on Poverty Research.

<u>Questions</u>:

1. Where are we today in terms of the recovery and employment rates for low-income families, particularly for single parents and those with lower educational attainment? What is expected during the upcoming year or two?

2. What interventions does evidence indicate can help families avoid the negative consequences of poverty?

B. 5180 Department of Social Services - CalWORKs

1. CalWORKs Overview

Budget Issue: California Work Opportunities and Responsibilities to Kids (CalWORKs), the state's version of the federal Temporary Assistance for Needy Families program, provides cash assistance and welfare-to-work services to eligible low-income families with children. In the last several years, CalWORKs has sustained very significant reductions (summarized below), as well as programmatic restructuring (described in detail later in the agenda). Assuming continuation of those changes, along with a $142.8 million increase for employment services, the Governor's budget includes $5.4 billion (federal, state, and local) in funding for CalWORKs. At $3.2 billion, the largest proposed expenditures are for cash assistance, while expenditures for Stage 1 child care, employment services, and administration are expected to total another $2.1 billion. In contrast to recent years, the budget does not include new CalWORKs reduction proposals.

Some Context About CalWORKs Recipients' Circumstances[3]: Around three-quarters of all CalWORKs recipients are children. Nearly half of those children are under the age of six. The vast majority (92 percent) of heads of CalWORKs recipient households are women. Two-thirds are single and have never married. Close to half have 11th grade or less education, and 10-28 percent are estimated to have learning disabilities. Around 80 percent of these adults report experiencing domestic abuse at some point and an estimated 19-33 percent have mental or emotional health problems.

Caseload & Spending Trends: Prior to federal welfare reform in the mid-1990s, California's welfare program aided more than 900,000 families. By 2000, the caseload had declined to 500,000 families. During the recent recession the caseload grew; but at an estimated 563,500 families in 2012-13, it is not anywhere close to the levels of the early 1990s. Most recently, the caseload declined 1.8 percent in 2011-12, and from there is expected to increase slightly in 2012-13 and 2013-14 (to a projected 572,000 families). According to the California Budget Project, welfare assistance represented 6.8 percent of the state's overall budget (including federal, state, and local resources) in 1996-97, compared with 2.9 percent in 2011-12.

Background on Welfare-to-Work Program: Adults eligible for CalWORKs are subject to a lifetime limit of 48 months of assistance. Unless exempt for reasons such as disability or caregiving for an ill family member, they must participate in work and other welfare-to-work (e.g., educational) activities. Depending on family composition, these activities are required for 20, 30, or 35 hours per week. The program also offers related services, such as childcare and transportation. Beginning January 1, 2013, there are new restrictions regarding what counts as an eligible work activity that will result in some adults losing all assistance after 24 months.

Child-Only Caseload: In more than half of CalWORKs cases (called "child-only" cases), the state provides cash assistance on behalf of children only and does not provide adults with

[3] Context information comes from sample data collected by the Department of Social Services (DSS) and from studies in single or multiple counties, as summarized in *Understanding CalWORKs: A Primer for Service Providers and Policymakers*, by Kate Karpilow and Diane Reed. Published in April 2010; available online.

cash aid or welfare-to-work services. There is no time limit on aid for minors. The maximum grant for two children is currently $516 monthly. In most child-only cases, a parent is in the household, but ineligible for assistance due to receipt of Supplemental Security Income, sanction for non-participation in welfare-to-work, time limits, a previous felony drug conviction, or immigration status. In the remaining cases, no parent is present, and the child is residing with a relative or other adult with legal guardianship or custody.

Federal Context: Federal funding for CalWORKs is part of the Temporary Assistance for Needy Families (TANF) block grant program. TANF was scheduled for reauthorization in 2010, but the federal government has since enacted several temporary extensions (the most recent through March 27, 2013). TANF currently requires states to meet a work participation rate (WPR) for all aided families or face a penalty of a portion of their block grant. States can, however, reduce or eliminate penalties by disputing them, demonstrating reasonable cause or extraordinary circumstances, or planning for corrective compliance. It is also important to note that federal formulas for calculating a state's WPR have been the subject of much criticism. For example, they do not give credit for a significant number of families who are partially, but not fully, meeting hourly requirements. California did not meet its federal WPR requirements for 2007, 2008, or 2009. The state is appealing penalties of $47 million and $113 million for 2008 and 2009, and it is unclear whether or when those penalties might be enforced.

The Work Incentive Nutritional Supplement (WINS) program is scheduled to begin January 1, 2014 and expected to improve the state's WPR very significantly. With similarities to programs in several other states, WINS will provide a state-funded benefit of $10 monthly to families receiving CalFresh (food stamps) who are meeting TANF work requirements. Because those state funds will be counted toward the state's TANF Maintenance of Effort (MOE) requirement, the beneficiary families count in the state's WPR.

Recent Reductions and Changes in CalWORKs are summarized below:

GRANT REDUCTIONS

	GF savings[4] (in 000s), if available	**Effective Period**
Suspension of annual cost-of-living adjustment (COLA) (enacted in 2008-09 budget)	$163,000	Ongoing
Suspension of COLA *and* 4% grant cut (2009-10)	$226,000	Ongoing
Elimination of statutory basis for future COLAs (2009-10)		Ongoing
Additional 8% grant cut (2011-12)	$314,000	Ongoing
Changes to earned income disregard that mean faster reductions to grants or exits from aid due to earnings (2011-12)	$83,000	7/1/11 through 10/1/13

[4] Savings figures on this page are annual in the first full-year of implementation. On an ongoing basis, exact savings will vary with caseload and other policy changes.

TIME LIMIT REDUCTIONS

Reduction of adults' lifetime time limit from 60 to 48 months (2011-12)	$104,000	Ongoing
Creation of a 24-month time limit with more flexible welfare-to-work activities before it has been reached and stricter requirements afterward (up to 48 total months) (2012-13)		Ongoing, with fiscal effect starting 2014-15

REDUCTIONS TO WELFARE-TO-WORK SERVICES

Exemption from welfare-to-work services for parents of one child from 12 to 24 months old or 2 or more children under age 6 (savings from not providing services) (2009-10)	$375,000	7/1/09 through 1/1/13 (with phase-out of policy then lasting 2 years)
Suspension of CalLearn intensive case management for teen parents (2011-12)	$43,600	7/1/11 through 7/1/12, with funding phased back in during 2012-13
Once in a lifetime welfare-to-work exemption for parents with children under 24 months old (2012-13)		Ongoing, beginning 1/1/13

In 2009-10 and 2010-11, the CalWORKs program temporarily benefitted from some enhanced federal funding under the American Recovery and Reinvestment Act (ARRA). Some of that funding allowed for corresponding General Fund cost avoidance, while other resources were used to create non-recurrent short-term benefits and invest in additional subsidized employment slots for clients.

Staff Comment & Recommendation: No action is required, as this is an overview item for context setting purposes.

The LAO will present an overview.

2. Implementation of Changes to Welfare-to-Work Activities, Hours, Time Limits & Exemptions Made by SB 1041

Budget Issue: As described in the chart on the previous pages, a 2012-13 budget trailer bill, SB 1041 (Chapter 47, Statutes of 2012), made significant changes to CalWORKs welfare-to-work rules, including the following changes (in addition to other provisions described later in this agenda):

1) Creation of a 24-month time limit with more flexible welfare-to-work activities before it has been reached and stricter requirements afterward (up to 48 total months),

2) A two-year phase-out of temporary exemptions from welfare-to-work requirements for parents of one child from 12 to 24 months old or 2 or more children under age 6, along with a new, once in a lifetime exemption for parents with children under 24 months, and

3) Changes to conform state law to the number of hours of work participation (20, 30, or 35, depending on family composition) required to comply with federal work requirements.

SB 1041 also requires DSS to contract with an independent, research-based institution for an evaluation and written report regarding the changes enacted in SB 1041. The report must be provided to the Legislature by October 1, 2017. In the interim, the department is required to annually update the Legislature regarding implementation of the changes made by the bill.

Additional Background on the Restructuring of Activities, Time Limits, and Hours: SB 1041 created a differentiation between welfare-to-work participation rules that apply before expiration of a 24-month time limit (which are more flexible than prior law in how they count education and treatment-related activities) and stricter rules that now apply after that time period (which can sometimes include more than 24 calendar months because of how months are counted). As a result of the rules that then apply, some adults are expected to lose assistance after 24 months. SB 1041 also allows for extensions of up to six months (reviewed at least every six months) of the more flexible rules for up to 20 percent of participants.

In addition to the complexities of needing to train workers, inform clients, and create procedures for implementing all of these rule changes for new clients, implementation of the changes requires meaningfully applying the new rules for previously existing clients as well, e.g., creating processes for existing clients who want to update welfare-to-work plans that were established under outdated rules and to cease sanctioning (i.e., reducing a family's cash assistance by the portion of aid intended for the eligible adult) individuals whose work participation previously did not meet the state's required activities and hours, but now could.

Background on Implementation Activities: To inform the development of administrative policies regarding implementation of these changes, as well as additional changes made by the bill, SB 1041 required DSS to convene stakeholder workgroups. Those workgroups met throughout the fall of 2012, and DSS released more than 12 resulting All County Letters, as well as a series of Informing Notices to explain the changes to clients.

To date, DSS has received 26 county strategy plans that cover how they intend to "re-engage" parents in approximately 15,000 families whose young-child exemptions are ending over the two-year time period identified by SB 1041. Beginning re-engagement dates vary throughout those counties. Strategies as to which groupings of clients will be re-engaged and in what order also vary by county.

DSS also released a statewide training document on February 28, 2013, and notes that prior to the release of this training aid most counties had designed and conducted their own SB 1041 implementation training based on guidance released in December 2012 and January 2013. DSS states that counties which have not yet conducted the training cited reasons including that training was still being developed, there was a lack of automation for new processes, and that there was insufficient time given other workload demands.

More recently, DSS has indicated that it plans to redirect staff to begin implementation-related visits to counties, starting with the nineteen largest. The first pilot visits will occur in geographically local counties. The structure and content of these visits will be developed by DSS and the County Welfare Directors Association (CWDA). The visits will be conducted by two to three person teams of CDSS staff. Depending on resources, county staff may also join these visits as peer reviewers.

Concerns Raised by Advocates: Advocates have been parties to the stakeholder discussions and have provided feedback on the state guidance. At the same time, however, they have expressed strong concerns with front-line implementation of the changes thus far. Anecdotally, they indicate that they are not yet observing the intended impacts of the increase in flexibility regarding activities or decrease in the required participation hours in a number of counties. In a letter to the Committee, the Western Center on Law & Poverty indicates that, "The first few months of implementation confirm advocate fears – that all SB 1041 means to many recipients is an even shorter time in welfare to work – nothing more." They identify this as particularly problematic because under current law, the new 24-month time clock is or will be ticking for many clients even while these other related, critical elements have not yet been implemented.

Advocates have also expressed concern regarding whether many clients will be able to access increased educational flexibilities that exist in the narrow, 24-month timeframe without priority for enrollment in necessary community college classes. Approximately 11,000 students receiving CalWORKs already have priority for enrollment because they also participate in the Extended Opportunity Programs and Services (EOPS) or Disabled Student Programs & Services (DSPS) programs. Another around 29,000 in 2010-11 (or one percent of community college students) do not currently benefit from priority for enrollment.

Staff Comment & Recommendations: Given the volume of recent reductions and restructuring, the CalWORKs program is in a state of flux. Successive reductions and changes to grants, time limits, and work participation rules have resulted in additional layers of complexity within an already complicated state program. With many changes happening at once and applying differently to varying recipient families, front line social workers, county and state administrators, and client advocates face daunting challenges to ensure that the program is implemented as intended and is as effective as possible. Staff also shares the concern that the flexibilities created by SB 1041 with respect to educational opportunities could be undermined if students receiving CalWORKs cannot access necessary community college classes during the new and narrower 24-month time clock.

Therefore, **staff recommends** that the Subcommittee:

1) Direct the Administration and staff to work together, and to consult with counties, advocates, and/or other stakeholders as needed, to identify measurable data elements and other information that will fulfill the requirements for updates regarding SB 1041 implementation prior to receipt of the required evaluation, along with a schedule for those updates; and

2) Coordinate with Subcommittee 1 to determine if a statutory change to ensure priority enrollment for community college students receiving CalWORKs is appropriate.

Questions:

1. Please describe the Department's approach to monitoring implementation of the changes made by SB 1041 that are described above.

2. What kinds of measurable data elements might provide meaningful insight into the degree to which the changes in activities flexibility and hours, as well as the opportunities to update case plans and process to end outdated sanctions, are having their intended impacts on the ground? In what timeframes will information like that be available?

3. Early Engagement & Barrier Removal Requirements of SB 1041

<u>Budget Issue</u>: The 2012-13 trailer bill described in the previous item, SB 1041, also included a requirement for DSS, in consultation with a workgroup including specified stakeholders, to identify best practices and other strategies to improve efforts to engage clients in welfare-to-work as early and effectively as possible, and to assist them in removing barriers to success so that the initial months during which adults are subject to welfare-to-work requirements are as meaningful an opportunity as possible. The statute also indicates that this may require evaluating and restructuring the basic program flow for clients. Given the urgency of needing these reforms to be in place as soon as, or only shortly after, the new 24-month time limit took effect on January 1, 2013, DSS was required to report to the Legislature by January 10, 2013, regarding the recommendations developed, including those that would be implemented through administrative changes and those that would require statutory changes. DSS did not, however, convene this workgroup until October 30, 2012, and the required report has not yet been provided.

<u>Background on Workgroup Discussions Thus Far</u>: Stakeholder discussions in the workgroup with the Administration have focused in particular on a few programmatic concepts, including:

- The need to utilize information from more robust appraisals and/or assessments of clients' needs;
- The need for there to be more than one welfare-to-work track for participants (e.g., differentiating between those who are ready for work experience, those who need education and skill development, and those who have major barriers to be addressed);
- The need for more intensive case management services or other supports to allow families who have multiple barriers and/or are particularly in crisis to get stabilized; and
- A desire for expanded uses of subsidized employment opportunities.

<u>Staff Comment & Reccomendation</u>: The changes necessary to ensure early engagement of clients and improved processes for identifying and helping to remove barriers to success are critical elements of the package of changes made by SB 1041. Staff recommends that the Subcommittee, consistent with the requirements of SB 1041, direct the Administration to provide the required information in time to allow for consideration of any necessary statutory or fiscal changes during the 2013-14 budget development cycle.

<u>Questions</u>:

1. Please summarize the workgroup process to date and the main changes identified as necessary by those conversations.

2. When will the Administration make and/or provide the required recommendations for changes?

4. Employment Services Funding

<u>Budget Issue</u>: The Governor's budget proposes $2.0 billion in funding for the Single Allocation for CalWORKs expenditures on Stage 1 child care, employment services, and program administration. The breakdown of this funding includes:

- $896.5 million for employment services
- $561.9 million for administration
- $414.1 million for Stage 1 child care
- $122.6 million for substance abuse and mental health services
- $35.9 million for the Cal-Learn program for teenage parents

The proposed employment services funding includes a $142.8 million increase. Roughly two-thirds of the increase is a workload adjustment made because of a new methodology for calculating the costs of employment services on a cost-per-case basis. The need for change was created by the expiration of several years of temporary reductions in the program, which has had unintended effects on the ability to make other technical updates, as well as the enactment of ongoing, major changes in 2012-13. To devise the new methodology, the Administration consulted with the County Welfare Directors Association and relied on historical caseload and employment services budget data. The remainder of the change is tied to outreach, case management, and job development workload created by changes made to the program in SB 1041 as a part of the 2012-13 budget agreement.

As discussed under the previous agenda item, this adjustment does not address the required recommendations for early engagement and barrier removal-related policy or fiscal changes.

<u>Staff Comment & Recommendation</u>: Staff recommends that the Subcommittee approve the methodology change and the adjustments to employment services funding that are included in the Governor's budget, subject to updates and further adjustment at the May Revision.

<u>Questions</u>:

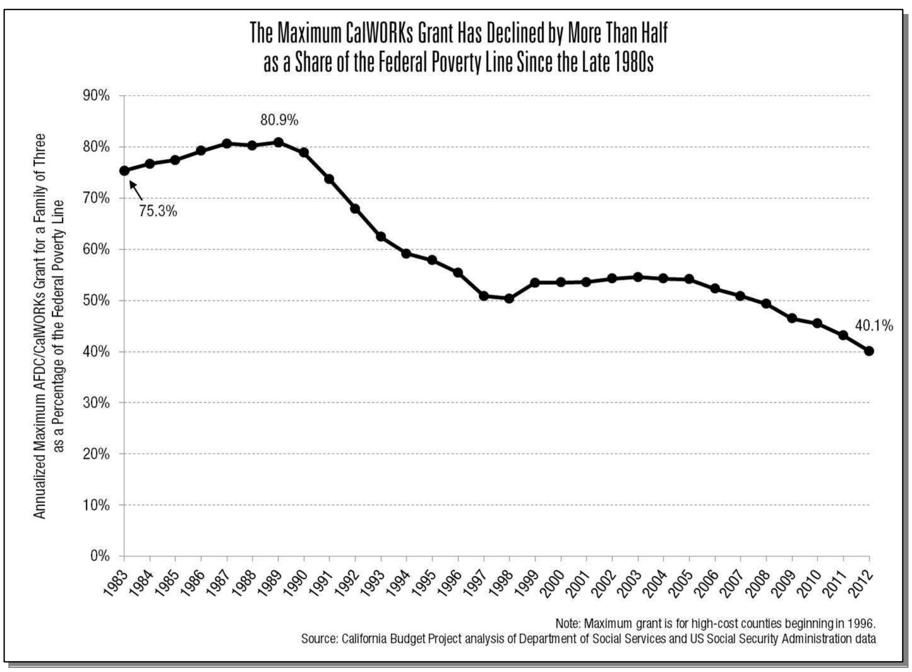
1. Please briefly summarize the proposed changes to employment services funding.

5. CalWORKs Grants

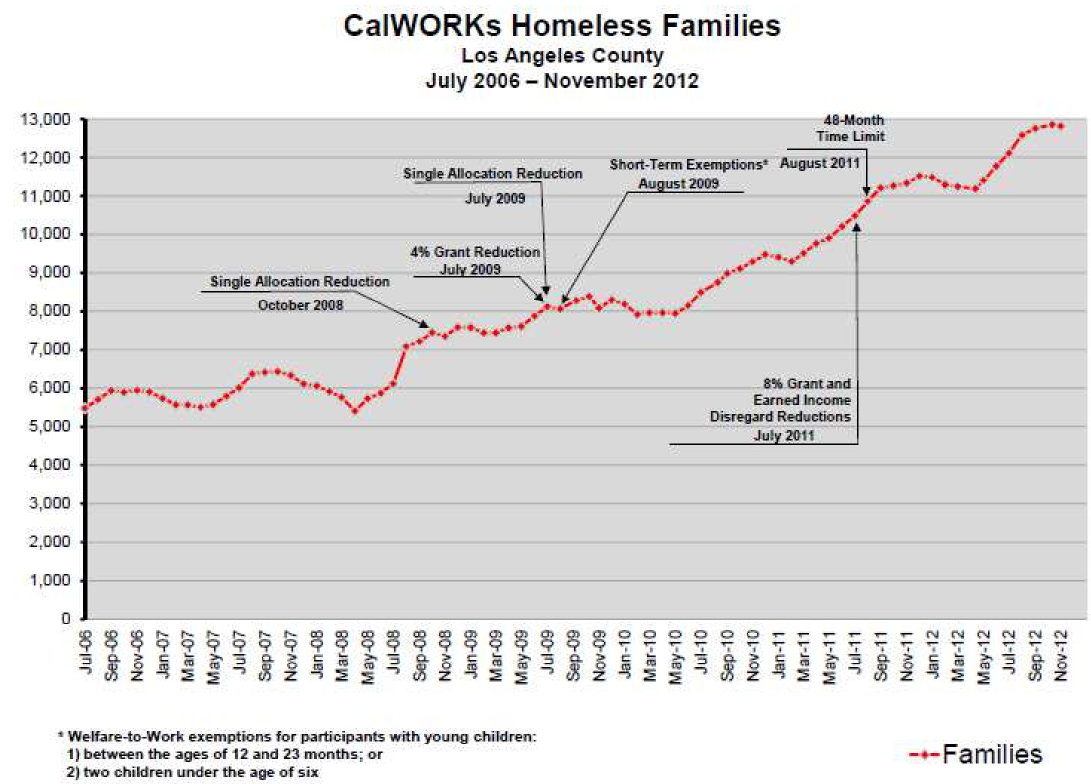
Budget Issue: As reflected in the CalWORKs Overview above, recent enacted budgets did not include cost-of-living adjustments to CalWORKs grants; and then in 2009-10, trailer bill language eliminated the statutory basis for those adjustments. In 2009-10 and 2011-12, grants were further reduced by four, and then an additional eight, percent.

Background on CalWORKs Grants: The average CalWORKs grant for recipient families is $467 monthly (up to a maximum of $638, or 40 percent of the Federal Poverty Threshold (FPL), for a family of three in a high-cost county with no other income). More than half of the time, the state provides cash assistance on behalf of children only and does not provide adults with cash aid or welfare-to-work services. These are known as "child-only" cases, and the highest grant a family of three with two children and no aided parents can receive is $516 monthly (or 32 percent of FPL).

Without cost-of-living adjustments and with recent reductions, the purchasing power of CalWORKs grants, which are the same today in actual dollars as they were in 1987, has declined dramatically. The chart below (included with permission from the California Budget Project) displays the comparison between maximum CalWORKs grants for families with an aided adult and no other income, and the FPL from the late 1980s until now.



Impacts of Recent Reductions on Families: While it is challenging to isolate the impacts of recent reductions in grants or other aspects of CalWORKs on families, we do hear anecdotally of the increasingly challenging circumstances families are facing, which can include falling into homelessness, among other impacts. The chart below, created by Los Angeles County, displays the number of CalWORKs Homeless families in Los Angeles County:



Staff Comment & Recommendations: This is an informational item, and no action is recommended at this time.

Questions:

1. Please summarize the recent history of grant adjustments and reductions.

2. What do we know about the impacts of these grant reductions and the declining purchasing power of grants on families?

6. TANF Transfer to the California Student Aid Commission

<u>Budget Issue</u>: The 2012-13 budget redirected an unprecedented amount of California's federal Temporary Assistance to Needy Families (TANF) block grant funding ($804 million) away from CalWORKs and to the California Student Aid Commission (CSAC) to be used for expenditures in the Cal Grants program, which provides financial aid for students obtaining a higher education. The funds were swapped, dollar-for-dollar, to redirect an equal amount of General Fund monies that would have been spent on Cal Grants to instead be spent on CalWORKs. The Governor's budget proposes to make the same swap in 2013-14, but at the even higher level of $942.9 million. This means that more than half of the Cal Grants program would be supported by federal TANF funding.

<u>Background</u>: CalWORKs is funded through a combination of California's TANF allocation ($3.7 billion annually), state General Fund, and county funds. In recent years, the state's TANF Maintenance of Effort requirement (MOE) has been $2.9 billion. The 2012-13 swap was made for the following reasons:

1) Given the level of reduction in the CalWORKs program, in the absence of identifying additional state funding that could be counted toward the state's TANF MOE, the state would have fallen below its required TANF MOE spending level.

2) The state obtains a work participation rate (WPR) benefit from funding a portion of CalWORKs cases, including many families in which the adult has timed off of aid and children continue to receive assistance (informally known as "safety net" cases), without TANF or MOE expenditures. If their assistance is funded with non-MOE General Fund, these families do not count in the state's WPR. DSS estimates that this results in an approximately six percent increase in the state's WPR.

If the state's caseload were to decline to 2004-05 levels, the swap could also be used to potentially lower the state's WPR because it would result in state spending in excess of the relevant MOE. However, because the state's caseload is not expected to be below that level, this potential WPR impact is not relevant in 2012-13 or 2013-14.

According to the Administration, the swap is an allowable use of TANF funds because the resources are targeted to low-income, unmarried students age 25 or younger and can be considered an investment in the prevention and reduction of out-of-wedlock pregnancies, which is one of TANF's articulated purposes.

<u>Staff Comment & Recommendation</u>: Staff recommends holding this issue open and identifies some concerns. Specifically, the level of the funding swap between TANF and General Fund resources previously used for Cal Grants is concerning because it reduces transparency in budgeting for the core purposes of the programs and results in an artificially higher reliance of CalWORKs on General Fund expenditures. This significantly higher reliance on the General Fund is especially problematic for CalWORKs because it is a program that is intended to provide a safety net during times of economic contraction and as such, may experience necessary growth precisely when General Fund resources are scarcer.

<u>Questions</u>:

1. Please summarize why the 2012-13 budget included the swapping of TANF and General Fund resources between the CalWORKs and Cal Grants programs.

2. Is it necessary for the swap to include the full $943 million proposed in 2013-14? If so, why? And if not, how much of that amount is needed?

C. 5180 Department of Social Services – CalFresh

1. CalFresh Overview

CalFresh is California's name for the national Supplemental Nutrition Assistance Program (SNAP, formerly known as "food stamps"). As the largest food assistance program in the nation, SNAP aims to prevent hunger and to improve nutrition and health by helping low-income households buy the food they need for a nutritionally adequate diet. Californians are expected to receive a total of $7.8 billion (all federal funds) in CalFresh benefits in 2012-13, rising to $8.8 billion in 2013-14. According to the U.S. Department of Agriculture's Economic Research Service, every $5 in new SNAP/CalFresh benefits generates as much as $9 of economic activity (gross domestic product), which represents a multiplier effect of 1.79.

> ***A Snapshot:***
>
> - Approximately 1.6 million households (with an average of 2.4 persons per household) receive CalFresh benefits.
> - This is estimated to represent only around half the eligible population.
> - More than half of recipients are children.

The Governor's 2013-14 budget includes $1.6 billion ($635.5 million GF) for CalFresh administration costs, which are shared 50/50 federal/non-federal funds (with non-federal funds shared 35/15 by the state/counties). This includes $62.8 million ($23 million GF) that was vetoed in 2012-13, but has been built back in for 2013-14.

Since 1997, the state has also funded the California Food Assistance Program (CFAP), a corresponding program for legal immigrants who are not eligible for federal nutrition assistance. The proposed CFAP budget includes $65.6 million GF for food benefits, with an expected average monthly caseload of around 19,000 households (with about 47,000 recipients).

<u>Background on CalFresh Eligibility & Benefits:</u> Most CalFresh recipients must have gross incomes at or below 130 percent of the federal poverty level (which translates to approximately $2,008 per month for a family of three) and net incomes of no more than 100 percent of the federal poverty level ($1,545 per month for a family of three) after specified adjustments. CalFresh benefits are provided on electronic benefit transfer cards and participants may use them to purchase food at most grocery stores and at convenience stores or farmers' markets that accept them. The average monthly benefit per household is around $339 ($151 per person).

<u>Caseload Trends[5]:</u> The CalFresh caseload grew every year from 1988-89 through 1994-95 and then declined each year until 1999-2000. The caseload has risen each year since that time, including recent growth of around 30 percent in 2009-10, 20 percent in 2010-11, and 17

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[5] Growth and caseload figures represent the "non-assistance" CalFresh caseload. Around another 320,000 households are estimated to receive CalFresh benefits along with CalWORKs in 2012-13.

percent in 2011-12. The Governor's budget assumes the following annual caseloads in recent years and up through 2013-14:

State Fiscal Year	# of Households
2007-08	625,511
2008-09	776,079
2009-10	1,009,292
2010-11	1,207,837
2011-12	1,411,806
2012-13*	1,603,911
2013-14*	1,829,310

*Estimated

Performance Measures: The federal government assesses states' performances in the administration of SNAP programs via measures that include participation rates and administrative error rates. Participation rates rely on samples to estimate how many people who are eligible for SNAP or CalFresh benefits are receiving those benefits. They are measured for the population as a whole and specifically for the working poor. Nationally, 75 percent of eligible people received SNAP benefits in federal fiscal year 2010 (the last year for which data is available). In the western region of the country, the overall participation rate was lower at 66 percent. The participation rate for the working poor population was 65 percent nationally. California's overall participation rate was the lowest in the nation at an estimated 55 percent.[6] California's participation rate for the working poor population was also the lowest in the nation at an estimated 42 percent. While California's caseload has doubled in recent years, this does not necessarily alter the state's participation rate in a significant way because the number of eligible households and individuals has also risen so steeply. With that said, from 2009 to 2010, California's rate did increase marginally (up two percent for all people and six percent for the working poor).

Reasons sometimes offered for California's poor performance with respect to CalFresh participation have included, among others, a lack of knowledge regarding eligibility among individuals who are eligible, frustration with application processes, concerns about stigma associated with receiving assistance, and misconceptions in immigrant communities about the impacts of accessing benefits.

Accuracy or error rates are measured through state and federal review of a sample of cases to determine how frequently benefits were over- or under-issued. States are subject to federal sanctions when their error rates exceed six percent for two consecutive years. As of

[6] DSS has noted that the federal government does not count the state's "cash-out" policy for SSI/SSP recipients (whereby those individuals receive a small food assistance benefit through SSP and are not eligible for additional CalFresh benefits) in its participation rate. The Department estimates that the state's participation rate could be a few percentage points higher if many those individuals who would otherwise be eligible for CalFresh were counted as participating. The state would still have the lowest participation rate in the nation.

September 2011, California's error rate was 4.1 percent. California was sanctioned $11.8 million, $114.3 million, and $60.8 million in 2000, 2001, and 2002, respectively.

Efforts to Improve Participation: DSS indicates that California continues to make significant program changes to increase access to the CalFresh program. Several of these changes were included in recently enacted legislation or administrative decisions to streamline application and other administrative policies. In addition to other recent forums for county/state dialogue about CalFresh efficiency and increased participation, and partly in response to a request from this Subcommittee last year, the Director of DSS has also asked each county to undertake a goal-setting process with respect to increased participation.

Staff Comment & Recommendation: Staff recommends that the Subcommittee ask the department to provide an update on its goals for increased participation in CalFresh statewide, including the impact on the number of eligible families and the state's participation rates.

Questions:

1. To what do you attribute California's CalFresh participation rate continuing to be so low?

2. How can the state better ensure that more eligible low-income Californians receive federally-funded CalFresh food benefits? What opportunities might be available as health care reform implementation gets underway and are they being pursued within the applicable planning processes?

2. County Match-Waiver for CalFresh Administration

<u>Budget Issue</u>: The Governor's budget proposes to extend for one year, in 2013-14, authorization for counties to access CalFresh administration funding without requiring a county match above and beyond an existing Maintenance of Effort (MOE) requirement. The maximum overall loss of CalFresh administration funding, if all counties were to access the entire match-waiver would be $220.2 million (half federal and half county funds). Based on preliminary claims for 2011-12, however, the department indicates that only 27 counties have utilized the waiver flexibility, accessing approximately $26.5 million from their General Fund allocation beyond the MOE.

<u>Background</u>: As a result of dramatic caseload increases and difficult fiscal situations for counties, the state has temporarily allowed counties to access the General Fund portion of their CalFresh Allocation without having to match the 15 percent county share-of-costs beyond the MOE. The waiver was enacted in 2010-11 trailer bill for two years, and then extended last year for one more. The Administration indicates that it is proposing an additional one year extension, in part to assist with the impacts to counties of the 2012-13 veto of $62.8 million ($23 million GF) in CalFresh administration base funding. As discussed in the previous agenda item, the CalFresh caseload is projected to continue to increase at significant rates in 2012-13 and 2013-14. To the degree that the 2012-13 veto negatively impacted counties' resources for handling the increased caseloads, the Administration believes that additional waiver flexibility is necessary.

<u>Staff Comment & Recommendation</u>: Staff recommends holding this issue open. The proposal to extend the match-waiver for one additional year seems reasonable. At the same time, particularly given ongoing concerns about participation rates, it will be important to again have administration costs fully funded in the near future.

<u>Questions</u>:

1. Please briefly summarize the proposal and the rationale for it.

D. 5180 Department of Social Services – State Hearings

<u>Budget Issue</u>: The Governor's budget proposes $20.3 million and 153.2 authorized positions for the State Hearings Division of DSS. This includes a request for $3.4 million ($1.3 million GF) to establish 21 new, permanent state staff positions to handle an increased state hearings caseload. The General Fund resources identified are proposed to be redirected from the payment of penalties for late hearing decisions. The department indicates that these late decisions are a result of caseload growth and that the amount of penalties has increased since 2006, totaling $1.1 million for 2011-12, and projected to be as high as $1.8 million yearly over the next three years. Correspondingly, the Governor proposes trailer bill language (TBL) to limit, for a period of three years, the department's exposure to those court-mandated penalties.

<u>Background on State Hearings and Timeliness Requirements</u>: State hearings adjudicated by impartial Administrative Law Judges (ALJs) employed through DSS are used to provide due process to recipients of and applicants for many of California's health and human services' programs, including Medi-Cal, CalWORKs, CalFresh, and In-Home Supportive Services, when they disagree with a decision made by their local county welfare department. Federal mandates require that all requests for hearings be adjudicated within 90 days of a recipient's request (or 60 days for CalFresh). Two court orders, in *King v. McMahon* and *Ball v. Swoap*, impose financial penalties on DSS for failing to adjudicate decisions within those specified timeframes. The penalties are paid to the prevailing claimant.

Under the court orders, the minimum daily penalty amount is $5.00 per day, or a minimum of $50, whichever is greater. However, if 95 percent of all decisions are not issued within the required deadlines in a given month, the daily penalty rate for that programmatic category increases by $2.50 over the penalty rate being paid to claimants the previous month. On the other hand, if 95 percent of all decisions related to that particular program are issued on time in a given month, the corresponding daily penalty rate decreases by $2.50 from the penalty rate being paid the previous month. The maximum daily rate under the court orders is $100 per day. According to DSS, recent processing times and average penalties are listed below:

Program	Timeliness Requirement (In Days)	Average Processing Time (In Days)	Average Days Late	Average Penalty
CalFresh	60	83.14	23.14	$976.62
CalWORKs	90	113.69	23.69	$1,118.77
IHSS	90	117.51	27.51	$1,585.32
MediCal	90	121.25	31.25	$2,714.25

The proposed TBL would reset the daily penalty to the minimum amount for a three-year period while the department directs the resources to instead increasing the number of staff who can adjudicate claims. The department believes that decisions would again be timely by the end of this period.

Recent Caseload Growth and Penalties: The department indicates that the state hearings caseload has increased significantly in the past five years (from approximately 80,000 requests for hearing and 14,000 decisions issued in 2007-08 to 96,000 requests and 18,000 decisions in 2011-12). The Great Recession and corresponding state fiscal crisis led to billions of dollars in reductions to California's health and human services programs, along with corresponding contractions in eligibility for and/or services provided by those programs. At least some of the significant caseload growth identified by the department is related to those changes.

In 2010-11, DSS requested statutory changes to lower the timeliness threshold for processing hearings and allow the department to hold videoconference hearings at its discretion. Those requests were rejected by the Legislature and the final budget instead included the addition of three ALJs and the permanent funding associated with those positions.

Staff Comment & Recommendation: Staff recommends holding this issue open.

Questions:

1. Please briefly summarize the function of the state hearings division and the structure of the timeliness requirements and penalties for not meeting them.

2. Please briefly describe the proposal.

3. How did the department estimate the number of staff positions requested and whether they would be sufficient to allow for timely decisions?

E. 5180 Department of Social Services & Office of Systems Integration (OSI)– Statewide Automated Welfare System (SAWS)

SAWS automates the eligibility, benefit, case management, and reporting processes for a variety of health and human services programs operated by the counties, including the CalWORKs welfare-to-work program, CalFresh (Food Stamps), Foster Care, Medi-Cal, Refugee Assistance, and County Medical Services. The Los Angeles Eligibility, Automated Determination, Evaluation & Reporting (LEADER) system currently serves Los Angeles (LA) County, while a consortium called C-IV serves 39 additional counties and another called Cal-WIN serves the remaining 18 (though each system houses information for roughly one-third of the statewide caseload). Including project management expenditures, as well as the Welfare Data Tracking Implementation Project (WDTIP) system, the total proposed budget for SAWS in 2013-14 includes $291.7 million ($151.0 million TANF/GF).

1. LEADER Replacement System (LRS) & C-IV Migration

Budget Issue: As described above, LEADER is one of three existing consortia systems that comprise the SAWS. The proposed 2013-14 maintenance and operations costs for LEADER include $31.6 million ($15.7 million GF/TANF). OSI estimates costs for the design, development and implementation phase of a new system to replace LEADER (LRS) at $363.8 million over four years ($190.9 million GF/TANF, $144.1 million federal funds and $28.8 million county funds). Los Angeles County signed a contract with Accenture for the development of LRS in November 2012. OSI estimates the following schedule for the project:

LRS Project Schedule			
Major Tasks	**Revised Start Date**	**Revised End Date**	**Duration (Months)**
Design and Development	11/7/2012	9/31/2015	35
Pilot	10/1/2015	2/31/2016	5
Countywide Implementation	3/1/2016	10/31/2016	8
Performance Verification Phase	11/1/2016	04/28/2017	6
Operational Phase	5/1/2017	10/31/2023	78

As part of LRS approval, the Department of Finance also required an assessment within 90 days of the contract award to determine which California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) components may be leveraged by LRS as California's Health Benefit Exchange gets implemented, and the potential risks, timeline, cost savings or other efficiencies that may result. The analysis was completed in early February 2013 and the assessment is currently being reviewed by stakeholders. For additional information on the interfaces between SAWS and CalHEERS, please see the Subcommittee's agenda from March 14, 2013.

<u>The Need to Replace LEADER</u>: LEADER was implemented countywide in LA in 2001. According to OSI and LA County, LEADER technology is outdated and cumbersome (e.g., it uses outdated COBOL language with 9.5 million lines of code). In addition, LEADER relies on proprietary hardware and software components created by its vendor. The federal government has expressed concerns about the state and county's resulting noncompetitive use of that same vendor; and OSI has indicated that no other qualified vendors have been willing to enter a bid to operate the LEADER system. The Legislature first appropriated funding to support the planning process for a new system to replace LEADER in 2005-06. The project was then delayed several times.

<u>Related Migration Project</u>: Trailer bill language related to the 2011-12 budget (Chapter 13, Statutes of 2011) directed OSI to migrate the 39 counties currently in the C-IV consortium to the new LRS. As a result, LRS would replace both LEADER and C-IV, and the state would have a two-consortia SAWS system. In 2012-13, the budget additionally included a requirement for a "cost reasonableness assessment" or study conducted by contracted experts who collect data on the costs of other public and private sector efforts and extrapolate to determine whether the proposed costs for the C-IV migration project are within the realm of reasonableness. In 2012-13, the Legislature also adopted Supplemental Reporting Language directing the Administration to conduct regularly scheduled briefings with legislative staff, and to offer updates during budget Subcommittee hearings, as efforts to develop LRS and migrate C-IV continue. OSI estimates the following timing for the Migration project (to be updated after a migration strategy is chosen):

C-IV/LRS Migration Major Tasks	Start Date
C-IV Migration Planning	11/1/2012 – 4/30/2017
LRS Stabilization/C-IV Migration Preparation	5/1/2017– 4/30/2018
Migrate C-IV Counties	5/1/2018 –10/2019

Estimated costs for the LRS/C-IV Migration have not yet been determined. According to OSI, Los Angeles County, the C-IV consortium, Accenture, OSI, and program sponsors are all currently reviewing various migration strategies and associated costs. Once a strategy is chosen, a cost reasonableness assessment will then be completed.

<u>Staff Comment & Recommendation</u>: This item is mainly included for information and oversight purposes. Staff recommends that the Subcommittee remind the Administration of the continued interest in briefings and updates regarding LRS development and the Migration of C-IV, including at least one briefing for legislative staff before a Migration strategy is selected that includes information about the options being considered and their estimated costs.

<u>Questions for DSS & OSI</u>:

1. What is the latest anticipated timeline for developing and implementing LRS?

2. What has been done to date with respect to planning for the migration of C-IV into LRS? What can you say about the anticipated costs for that migration?

3. What has the state heard from the federal government regarding its approval of the migration of C-IV?