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To: The Honorable Governor Schwarzenegger
Honorable California Legislative Leaders

From: Frank J. Mecca, CWDA Executive Director
Kelly Brooks, CSAC Legislative Representative

Re: Contracting Out Human Services Eligibility - OPPOSE

The County Welfare Directors Association of California (CWDA) and the California State Association of Counties (CSAC) support and are actively participating in efforts to make applications for CalWORKs, Food Stamps, and Medi-Cal simpler, more accessible to the public, and more efficient to process. As you know, yesterday the Administration has proposed to shift eligibility processing from county offices to an Internet-based system. While supportive of the goals, CWDA and CSAC oppose yesterday's proposal because it will not result in any significant degree of savings and is likely to fail.

Our specific concerns with the proposal are set forth below.

- **Yet another attempt to contract out programs.** The Administration has proposed, and the Legislature has repeatedly rejected, centralizing and privatizing eligibility determinations for human services programs. There is no evidence that contracting out for centralization and privatization saves money or improves services. In fact, the most recent state experiences with privatization were abysmal failures. In 2006, Texas terminated a contract with the "Texas Access Alliance," which included Accenture, Maximus, and three other contractors, due to cost overruns, lost coverage, and poor customer service. The state was promised \$600 million in savings that never materialized. The Texas Comptroller stated that "this project has failed the state and the citizens it was designed to serve" and called the plan a "perfect story of wasted tax dollars, reduced access to services and profiteering at taxpayers' expense."
- **Significant short-term costs; tenuous long-term savings.** Another consistent hallmark of past proposals, such as the 2004 California Performance Review (CPR), to which we

were told the new proposal is similar, is a fiscal estimate that all but ignores up-front costs and significantly overstates the potential long-term savings.

With respect to costs, the up-front automation work – which would take at least five years, given the time frames for federal approval of automation projects, especially one that duplicates work that it has already paid for – would run into the tens of millions, if not hundreds of millions, of dollars depending on how much of the eligibility process would be included in this new system. Supporting a competitive procurement process is costly. System requirements need to be developed, an RFP prepared, a procurement process conducted, and contracts negotiated, in addition to seeking and obtaining federal approvals at every stage. Further, migration from the current Statewide Automation Welfare Systems (SAWS) to a single system will require significant planning and outlay of funds to train staff and convert current client information into a new system.

From a savings perspective, the CPR compared Medi-Cal to Healthy Families, an apples-and-oranges comparison that fails to account for the simplicity of Healthy Families in contrast to the almost unfathomable complexity of Medi-Cal, or the fact that county Medi-Cal workers do a substantial amount of eligibility work for Healthy Families. These flawed savings assumptions have been carried forth to subsequent proposals without ever being corrected. Further, the CPR incorrectly stated that California's costs are substantially higher than those of other states, another flaw perpetuated in subsequent proposals. In actuality, federal Medicaid claims data shows California's costs to be in line with other large states. Moreover, the state has already extracted tens of millions of dollars of "savings" from county eligibility operations by not providing cost-of doing business increases (in some cases for 8 years) and via deep unallocated cuts to the programs. Thus, Administration estimates include substantial double-counting of their savings estimates.

- **Proposal puts cart before horse.** It is our understanding that the some unspecified degree of "program simplification" is included in the Administration's proposal. The reason that California's system is complex to administer – regardless of whether the county or a private contractor does so – is because these programs are constructed in a way that makes them inefficient from the start. To propose a huge automation project and centralization of eligibility prior to even discussing what policy changes could be made to the programs, or how those changes might result in a more efficient means of administering the program within the current county-based structure, is highly premature. As with the CPR in 2004, it seems as if this proposal backs into a pre-determined solution – centralize, privatize, and automate – that is not supported by the analysis.

Our examination of other states' efforts to use Internet-based application processes indicates that in states such as Florida and Texas, where these efforts were undertaken to save money, they have failed to produce savings or done so only by reducing access to programs. In contrast, Pennsylvania, which developed its COMPASS system in order to improve customer service and open a new avenue to program enrollment – not to save money or as an excuse to close down local offices – has enjoyed much greater success, the support of the advocacy community, and more effective program administration.

- **Major outstanding issues would need to be addressed.** CWDA, CSAC and other stakeholders have consistently raised numerous questions about past proposals of this nature, which clearly need to be dealt with before any such proposal could be seriously entertained. These include:

- Whether the proposals affect only initial eligibility/intake or also ongoing eligibility and case management.
 - What due process protections would be in place for clients.
 - How to ensure transparency of program rules and regulations, something that has been a concern with Healthy Families.
 - How people with more intensive or complex needs, such as adults with disabilities, non-English-speaking clients, and those who do not have a computer would gain access to the program if county offices were eliminated.
 - How to deal with program rules that often require the submission and verification of multiple supporting documents and several contacts between the client and eligibility worker.
 - Whether requirements such as finger-imaging, which necessitate a trip to a county eligibility office, would be eliminated, something the Administration has consistently opposed.
- **State has a poor track record on welfare automation.** The Administration's ability to implement a large, complex welfare automation project is highly questionable. The current successful multi-consortia, county-led approach was developed and enacted by the Legislature after 20 years of failed attempts by the state. The only successful welfare automation ever achieved in the state resulted from the county-led efforts. State attempts to automate similar services have either failed or taken extended periods of time to complete, at a substantially greater cost than originally estimated. There is no reason to believe that the proposed effort would be any different.

With respect to the potential time frame, complex projects, such as the one proposed, typically take longer than five years. As an example, the state-run CMIPS II project began nine years ago and will not begin implementation until spring 2010 – and this is a simple project in comparison to the one proposed. Experiences in other states, such as Texas, reinforce the complexity, time, and expense involved in such an endeavor.

- **Efforts are already underway to harness Internet technology for these programs.** CWDA staff and a number of individual county directors and staff have been working for several months, along with state staff and several advocacy organizations representing program clients, on a collaborative approach to creating Internet-based applications for a number of programs including Medi-Cal, CalWORKs, and Food Stamps. We support these efforts because they build on, rather than attempting to duplicate or replace (at much greater cost and on a much longer timeframe) the systems that are already in place – in contrast this new proposal. Moreover, counties have been leading the way in implementing efficiencies such as call centers and internet-based application portals.

Given all of these unresolved issues, the fact that this proposal would actually add to the deficit in the first few years, and the fact that efforts are already underway to accomplish much the same goal in a more collaborative and thoughtful manner, it seems odd to us that this ill-thought-out proposal would be jammed into the budget process at this late date. We assume the Legislature would wish to undertake a deeper conversation that provides an opportunity for public dialogue before making any decisions that could impact program access and effectiveness, especially when the proposal on the table would achieve only tenuous savings in future years. For these reasons, we oppose the Governor's proposal to include these changes in the 2009-10 budget.

Please do not hesitate to contact us if you have any questions regarding this memo.