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Memorandum

To : John Montgomery, Director
Department of Social Welfare

Date : June 30, 1969

File No.:

Attn: Cal Locher, Chief Deputy Director

Subject: Preparation for
Cabinet Presentation
Regarding Achievements in
the Welfare Program

From : Office of the Secretary

[FOCUS]

Earl Coke reacted favorably to my recent suggestion that the Cabinet set aside an entire hour for a presentation by the Human Relations Agency concerning the progress we have made to date in the welfare area. This represents a significant opportunity to inform the members of the Cabinet of the specific progress we have made in the past two years and to indicate the progress we intend to make in the near future. In view of John Montgomery's vacation, I will hold off on any presentation until around the middle of July so that John will have time to review the material that will be prepared for him. In addition, we should have a trial run on the presentation at the Agency prior to the Cabinet meeting.

The presentation should contain at least the following major elements:

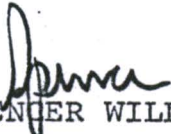
1. A description of the welfare program when the Reagan Administration took office.
2. A summary of the Administration's goals and objectives as enumerated by the Governor.
3. Trends of the California welfare program versus those of other major states.
4. Description of the improvements in the welfare system that have been made to date such as (a) cutting red tape, (b) simplification of adult categories, (c) fraud investigation, (d) delegating greater flexibility to county departments and (e) training programs (WIN, ETP).
5. Significant achievements in our struggle with the Federal Government.

6. A section on our concerted efforts to be commenced in the near future to concentrate on "legal abuses" (e.g., valid regulations or laws which, when applied to particular fact situations, provide some of the widely publicized extreme cases that we are continually hearing about either in the newspaper or by personal contacts.)

Prior to John Montgomery returning from vacation, I would appreciate your initiating the staff work which will be required for an hour-long presentation. I think we should take advantage of this opportunity to stress the positive aspects that have taken place under this Administration and to assure the Cabinet that additional steps are being taken.

For your information and use I am attaching a list of all of the Cabinet Memos that have been concerned with the welfare program, the section of the Governor's 1968 Statement to the Legislature dealing with welfare and the Agency's 1968 statement concerning welfare.

I will secure a date for the Cabinet presentation sometime during the latter part of the week of the 14th or during the week of the 21st of July. If you have questions about this presentation, please call.


SPENCER WILLIAMS
Secretary

cc Lucian B. Vandegrift
Charles C. Harper

attachments

(2)

**SUMMARY OUTLINE OF PRESENTATION
TO THE CABINET BY JOHN C. MONTGOMERY
DIRECTOR OF SOCIAL WELFARE**

JULY 28, 1969

I. Introduction

A. Governor Reagan's welfare program objectives

B. Points to be covered in this presentation

II. Major concerns about public welfare programs

A. Continually rising caseloads and costs despite decreasing unemployment, and the resulting fiscal crises at state and county levels

B. Constraints and fiscal impact of federal laws and rules

C. Welfare programs may be sowing seeds of dependency

D. Effect of welfare programs on incentive to work

E. Welfare fraud

F. Legal abuses of welfare programs

1. Questionable payment of aid

2. Questionable use of welfare funds by recipients

Notes or Questions

G. Failure of absent fathers to provide for support of their children up to their ability

H. Administrative complexities of welfare system

I. Over-emphasis on social services beyond demonstrated need and/or desire of recipients

J. Information and knowledge gap

III. Forces at work which must be taken into account in dealing with the welfare problem

A. Current social ferment-revolution of rising expectations

B. Reflection of these forces in Legislature

C. Reflection of these forces in Courts

IV. Conclusion

K.M. 10/27/69
③
OUTLINE SUMMARY OF PRESENTATION TO CABINET

by

John C. Montgomery, Director of Social Welfare

July 28, 1969

I

Introduction

A. Governor Reagan's Welfare Program Objectives

The Governor's welfare goals, as expressed in campaign statements, speeches, State of the State Messages and legislative programs, reveal his determination to bring costs under control while at the same time assuring adequate aid and service for the truly needy.

The specific programs to accomplish these goals may be divided in two general areas -- substantive and administrative.

The Governor's basic approach in securing substantive changes would separate the welfare group in two categories:

- Life Protection as the guiding purpose with respect to those adults who because of age or handicap must be considered permanently dependent.
- Life Preparation as the guiding purpose with respect to the more than 741,000 children who are future producers and those present adults who are potentially self-sufficient.

His goals in improving the administration of existing welfare programs are:

- Subjecting all programs to critical review and analysis to identify where they can be tightened and improved through administrative action, and where changes in law are required.
 - Increasing the employability of welfare recipients so they can move from aid rolls to payrolls.
- W

- Bringing welfare administration closer to the people by returning as much control as possible to counties for welfare operations, and by increasing volunteer and citizen participation in these programs.
- Streamlining welfare administration and making it a more efficient and economical operation.

II

Major Concerns About Welfare Programs

- A. Continually rising caseloads and costs, despite decreasing unemployment; resulting fiscal crisis at both State and county levels
1. From 1966-67 to 1969-70, recipient population will increase by approximately 418,000 or 37.31 percent (average 12.44% per year). During the same period expenditures for assistance payments are expected to increase by \$447.2 million or 49.63 percent (16.54% per year).
 2. From March 1967 to March 1969 California's AFDC caseload increased 41.6 percent, slightly above national average of 37.3 percent but below such states as New York, Pennsylvania, New Jersey, Massachusetts and Georgia.
 3. Distribution of caseload and related expenditures estimated for California this fiscal year (1969-70). See Pie Chart. (Chart does not include AFDC-BHI; 32,100 children; cost \$49,305,600)
 4. Action Taken
 - a. Tightened ATD disability criteria - From January 1967 to April 1968 ATD caseload increased 1.5 percent per month. In April 1968 tightened disability criteria. This slowed increase rate to 1.2 percent per month by November 1968. Then began planned addition to

caseload of MR patients in state hospitals to claim federal funds for cost of hospital care. \$12 million being claimed annually now - \$16.8 million when complete. This more than countered effect of tightened criteria. Increase rate from November 1968, 2.1 percent per month.

- b. Closed-end appropriation some adult cases - Payments to adult recipients requiring protected living arrangements or services of another person under same fund control as in Medi-Cal through SB 999 enacted and signed by Governor.
- c. Blocked further liberalization of welfare laws - Up to 1967, constant acceleration of welfare cost increases through legislative liberalization. This momentum halted.

B. Constraints and fiscal impact of Federal law and rules

- 1. Almost \$25 million added to State and county costs 69-70 by Congressional or HEW action since 12-31-67 (not including court actions). AFDC Freeze repeal avoided additional \$23.1 million.
- 2. Leadership at national level got support other states in challenging Federal requirements.
 - a. Some successes:
 - Retention for additional period of major part of 75 percent reimbursement for integrated caseloads instead of dropping to 60 percent (great benefit to counties).
 - Extension of timetable for use of simplified methods of eligibility and providing for testing period.
 - Requirements to continue aid pending fair hearing decision and

legal services in appeals being postponed to 7-1-70 from 10-1-69 (announcement expected soon).

b. Still pushing on such items as:

- Requirement that simplified methods be in effect April 1, 1970, for AFDC.
- Requirement that gross earnings be used in income exemption policy. Should be net. Difference to California about \$5 million State/county.

3. Provisions of PL 90-248 remain critical to California such as:

a. Exemption of earned income in AFDC on open-ended basis. (Decision Memo 7-14-69 - Senator Murphy)

- (1) Committed to principle aid policies must provide incentive of monetary gain in relation to work.
- (2) Congress went too far. Law results in some few families being able to remain on aid with large gross incomes.
- (3) Should be gradual reduction percent of earnings exempted plus cut-off point.

b. Eligibility restrictions - AFDC-U

- (1) Under California law must continue aid to nonfederally eligible cases - locked in. Administration bill (SB 1335) to bring California program in line Federal definition opposed by counties - held in Senate Finance Committee.
- (2) Provisions prior to PL 90-248 should be restored so States can define "unemployment" under program.

C. Concern that welfare programs may be sowing the seeds of future dependency

1. Widespread impression welfare system manufactures its clientele. Fact is the rising size and cost of welfare reflects a failure of other systems to do their job in society, specifically in the family group programs. A common denominator is lack of education and lack of skills to obtain and hold a job in today's economy. These are specifically illustrated by such factors as:

- The continuing migration from rural to urban areas of thousands of people, many of whom never had a chance for a minimum, let alone adequate education.
- An advanced technology under which more and more of the jobs which are created require high level skill and competence leaving an increasing number of people behind.
- The failure of the educational system to develop the maximum capacities of the individuals it serves and to focus its efforts on the needs of the labor market.
- The weakening of family ties and sense of family solidarity and responsibility associated with the extreme mobility of our population, and the trend toward the self-contained single unit family composed of mother, father, and children.

Factors in increasing size of our aged and disabled group are:

- The steady increase in the length of life, with the result that even those who have been able to save something for their old age are more and more outliving their resources.
- The miracles of modern medicine which are extending the life of the severally disabled who previously would have succumbed to illness at an earlier age.

2. To the extent needy children do not get the start in life they must have to become responsible and productive adults, adequately prepared for the world of work, are in danger of sowing seeds of future dependency.
 - a. Hope of preventing dependency rests on ability to give them this start.
 - b. This is basis for concern that more than 418,000 children - 53 percent of the State's needy children do not have basic needs met. Most seriously disadvantaged are the more than 416,000 living in families, mostly headed by women, with no outside source of income and little or no present capacity to produce any. Maximum statutory payment meets only 88.8 percent of basic needs.

D. Concern about the effect of welfare programs on the Incentive to Work

1. Vast majority recipients want to work
 - a. 46,600 now working part or full time. If all lost jobs tomorrow would mean about \$5.2 million in additional costs per month or \$62.4 million annually.
 - b. Jobs and job training the key demands heard in direct meetings with recipients.
2. For minority who would shirk responsibilities - tougher sanctions for refusal of work or training without good cause.
 - a. Congress in PL 90-248 limited sanctions in WIN to vendor payments for family after taking person who refused work out of budget.
 - b. Until recently Feds gave impression this applied across board. We now hold it applies only to recipients referred to WIN.
 - c. For all others have adopted regulations to cut off at pockets if refuse work or training without good cause.
 - d. Pushing Feds to apply this to WIN referrals not in active training status.

3. Greatest number of potential employables are mothers, thus expanding availability of child care services merits high priority.

- a. Concentrating attention in ghettos and farm labor camps.
- b. Cooperative arrangements with Education, State OEO, etc.
- c. Getting favorable response on Spencer Williams' letter to Councils of Churches on use of their facilities for child care. These being followed in cooperation with county welfare departments.
- d. State bears portion of nonfederal share of child care costs only for WIN participants. For all others, counties or private sources must cover.

4. Further consequence federal restriction on AFDC-U -- nonfederally eligible recipients not served by WIN. To cover gap am planning to require counties to provide work training program for 6,900 such cases effective 10-1-69. Counties oppose and are appealing to Governor.

E. Welfare Fraud

- 1. State Social Welfare Board study defined nature of welfare fraud and provided base for Fraud Incidence Study now underway in cooperation with California District Attorney's Association. Representative sample of AFDC caseload being investigated by traveling task forces of district attorney investigators, independent auditors and welfare administrators. Findings available December 1969 to provide basis administrative action and possible legislative proposals.
- 2. Cooperative arrangements being completed with Employment and county welfare departments for system to match employer payroll information in Employment's files with income from employment reported by recipients to county welfare.

F. Legal abuses of welfare programs

1. Questionable payment of aid

- a. Tightened regulation on amounts taken into account for transportation to work or training by private car.
- b. Regulations under development: to prevent recipients from remaining eligible or being immediately reinstated to rolls after receiving and disposing of sizeable nonrecurring lump sum payment; to prevent employed recipient from under-claiming number of dependents for income tax payments to obtain lump sum tax rebate; to standardize procedures for handling fluctuating income to minimize uncollectible overpayments.
- c. Joint State/county study leading to possible consideration of monthly income reporting card system for AFDC.

2. Questionable use of welfare funds by recipients

- a. No precise information on number of families "misusing" welfare funds. All available evidence indicates very small.
- b. Money management problems of many recipients compounded by: pressing debts incurred prior to receipt of aid; pressure to make unrealistic "big-ticket" purchases on long-term credit at high interest; aid payments not meeting current needs.
- c. When funds diverted to detriment of children, regulations direct counties to discontinue cash payments and impose controlled payments - vendor or third party. Almost one percent of families on controlled payments.
- d. In aggravated situations counties directed to seek removal of children through court action.
- e. Stronger money management regulations being adopted in August emphasize above actions and direct counties to:

- Stress prevention money mismanagement potential through prompt aid delivery and early identification of families with potential problems.
- Place responsibility on specialized staff to deal with problems.
- Work with creditors in correcting and resolving problems.

3. Letter from Spencer Williams to County Welfare Directors, Boards of Supervisors, and District Attorneys soliciting information and suggestions on the problem. Responses to this to provide basis for further action.

G. Failure of absent fathers to provide for support of their children up to their ability

1. Adopted regulations to improve cooperative welfare law enforcement efforts to locate deserting fathers, establish paternity, obtain child support.

Key provisions:

- a. Commitment at State and county level of specialized units or staff dedicated to this effort.
- b. Procedures to use Internal Revenue files to locate deserting fathers.
- c. Cost-sharing arrangement with law enforcement to provide federal reimbursement of additional costs. (Pressing Federal Government to eliminate maintenance of effort restriction on district attorney costs).
- d. Cooperative arrangements between counties and with other states.

Close involvement of District Attorneys and Family Support Council in program.

H. Administrative complexity of the welfare system

1. Administrative simplification adult aid programs based on recommendations

of State/county simplification committee.

- a. Actions taken - revised basic needs chart; consolidated 96 different special diet allowances into one; standardized needs allowed due to certain critical factors or physical handicap for restaurant meals, laundry, and telephone; eliminated special yard care allowance.
 - b. Under study November hearing - restructuring several special need items; simplified treatment of allowances for utilities.
2. Automated support for the aged. This concept first enunciated in Governor's message to 1969 Legislature. Being implemented through study to determine: feasibility of graded system of standard allowances exclusive of one-time and emergency needs from which income would be deducted; whether amount of information and frequency of client contact can be safely reduced; whether an amount not too different from current grant levels can be established so as to remain unchanged for at least 12 months. If results and study are favorable, grant changes can be automated to a very great extent. If in effect 1968, counties could have avoided many of the 900,000 changes in grant.
3. Simplified eligibility system - use of eligibility statement
- a. In effect statewide in OAS; optional use in AB-ATD until 1-1-70, statewide thereafter; no final decision on use in AFDC. Use in AFDC confined to five test counties with testing to start 9-1-69 and extend through 6-30-70 if needed. Decision as to further use to be based on test results, and then existing federal requirements.
 - b. Interview required in every case despite federal objections. Full field investigation of random sample of all cases granted aid.
 - c. Eligibility statement requires declaration of all facts pertinent to

eligibility for aid. Applicant required to subscribe to the truthfulness of the facts declared by witnessed signature. This statement integral part of case record and available to district attorneys in prosecuting cases of fraud.

I. Overemphasis on social services beyond demonstrated need and/or desire of recipients

1. Traditional approach - same worker responsible for both aid payments and social services has resulted in:
 - a. Lack of distinction in identifying true service needs - almost every family case a "service" case.
 - b. Diffusion of effort.
 - c. Inefficient use of staff resources.
2. New approach - organizational and functional separation aid and services with some units and staff concentrating on aid payment procedures with others concentrating on social services. Good start made on process - will be operational statewide 7-1-70. Expected benefits:
 - a. Greater visibility social service activities - much more accessible to administrative direction, control.
 - b. Concentrated attention by specialized staff on true service needs.
 - c. Use of eligibility workers opens way jobs for persons less than four-year college.
 - d. Use of Service Aides and Eligibility Aides opens ways to new careers for disadvantaged.
 - e. New system facilitates use of citizen volunteers.

J. Information and knowledge gap

1. No assumption of precise cause/effect relationship between social and economic factors outlined earlier and public dependency. Fact is - still flying blind.
2. Public welfare system short of verifiable information as basis for:
 - a. Guiding set of ideas regarding nature and causes of problems we deal with.
 - b. Judgments as to approaches calculated to yield best results at least cost.
 - c. Objective measurement of results.
3. Some small starts made around edges of problem but basic problem (which is nationwide) requires massive research effort.

III

Forces at Work Which Must be Taken into Account in Dealing with the Welfare Problem

A. Current social ferment - revolution of rising expectations

Governor and Cabinet aware there are powerful forces at work in our society as evidenced by campus militancy, increasing urban crisis, the current social ferment, and what has been called the "revolution of rising expectations".

These same forces are having a very direct impact on our welfare programs.

1. Some examples on the national scene:
 - a. Poor People's Campaign - pressure on former Secretary Cohen to adopt liberal regulations in dying days of previous national administration.
 - b. Demands to revamp or junk present system in favor of some kind of guaranteed minimum annual income system.
 - c. Increasing demand for direct voice in welfare policy and practice by recipient groups.

2. Some examples closer to home.

- a. In confrontations with recipients at public hearings and other meetings have sensed increasing militancy and frustration. Single most pervasive feeling which comes across is the sincere and passionate concern these AFDC mothers have for the future of their children.
- b. Have given their constructive expressions of concern careful, sympathetic attention. Through these means and by keeping open lines of communication with them and their organizations, am working to encourage and sustain their confidence in normal democratic processes of government. This approach is serving to keep things pretty cool in California, in contrast to heat being generated over welfare issues in other places.

B. Reflection of these forces in the Legislature

1. Legislators aware of and sensitive to these forces. WRO's have liaison with significant group of legislators.
2. Approach of Legislature to welfare problems reflects polarization of attitudes of people on meaning of "welfare reform". To half, "reform" means liberize, while to the other half, "reform" means cut.
3. Influence of these forces and public attitudes on Legislative Branch is reflected in manner in which it has dealt with Administration's legislative program. (See attached summary)

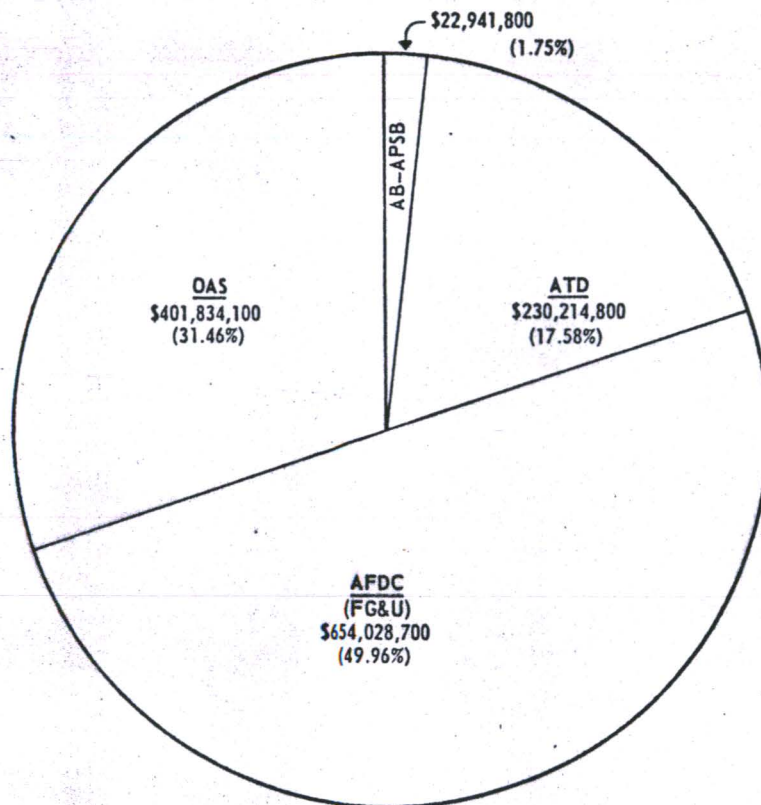
C. Reflection of these forces in the courts

1. Welfare law and administrative practice increasingly being challenged in the courts as part of apparent nationwide strategy. Most issues involved in suits are on "target" list of ten issues in field of welfare developed and promulgated in 1966 by Center on Social Welfare Law and Policy at Columbia University.

2. Consequences of suits brought against California and other states particularly significant since most are "class actions" brought on behalf of one or more named recipients plus all the recipients in the same situation. Summary of most significant California cases in past year is attached.

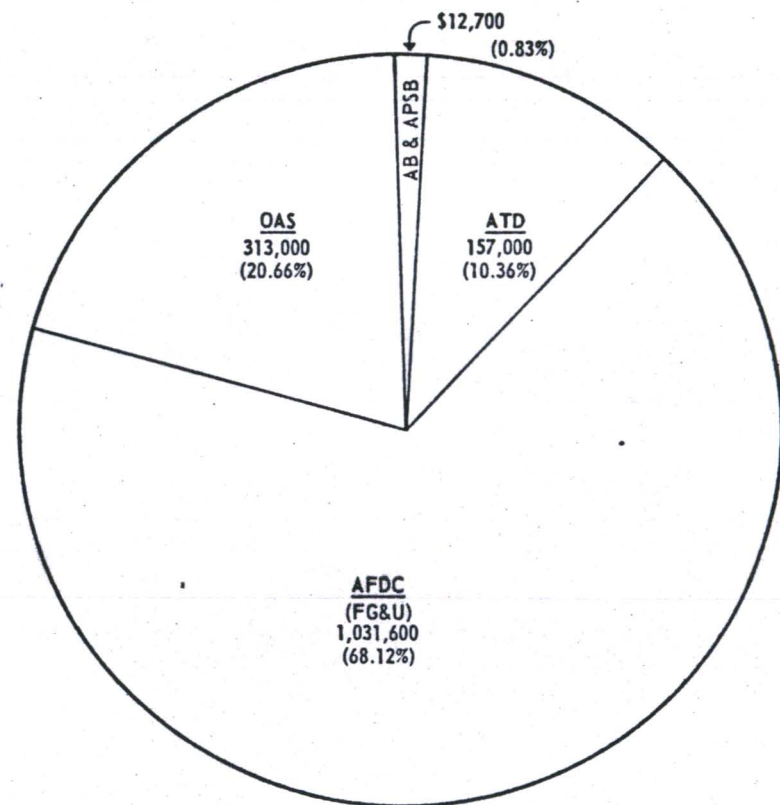
CATEGORICAL ASSISTANCE PROGRAMS
ESTIMATED EXPENDITURES AND PERSONS AIDED
1969-70 FISCAL YEAR

EXPENDITURES



TOTAL EXPENDITURES \$1,309,019,400

PERSONS AIDED



TOTAL PERSONS AIDED 1,514,300

STATE DEPARTMENT OF SOCIAL WELFARE
OFFICE OF PLANNING

SOURCE: 1969-70 GOVERNOR'S BUDGET

'STATUS OF ADMINISTRATION BILLS AS OF July 25, 1969

<u>BILL NO.</u>	<u>AUTHOR</u>	<u>POSITION</u>	<u>STATUS</u>	<u>SUBJECT</u>
SB 714	Harmer	Support	Do pass Assembly H & W Subcomm	Authorizes providing landlords with forwarding address of tenant who left without payment of rent
835	Dolwig	Support	Held in Gov Eff	Uniform criminal procedure for illegal receipt of aid
837	Grunsky	Support	Held in committee	Preplacement study for independent adoptions
847	Stevens	Support	Assembly H & W	ATD - relative's responsibility
848	Stevens	Support	Held in Finance	Liens on real property
857	Deukmejian	Support	Assembly W & M	Support provisions where unrelated adult male resides in AFDC household
924	Burgener	Support	Assembly floor	Evaluation of allowances for recipients receiving complete care
977	Richardson	Support	Held in Lab & S W	Residence
999	Sherman	Support	Assembly floor	Homemaker service and out-of-home care
1118	Harmer	Support	Held in Lab & S W	Joint living standard for married adult recipients

STATUS OF ADMINISTRATION BILLS AS OF July 25, 1969

<u>BILL NO.</u>	<u>AUTHOR</u>	<u>POSITION</u>	<u>STATUS</u>	<u>SUBJECT</u>
SB 1184	Coombs	Support	Held in Lab & S W	Excludes as unemployment caused by trade dispute as basis for eligibility to AFDC
1335	Sherman	Support	Held in Finance	Disqualifies unemployed parents not covered by Social Security Act. Appropriates funds to prevent undue hardship
1368	Way	Support	Held in Lab & SW	Repeals appropriation for PA programs
1369	Way	Support	Dropped by author	Any federal grant increases after January 1969 shall render inoperative cost-of-living increases for same year
AB 1332	Chapple	Support	Held in H & W	Disqualifies AFDC unemployed parent who refuses transportation to job
1334	Hayes	Support	Signed - Chapter 509	Prompt delivery of warrants
2135	Chapple	Support	Held in H & W	Repeals obsolete section

SUMMARY OF RECENT COURT CASES

Subject	Issue	Position of State	Status/Comment
Residence	Whether state laws requiring specific length of residence violate the Constitution.	Insisted vigorously and to the end that such laws were constitutional and authorized by Congress	In April 1969, the Supreme Court ruled 6 - 3 that such laws are unconstitutional. California and a number of other states had already been under court order to the same effect for more than one year.
Aid Pending Fair Hearing	Whether a recipient whose welfare grants are discontinued or greatly reduced and who asks for a "fair hearing" is entitled to aid until the fair hearing decision is rendered.	California regulations provide adequate due process of law protection to the recipient.	--In Federal Courts--California position that aid need not be paid upheld by 3-judge U. S. District Court. Case now on appeal to U. S. Supreme Court. --In State Courts--A State Superior Court ruled that persons whose aid was discontinued and who could deny under oath the facts on which this was based were entitled to continued aid pending fair hearing decision. This case is on appeal pending before State District Court on Appeal. NOTE: Current federal regulations to become effective 10/1/69 will provide for aid pending fair hearing decision.

SUMMARY OF RECENT COURT CASES

Subject	Issue	Position of State	Status/Comment
"It Pays Not To Work"	Whether it is a violation of a person's constitutional right to terminate aid because he is fully employed when his earnings are less than his welfare benefits.	This is not only constitutional but compelled by law.	Pending decision in 3-judge U. S. District Court.
Cost of Living	(1) Whether the present maximum grants in AFDC are adequate for safe and healthful living. (2) Whether it was lawful to exclude from last year's increase in the adult programs the medical component.	The standard of assistance is set by the Legislature in the lawful exercise of its responsibilities. It was lawful and appropriate to disregard the medical component since medical care was provided free of charge.	Two cases are pending--one 1. federal and one in state court. Argued before District Court of Appeal and pending decision.
Gross or Net Income	Whether the earned income exemptions provided by federal and state law are to be computed on a "net" or "gross" basis.	It is lawful and proper to compute on a "net" basis.	Hearing set for July 29, 1969.
Man in the House	Whether it may be presumed that the income of the male parent figure in a household is available to support the entire family irrespective of status as father or step-father or unmarried consort to the mother of the children.	Completely equal treatment of all males in this position is compelled by the Constitution and consistent with state and federal law.	A 3-judge U. S. District Court upheld the state regulations and declared the federal regulations to be in violation of the Social Security Act. The case is now on appeal to the U. S. Supreme Court.

SUMMARY OF RECENT COURT CASES

Page 3

Subject	Issue	Position of State	Status/Comment
Income Set Aside for Educational Purposes	Whether under state regulations outside income other than the child's earnings must be allowed to be set aside for educational purposes.	Such arrangements need be made only when they are: a) Appropriate b) Expressly requested	Awaiting decision by San Francisco Superior Court.
Food Stamps and Commodities	Whether a surplus food program must be available in all counties in California.	Neutral	Moot. As of July 1, all counties had at least one of the two programs and the case was dismissed.

PRESENTATION

TO

THE CABINET

by

JOHN C. MONTGOMERY
Director of Social Welfare

JULY 28, 1969

PRESENTATION TO THE CABINET

by

JOHN C. MONTGOMERY, DIRECTOR OF SOCIAL WELFARE

JULY 28, 1969

I

INTRODUCTION

Governor Reagan, Mr. Williams, members of the Cabinet: I very much appreciate this opportunity to come before you again and discuss our progress, problems and plans in carrying out the welfare program of our Administration.

Throughout your campaign, Governor, in your inaugural address, your welfare messages to the Legislature and in many other speeches, you have stressed your determination to bring welfare costs under control while at the same time assuring the provision of adequate aid and services to the truly needy. You have consistently specified that this be accomplished by:

- Subjecting all programs to critical review and analysis to identify where they can be tightened and improved through administrative action, and where changes in law are required.
- Increasing the employability of welfare recipients so they can move from aid rolls to payrolls.
- Bringing welfare administration closer to the people by returning as much control as possible to counties for welfare operations, and by increasing volunteer and citizen participation in these programs.

- Streamlining welfare administration and making it a more efficient and economical operation.

You have further specified two basic guiding purposes for these programs:

- Life Protection as the guiding purpose with respect to those adults who because of age or handicap must be considered permanently dependent.
- Life Preparation as the guiding purpose with respect to the more than 741,000 children who are our future producers and those present adults who are potentially self-sufficient.

In discussing the progress we have made in carrying out these objectives, the problems we are encountering, and our plans for dealing with them, I will do so in terms of:

- The major concerns we all share about our welfare programs;
- The forces at work today in our society which we have to take into account in dealing with the welfare problem.

First of all, however, I believe we should be mindful of the fact that welfare administration in California is accomplished through a state-county partnership. The actual day-to-day operating decisions and actions are the responsibility of county government working through 58 county welfare departments within the guidelines set by the state and under the general supervision of my department.

I should mention here that by the end of the previous administration, this state-county partnership was in sad disarray, and as soon as we assumed office, the problem of state-county cooperation became a top priority. I made it my business to personally visit as many counties as possible in those early months, and meet with county boards of supervisors as well as the welfare directors to discuss mutual problems and get first-hand their reactions to existing

regulations and policy proposals. These early contacts paved the way for the active involvement and participation of counties through the County Welfare Directors Association and the County Supervisors Association of California in policy formulation and development. I redirected departmental field staff effort to place primary emphasis on encouraging and supporting responsible county administration. The overall result of these efforts has been a definite improvement in state-county relationships.

II

MAJOR CONCERNS ABOUT WELFARE PROGRAMS

A. Continually Rising Caseloads and Costs

Turning now to the major concerns we have about the welfare programs, there is no question but that there is one overriding concern that we all share. This is the fact that despite increasing unemployment and despite the continued high levels of prosperity and affluence in this state and in the country generally, our caseloads are continually rising. With this has come the extremely heavy costs which are resulting in a fiscal crisis at both state and county levels. Briefly, the facts are these:

1. From 1966-67 when we came into office, through 69-70 it is anticipated that the recipient population will have increased by approximately 418,000 persons. This is an increase of 37.31 percent averaging out to 12.44 percent per year. During this same period, expenditures from all sources, federal, state, and local for assistance payments are expected to increase by \$447.2 million. This is an increase of 49.63 percent which averages out to 16.54 percent per year. The differences in percentage growth is largely due to the existence of cost of living provisions in the adult aids.
2. Bad as it has been, California's experience in caseload growth in the AFDC program compares rather favorably with some other major states. As will be seen by the following table, from March 1967 to March 1969 (which is the

latest month for which national data are available), California's AFDC caseload increased 41.6 percent. While this is slightly above the national average of 37.3 percent, it is below that experienced by such states as New York, Pennsylvania, New Jersey, Massachusetts and Georgia.

AID TO FAMILIES WITH DEPENDENT CHILDREN
NUMBER OF CASES IN SELECTED STATES

<u>State</u>	<u>March 1967</u>	<u>March 1969</u>	<u>Percent Change</u>
California	185,000	262,000	41.6
New York	166,000	259,000	56.0
Pennsylvania	62,000	88,400	42.6
Illinois	53,900	75,200	39.5
Ohio	49,200	61,300	24.6
Michigan	38,100	51,400	34.9
New Jersey	31,500	51,100	62.2
Massachusetts	30,900	48,200	56.0
Florida	35,500	44,500	25.4
Georgia	23,400	39,200	67.5

3. The estimated expenditures for aid payments from all sources for 1969-70 and the number of persons we anticipate will be aided during that period are shown by program in the attached Pie Charts. These are self-explanatory, but I just want to make two comments: First, I'd like to point out that while the AFDC family program, including the unemployed fathers, accounts for slightly less than half the total aid expenditures, those AFDC children and their parents comprise over 68 percent of the assistance population. Secondly, it should be noted that the chart does not include our AFDC foster care program which is providing that vital service for some 32,100 children in boarding homes and institutions at a total cost of over \$49,000,000.

I know that you are well aware of the fact that the actions that I can take administratively to control caseload growth is extremely limited since we are governed by the policies established by the Legislature. One area open to me is the criteria under which our review teams determine whether a person was disabled enough to be eligible for ATD. From January 1967 until April 1968 that caseload was increasing at the rate of 1-½ percent per month, rising faster than any other category. In April 1968 I fully implemented action to tighten the disability criteria, and as a result the rate of increase slowed to 1.2 percent per month by November 1968. Then we instituted the first of two crash programs which I believe you are aware of which resulted in the planned addition to the ATD caseload of mentally retarded patients in state hospitals. This was done deliberately in order to enable the State to claim federal funds for the cost of the hospital care of these patients. As a result, we are currently claiming about \$12,000,000 on an annual basis, and when the process is complete the savings in General Fund to Mental Hygiene's budget will amount to \$16.8 million per year. Unfortunately, from the point of view of the ATD caseload this has more than countered the effect of the tightened criteria, and by May of this year the rate of increase had climbed back up to 2.1 percent per month. This is a particularly good example of how savings to one part of state government shows up as an increase in caseload and costs to welfare.

We have successfully promoted the idea that payments to adult recipients requiring protected living arrangements or services of another person should be under the same kind of fund control as in Medi-Cal. This idea has been translated into SB 999 which provides for closed-end appropriation for out-of-home

care and attendant care, and by Friday of last week this was on the Assembly floor consent calendar for final passage. (Note: Subsequently passed the Legislature and signed by the Governor.)

In the considerations being given to this whole problem of rising caseloads and costs, I think that one fact that is often lost sight of is the success we have had in holding the line for three legislative sessions against the enactment of perennial cost increase bills through effective liaison with the Legislature. Up to 1967 there were constant welfare cost increases through legislative liberalization. This momentum has been brought to a standstill! At the same time, however, it is apparent that the Legislature is against any policy that would reduce or restrict either the financial cost or size of our adult aid programs. This fact in conjunction with the increasing legislative recognition of the extent of unmet need in the AFDC program has continually frustrated our efforts to secure the enactment of any effective cost reduction measures.

B. Constraints and Fiscal Impact of Federal Laws and Rules

As you know, the nature, the extent, and the costs of our program are heavily influenced by federal law and regulations, thus the constraints they impose, and their fiscal impact on state and county costs continues to be a major concern.

For 1969-70, we estimate that almost \$25 million will be added to the state and county costs as a result of congressional or federal administrative action taken since December 31, 1967. This does not include over \$18 million added as a result of the Supreme Court decision on durational residence. A good bit of this added cost stemmed from the 1967 Amendments to the Social Security Act. These added costs would have been over \$23,000,000 greater had it not been for the strong support by the Governor, Mr. Williams, Senator Murphy, and Secretary Finch in helping repeal the AFDC freeze.

Some of these additional costs, however, had their roots in Secretary Cohen's extreme liberal interpretation of federal law, which he translated into regulations in the days just before the new administration came into power.

I'm glad to say that working through the National Council of State Welfare Administrators, I have been able to mobilize the support of other states in challenging these questionable federal requirements. I have accepted the chairmanship of the Council, and while this has meant a considerable amount of travel out of the state, I have felt that as the Director in the largest state in the Union it was appropriate to accept this leadership role. Through these means, and through an effective direct relationship with the national administration we have been successful in a number of areas.

- a. HEW has abandoned their plan to pressure states into an accelerated timetable for the separation of aid and services by reducing federal reimbursement to 60 percent for staff members handling both eligibility and service cases. They have agreed to retain for an interim period the 75 percent reimbursement for this type of operation. Although this has no impact on the state budget, it is of great benefit to the counties since they bear the full nonfederal share of these administrative costs.
- b. HEW partially abandoned the unrealistic timetable they had originally established for the mandated use of simplified methods of eligibility, and even more importantly, provided for a much needed testing period.
- c. We have just gotten word that we can expect an official announcement that the requirements to continue aid pending a fair hearing decision and to provide applicants and recipients legal services in relation to their appeals will be postponed from October 1, 1969, until July 1, 1970.

Other onerous and cost producing requirements remain that we are still pushing on. These include, for example:

- a. The requirement that simplified methods of eligibility be in effect in the AFDC program by April 1, 1970.
- b. The requirement that gross earnings be used in calculating the amount of earned income to be disregarded in arriving at the grant. The interim HEW policy specified that this would be "net," but in the closing days of the last administration, Secretary Cohen changed this to "gross." In the regulations I have adopted on this matter, I have continued to use net and our subvention estimates have been based on this policy. If we were to be eventually forced to use gross, the cost of this income exemption policy would be half again as much as it would be using net, or about \$5 million to California state and county governments.

Despite the progress we have made in correcting some of the apparent flaws in federal laws and regulations two of the provisions of the Social Security Act Amendments of 1967 remain critical to California. These are:

- a. The exemption of earned income in AFDC on an open-ended basis. First of all, I want to specify that I am completely committed, as I believe you are, to the principal that our assistance policies must provide the incentive of monetary gain if we are to expect people to seek and accept employment as an alternative to remaining on aid. Monetary gain is one of the prime movers in our economy and welfare recipients respond to it, or to its absence, just like all of us. Thus our concern is not with the validity of the premises underlying enactment by the Congress of this provision, but, rather, with its completely open-ended nature, especially with respect to the total amount

of family income subject to it. The law as it stands has had the unfortunate and inequitable result that a very few families are able to remain on aid despite total gross income from all sources of from \$800 to \$1,000 per month.

We believe there should be a gradual reduction in the proportion of earnings exempted as earning capacity increases and the family's income situation approaches a level of adequacy in relation to its size with this level being established as a cut-off point for exempting any earned income. In establishing this cut-off point, we believe that consideration might well be given to making it consistent with the income limits which determine eligibility for medical assistance for those not receiving public assistance money payments, that is, the medically needy.

As you know, this matter was recently brought to the attention of Senator Murphy by the Cabinet on the basis of Spencer Williams' decision memorandum of July 14. I am confident that with this kind of strong support, and through the good offices of Senator Murphy it will be possible to mobilize support within the California congressional delegation for changes in the Social Security Act that would correct this glaring defect in the law.

- b. Eligibility restrictions in AFDC-U. In an effort to conserve federal funds Congress in 1967 placed severe restrictions on federal matching in the AFDC-U program. They did this by limiting federal reimbursement to cases where fathers had extensive previous connection with the work force, and denied any federal reimbursement on aid payments made when the father is receiving unemployment compensation. Prior to that time, the definition of unemployment for purpose of this program, had been left up to the states.

Although the federal law was changed, California law remained the same, and thus under state law we have been forced to continue aid to these families for which

we receive no federal reimbursement. Thus, the costs of a considerable number of cases (some 6,900 at the present time) must be borne entirely by state and county government, and these cases are in effect locked in to the program under the provisions of state law. One of our administration bills (SB 1335) is designed to bring the California program in line with the federal definition. The very vigorous opposition to this measure by county government has been a very significant factor in this bill being held in Senate Finance Committee. Under these circumstances, it is ever more important that we take steps to mobilize congressional support for a change in the law that would restore the provisions in effect before 1967, thus allowing the states to define unemployment for the purposes of this program.

C. Welfare Programs May be Sowing Seeds of Dependency

The next concern I want to discuss is one that is very widely voiced and deeply felt, namely that through the operation of our welfare program we may be sowing the seeds of future dependency.

To a considerable degree I believe that this concern has its roots in the rather widespread impression that the welfare system in effect manufactures its clientele. The fact is that the welfare system is dealing with the social and economic consequences of the failures of many other institutions and systems which in effect create its clientele. Thus, the cost of welfare represents a portion, but only a portion, of the social costs of many interrelated factors in our society and economy. What I have in mind are such things as:

The continuing migration from rural to urban areas of thousands of people, many of whom never had a chance for a minimum, let alone adequate education.

An advanced technology under which more and more of the jobs which are created require high level skill and competence leaving an increasing number of people behind.

The failure of the educational system to develop the maximum capacities of the individuals it serves and to focus its efforts on the needs of the labor market.

The steady increase in the length of life, with the result that even those who have been able to save something for their old age are more and more outliving their resources.

The weakening of family ties and sense of family solidarity and responsibility associated with the extreme mobility of our population, and the trend toward the self-contained single unit family composed of mother, father, and children.

The rising rates of divorce and separation, the steadily increasing incidence of illegitimacy, and the ever-larger proportion of families headed by women.

Now the fact remains that we are in danger of sewing the seeds of future dependency to the extent that the needy children of this state do not get the kind of start in life they must have to become responsible and productive adults adequately prepared for the world of work. It is a well-worn cliché that our children are the future, but in the present context it bears repeating. Any hope of preventing dependency rests upon a full commitment to the idea that every child must be afforded the opportunity to prepare for life to the full extent of his capacity. This is why I have such great concern about the unmet basic needs in the AFDC program.

In AFDC the measure of children's needs is the gap between the basic need standard established in accordance with the law, and family income from all other sources. As of July 1, 1969, this gap will not be closed for more than 418,000 children --

53 percent of the state's needy children will not have their basic needs met. The most seriously disadvantaged are the more than 416,000 living in families, mostly headed by women, with no outside source of income and little or no present capacity to produce any.

Since 1951, these statutory ceilings have remained essentially unchanged. In 1951 the maximum statutory payment met 100 percent of the basic need standard and provided some leeway to cover additional needs. By now it meets only 88.8 percent of the basic needs.

This problem is compounded by the growing disparity between rents families must pay, and the shelter component in the basic needs standard. On the average this disparity is \$15, but is much greater for many, especially the almost 100,000 families who must pay more than \$80 per month for shelter. The result is serious deprivation for thousands of children despite careful money management practices, in most cases, by their mothers. This denies the underlying goal of the program -- life preparation for children to enable them to grow into responsible and productive adults, properly equipped to enter the world of work.

D. Effect of Welfare Programs on Incentive to Work

Another concern that is uppermost in our minds is that the existence and operation of our welfare programs is reducing the incentive to work. First of all I want to emphasize that all available evidence points to the fact that the vast majority of recipients are eager for jobs that would increase their standard of living and free them from the surveillance of the welfare system. In all my direct meetings and confrontations with recipients over these last several months (and I have had quite a few), the key demand I have heard repeated over and over again was for jobs and for the training opportunities that would enable them to compete more effectively in the labor market.

Even more concrete evidence is the fact that over 46,000 of the families on AFDC have one or more members working part or full time, but with earnings requiring supplementation under assistance standards. If all of these people were to lose their jobs tomorrow, our aid payment costs would increase by \$5.2 million a month or over \$62,000,000 annually.

Having said this, the fact still remains that there exists within the assistance population, as in the general population, a minority who would shirk their responsibilities, and attempt in various ways to get a free ride. To deal with this minority I have recently imposed tougher sanctions for many of those who refuse work or training without good cause.

My ability to apply these tougher penalties across the board is limited by the current provisions of federal law. The Congress in enacting Public Law 90-248 and establishing the WIN Program, specified that the sanctions to be applied to recipients referred to WIN must be limited to discontinuing cash aid and continuing the family on vendor payments after taking out of the budget the funds for the person who refused work or training. Until recently, the federal officials gave the impression that these limitations applied across the board. Now, however, we feel we can effectively argue that Congress intended this to apply only to persons referred to WIN. Thus, for all other recipients I have recently adopted regulations that will have the effect of cutting off at the pockets anyone who refuses work and training without good cause. For this group, at least, the message will be "shape up or ship out." I further believe that we should have the ability to apply this approach to those persons referred to WIN, but not in an active training status, and we are currently working vigorously with the Federal Government to push this point of view.

There is one aspect of welfare law especially at the federal level which has a negative effect on the incentive to work. This is the provision that prohibits the supplementation of any full-time employment on the part of men. No federal reimbursement is available for aid payments made to families where the man is working full time (defined by the Federal Government as 35 hours per week), even though his income is not enough to meet the need of the family. This is patently inequitable since it applies to fathers but not to mothers. Even more importantly this in effect provides the AFDC-U father with a built-in monetary incentive to avoid full-time employment since the man with the large family and low earning capacity can provide for his family much more adequately by restricting his employment to part-time work.

What we are dealing here with is the problem of the so-called underemployed person, which in Sacramento County has been called the Mr. X case. I think it must be pointed out, however, that any program of supplementation that would overcome this problem would be very costly, even if the federal law were changed and much more so under the present circumstance. I think you will be interested to know that New Jersey, in March of this year, started a state funded program along these lines and since that time the number of cases where they are supplementing earnings has doubled.

Welfare Fraud

The problem of welfare fraud, its nature and extent, has been and continues to be one of our major concerns. You will recall, Governor, that one of the first things that you asked the State Social Welfare Board to do was to undertake a study of this problem. They followed through on this primarily by means of a series of public hearings and discussions and as a result, defined the nature of welfare fraud much more precisely than had been done previously. They found that about 90 percent of the fraudulent receipt of welfare payments stemmed from failure to report or the incomplete or incorrect reporting of changes in circumstance or from the concealment of assets. However, the results of their study were inconclusive as to the precise extent of fraud.

The work of the State Social Welfare Board in this area provided a sound base for the fraud incidence study which we now have underway. This is being carried out in close cooperation with the California District Attorneys Association. A representative sample of AFDC families are being rigorously examined by investigators from district attorneys' offices with the results of these investigations being screened by a fraud review panel composed of district attorneys and other public lawyers. We anticipate that the findings which will be available to us in December, 1969 will provide sound basis for administrative action and, if changes in law are found necessary, for appropriate legislative proposals.

As an additional step to deal with this problem, cooperative arrangements are now being completed with the Department of Human Resources Development and county welfare departments for a system to match employer payroll information that's available in the files of the employment compensation system with the

information regarding income from employment that's been reported by recipients to the welfare departments. You will recall that Mr. Williams brought this matter to the Cabinet some time back and, as you requested, we are trying to fund this operation within our existing 1969-70 budget.

F. Legal Abuses of Welfare Programs

I want to turn now to a concern that is being voiced increasingly and one to which we have been devoting a considerable amount of attention and that is the problem of the legal abuse of the welfare program. Legal abuse, as we are using the term, covers the questionable payment of aid or the questionable use of aid payments by recipients, that we believe are contrary to the basic intent of the law, but are legal within the existing federal and/or state laws and regulations.

With respect to the questionable payment of aid, one of the most serious contributing factors is the present open-ended nature of the federal law dealing with earned income exemptions. In addition to our attempts to correct federal law and regulation bearing on this matter, I have taken the following actions to deal with this problem of legal abuse:

1. I have tightened the regulations on the amounts that can be taken into account for transportation of recipients to work or training by private car. I've done this by imposing a statewide ceiling on the cost of operation, repairs, insurance, license, etc., with these ceilings geared to the cost associated with the ownership and maintenance of a modestly priced second-hand vehicle.
2. We have regulations under development for consideration at the November hearing to prevent recipients from remaining eligible or being immediately reinstated to the rolls after having received and disposed

of a sizeable, nonrecurring lump sum payment.

3. We have regulations under development for consideration in November to prevent employed recipients from underclaiming the number of their dependents for income tax purposes so as to obtain a tax rebate at a later time which, if they were still on aid, would then be treated as a nonrecurring lump sum payment. A couple of cases where this occurred were brought to our attention a short time ago, and while we have no evidence that the practice extends beyond these few cases, the change in regulation will be a preventive measure.
4. We have regulations under development for consideration in November that will standardize the procedure for handling fluctuating income from employment so as to minimize the possibility of uncollectable overpayments.
5. In all these activities we've been working closely with a joint state-county committee and I've recently asked that committee to study the practicability of a system under which AFDC recipients would use a card we would furnish them to report to the welfare department each month on their income or any other changes in circumstances. The results of this study will be ready for consideration at our November hearing.

Turning now to the other kind of legal abuse, that is the questionable use of welfare funds by the recipients, I want to specify initially that we have no precise information on the number of families that are "misusing" their aid payments. However, all the available evidence that we have indicates that this represents a very small proportion of our AFDC families. I believe that we need to recognize, as I'm sure you do, that these AFDC mothers are

faced with a most difficult problem of management in budgeting their limited resources so as to cover the needs of their families. I think we need to recognize the fact that uncounted numbers of these mothers are doing a tremendous job in raising their children in the face of the most desperate circumstances. We need to recognize that in many instances their problem is compounded by large and pressing debts incurred before they came on aid; by the pressure upon them from some vendors of big ticket items to make unrealistic purchases on long-term credit at high interest; and most importantly compounded by the fact that for 53 percent of these families the level of aid payment does not meet current needs under assistance standards.

Having said all this, the fact remains that there are some, who for a variety of reasons, divert their funds to other purposes to the detriment of their children. To deal with this minority, our regulations direct counties to discontinue cash payments and institute a controlled payment process under which the family receives vendor payments or their funds are put in the control of a third party. Presently, almost one percent of our families are under this controlled payment procedure. Furthermore, when the situation becomes so aggravated that the well being of the children is in serious danger, counties are directed to seek appropriate judicial action for the removal of the children from the family and their placement in foster care.

These regulations which have long been in effect are being strengthened by regulations I am adopting in August so as to emphasize the kinds of actions described above and further to direct counties to be alert to family situations that identify those

families in their caseloads that show evidence of potential mismanagement problems so they can take preventive action through counselling and home management training; place responsibility on specialized staff to deal with these problems; work with creditors in relation to back debt problems and improve communication and cooperation between the recipient and the creditor in relation to these problems.

Finally, as you may know, Spencer Williams has sent a letter to all boards of supervisors, county welfare directors, district attorneys, and county counsels soliciting from them information and suggestions on this problem of legal abuse. I'm confident that the responses to Mr. Williams' letter will provide the basis for further constructive action to deal with this problem.

G. Failure of Absent Fathers to Support Their Children

With such a very large proportion of our AFDC children being on aid for reasons other than the unemployment, incapacity, death, or incarceration of their fathers, one of our major concerns is with the failure of absent fathers to provide for the support of their children up to their ability. Following extensive hearings in November and December 1968, I adopted regulations which are strengthening and improving the cooperative welfare-law enforcement efforts to locate deserting fathers, establish paternity, and obtain the appropriate amount of child support. These regulations included:

1. Commitment at both the state and county level of specialized units or specialized staff dedicated exclusively to this effort.
2. Provisions for improved cooperative arrangements between county welfare departments and district attorneys. Up to the present time 20 counties have already formalized such a cooperative agreement with their district attorneys.

3. The provision of a cost sharing arrangement with law enforcement officials which provides for federal reimbursement for the additional costs incurred by district attorneys as a consequence of these cooperative arrangements. The availability of federal funds for this purpose is one of the positive results of Public Law 90-248, but unfortunately this is being interpreted by the federal government as applying only to such law enforcement activities which go beyond the level in effect prior to the enactment of the law. This is patently inequitable since it penalizes those district attorneys who on their own made an extra effort to deal with this problem. We have recently made a proposal to the federal government which we are pursuing vigorously under which we would agree to forego 75 percent reimbursement of such costs when they're incurred by welfare in favor of a flat 50 percent reimbursement whether the actions were taken by welfare or by the district attorney. In essence, we are proposing to trade this approach for elimination by the federal government of the maintenance of effort restriction. This is currently under study by the Legal Counsel of HEW. In the event that the results are negative, this is another area in which we will need to seek some change in the Social Security Act.
4. Procedures to use Internal Revenue files to help locate deserting fathers. Another of the positive aspects of Public Law 90-248 were provisions under which HEW and the Internal Revenue Service were directed to enter into an agreement under which the names of absent parents (against whom a support order has been issued by the court or against whom petition for such order has been filed) could be cleared through the computerized master file of the Internal Revenue Service.

5. Cooperative arrangements between counties and with other states for mutual assistance in tracking down absent fathers and obtaining support when indicated.

In all the work involved in the development of these regulations and in our continuing implementation of them, I'm happy to say that we have had a close involvement of the district attorneys generally and of the Family Support Council.

H. Administrative Complexities of Welfare System

A continuing concern of all of us, not only here but all across the country, is the administrative complexity of the welfare system. It is in fact a very complex system and I think it important to emphasize that the basic roots of this complexity are in the nature of the problems it is dealing with and, more importantly, the statutory policies which govern it. At the same time there are some things we can do and are doing within our administrative discretion to deal with this problem. These include the following:

1. Administrative simplification of the adult aid programs based on the recommendations of a state-county simplification committee. Through the work of this committee we have simplified the chart used by workers to determine basic needs; consolidated 96 different special diet allowances into one; standardized the needs allowed due to certain critical factors or physical handicap for restaurant meals, laundry, and telephone; eliminated the special yard care allowance. We now have under study for the November hearing measures that will result in the special structuring of several of the special need items to reduce complexity and simplify and make more uniform the treatment of allowances for utilities.

2. Automated support for the aged. This is the concept, Governor, you first enunciated in your message to the 1969 Legislature, and I am glad to say that work to implement this concept is well underway. Basic to the whole matter is a graded system of standard allowances from which income could be deducted, with these allowances based on certain common characteristics of aged individuals. These allowances would be exclusive, of course, of one time and emergency needs. We are currently studying the feasibility of such a system and also studying to determine: whether the amount of information and frequency of client contact can be safely reduced; whether an amount not different from current grant levels can be established so as to remain stable for at least twelve months. If the results of our studies are favorable, and I'm reasonably confident that they will be, grant changes can be automated to a very great extent. The importance of this concept is reflected in the fact that had such a system been in effect in 1968, our county welfare departments could have avoided making many of the 900,000 changes in OAS grants which they were required to make under the present complex system.
3. Simplified eligibility system. This is the system that incorporates the use of eligibility statements which California took the lead in testing out very extensively in the OAS program. Currently this system is in effect statewide in that program and the counties have the option, up until January 1, 1970, to use it in the AB and ATD programs. After that date it will be statewide. California has made no final decision regarding its use in AFDC. As indicated earlier, federal regulations mandate its use by April 1, 1970, and as indicated, I am pushing them vigorously to remove that deadline date. Beginning September 1, 1969, we will be subjecting the application of this system in the AFDC program to

a rigorous test in five counties including two districts in Los Angeles. This test is designed to extend through June 30, 1970. Our decision as to its further use will be based on these test results and the federal requirements as they exist at that time.

I would like to point out some of the essential features of the simplified system: First of all, our regulations require a personal interview with the applicant in every case, although this appears contrary to federal regulations and the federal government has registered objections to this approach. Secondly, we will be in the position to keep on top of proper eligibility determination through the means of a full field investigation of a random sample of all cases granted aid. Third, the eligibility statement form that is used is so designed as to require the revelation by the applicant of all facts pertinent to eligibility for aid. The applicant is required to subscribe to the truthfulness of the facts declared on his statement by a witnessed signature to the following:

"I certify through my signature that the answers given are true and correct to the best of my knowledge and belief.

"I agree to tell the county at once if there are any changes in my income, possessions or expenses, or in the number of persons in my family, or of any change of address.

"I understand that I may be asked to prove my statements but that the county is required by law to keep them confidential, and that if dissatisfied, I have a right to appeal.

"I realize that deliberate misrepresentation or concealment of facts may constitute fraud for which I may lose my aid payments or can be prosecuted for a crime."

Finally, I would like to emphasize that this eligibility statement becomes an integral part of the case record, and thus is available to district attorneys for their use in prosecuting cases of fraud.

I. Over-emphasis on Social Services

We have been increasingly concerned since the institution of the services program under the 1962 Amendments of the Social Security Act as to the possibility of

an overemphasis on social services beyond demonstrated need for them, or beyond the desire for them on the part of recipients. To a considerable degree, this problem has stemmed from our traditional ways of working, in which the job of determining the eligibility for aid and maintaining surveillance as to eligibility for money payments and the job of providing social services has been handled by the same county worker. Some of the consequences of this traditional approach are: lack of discrimination between those cases that have true services needs, and those that do not. In the AFDC program this has resulted in some places in just about every family case being considered a "service case;" diffusion of effort on the part of the worker trying to handle all aspects of the problem; inefficient use of staff resources with professionally trained workers which are in short supply being bogged down in the paper work requisite to the eligibility process grant.

We believe that the new approach that we are taking will be a real help in dealing with this problem. This approach involves the organizational and functional separation of the eligibility and grant determining process from that of providing social services. Under this approach, some units and staff are concentrating on aid payment procedures while other units and staff are concentrating on social services.

We've made a good start on this process and we expect to be fully operational statewide by July 1, 1970. Some of the benefits we expect to achieve are as follows:

1. These social services activities are going to be much more accessible to administrative direction and control than under traditional approaches since the whole social service activity will be much more visible. We have already experienced a rather considerable reduction in the proportion of service cases in our caseload.

2. Provides opportunity for concentrated attention by specialized staff on the essential social service needs that exist in the caseload.
3. With specialization of the eligibility function it now becomes possible to use workers for this process who have less than four years of college, and thus opens the way to jobs for many persons who could not formerly gain employment.
4. The specialization of these functions makes it possible to use service aides and opens the way to new careers for the disadvantaged.
5. New system facilitates the use of citizen volunteers.

J. Information and Knowledge Gap

The last concern I want to discuss with you is one that in many ways is basic to all of the others I have outlined. This is our very serious information and knowledge gap. Earlier in this presentation I outlined some of the social and economic factors that are contributing to our welfare problems. In doing so, I hope that I did not in any way leave the impression that I was assuming any precise cause and effect relationship between them and public dependency. The fact is, that in attempting to deal with these complex problems especially the most serious problem of all, that of caseload growth, we are still flying blind in many respects. The actual causes of this caseload growth are not known. Speculation advanced as explaining it includes: increased publicity given the poor; better organized welfare rights activity; decreasing demand for low-skill workers; progressive family breakdown; increased use of protected living arrangements in the community for aged and handicapped persons rather than institutionalization; changing interpretations of eligibility; lessening of the welfare stigma; and increased awareness by the poor of the affluence of fellow citizens. Any or all of these reasons may contribute to the problem, but the probabilities are that these factors interact with other factors whose nature is not yet known in ways to produce this accelerated caseload growth.

Examination of the new cases entering the caseloads reveals no significant differences to distinguish these persons from the kinds of persons who have been applying for and receiving aid in previous years. Apparently, the composition of the caseloads is not changing. This tells us that research efforts restricted to describing and analyzing the characteristics now collected of the recipients themselves will not give us the necessary understanding of the problem.

In a nutshell, the public welfare system is short of verifiable information as the basis for: (a) a guiding set of ideas regarding the nature and causes of the problems we deal with; (b) judgements as to approaches calculated to yield the best results at the least cost; (c) any objective measurement of results.

Although some small starts have been made in nibbling around the edges of this problem, the fact of the matter is that this basic problem (which is nationwide in its extent) requires a massive research effort through the combined resources of the national, state, and local government plus a large infusion of help from the private sector.

III

FORCES AT WORK WHICH MUST BE TAKEN INTO ACCOUNT IN DEALING WITH THE WELFARE PROBLEM

As we move in various ways to deal with the concerns which I have just outlined, it is essential that we take into account the forces that are at work in this country today.

A. Current Social Ferment

In view of your own experiences with militant groups on and off the campus, Governor, I know you and the Cabinet are acutely aware of the powerful forces at work in our society. Many of these forces seem to be essentially beyond the control of any particular individual or branch or level of government. These

must take them into account as we continue to deal with the welfare problem.

Earlier, I outlined some of the social and economic factors which contribute to the need for welfare programs. These factors are being compounded today by the current social ferment in this country. Call it what you will -- urban crisis, revolution of rising expectations, crisis of the ghettos -- it all adds up to the same thing: social ferment and community turmoil of the first magnitude. This ferment and turmoil is having an immediate and increasingly severe effect on the welfare system. We can expect this will be so for some years to come.

Some examples of the consequences of these forces on the national scene are as follows:

- a. the pressure exerted on Secretary Cohen last year by the Poor People's Campaign were very directly responsible for his last minute adoption of liberal regulations which he left as a legacy to the Nixon Administration.
- b. Continuing demands to revamp or junk the present public assistance system in favor of some kind of a guaranteed minimum annual income system.
- c. Increasing demands for a direct voice in the shaping of welfare policies and administrative practices on the part of organizations of welfare recipients and other poor people or organizations purporting to represent them.
- d. Increasing activity of the same groups in encouraging and helping applicants and recipients to demand their "rights under the law". To some extent this is part of a calculated strategy on the part of some designed to hasten the day of the guaranteed annual income system by bringing about the collapse of the present system.

Coming closer to home I have personally experienced the results of this social ferment and revolution of rising expectations in confrontations I have had with groups of recipients at public hearings and in other places. Over the last year especially I have sensed an increasing militancy and frustration on the part of these people. Many of the more extreme statements that I've heard have come from obviously disturbed people. But the single most pervasive, consistent feeling that has come through to me has been an expression of sincere and passionate concern on the part of these people, and particularly the mothers, for the future of their children. I share their concern as I am sure you do since, as I indicated earlier, our hope of preventing future dependency rests on assuring these children a good start in life. Thus it has been my policy to give constructive expressions of concern careful, sympathetic attention. Through these means and by keeping open lines of communications with them and with the various organizations that for better or worse are purporting to represent them and are seen in their eyes as representing them, I am working to encourage and sustain their confidence that the normal democratic process of government can be relied upon to take their concerns into account.

I think it is of some significance that despite a widespread pattern across the country of marches, countermarches, and picket lines, California has been remarkably free of this kind of militant expression and that we, in effect, have been able to keep things pretty cool. This has not only shielded the Governor from embarrassment, but to date has avoided the possibility of a militant confrontation over some welfare issue becoming the spark that could lead to widespread violent demonstrations.

B. Reflection of these forces in Legislature

While we feel these forces here in the executive branch of government, they are also being reflected in the actions and posture of the Legislature. As

elected representatives of the people, our Legislators are very much aware of and sensitive to these forces and a significant group of them have pretty close liaison with Welfare Rights and other similar organizations. The approach of the Legislature to the whole matter of welfare, especially in the last two sessions, reflects an increasing polarization of attitudes of the people generally about welfare. This is illustrated in the differences in the meaning of 'welfare reform.' I would say that to about half the people 'reform' means liberalize the welfare programs, but to the other half 'welfare reform' means reduce, cut, restrict the welfare programs. Thus as indicated earlier, we have by and large a standoff and this has been reflected in the manner in which the Legislature has dealt with the administration's legislative program as set forth in summary form in the attachment to this presentation.

C. Reflection of these Forces in the Courts

Finally, we are seeing these forces more and more being reflected in the courts. Both welfare law and administrative practices of welfare agencies are increasingly being challenged in the courts. I think it is significant to note that in 1966 the Center on Social Welfare Law and Policy at Columbia University developed a "target" list of ten issues in the field of welfare which they felt represented "chinks in our legal armor," as one might say. This list was published and widely circulated and has been used by the Legal Aid groups and others in carrying through a strategy of court challenge. As developed by the Center, this list covered the following issues:

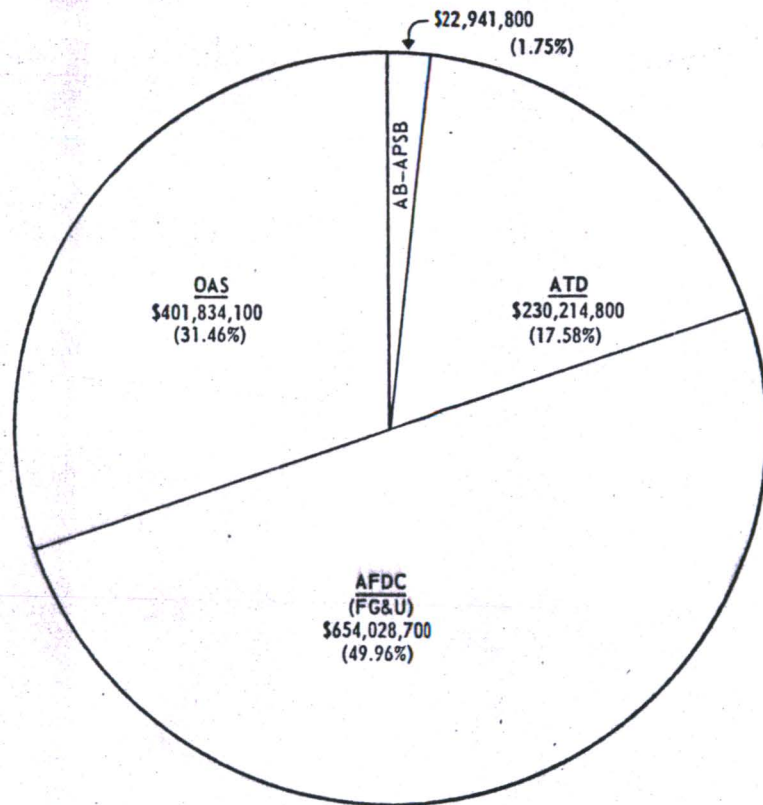
- The "man-in-the-house" rule and its variations.
- "Midnight raids," early morning visits, and other privacy and illegal search issues.
- Settlement and residence laws in various forms.

- Maximum family grants.
- Relatives' liability.
- Certain work-relief practices and statutes.
- Use of penal measures to impose standards of morality upon welfare clients.
- The present scope of discretionary (or arbitrary) decision-making as it affects entitlement.
- Fair procedure and due process in welfare administration.
- Federal requirements on uniform application of state plans for public assistance.

What makes the consequences of the suits brought against us and other states so significant is the fact that most suits are "class actions" brought on behalf of one or more named persons plus all the recipients in the same situation. In the past year there have been a number of very significant cases here in California and these are summarized in the attached material.

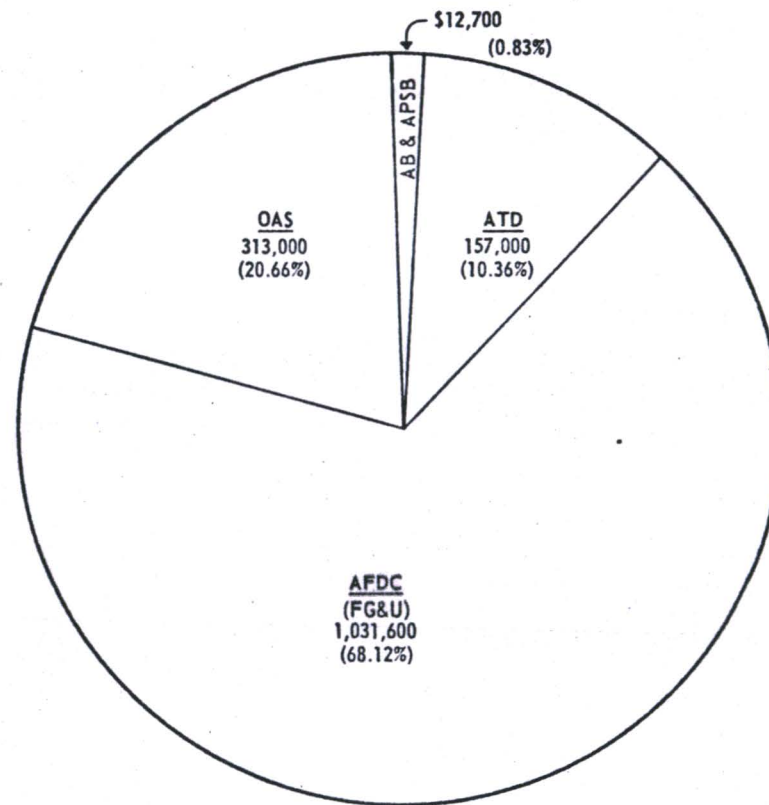
CATEGORICAL ASSISTANCE PROGRAMS
ESTIMATED EXPENDITURES AND PERSONS AIDED
1969-70 FISCAL YEAR

EXPENDITURES



TOTAL EXPENDITURES \$1,309,019,400

PERSONS AIDED



TOTAL PERSONS AIDED 1,514,300

STATE DEPARTMENT OF SOCIAL WELFARE
OFFICE OF PLANNING

SOURCE: 1969-70 GOVERNOR'S BUDGET

"STATUS OF ADMINISTRATION BILLS AS OF July 25, 1969"

<u>BILL NO.</u>	<u>AUTHOR</u>	<u>POSITION</u>	<u>STATUS</u>	<u>SUBJECT</u>
SB 714	Harmer	Support	Do pass Assembly H & W Subcomm	Authorizes providing landlords with forwarding address of tenant who left without payment of rent
835	Dolwig	Support	Held in Gov Eff	Uniform criminal procedure for illegal receipt of aid
837	Grunsky	Support	Held in committee	Preplacement study for independent adoptions
847	Stevens	Support	Assembly H & W	ATD - relative's responsibility
848	Stevens	Support	Held in Finance	Liens on real property
857	Deukmejian	Support	Assembly W & M	Support provisions where unrelated adult male resides in AFDC household
924	Burgener	Support	Assembly floor	Evaluation of allowances for recipients receiving complete care
977	Richardson	Support	Held in Lab & S W	Residence
999	Sherman	Support	Assembly floor	Homemaker service and out-of-home care
1118	Harmer	Support	Held in Lab & S W	Joint living standard for married adult recipients

STATUS OF ADMINISTRATION BILLS AS OF July 25, 1969

<u>BILL NO.</u>	<u>AUTHOR</u>	<u>POSITION</u>	<u>STATUS</u>	<u>SUBJECT</u>
SB 1184	Coombs	Support	Held In Lab & S W	Excludes as unemployment caused by trade dispute as basis for eligibility to AFDC
1335	Sherman	Support	Held In Finance	Disqualifies unemployed parents not covered by Social Security Act. Appropriates funds to prevent undue hardship
1368	Way	Support	Held In Lab & SW	Repeals appropriation for PA programs
1369	Way	Support	Dropped by author	Any federal grant increases after January 1969 shall render inoperative cost-of-living increases for same year
AB 1332	Chapple	Support	Held In H & W	Disqualifies AFDC unemployed parent who refuses transportation to job
1334	Hayes	Support	Signed - Chapter 509	Prompt delivery of warrants
2135	Chapple	Support	Held In H & W	Repeals obsolete section

SUMMARY OF RECENT COURT CASES

Page

Subject	Issue	Position of State	Status/Comment
Residence	Whether state laws requiring specific length of residence violate the Constitution.	Insisted vigorously and to the end that such laws were constitutional and authorized by Congress	In April 1969, the Supreme ruled 6 - 3 that such laws unconstitutional. California and a number of states had already been under court order to the same effect for more than one year.
Aid Pending Fair Hearing	Whether a recipient whose welfare grants are discontinued or greatly reduced and who asks for a "fair hearing" is entitled to aid until the fair hearing decision is rendered.	California regulations provide adequate due process of law protection to the recipient.	--In Federal Courts--California position that aid need not be paid upheld by 3-judge U. S. District Court. Case now on appeal to U. S. Supreme Court. --In State Courts--A State Superior Court ruled that those whose aid was discontinued who could deny under oath the facts on which this was based were entitled to continue receiving aid pending fair hearing decision. This case is on appeal pending before State District Court Appeal. NOTE: Current federal regulations to become effective 10/1/70 provide for aid pending fair hearing decision.

SUMMARY OF RECENT COURT CASES

Page

Subject	Issue	Position of State	Status/Comment
"It Pays Not To Work"	Whether it is a violation of a person's constitutional right to terminate aid because he is fully employed when his earnings are less than his welfare benefits.	This is not only constitutional but compelled by law.	Pending decision in 3-judge U. S. District Court.
Cost of Living	(1) Whether the present maximum grants in AFDC are adequate for safe and healthful living. (2) Whether it was lawful to exclude from last year's increase in the adult programs the medical component.	The standard of assistance is set by the Legislature in the lawful exercise of its responsibilities. It was lawful and appropriate to disregard the medical component since medical care was provided free of charge.	Two cases are pending--one federal and one in state court. Argued before District Court. Appeal and pending decision.
Gross or Net Income	Whether the earned income exemptions provided by federal and state law are to be computed on a "net" or "gross" basis.	It is lawful and proper to compute on a "net" basis.	Hearing set for July 29, 1967.
Man in the House	Whether it may be presumed that the income of the male parent figure in a household is available to support the entire family irrespective of status as father or step-father or unmarried consort to the mother of the children.	Completely equal treatment of all males in this position is compelled by the Constitution and consistent with state and federal law.	A 3-judge U. S. District Court upheld the state regulation and declared the federal regulations to be in violation of Social Security Act. The case is now on appeal to the U. S. Supreme Court.

SUMMARY OF RECENT COURT CASES

Subject	Issue	Position of State	Status/Comment
Income Set Aside for Educational Purposes	Whether under state regulations outside income other than the child's earnings must be allowed to be set aside for educational purposes.	Such arrangements need be made only when they are: a) Appropriate b) Expressly requested	Awaiting decision by San Francisco Superior Court.
Food Stamps and Commodities	Whether a surplus food program must be available in all counties in California.	Neutral	Moot. As of July 1, all counties had at least one of the two programs and the case was dismissed.

JUL 29 1969

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Memorandum

To : The Honorable Spencer Williams
Secretary
Human Relations Agency

Date : July 29, 1969

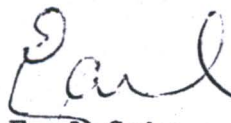
Subject: Social Welfare
Presentation at
Cabinet

From : Governor's Office

It is my understanding that after John Montgomery's presentation at Cabinet Work Session yesterday, the Cabinet requested that his remarks be summarized in writing. In addition, the Cabinet asked for a listing of those areas where change is needed, broken down as follows:

1. Rules and regulations that the State has authority to change.
2. Rules and regulations that only the federal government has the authority to change.
3. The areas that require legislative action at the State level.
4. The areas that require Congressional action.

It is also my understanding that there will be further discussion of this subject by the Cabinet when the above information is available. Please make the next presentation short, concise and to the point.



Earl Coke
Assistant to the Governor
for Cabinet Affairs

Friday 10:00 cabinet

- ① develop list of "hard" Qs
- ② chart RE above Coke memo