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To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

Pages: 6

RE: State Budget Update #1 – Overview

Governor Schwarzenegger released his proposed 2005-06 budget at a press conference this afternoon. Following is our preliminary assessment of the proposals. We will provide additional updates as we learn more details about the budget.

As we expected, there appear to be no cost-of-doing-business increases for county-administered human services programs, with the exception of Medi-Cal eligibility determinations. Caseload increases have been funded.

Overall Budget Picture

The budget projects \$77.9 billion in General Fund revenues for 2005-06, an increase of \$5.3 billion over 2004-05. Total statewide expenditures are proposed at \$85.7 billion, an increase of \$3.4 billion.

The solutions identified to close the \$8.6 billion General Fund budget gap include \$1.1 billion in cuts to CalWORKs, In-Home Supportive Services, and SSI/SSP. The full-year impact of the cuts to these three programs would be \$1.4 billion.

CalWORKs

Revised caseload estimates for the program are 495,264 cases in 2004-05 and 472,786 cases in 2005-06, a 4.5 percent decrease. For 2005-06, the budget proposes a series of reductions and program changes that total \$652.8 million in cuts from the current year.

Current-Year Single Allocation Adjustment. There is a **current-year** increase in the Single Allocation of \$22.4 million, due primarily to caseload adjustments. Note that the department has changed its methodology for calculating current-year adjustments for the CalWORKs Single Allocation and Food Stamps Administration. Instead of reflecting only premise items that result in an increased allocation, these premises now are being offset by negative premises. The \$22.4 million increase is the net number.

CalWORKs Administration. Eligibility funding drops from \$304.1 million in the current year to \$254.4 million in the budget year, a \$49.7 million reduction. This is primarily due to a \$48.1 million increase in the administrative savings attributed to Prospective Budgeting/Quarterly Reporting.

Employment Services. Employment services funding drops from \$923.3 million in the current year to \$861.2 million in the budget year, a \$62.1 million reduction. The budget eliminates the \$50 million CalWORKs Employment Services augmentation counties received in the current year, but moves the \$40 million provided to counties from unspent prior-year funds into the base as continued funding in the

budget year. The large reduction in funding is primarily due to the savings associated with recipients reaching their 60-month time limits, both of which are detailed below.

“Pay for Performance” Proposal. Starting in 2006-07, the budget proposes to base 5 percent of the counties’ Single Allocation funding on specific outcomes for CalWORKs clients. The outcomes on which counties would be measured are improved rates of employment and higher federal work participation rates. The Department of Social Services would set a standard for each measure, and would retain 5 percent of each county’s Single Allocation, excluding child care funding, until it determined whether the county met the performance standards. Funds would then be distributed as follows:

- Counties that meet both standards will receive the remaining 5 percent of their funds.
- A county that meets one of the two standards will receive 2.5 percent of its funds.
- Counties that do not meet either of the standards will not receive any of their 5 percent hold-back.
- Counties that meet the standard for one or both of the measures and commit to improving their performance above the standard for the next year would be able to receive additional pay-for-performance funds from the unallocated funds of the counties that did not meet the standards.

The pay-for-performance system is proposed as a three-year pilot, running from 2006-07 through 2008-09. Note that while the proposal would not go into effect until 2006-07, the budget assumes \$22.1 million in grant savings in 2005-06, assuming that counties will make program changes in anticipation of the new system.

Quarterly Reporting/Prospective Budgeting. The budget assumes \$122 million in total administrative savings associated with the implementation of Quarterly Reporting/Prospective Budgeting, offset by \$184.3 million in grant costs. As noted above, this is an increase of \$48.1 million in administrative savings over the current year. The grant savings reflect a \$1.5 million decrease from the current year. Some savings also are reflected in the Food Stamp program (see below).

SB 1104 Implementation. The budget assumes the following costs and savings associated with the implementation of universal engagement and the core work requirement, for net savings of \$8.5 million in the budget year.

- \$148 million in grant savings associated with increased work participation.
- \$11.1 million in services and administrative costs.
- \$128.4 million in Stage One Child Care costs.

60-Month Time Limits. The budget reflects savings of \$238 million to grant expenditures due to cases reaching their 60-month time limits. Services are projected to decrease by \$121.9 million due to the time limits, child care is reduced by \$50.9 million, and administration is decreased by \$3.8 million.

CalWORKs Grants. The annual cost-of-living adjustment for CalWORKs recipients is proposed to be permanently eliminated, which would require statutory change. Additionally, the budget proposes a 6.5 percent reduction to the Maximum Aid Payment levels, resulting in \$210 million in grant savings and \$1.6 million in administrative savings associated with a 1.9 percent CalWORKs caseload reduction and a 3.3 percent reduction in the number of safety net cases due to the MAP cut.

Earned Income Disregard Reduction. The budget proposes to change the Earned Income Disregard structure from the current \$225 and 50 percent of earnings to \$200 and 40 percent of

earnings, effective October 1, 2005. This would result in \$80.4 million in total savings. The budget also provides \$2.5 million for one-time automation reprogramming costs associated with the change.

Sanction Savings. The budget assumes \$12 million in savings based on anticipated changes to the sanction process. The legislatively mandated study on the sanction process, which is being conducted by RAND, is due to be released prior to the May Revision.

TANF Transfers. The budget proposes \$316.5 million in transfers from TANF to other program areas. This includes \$55.1 million to foster care, \$60 million to the Department of Developmental Services, and \$201.4 million to county probation departments for juvenile justice activities. The county probation activities had been removed from the TANF block grant and funded with state General Fund dollars in the current year.

Substance Abuse and Mental Health. Total funding for substance abuse and mental health services is \$105.7 million, including \$60.7 million for mental health (a \$2.7 million increase) and \$45 million for substance abuse (a \$3 million decrease). The funding changes are due to changing caseload and cost-per-case estimates.

Tribal TANF. The budget provides \$60.6 million for Tribal TANF grants, \$4.8 million for welfare-to-work services, and \$3.9 million for county administration.

Child Care

CalWORKs Funding. The budget contains \$464.1 million for Stage One child care for CalWORKs recipients, and \$558.3 million for Stage Two Child Care administered by the California Department of Education. A five percent holdback totaling \$60.4 million will be kept in reserve for Stages One and Two.

Child Care Reform Proposal. The 2005-06 budget includes \$62.6 million in savings due to a tiered reimbursement proposal and a separate proposal to reduce rates for providers who serve only subsidized children. The tiered structure is similar to last year's proposal, and contains a two-tiered reimbursement rate for license-exempt providers and a three-tiered reimbursement rate for licensed providers. Providers move through the tiers based on training, accreditation, teacher permits, and/or achieving specified scores on environmental rating scales. It appears that reimbursement rates for license-exempt care would be significantly reduced under the proposal.

Stage Three. The budget proposes a two-year time limit on Stage Three after leaving cash aid, but recipients will be allowed to put their names on waiting lists for general child care much sooner, and can move into those slots as they become available.

Food Stamps

Administration for the Food Stamp program is budgeted at \$207.2 million, a \$5 million decrease from the current year. The budget assumes \$61.6 million in savings associated with the implementation of Quarterly Reporting/Prospective Budgeting, an increase of \$27.4 million over the current year.

In-Home Supportive Services

In total, the budget includes \$2.8 billion for the IHSS program. This includes \$263.6 million for county administration, based on an average monthly caseload of 382,124. The caseload for IHSS continues to rise rapidly, at a projected growth rate of 7.7 percent in the budget year.

Reduced State Funding for Wages and Benefits. The Administration proposes two reductions in the level up to which the state provides a share of cost for wages and benefits, for savings of \$206.7 million General Fund.

- Effective July 1, 2005, the state share of cost for the nine counties that have negotiated wage and benefit increases since the current-year budget was passed will be reduced to the approved rate in effect as of July 1, 2004. This results in a \$42.7 million General Fund cut to state participation in wages and benefits.
- Effective October 1, 2005, the state would roll its participation in all county wages and benefits back to the minimum wage. This proposal would also reduce the wage component of contract provider rates to the minimum wage. The budget assumes \$164 million in savings due to this reduction.

IHSS Quality Assurance. The budget continues funding for enhanced quality assurance (QA) activities, providing a total of \$32 million (\$11.7 million General Fund) to reflect full-year funding for the 110 county QA staff and 110 county IHSS workers provided in the current year, as well as funding to train 1,345 county IHSS staff during the budget year. The budget assumes \$70.9 million General Fund savings associated with the implementation of uniform assessment guidelines, earlier reassessments for some clients, and other new QA activities.

SSI/SSP

The budget would freeze the SSI/SSP average grants at the April 2005 level. The January 2006 federal SSI cost-of-living adjustment would not be passed on to recipients, and the regular state COLA based on the California Necessities Index (estimated at 4.6 percent) would be suspended. This results in estimated savings of \$252 million.

Child Welfare Services

The Governor's budget proposes approximately \$2.3 billion in funding for Child Welfare Services including Adoptions and Child Abuse Prevention, including the full \$17 million augmentation. No provision is made for a cost of doing business increase.

The proposal includes \$26 million to continue Child Welfare Improvement Activities in the 11 pilot counties and expand risk assessment, differential response, and permanency services to an additional 11 counties.

The Governor's budget proposes legislation to allow the State to pass on to counties a portion of future penalties associated with California being out of compliance with the in CWS. It is not clear whether this proposal refers to the Child and Family Services Review alone or also to other federally funded services.

The budget does not proposed any changes to the Adoptions, Foster Care, Independent Living Program, or any of the other CWS program areas.

Automation Projects

SAWS

- C-IV – The proposed budget provides \$48 million to support the on-going system maintenance and operation. Reductions have made in funding for legacy systems that are

no longer needed in Merced, Riverside, and San Bernardino Counties. No reduction was made in Stanislaus County. Adjustments were not made to proposed administration budget to address new system related costs at the county level.

- CalWIN – The proposed budget provides \$128 million. This amount does not provide for increase caseload or the inclusion of closed cases. It does not assume any savings from terminated legacy systems or any county level system related costs.
- LEADER – A budget reduction of \$234,000 is proposed to reflect current costs.
- ISAWS – A small increase is proposed to reflect the increases in personal and contract costs.

CWS/CMS

The proposed budget includes an increase to \$72 million for system maintenance and operations plus \$49 million to complete the “Go-Forward” plan. Slight increases were made in the county system support and staff development proposed appropriations.

In-Home Supportive Services

DSS proposes develop an IHSS worker telephone tracking system in 2005/06 for implementation in 2006/07, as a means of reducing fraud and abuse. The resulting savings are expected to outweigh the cost of system development.

Electronic Benefits Transfer

The estimate for the reduction in Administrative costs related to EBT implementation is increased to \$34 million (\$12 million in CalWORKs and \$22 million in Food Stamps) to reflect updated data and statewide implementation.

Other Automation Systems

The proposed budget continues support, at a similar level, for all other automation systems.

Adult Protective Services

APS is funded at the current-year level of \$83.6 million total funds.

Medi-Cal Program and Administration

The base program for Medi-Cal Administration is \$908.9 million, which is the same as the current year. After the Medi-Cal budget worksheet process is completed, DHS will modify the budget to include the county requests for cost of doing business and include these modifications in the May Revision Budget. Cost of doing business is estimated at \$38.5 million (this is a placeholder)

The budget also includes the Medi-Cal Redesign Proposal. The redesign includes policy initiatives in the following areas: (1) expansion of managed care, (2) modification of hospital financing, (3) capping adult dental benefits, (4) increased premiums and shares of cost, and (5) changes to eligibility processing.

With respect to eligibility changes, the specific provisions include:

- Allowing the so-called “Single Point of Entry” mail-in application screening vendor (Maximus) to determine eligibility – subject to ultimate approval by a state Medi-Cal eligibility worker – for children who apply through the mail-in application. Under current law, the vendor merely screens the applications and forwards them to county welfare departments or the Healthy Families Program. The proposal would affect approximately 120,000 children. The budget estimates that the proposal would result in \$2.2 million (\$1.1

million GF) in 2005-06, and ongoing annual savings of \$15.9 million (\$9.3 million GF) thereafter.

- Contracting with vendors to monitor county performance standards. There is no detail regarding this proposal that would indicate what the vendor would do that is different than what state staff currently does in monitoring county performance.
- Additional eligibility verification for persons above 100 percent of poverty. The budget proposes an additional \$12.4 million (\$6.2 GF).

Another item of interest:

- Establishing Medi-Cal/Healthy families Bridge Performance Standards that will use Medi-Cal eligibility determination and annual re-determination performance standards to ensure that counties comply with Bridge requirements.