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CWDA

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To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

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RE: State Budget Update #1 – Overview

Governor Schwarzenegger released his proposed 2008-09 budget at a press conference this morning. Following is our preliminary assessment of the proposals. We will provide updates as we learn more details about the budget.

Overall Budget Picture

The budget projects \$102.9 billion in General Fund revenues for 2008-09, an increase of \$1.7 billion over 2007-08. Total statewide expenditures are proposed at \$101 billion in 2008-09, a decrease of \$2.4 billion from the current year.

Closing the Budget Deficit – To eliminate the \$14.5 billion deficit projected for 2008-09 and finish the budget year with a projected reserve of \$2.8 billion, the Governor proposes a combination of spending cuts, delayed repayments on the state's outstanding debt, and the sale of the remaining deficit reduction bonds authorized by Proposition 58.

The below chart has general descriptions of the proposed solutions.

Sale of remaining deficit reduction bonds	\$3.3 billion
10% reductions, current year amount	\$0.2 billion
10% reductions, budget year amount	\$9.1 billion
No extra debt service payment on previously sold bonds	\$1.5 billion
Current-year Proposition 98 capture	\$0.4 billion
Additional tax collections	\$0.4 billion
Other reductions (special session)	\$0.3 billion
Early accrual of September 2009 tax payments	\$2.0 billion
Rough total	\$17.2 billion
<i>2008-09 Deficit: \$14.5 billion</i>	
<i>2008-09 Year End Reserve: \$2.8 billion</i>	

The Governor also formally declared a fiscal emergency pursuant to Proposition 58, as had been expected, and called for a special session of the Legislature to respond to the declaration and his proposals. The Governor stated that he was not offering revenue increases as part of the budget solution package, saying it “would be wrong to raise taxes on people to cover Sacramento’s overspending and since we have not yet fixed our budget system.”

Finally, the Governor has indicated he will once again propose a constitutional initiative (“The Revenue Stabilization Act”) to give him the authority to make mid-year budget reductions without legislative approval when expenditures exceed revenue by certain percentages.

Overall Health and Human Services

Across all health and human services programs, the budget proposes a reduction of \$1.2 billion General Fund.

Cash Flow/Payment Delays – The Administration proposes to delay certain payments in health and human services programs for cash flow purposes. In social services, the proposal would delay \$814 million in payments for programs that would normally be advanced to counties in July and August 2008. In Medi-Cal, the first quarterly payment of \$164 million for county eligibility operations would be delayed by one month. According to the administration, all of these payments would be made in September 2008.

CalWORKs

Revised average monthly caseload estimates for the program are 457,844 cases in 2007-08 and 452,178 cases in 2008-09. The 2008-09 estimate reflects a projected decrease of 5,666 cases due to the proposed policy changes.

The budget proposes a net budget-year reduction of \$432.6 million for CalWORKs grants, primarily due to the policy changes described below.

Proposed Policy Changes – The budget proposes a number of significant policy changes to the CalWORKs program. The proposals would:

- Impose a graduated full-family sanction, with the grant reduced to 50 percent of the child-only grant after an accumulated total of six months of noncompliance, and a full sanction after a second accumulated six months of noncompliance. This reduction assumes a June 1, 2008 implementation date. The budget assumes a net cost increase of \$1.7 million in current year and \$21.1 million in budget year for this proposal. This proposal would require counties to contact all adults prior to implementation of any graduated sanction. The required contact would include phone calls, letters, and home visits.
- Eliminate safety-net benefits for timed-out families not meeting federal work participation requirements, for assumed savings of \$18.2 million in the current year and \$259 million in the budget year. This reduction assumes a June 1, 2008 implementation date.
- Impose a 60-month time limit for certain child-only cases (children of undocumented parents, drug felons or fleeing felons) for assumed savings of \$18.3 million in the current year and \$241.5 million in the budget year. This proposal would have no impact on work participation rates as these cases are not currently counted in the calculation. This reduction assumes a June 1, 2008 implementation date.

CalWORKs Grants – The budget assumes implementation of the 4.25 percent statutory cost-of-living adjustment for CalWORKs recipients effective July 1, 2008, at a cost of \$134.4 million.

Work Incentive Nutritional Supplement (WINS, aka Food Stamps Move-In) – The budget proposes an additional support to working families in the form of a supplemental food stamp benefit. Working families who are receiving Food Stamps, but not receiving CalWORKs, may be eligible for this benefit if they are participating sufficient hours in paid employment to meet federal work participation requirements. Each Food Stamp household would be eligible for one \$40 benefit per

month. Due to automation changes needed, the WINS program would not be implemented until July 2009. The budget includes \$8.4 million for automation costs associated with WINS.

CalWORKs Pay for Performance – The budget proposes to eliminate the entire \$40 million in current year funding for CalWORKs Pay for Performance. However, the budget proposes to fund Pay for Performance at \$40 million in 2008-09.

- CalWORKs Single Allocation – The budget proposes to fund CalWORKs at the current-year level, with adjustments for projected caseload changes and the assumed impacts of the proposed work participation requirement policy changes.
- CalWORKs Administration – The budget proposes \$440.5 million for basic eligibility operations, including continuing the \$140 million current-year base restoration. This amount also includes \$9.9 million to reflect the increased documentation and verification requirements associated with the Deficit Reduction Act of 2005 and related federal regulations. The total budget-year funding level represents a net \$45.8 million reduction compared to current year, due to administrative savings attributed to the proposed policy changes described above.

Employment Services – The budget proposes \$1.1 billion, including continuing the \$93 million augmentation from previous years' reform efforts. This amount would maintain basic funding at the current-year level, with increases related to the proposed policy changes described above.

State Oversight – The budget proposes 20 state staff to support county data collection efforts and perform data oversight and quality assurance functions related to the federal TANF reauthorization requirements. Six additional positions would be created to hold regular performance outcome meetings with counties to highlight good practices and identify obstacles and conduct the county/state peer reviews required by AB 1808, Statutes of 2006.

Substance Abuse and Mental Health – The budget proposes a \$6.9 million current-year increase and a \$10 million budget-year increase, for total funding of \$118.5 million in the budget year (\$50.2 million for substance abuse and \$68.2 million for mental health). The increases are based on updated caseload and utilization information.

Tribal TANF – Total funding is proposed at \$92 million, including \$83.9 million for grants, \$2.6 million for welfare-to-work services and \$5.5 million for administration. This is a \$19 million increase over the current year to reflect full implementation for tribes that began implementation mid-year, as well as additional expansions.

TANF Reserve – The budget includes an \$87 million TANF reserve.

Child Care

Stage 1 – The budget proposes total funding of \$547.4 million, a \$42 million increase over the current year. This amount reflects a combination of a natural caseload decline, an increase in caseload due to proposed CalWORKs changes, and an increase of \$69 million associated with the October 2006 and March 2008 Regional Market Rate increases.

Reserve – The child care reserve for 2008-09 is \$46.5 million.

Food Stamps

The budget proposes total basic funding of \$643 million (\$322.5 million federal, \$217.4 million GF, \$103.0 million county) for the budget year to reflect projected caseload growth and the continued county overmatch. The budget also includes a current-year increase of \$13.7 million (\$4.2 million GF).

Proposed Administrative Funding Cut – The budget proposes to reduce county allocations for Food Stamp administration by 4 percent, or \$34.9 million (\$14.4 million GF) in 2008-09. This reduction assumes a July 1, 2008 implementation date. (The \$643 million figure above reflects this reduction.)

California Food Assistance Program (CFAP) – The budget proposes to reduce benefits for CFAP by 10 percent, or \$200,000 GF in 2007-08 and \$2.5 million GF in 2008-09. This reduction assumes a June 1, 2008 implementation date.

Child Welfare Services/Foster Care/Adoptions

Foster care caseload is projected to be 72,274 in 2008-09, a reduction of 0.5 percent from the current year.

Across-the-Board Cut – The Administration proposes a reduction in the child welfare services allocation of 11.4 percent, or \$129.6 million (\$83.7 million GF) for 2008-09 as part of its deficit reduction package. This cut will impact all counties including the two Title IV-E Waiver counties. The reductions are derived from CWS basic and all premise items, with the exception of Adoptions, CWS/CMS, and OCAP. CDSS has indicated its intent to work with CWDA to develop an allocation methodology to reflect the change in budgeting for the program. Since the Adoptions program is spared from cuts, the budget proposal will result in reduction in services to ER, FM, FR, and PP functions.

Implementation of KinGAP Enhancements – The budget provides a current-year adjustment of \$12.7 million (\$4.7 million GF) in CWS and \$2.1 million GF in Foster Care Administration to reflect delayed state implementation and slower movement of foster care cases into the enhanced KinGAP program.

Child Welfare Improvements – The budget continues funding for CWS Outcome Improvement 11-county pilots, the CWS Outcome Improvement Project (CWS OIP) activities and the \$50 million General Fund augmentation from 2006-07.

Foster Care Rate Reductions – The budget proposes a 10 percent rate reduction for foster family homes and group homes, to take effect June 1, 2008, as part of the deficit reductions. This reduction impacts the basic rate, specialized care, clothing allowance, seriously emotionally disturbed children, KinGAP and AAP payments. The budget proposes a 5 percent rate reduction for foster family agencies.

Transitional Housing for Foster Youth – The budget maintains current-year funding and provides an additional \$5.2 million GF for 2008-09 to fund counties currently implementing THP Plus in the current year. This assumes no increases to the number of implementing counties or increases in number of beds. The Transitional Housing Program for youth still in care remains level-funded in the current and budget year. The budget year includes the same amounts as the revised current year and will be updated in the May Revise. The department indicates that it is the intent of the budget to fully fund all currently approved county THP Plus plans.

Title IV-E Waiver – The budget proposes a separate premise item and allocation for the two waiver counties (Los Angeles and Alameda) of \$1.2 billion (\$292.7 million), including the negotiated 2 percent growth in administrative costs. This new premise item includes all funding for these two counties that was previously contained in various individual premise items spread through the child welfare budget.

EA TANF – The proposes an increase of \$227,000 in EA TANF and \$4.7 million total funds in EA Title IV-E, which provides for caseload growth in the budget year.

Recent Legislative Mandates

- Disclosure of Sibling Contact Information (AB 2488) – The budget proposes to repeal AB 2488 (Leno, 2006) which lowers the age of consent to disclosure of contact information between adoptees and their siblings from 21 to 18 and related county activities to facilitate sibling contact. The 2007-08 budget had suspended implementation for one year. This will require statutory change. The proposal results in \$1.8 million (\$1 million GF) savings.
- Foster Youth Identity Theft Premise (AB 2985) – The budget proposes implementation of this law effective July 1, 2008. The 2007-08 budget had suspended implementation of the bill when it was scheduled to take effect on January 1, 2007. The budget would provide \$1.2 million (\$763,000 GF) to counties for activities related to prevention and resolution of foster youth identity theft.
- Resource Family Approval Pilot (AB 2161) – The budget provides \$1.1 million (\$478,000 GF) to implement this CWDA-sponsored legislation for a five-county pilot program effective July 1, 2008.
- SSI/SSP Applications (AB 1331) – The budget provides \$131,000 (\$85,000 GF) in Foster Care Administration and \$710,000 (\$259,000 GF) in CWS Administration for county social worker activities associated with screening older foster youth for likely SSI/SSP eligibility prior to emancipation, pursuant to best practice guidelines issued by the department.

Privatizing Independent Adoptions – The budget includes a proposal to privatize the Independent Adoptions program, which will primarily impact state adoption offices but will also impact three counties that operate this program (Alameda, Los Angeles and San Diego). The proposal would transfer the program to licensed private adoption agencies effective July 1, 2008 for a loss of \$839,000 GF for those three counties.

In-Home Supportive Services

The budget projects the monthly caseload to be 407,900 in 2008-09, an increase of 4.6 percent over the 2007-08 projected level. Total spending increases to \$4.6 billion (\$1.6 million GF). The budget notes that IHSS expenditures continue to grow at a rate that is much higher than caseload growth. Absent program reductions, IHSS expenditures are projected to increase by 194 percent between 1999-00 and 2008-09, and caseload costs are projected to increase 80.5 percent in the same period.

County Administration Cut and Delayed Reassessments – The budget proposes a 10 percent cut to IHSS administration services (\$28.7 million total funds, \$10.2 million GF) to reflect a change in the annual reassessment from 12 months to 18 months for PSCP and Residual clients (Waiver recipients are excluded). CDSS is working with DHCS to determine whether a Medicaid state plan amendment will be necessary.

Reduction in Service Hours – The budget proposes an across-the-board 18 percent reduction in domestic and related services as part of its deficit reduction strategy, to take effect July 1, 2008 for all clients in receipt of those services. These services include non-medical services such as meal preparation and clean-up, laundry, food shopping and errands. The reduction would be applied automatically through the CMIPS system and is estimated to impact 96 percent of IHSS recipients, for an average reduction of 6.6 hours per month per client. CDSS is working with DHCS to determine whether a Medicaid state plan amendment will be necessary.

Provider Wages and Benefits – The budget maintains state participation in wages and benefits up to \$12.10 per hour.

IHSS Quality Assurance – The budget maintains funding for county Quality Assurance activities at the existing level. The budget also eliminates any projected savings attributable to Quality Assurance activities, in recognition that expected savings have not materialized.

SSI/SSP

The budget suspends the June 2008 and June 2009 COLAs for SSI/SSP recipients, 3.7 percent and 4.25 percent respectively, for a cost savings of \$23.3 million in the budget year and \$300.3 million in 2008-09. However, the budget provides a pass-through of the federal COLA for January 2008 and January 2009. Grants to aged, blind and disabled individuals will increase from \$856 to \$870 per month in January 2008, and to \$881 in January 2009. Monthly payments to couples will increase from \$1,502 to \$1,524 in January 2008, and to \$1,540 by January 2009.

Cash Assistance Program for Immigrants (CAPI)

Total CAPI funding is \$134.1 million General Fund, an increase of \$24.9 million or 23 percent over the current year. This includes \$21.4 million for the base CAPI program and \$112.7 million for extended CAPI. The increase is due to an increase in the average grant and additional individuals becoming eligible for the program as their 10-year sponsor deeming periods expire.

Automation Projects

ISAWS Migration – The Governor proposes to save \$97.9 million (\$44 million GF) in 2008-09 by terminating the ISAWS Migration project, leaving the 35 ISAWS Counties with an antiquated system that does not fully support eligibility staff.

CalWIN – The budget adds nine of the eleven additional consortia staff requested, but eliminates Long-Term Travel county staff on loan to the consortia and denies funding for a web based version of CalWIN.

Equipment Replacement – Once again the proposed budget fails to include needed Personal Computers or Lap Tops to replace SAWS and CWS/CMS machines that are out of warranties.

Other Automation Projects – All other automation projects are funded sufficiently to proceed as planned.

Adult Protective Services

Total funding for APS services is \$113.2 million total funds (\$54.5 million General Fund), a cut of \$11.4 million from the current year. This reflects a 10 percent or \$6.1 million General Fund cut and the loss of \$5.3 million in associated federal Medicaid reimbursement funds. The budget maintains \$176,000 for the APS training curriculum development and implementation.

Community Care Licensing

In order to achieve a 10 percent reduction in licensing costs, the budget proposes to reduce annual random visits to licensed community care facilities from 30 percent to 14 percent. This would result in a \$637,000 reduction to local CCLD (\$341,000 GF) and a \$2.1 million reduction to state operations (\$2 million General Fund).

Medi-Cal Program and Administration

There is no change to the current-year funding for Medi-Cal eligibility operations.

Medi-Cal Eligibility Operations Cuts – For 2008-09, three cuts are proposed: elimination of caseload growth funding and the Cost-of-Doing-Business increase and a 2.5 percent reduction to the base. The budget estimates Medi-Cal eligibility for 2008-09 at \$1.2 billion (\$614 million General Fund). However, as always, this is a placeholder number that the department will revise based on its county survey results. The department then intends to reduce its revised number by 2.5 percent.

The estimated impact of these cuts is a \$142.2 million (\$71.1 million GF) reduction from what counties would otherwise receive in the budget year. Specifically, the cuts are estimated at:

- Elimination of CODB – \$44.8 million (\$22.4m GF).
- Elimination of caseload growth funding – \$66.8 million (\$33.4m GF)
- 2.5 percent base cut – \$30.6 million (\$15.3m GF)

Note that the Administration does not propose to change or eliminate the county performance standards that were enacted in 2003 as part of a package including full funding for county administration. It is our understanding that no changes have been made to the assumptions that fully funding county eligibility operations, coupled with performance standards, results in an estimated \$450 million (\$222.8 million GF) in Medi-Cal benefit savings.

Other County Administration Issues

- DRA Citizenship Requirements – The budget assumes that counties fully implemented the citizenship requirements as of August 2007. For 2008-09, the budget includes \$27.5 million (\$13.7 million GF) in ongoing administration costs for the requirement.
- Quarterly Status Reports – The Administration proposes to reinstate quarterly status reports for Medi-Cal beneficiaries. The budget assumes that the increased workload associated with these additional reports offsets the decreased workload due to discontinuances, for a net zero impact on the budget. This premise is expected to save \$17.2 million (\$8.6 million GF) due to reduced benefits.
- Elimination of Continuous Eligibility for Children – Children would be subject to the quarterly status reports, thus eliminating the program that grants them 12 month continuous eligibility. This is projected to save the state \$167 million (\$83.5 million GF) due to reduced benefits. It is assumed that discontinued children would be bridged to Healthy Families.
- Self-Certification Pilot – SB 437 (Escutia, Statutes of 2006) established a pilot program to be implemented in two counties by July 2007 to test the self-certification of assets and income by applicants and beneficiaries. The Governor suspended implementation of this pilot for 2007-08, citing fiscal concerns. The 2008-09 budget proposes to go forth with the pilots in Santa Clara and Orange counties, at a cost of \$1.74 million (\$870,000 GF).

- Health Care Proposal – The budget does not include any funding for changes associated with the currently pending health care proposal, ABX1 1 (Nunez). The health care reform proposal, if passed, would not be implemented until mid-2010 at the earliest.

Other Health Care Issues

- Provider Rate Reductions – The budget proposes a 10 percent reduction to most Medi-Cal provider rates in both fee-for-service and managed care, and a 5 percent reduction in Healthy Families rates. The Medi-Cal rate decrease also applies to the California Children’s Services (CCS) program and the Child Health and Disability Prevention Program (CHDP). Medi-Cal services that are exempt from the reductions include acute hospital inpatient services, hospice, Federally Qualified Health Centers and rural health clinics, and payments to long-term care facilities. In Medi-Cal, these reductions would save \$66.8 million total funds (\$33.4 million GF) in the current year and \$1.2 billion (\$602.4 million GF) in the budget year. The Healthy Families reductions would save \$40.7 million total funds (\$22.4 million GF) in the budget year.
- Cuts to Other County-Run Programs – Funding for case management in the CCS program is slated to be cut 10 percent or \$9 million (\$3.6 million GF). In addition, a 10 percent cut is proposed for county CHDP programs providing Early and Periodic Screening, Diagnosis and Treatment (EPSDT) case management services such as care coordination; approval, enrollment and oversight of providers; and outreach and education (\$3 million total, \$1 million GF).
- Discontinuance of Optional Benefits – The budget proposes to discontinue a number of optional benefits for adults, including chiropractic, acupuncture, incontinence creams and washes, dental, audiology, optometry, podiatry, psychology, and speech therapy. These changes are estimated to save \$20 million (\$10 million GF) in the current year and \$268 million (\$134 million GF) in the budget year.
- Discontinue Part B Premiums for Some Dual Eligibles – The budget would discontinue Medicare Part B premium payments for dual eligibles who do not meet their share of cost. Those that do meet the share of cost would continue to have their Part B premiums paid by the state. This proposal saves \$8.4 million (\$4.2 million GF) in the current year and \$100.2 million (\$50.1 million GF) in the budget year.
- Increase Healthy Families Premiums and Copayments – The budget would increase premiums for families over 150% of the Federal Poverty Limit by \$3 per child per month and increase co-payments for these same families from \$5 to \$7.50 per office visit for non-preventative services. Together, these two changes would cost low-income families \$14.5 million annually.