



CWDA

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To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

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**RE: Budget Update #5 – LAO Releases *Analysis of the 2008-09 Budget Bill***

The California Legislative Analyst's Office (LAO) released its Analysis of the 2008-09 Budget Bill and the 2008-09 Budget Perspectives and Issues today. Below is a summary of major findings and recommendations in these reports. Complete reports can be found online at the LAO's website, [www.lao.ca.gov](http://www.lao.ca.gov).

**Overall Budget Picture**

The LAO estimates a revised combined current and budget year deficit of \$16 billion, up \$1.5 billion from the January Budget. The increased deficit is due to lower projected revenues in personal income taxes, corporate taxes, and sales taxes and, to a lesser extent, lower projected tribal gaming compacts.

The LAO states that the Governor's across-the-board reduction proposal fails to set budget priorities and that the January Budget unnecessarily limits the range of budget solutions by focusing almost entirely on reductions in spending.

Absent further corrective actions, the LAO projects the state will continue to face a structural deficit of \$4 billion in 2009-10, and \$2-3 billion in 2010-11 and 2011-12. In response, the LAO proposes an alternative budget that would result in a projected \$1.3 billion reserve in the budget year and would address the ongoing structural deficit. The LAO's budget alternative includes the following major proposals:

- Issue the remaining \$3.3 billion in Economic Recovery Bonds. This was included in the mid-year cut package adopted by the Legislature last week.
- Suspend the Budget Stabilization Account transfer for savings of \$1.55 billion.
- Reduce the Dependent Care tax Credit for savings of \$1.33 billion.
- Limit the Research and Development tax credit for savings of \$335 million.
- Limit the Net Operating Loss Carry forwards for savings of \$330 million.
- Various other revenue changes including phasing out enterprise zone programs, eliminating the senior tax credit, eliminating diesel fuel exemptions, and closing the yacht sales tax loophole, among other things.

- Reduce Proposition 98 in the current year to the minimum required for savings of \$950 million.
- Freeze Proposition 98 in the budget year at the revised current year level for savings of \$2.769 billion.
- Suspend the Quality Education Investment Act (class-size reduction) in the budget year for savings of \$450 million.
- Transfer \$409 million from the Public Transportation Account to pay current year Home-to-School transportation costs.
- Reject current year correctional officers pay raise for savings of \$521 million.
- Delete SSI/SSP state COLA in 2008 and 2009 for savings of \$23.3 million in the current year and \$305.6 million in the budget year.
- Reduce, shift, or eliminate public safety local assistance funding for savings of \$278 million.
- Change a number of lower-level drug and property crimes from wobblers to misdemeanors for savings of \$250 million.
- Eliminate funding for wildland fire costs and fund through a fire protection fee for GF savings of \$239 million.
- Institute cost containment for regional centers for savings of \$229 million.
- Increase university student fees by 10 percent for GF savings of \$215 million.
- Fund UC and CSU nondiscretionary cost increases and not their compact 5 percent base increase for savings of \$207 million.
- Realign the responsibility for lower-level criminal offenders from the state parole system to county probation. This would realign nearly \$500 million to counties with funding coming from a reallocation of waste and water district property taxes, city Proposition 172 sales taxes, and vehicle license fees.

In addition to the above proposals, the LAO's major findings and recommendations of the 2008-09 January budget are summarized below.

### **CalWORKs**

CalWORKs COLA. The LAO estimates that an additional \$31 million is needed to fund the COLA effective July 1, 2008 for a revised total cost of \$162 million. The 5.26 percent COLA would increase the maximum grant to \$725 per month in low-cost counties and \$761 per month in high-cost counties. Last week's Legislative action on mid-year cuts included a suspension of the implementation of the COLA to October 1, 2008.

Work Participation Rate. The LAO estimates that the WPR under current law would result in a 19 percent gap between the effective 31 percent work participation rate (21.2 percent WPR plus 9.8 percent caseload reduction credit) and the 50 percent federal requirement for Fiscal year 2007. The LAO projects the gap to decrease to 7 percent in FFY 2008 and 3.9 percent in FFY 2009 absent further changes to the CalWORKs program. The LAO proposes alternative policy changes to the Administration that would result in meeting the WPR beginning in FFY 2009.

Proposed Policy Changes. The LAO indicates that the Administration's CalWORKs policy proposals would likely result in meeting the WPR beginning in FFY 2009 but would also result in a shortfall of the state's required federal maintenance-of-effort (MOE) beginning in FFY 2008. The MOE shortfall is due to the final TANF rule which limits MOE for purposes three and four to needy families. There is ongoing debate about the legality of this rule. The LAO suggests that the MOE shortfall could be addressed by rejecting some or all of

the Administration's savings proposals, identifying alternative sources of countable MOE, or shifting TANF funds.

- Graduated Full-Family Sanction. The LAO concurs with the Administration's assumptions about the behavioral impacts of instituting graduated full-family sanctions but also notes that there have not been any rigorous studies comparing sanction policies. The LAO indicates that, although the proposal could increase the WPR by 5.7 percent when fully implemented in 2010, it could also result in hardship to children whose parents cannot or will not comply. Finally, the LAO states that the proposal could be implemented in several counties as a pilot.
- Eliminate Safety Net Benefits for Timed-Out Families. The January Budget assumed savings of \$18 million in the current year and \$259 million in the budget year due to eliminating safety net benefits for families not meeting the WPR. Further, the January Budget assumes a resulting increase in the WPR of 1.6 percent in FFY 2008 and 5 percent in FFY 2009. The LAO considers the savings and WPR assumptions reasonable.
- Child-only Time Limit. The LAO does not include a recommendation on the January Budget proposal to limit assistance to five year for most child-only cases as it would not have an impact on the WPR.
- Work Incentive Nutritional Supplement (WINS). The LAO recommends the adoption of this proposal, which would provide a \$40 per month nutritional supplement to working families not on CalWORKs but working sufficient hours to meet the WPR.

LAO Alternatives to the Administration's Policy Proposals. As an alternative to the Administration's policy changes, the LAO recommends adopting the following proposals. Doing so would result in meeting the required WPR beginning in FFY 2009 and would avoid a shortfall with the state's required MOE.

- Work Incentive Nutritional Supplement (WINS). The LAO estimates that this proposal would result in a 10 percent increase in the WPR upon full implementation.
- Pre-Assistance Employment Readiness Systems (PAERS). The LAO proposes a four-month up-front program for entering CalWORKs recipients to "more directly focus clients on quickly obtaining employment or establishing a self-sufficiency plan." As soon as families obtain employment, they would be transferred to the CalWORKs program where they would be counted towards the WPR. Families unable to find employment would be required to sign a welfare-to-work plan or establish good cause for nonparticipation as a condition of eligibility to enter CalWORKs. Those not meeting this new condition of CalWORKs eligibility would have their aid terminated. Upon signing the welfare-to-work plan or obtaining employment, eligibility would be re-established and they would enter CalWORKs. Unlike the existing CalWORKs program, there would be no sanction or conciliation process in PAERS. The LAO estimates the proposal to increase the WPR by 1.9 percent when fully implemented and result in savings of \$10 million annually.

- Community Service Requirement After Five Years of Assistance. The LAO proposes requiring each safety net adult to either work 20 hours per week in unsubsidized employment, participate sufficient hours to meet the WPR, or accept subsidized employment or community service for 20 hours per week. Adults who refused to comply would have their families removed from aid following a required home visit. After three months of community service or subsidized employment, each client would be placed in a job club program for one month. Those unable to find employment would return to community service or subsidized employment and repeat the cycle. If, after one year, the adult is unable to find employment, the county would have the option to exempt them from community service while continuing aid to the children. The LAO estimates a 2.9 percent increase to the WPR from the proposal upon full implementation.

### **Child Welfare Services**

CWS Allocation. The LAO recommends rejecting the \$83.7 million cut to CWS due to the negative impact on social worker caseloads that would result in increased risks to children, decreased family reunification, increases to the number of children placed in foster care, and reduced services to emancipated foster youth. The LAO indicates that, in the current year, 10 counties representing 2 percent of statewide cases are at or above the minimum caseload standards and that 24 counties representing 48 percent of the statewide caseload are at least 20 percent below the SB 2030 recommended minimum standards. Under the January Budget, however, the LAO estimates that 38 counties representing 90 percent of the statewide caseload would be at least 20 percent below the SB 2030 caseload standards. At this point, we have not yet seen the methodology used by the LAO to determine how far counties are from meeting the SB 2030 minimum standards.

Instead of the across-the-board reduction, the LAO presents the following three alternatives:

- Suspending the hold harmless for one year for savings of \$17.6 million (\$6 million GF) by reducing funding to the 29 counties with declining caseloads.
- Capping social worker costs at \$155,000 in counties with higher than average fully loaded costs for savings of \$5.1 million GF. The LAO derived the cap by applying the annual California Consumer Price Index to the statewide average fully loaded cost of \$129,074 which has been frozen since 2001-02.
- Combining the above proposals with a 3 percent across-the-board reduction for estimated GF savings of \$33.1 million.

Foster Care Rates. The LAO states the impact of the proposed foster care rate reductions is difficult to measure but notes the potential negative impacts of a decrease in the supply of care providers for both foster care and permanent placements and potential increased costs in foster care due to higher level placements and in child welfare and Medi-Cal due to cases that remain open and cannot move to permanency.

The LAO offers two alternatives -- the first would rescind the recent 5 percent rate increase for FFH, GH, KinGAP and new AAP recipients beginning July 1, 2008 and also reduce the FFA rate by 5 percent to maintain the differential established by the Legislature when it approved the rate increases last year. The LAO notes that "care providers would be no

worse off financially than they were one year ago.” A second alternative would cap the Specialized Rate Increment to \$1,000 per child per month, which according to the LAO would impact seven counties representing 20 percent of the caseload, for a savings of \$1 million General Fund in 2008-09.

### **Community Care Licensing (CCL)**

CCL Inspections – The LAO notes the Administration’s proposal to reduce random visits from 30 percent to 14 percent of facilities would result in non-compliance with existing statute which requires that CCL visit every facility at least once every five years. The LAO provides two alternatives – accept the Administration’s proposed reduction but change current law to reflect the Administration’s proposal by requiring a facility to be visited at least once every seven years, or to raise the random inspection level from 14 percent to 20 percent and to provide adequate funding to meet this level and still comply with existing statute. The projected savings from this latter proposal would decrease General Fund savings from \$2.3 million to \$1.4 million.

### **Child Care – Stage 2 and 3**

The LAO notes the Administration’s proposed \$199 million reduction in CDE-funded child care programs are unlikely to cause children to lose child care due to the high amount of carryover in funds from year to year that can be applied to the next budget year. According to the LAO, the Administration’s proposal reduces the number of *funded* slots, but not the number of *used* slots. The LAO takes issue with the budgeting methodology for CDE-funded programs and suggests the Legislature convene a special hearing to address annual carryover in the program that is estimated at \$200 million per year, equivalent to 22,000 child care slots in non-CalWORKs programs, and to identify potential solutions. The LAO proposes an alternative budget methodology to align funding with services provided to families, but provides no COLA funding to CDE-funded programs. Thus, the proposal achieves the same total funding as proposed by the Administration, and for an estimated savings of \$44 million General Fund from the current year.

### **In-Home Supportive Services (IHSS)**

Reduce Administration by 10 percent. The Administration proposes to reduce county administrative funding by 10 percent or about \$10 million General Fund, achieved through workload relief by extending the IHSS reassessment interval from 12 months to 18 months. The LAO believes this savings may be overstated, and questions the Administration’s assertion this will lead to an equivalent reduction in county workload. The LAO notes that the proposal does not change an individual’s right to request a reassessment at any time, and does not account for potentially increased requests for reassessments as the recipient’s condition changes.

IHSS – 18 Percent Reduction in Hours. The LAO takes issue with the Administration’s proposed cut to domestic and related services and offers an alternative to this approach. The LAO identifies several factors not included in the Administration’s analysis that are likely to reduce the amount of expected savings, including unknown and potential new costs to reprogram CMIPS, administrative costs associated with an increase in the number of recipient requests for a reassessment or appeals for supplemental hours, and the possibility that social workers may inflate assessed hours in either domestic or non-domestic categories of care to make up for the lost hours and thus avoid requests for reassessments (since these hours can be reallocated between categories by the recipients). The LAO also indicates that a Medi-Cal state plan amendment may be

necessary for both proposals and may also reduce likely savings if not received by July 1, 2008.

As an alternative, the LAO suggests capping hours for certain domestic-related IHSS services, but the LAO does not propose which services to cap. Under current law, certain domestic-related services are already capped but exceptions are allowed based on the needs of the recipient. The LAO proposes to reduce the existing caps and eliminate the option for exceptions. The LAO also suggests factoring in the living situation of the IHSS recipient and providing fewer hours for domestic-related services where the recipient lives with a relative who presumably would be performing domestic tasks regardless of whether the client were in the home (i.e. shopping). The likely savings to be achieved from the proposal would depend on the services to be capped and the number of hours they are capped at.

IHSS Wages. The LAO analysis includes an overview of IHSS wages and recommends the Legislature consider implementing a tiered wage structure in IHSS in order to improve the IHSS labor force and increase quality of IHSS services while achieving some state savings. Overall, the LAO suggests reducing state participation in wages for certain providers but does not propose changes to county participation in wages. The LAO offers four approaches to tiered wages:

- Higher State Participation in Wages for Experienced Providers. Providers with at least six months of experience would receive a higher wage, while workers with less than six months would be eligible for a “training wage” at a reduced level of state participation in that wage. This would result in savings to the state, and potential savings or costs to the county depending on county collective bargaining agreements at these different wage levels.
- Higher Participation for Trained Workers. IHSS providers who complete certain training requirements would receive a higher wage, with state participation available in that higher wage.
- Blending Training and Experience Rules. This option allows the IHSS provider to either complete training or have six months of experience to qualify for a higher wage.
- Higher State Participation for Providers Completing a Criminal Background Check. Providers would have the option of undergoing a criminal background check through the Department of Justice (DOJ) with results provided to the recipient and county. The state would participate in a higher wage level for those recipients who undergo the background check, except for those who have been convicted in the last 10 years of Medi-Cal fraud, elder abuse or child abuse. The extent of state savings would depend on the number of providers who either fail or chose not to undergo the criminal background check process.

Due to limitations in the current CMIPS system, the LAO suggests delaying these changes until 2011 when CMIPS II will be able to automate multiple wages per county. The likely savings to be achieved would vary depending in the approaches selected. The LAO estimates a \$6.7 million General Fund Savings could be achieved if all of the options listed above were implemented, assuming state participation in wages was reduced by \$0.50 per hour.

## **Medi-Cal**

County Administration. The LAO argues that the savings linked to reducing county administration may erode due to impeding the ability of counties to absorb the increased workload resulting from reinstating quarterly reporting. Due to the reduced funding, counties may prioritize the processing of new Medi-Cal applications causing delays in redeterminations.

Reinstate Quarterly Reporting and Continuous Eligibility for Children. The LAO questions the savings assumptions of reinstating quarterly reporting and eliminating continuous eligibility for children, indicating that some of those disenrolled due to not submitting the quarterly report would be eligible for reenrollment when health care services are needed. As such, the LAO states that the extent to which the caseload would decline and savings would occur is uncertain.

Caseload Projections. The LAO states that the January Budget projection of a 1.1 percent decrease in caseload (1.4 percent natural caseload growth minus 2.5 percent caseload decline due to January budget proposals) is reasonable; however the analyst cites the inclusion of the self-certification pilot as inconsistent with the proposals to reduce caseload and, therefore, recommends delaying implementation for budget year savings of \$26 million. In addition, the LAO cautions that the caseload could be significantly impacted by the state economy to the extent that the “economic sluggishness” continues leading to further unemployment.

Pay-for-Performance. The LAO recommends implementing a Medi-Cal pay-for-performance program for providers to reduce Medi-Cal costs and improve patient care. The program would provide incentives for providers to target specific goals including improving patient outcomes, improving access and quality of care, and lowering costs.

Provider Rate Reductions. The LAO states that the provider rate reduction savings are overstated as they would reduce access to primary care and may cause a shift to more expensive care. The LAO recommends rejecting the provider rate reductions for all providers except hospitals. For hospitals, the LAO recommends approving the rate reduction as well as the proposed shift of federal hospital payments to other programs for total savings of \$179 million in the budget year.

## **Automation**

Child Welfare Services/Case Management System (CWS/CMS) Replacement System. The LAO recommends terminating the project to replace the CWS/CMS system. Instead they recommend incrementally updating the current CWS/CMS system to fulfill SACWIS requirements and meet county needs.

### Statewide Automated Welfare System (SAWS).

The LAO took no issue with the Administration’s proposal to terminate the ISAWS Migration Project. In addition, they recommend establishing a goal of two SAWS systems.

## **SSI/SSP COLA**

The LAO indicates that the COLA is projected to be 5.26 percent, higher than the Administration’s 4.25 percent estimate, increasing the savings due to suspending the

COLA by \$5.3 million for total savings of \$23.3 million in the current year and \$305.6 million in the budget year. The LAO proposes to delete rather than suspend the statutory requirement to provide a State COLA in June 2008 and June 2009, but retain the federal pass through of the COLAs, noting that individuals and couples will remain above the federal poverty guideline even with these changes. Further, the LAO recommends reducing grant amounts for couples receiving SSI/SSP to equal 125 percent of the federal poverty guidelines, or \$66 per month per couple, for an additional savings of \$89.5 million GF. This change would only impact the SSP portion of the grant as the federal COLA would continue to be passed through.