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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 #7 – Governor Releases May Revision

Governor Schwarzenegger released his 2008-09 May Revision budget package at a press conference this afternoon. The overall budget projects $101.2 billion in General Fund revenues in 2007-08 and $103.0 billion in 2008-09, for a revised deficit of $15.2 billion (excluding a proposed $2 billion reserve). The revised deficit is after the impact of the mid-year actions approved in the Legislative Special Session and is primarily a result of the worsening revenue estimates ($6 billion lower than the January budget) and a $1.5 billion increase to the Proposition 98 COLA.

The May Revision proposes $8.1 billion in revenue solutions and $9.1 billion in cuts to close the deficit and build a $2 billion reserve. Significant deficit reduction proposals include deep cuts to health and human services, special fund borrowing of $574 million, an $828 million cut to public transit, and funding the pending correctional officers contract out of the reserve and not the budget which has the impact of not counting $421 million towards the deficit.

Other changes to the January budget include an increase in Proposition 98 of $1.8 billion ($1.5 billion K-12, $300 million Community Colleges), rescinding the early release of 22,000 prisoners due to corrections spending coming in lower than anticipated, and substituting the closure of 48 parks with parks fee increases of $1.5 million. The increase to Proposition 98 would fund schools at the revised minimum guarantee, excluding the COLA, for an increase of $193 million over the current year. With the increased funds, schools would receive $4 billion less than they would have otherwise received based on the January "workload" budget.

In addition, the Governor is proposing to securitize future state lottery revenues to generate an estimated $15 billion over three years ($5.122 billion in the budget year). Securitizing the lottery would require statewide approval of a legislative initiative to be placed on the November ballot and, to the extent it fails or if revenues come in lower than anticipated, a temporary one percent statewide sales tax would be imposed. The sales tax would remain in effect until the General Fund reserve equaled 15 percent of statewide tax revenues or June 30, 2011, whichever comes first.

Unless otherwise noted, all proposals from the January budget remain in the May Revision.

Major changes in the health and human services budgets are detailed below.

In-Home Supportive Services
The May Revision assumes a 4.8 percent caseload increase to 415,589 cases and includes the following proposals (all proposals take effect October 1, 2008 unless otherwise noted):

Domestic and Related Services – The January proposal to reduce domestic and related service hours by 18 percent is rescinded in the May Revise, due to concerns about its workability and the likelihood that savings would erode over time. This has been replaced with a new proposal to eliminate domestic and related services for IHSS consumers with functional index rankings under 4 (consumers with a functional index score of 1 would not be impacted as they do not currently receive these services). This is estimated to impact 83,000 consumers who would lose an average of 21.6 hours per month. This proposal would save $159.5 million ($52 million GF) in 2008-09.

There are some minor costs assumed for county administration based on the following assumptions of the likelihood of appeals by clients in their functional index ranking score:

- 20 percent of clients (16,600) would appeal their functional index score; 30 minutes of county staff time is assumed to handle these appeal requests.
- 25 percent of those appealing (4,150) are assumed to go to fair hearing and are expected to prevail; 1 hour of county staff time is assumed for those cases.

Share of Cost Buy-Out – The state share-of-cost buyout, whereby the state pays the difference between the Medi-Cal share-of-cost and the IHSS share-of-cost for PCSP and Waiver cases, would be eliminated for IHSS consumers with a functional index score below 4 for savings of $27.7 million GF in 2008-09.

IHSS County Administration – There is no change from the January Budget proposal, thus continuing the proposed 10% cut to IHSS County Administration. However, the anticipated savings are adjusted to $21.9 million ($7.8 million GF) to reflect delayed implementation to October 1, 2008.

Provider Wages and Benefits – The May Revision rolls back the state's participation in wages and benefits to the state minimum wage (currently $8.00 per hour) plus 60 cents for health benefits. Under current law the state participates in wages up to $11.50 per hour plus 60 cents for health benefits. There is no proposed change to the statutory collective bargaining mandate. This is projected to save $187 million GF in 2008-09.

IHSS Quality Assurance – The May Revision proposes to make permanent the State Quality Assurance staff positions and rescinds the previous proposal to delete state QA activities from statute. These positions had been proposed for deletion in the Governor's January Budget. County funding for quality assurance staff and activities remain unchanged.

CalWORKs
Revised average monthly caseload estimates for the program are 460,119 cases in 2007-08 and 386,871 cases in 2008-09. The 2008-09 estimate reflects a projected decrease of 73,248 cases, or 16 percent, due to the proposed policy changes.

The May Revision proposes a net budget-year reduction of $647.5 million for CalWORKs grants, primarily due to the policy changes described below.

CalWORKs Grants – The May Revision rescinds the Governor's Budget proposal to apply a 4.25 percent statutory cost-of-living adjustment for CalWORKs recipients. In addition, the May

Revision reflects a 5 percent reduction in the Maximum Aid Payment, effective October 1, 2008, for savings of $106.8 million.

CalWORKs Governor's Budget Proposed Policy Changes – The May Revision retains all of the January policy proposals for the CalWORKs program, adjusted to reflect a revised implementation date of October 2008. 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. The budget assumes a net cost increase of $18.6 million 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 $185.6 million.

- Impose a 60-month time limit for certain child-only cases (children of undocumented parents, drug felons or fleeing felons) for assumed savings of $176.9 million. This proposal would have no impact on work participation rates as these cases are not currently counted in the calculation.

CalWORKs Self Sufficiency Review – The May Revision proposes a face-to-face "Self Sufficiency Review" every six months with a county Welfare-to-Work worker for all CalWORKs families who are not meeting federal work participation requirements. Child-only cases would be included in these reviews, though non-needy caretaker relatives of foster children would not be included. The May Revision reflects $69.6 million grant savings and $8.2 million administration costs for this proposal. Failure to comply would be treated as non-compliance with an eligibility requirement and would result in being cut off aid.

CalWORKs Pre-Assistance Employment Readiness Program (PAERS) – The May Revision includes the LAO proposal to establish a program where families meeting current eligibility requirements would be placed in a pre-assistance program for up to 120 days upon entering aid. The goal of PAERS is to help recipients either become employed or to sign a welfare–to–work plan. Families would only be allowed to continue receiving aid and enter the CalWORKs program if they become employed for sufficient hours to meet federal work participation requirements, or sign the welfare–to–work plan, unless they can establish that they are exempt or have good cause under current law for nonparticipation. Failure to meet at least one of these requirements would mean that the family does not enter CalWORKs. The May Revision reflects no net cost increase for this proposal, as the $4.8 million grant and eligibility savings would be offset by an equal amount of employment services and child care costs.

Work Incentive Nutritional Supplement (WINS, aka Food Stamps Move-In) – The May Revision maintains the January proposal for 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 for 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 May Revision proposes to eliminate the entire $40 million in budget-year funding for CalWORKs Pay for Performance. Current-year funding for Pay for Performance was eliminated by the Legislature in the February Special Session.

County Incentives Sweep – The May Revision reflects a $20.6 million reduction in Single Allocation funding, to reflect a proposed sweep of $20.6 million in unspent fraud and performance incentive funding.

Boys and Girls Club – The May Revision includes $5 million TANF for the Boys and Girls Club to fund TANF-eligible programs. In exchange, the Boys and Girls Club will report an estimated $88 million in expenditures that can be counted as excess MOE toward helping the state receive caseload reduction credit for FFY 2009.

TANF Reserve – The May Revision would reduce the TANF reserve to $0 by placing the balance in the General Fund.

TANF Transfers – In response to federal TANF regulations issued in February 2008 that disqualified $421 million in General Fund expenditures from counting toward the state's Maintenance of Effort (MOE) requirements, the May Revision reflects a number of TANF transfers that would allow the state to meet its MOE requirement without spending additional General Fund. The TANF transfers include: $223 million for CalGrants, $151.8 million for Probation, $50.4 million for Emergency Assistance Foster Care, and $22.2 million in Title XX transfers to the Department of Developmental Services. These transfers are accounting swaps that would have no effect on the funding for each of the programs.

Child Care

Stage 1 – The May Revision proposes total funding of $661.9 million, a $114.6 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 adjustments in the Regional Market Rate as noted below.

Regional Market Rate – The May Revision reflects implementation of the new Regional Market Rates effective January 2009. However, these rates are proposed to be reduced from the 85th percentile to the 75th percentile, effective January 2009.

Reserve – The TANF child care reserve for 2008-09 is $29.7 million. This amount reflects only the Stage 1 holdback, as the Stage 2 holdback is funded with Proposition 98 General Fund.

Food Stamps

The May Revision continues the January budget proposal to cut county administration by 4 percent ($34.9 million, $14.4 million GF) and is seeking to waive the face-to-face interview for cases where the single head of household is working at least 30 hours per week, and for cases where couples are both working at least 20 hours per week. The Administration is proposing the waiver as a workload relief measure that would streamline the application process. The proposal is estimated to lead to an increase in caseload of 13,000 cases and includes funding of $1.5 million ($800k GF) in food stamps administration and $200k in CFAP to manage the increased caseload.

Child Welfare Services

The budget continues the proposed $129.6 million ($83.7 million) reduction to CWS and proposes the following changes:

Federal Penalty – The May Revision includes $9.4 million ($8.9 million penalty, $.5 million accrued interest) to pay the federal penalty due to the state failing to meet the permanency outcome measure identified in the recent Children and Family Services Review. The state is appealing the penalty but is paying the penalty now to avoid further interest costs.

Enhanced KinGAP Savings – Due to delayed implementation of the Enhanced KinGAP program, the May Revision reduces the CWS savings by $2 million ($.7 million GF) in the current year and $3.4 million ($1.2 million GF) in the budget year. The savings related to Foster Care Administration are also revised by $.4 million ($.1 million GF) in the current year and $.5 million ($.2 million GF) in the budget year.

SSI/SSP

The May Revision proposes no pass-through of the federal COLA of 2.7 percent, which had been scheduled for January 1, 2009, and instead would divert the federal funds to the General Fund for savings of $108.8 million in 2008-09. In addition, the May Revise proposes to eliminate both the October 1, 2008 and June 2009 State COLAs, estimated at 3.70 percent for 2008 and 5.26 percent for 2009, for a savings of $235.4 million GF. The Administration had previously proposed elimination of the State COLA in its January budget. As part of the mid-year budget actions, the State COLA was scheduled to take effect on October 1, 2008. If these proposals are enacted, monthly grants will remain at $870 for individuals and $1,524 for couples.

CAPI

The CAPI program would be eliminated effective August 1, 2008, for savings of $111.2 million GF in 2008-09. This proposal would eliminate benefits for 11,093 aged, blind, and disabled immigrants.

CFAP

The May Revision continues the January budget proposal to reduce benefits by 10 percent but delays the implementation date to October 2008 for revised benefit savings of $2.1 million GF. The proposal would reduce the average benefit from $92 to $82 per person. The May Revision also includes $.3 million in county administration costs until consortia can automate the reduction.

Medi-Cal Eligibility

The May Revision proposes $1.27 billion ($634 million General Fund) for base county eligibility operations, an increase of $41 million over the current year. The 10 percent cut proposed in January is still on the table. The numbers have been adjusted to reflect a higher California Necessities Index, thus a higher proposed savings due to suspending the annual cost-of-doing-business increase. Based on these adjustments and caseload changes, the 10 percent cut now equates to $152.5 million total funds ($76.2 million General Fund) from the following areas:

- Eliminate caseload growth funding: $41.3 million ($20.6 million GF)
- Eliminate cost-of-doing-business increase: $64.6 million ($32.3 million GF)
- Base cut to make up the full 10 percent: $46.6 million ($23.2 million GF)

Program Eligibility Reductions – The May Revise proposes several changes in Medi-Cal eligibility rules. These include:

- *Quarterly Status Reports* – The proposal to institute QSRs for both parents and children remains on the table but has been adjusted to reflect a longer timeframe for implementation, reducing savings in the budget year. Updated estimates indicate that the QSRs would result in lost benefits for 129,000 adults and 471,500 children.

- *1931(b) Program* – Eligibility for parents in 1931(b) would be reduced to 61 percent of the Federal Poverty Level and the 100 hour rule would be reinstated. This would be phased-in with new applicants, not applied to current recipients. The budget estimates that this will result in 433,500 adults losing eligibility, phased in over a 33-month period. When fully implemented this change would save the state $736 million ($268 million GF).
- *Undocumented Immigrants* – Undocumented immigrants receiving limited-scope benefits would have to reapply on a monthly basis. The savings are in emergency services, as the monthly requirement would not apply to pregnancy, pre-natal, long-term care or breast and cervical cancer services. The average monthly caseload for undocumented immigrants is expected to decrease by 11,400 in 2008-09 as a result of this change, with $84 million in savings ($42 million GF).
- *Newly Qualified Immigrants* – Benefits for newly qualified immigrants (those who have been in the United State for less than five years and are subject to the five-year bar on benefits) and PRUCOLs would be reduced from full-scope to limited-scope and the same monthly re-application requirements would apply. Estimated General Fund savings due to this proposal total $86.6 million in 2008-09.

Note that there are no premise items for increased administrative workload associated with the eligibility changes, and the department indicates that it assumes that caseload decreases will offset increased workload.

<u>Other Medi-Cal Changes</u>

- *MEDS Security Alerts* – The May Revision includes $25.2 million in one-time funds and $7.2 million in ongoing funds for activities required to implement the security measures required pursuant to the state's MEDS Data Privacy and Security Agreement with the Social Security Administration. The budget indicates that the one-time funds are for activities such as the purchase and installation of equipment, while the ongoing funds are for system maintenance and operations.
- *Deficit Reduction Act* – The budget contains $27.5 million ($13.7 million GF) for activities associated with the implementation of the citizenship and identity documentation requirements in the federal Deficit Reduction Act of 2005. This is no change from the January budget.
- *Self-Certification Pilot* – The SB 437 self-certification of assets pilot project for Orange and Santa Clara counties is proposed to be suspended for two additional years (2008-09 and 2009-10).

<u>Human Services Funding Deficit (formerly known as Cost-of-Doing-Business)</u>

The 2008-09 county survey to estimate the gap between the proposed funding levels and the actual costs for county human services programs indicates a funding deficit of $971.3 million (Fed/State) or $633 million GF. The amount is a $183 million GF increase over last year's estimate, which reflects increased costs and the impact of program premise items that were excluded from the 2007-08 estimates. In addition to the programs included in last year's survey, the Administration is now also estimating the funding deficit to the Adoptions program. The deficit includes the following amounts:

- ***Child Welfare Services*** -- $616.0 million ($325.3 million Federal, $290.6 million GF)
- ***CalWORKs*** -- $250.6 million ($250.6 million GF)
- ***Food Stamps Administration*** -- $83.9 million ($49.9 million Federal, $33.9 million GF)
- ***Foster Care Administration*** -- $12.5 million ($4.3 million Federal, $8.2 million GF)
- ***In-Home Supportive Services*** -- $78.2 million ($45.6 million Federal, $32.6 million GF)
- ***Adoptions*** -- $22.1 million ($5.3 million Federal, $16.8 million GF)

Realignment

The May Revise projects Realignment sales tax receipts will underfund the base by $38.5 million in the current year, including $21.8 million in the social services account. At the same time, the May Revise projects Realignment vehicle license fee (VLF) growth of $47.2 million, including $3.1 million to the social services account. Projected sales tax receipts for the 2008-09 Realignment fiscal year (August 15 to July 15) include $91.5 million in growth. VLF growth for 2008-09 is projected to be $45.3 million. Counties are already due $74 million in social services caseload growth from last year due to lagging sales tax receipts and are estimated to need $100 million more to fund current year social services caseload growth. The Administration has indicated interest in legislation to restore the Realignment base next year.