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CWDA

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To: All County Social Service Directors and Fiscal Officers
 From: CWDA Staff
 Pages: 9
RE: State Budget Update #2 – Governor’s 2011-12 May Revision

Governor Brown released his May Revision to the 2011-12 budget late this morning. This update provides a high-level summary of the major health and human services proposals based largely upon the Governor’s May Revision Summary. We will continue to provide you more details on the 2011-12 May Revision as they become available.

OVERALL BUDGET PICTURE

The May Revision to the budget projects a reduced, although still significant, deficit of \$9.6 billion, comprised of a current year (2010-11) shortfall of \$4.8 billion and a budget year (2011-12) shortfall of \$4.8 billion. As you recall, the Governor’s January budget projected a total General Fund (GF) deficit of \$25.4 billion, which grew to \$26.6 billion in February when the Governor cancelled the sale of state buildings that had been set in motion in 2009. The reduction in the deficit between January and May is due to the following factors, which largely include budget solutions enacted by the Legislature in March and increased revenues (\$ in billions):

<i>Budget Gap in January/February</i>	<i>-\$26.6</i>
Solutions Already Enacted	\$11.0
Revenue Increases	\$6.6
Spending Increases	-\$2.0
Proposition 10 Litigation	-\$1.0
Additional Solutions Adopted by the Legislature in Pending Legislation	\$2.4
New Budget Gap	-\$9.6

The Governor is also proposing a General Fund reserve of \$1.2 billion, bringing the total amount of May Revision solutions needed to balance the budget to \$10.8 billion.

“ALL CUTS” BUDGET OPTION

The May Revision summary document laid out a broad picture of what an “all cuts” budget would look like without providing extensive detail. Major impacts identified were in the areas of Health and Human Services (HHS), Education, and Public Safety. In HHS, the Governor suggests that

an “all-cuts” budget would require further reductions in CalWORKs grants, elimination of domestic and related services for many IHSS recipients, increasing the costs of AIDS drugs, capping Medi-Cal coverage for prescriptions and other medical supplies, making deeper reductions to developmental services, and eliminating Adult Protective Services. The summary document notes that there would no longer be a dedicated funding stream for the Governor’s proposed realignment of HHS programs. Based on prior statements of the Administration, in the absence of the dedicated state revenues, the further realignment of HHS programs would be off the table; however, the summary document is not specific in this regard.

REALIGNMENT

The Governor’s May Revision continues to propose the significant realignment of public safety programs between the state and counties, with some additional revisions. The definition of “public safety programs” continues to include Child Welfare Services, Foster Care, Adult Protective Services, mental health services, and substance abuse treatment. The revisions to the realignment proposal on the HHS side include the following:

- AB 3636 (SED) mental health and residential placement services would be removed from the realignment proposal completely and instead be realigned to schools. See the description of this new proposal in the Child Welfare Services and Foster Care section of this Budget Update below.
- Independent Adoptions would be removed from the CWS portion of the realignment proposal and the activities would remain state functions. The California Department of Social Services (CDSS) would then contract with the three counties (Los Angeles, San Diego, and Alameda) that currently perform the activities associated with Independent Adoptions and would continue to do the work associated with Independent Adoptions for the remaining 55 counties.
- Agency Adoptions would be fully realigned to counties. Currently, 28 counties perform the work associated with Agency Adoptions, with CDSS doing the work for the remaining counties. The May Revision realignment proposal would include an additional \$6 million that had been state operations costs in the funding to be realigned to counties. The 30 counties that currently have CDSS performing Agency Adoption workload for them can either contract back with CDSS to continue to do the work, perform the work themselves, or join with other counties to perform the work.
- The \$911,000 in funding for Foster Care and CWS work for all tribal-state agreements that was originally proposed to be realigned would be removed from the realignment proposal and remain with CDSS, which currently performs the work related to these agreements.
- The \$8.2 million in funding for child welfare training activities that was originally proposed to be realigned would be removed from the realignment proposal and remain with CDSS for them to continue contracting for the training activities.

The revisions to the realignment proposal related to the other public safety programs include the following:

- Fire protection services would be removed from the realignment proposal completely because only three of the six entities that are currently reimbursed at the local level for these services are counties.

- State penalty funds subvended to locals and currently funded public safety mandates would be removed from the realignment proposal completely because realignment would complicate the reimbursement process and methodologies for these funds.
- The funding in the realignment proposal for court security would be increased by \$13.2 million (to \$497.8 million total) to reflect increased workload and application of an inflation factor.
- Approximately \$2 million in local public safety grant funding that goes to entities other than local public safety agencies would be removed from the realignment proposal.
- An additional \$44.6 million in funding will be provided in the realignment proposal to District Attorneys and Public Defenders for increased workload due to parole revocation hearings and to include funding for lower-level offenders serving time in jail (in the original proposal, funding was only included for offenders assumed to be in the community or serving a revocation term).

As a result of the above changes, fewer resources are estimated to be needed for the realignment proposal. Therefore, the May Revision proposes that 0.4 percent of the VLF increase be allocated for realignment, versus the 0.5 percent included in January. The one-cent sales tax extension would continue to be proposed fully for realignment. The May Revision continues to assume extension of these taxes effective July 1, but does not address any of the timing-related problems associated with the gap between July 1 and the expected enactment of the tax extension via an election in the fall.

The revised funding amounts included to be included in realignment for each HHS program are as follows:

<u>Program</u>	<u>2011-12</u>	<u>2014-15</u>
Foster Care and Child Welfare Services	\$1.567 billion	\$1.567 billion
Adult Protective Services	\$55 million	\$55 million
Mental Health Services		
Early Periodic Screening, Diagnosis and Treatment Program	---	\$579 million
Mental Health Managed Care	---	\$184 million
AB 3632 (SED) Services	---	\$0
Existing Community Mental Health	---	\$1.077 billion
Substance Abuse Treatment	<u>\$184 million</u>	<u>\$184 million</u>
TOTAL	\$1.8 billion	\$3.6 billion

Of note is that the \$80 million in additional realignment funding proposed to be provided to CWS over two years beginning in 2012-13 to augment the CWS realignment base appears to have been eliminated as part of the revised realignment proposal. In addition, no additional funding was provided to the CWS base for AB 12 or the FFH rate increase. The Administration indicates that they expect that these issues will be dealt with as part of the discussions on how to allocate the realignment growth funding. And although not specifically mentioned in the May Revision summary document, the proposal to shift an increased share of the costs CalWORKs grants to counties as a swap for existing community mental health services currently funded from 1991 realignment remains on the table.

In May Revision budget briefings held today, officials from the Administration indicated that Phase Two of the realignment proposal, which assumes that the state will become responsible for costs associated with health care programs, including California Children's Services and In-Home Supportive Services, while the counties assume responsibility for CalWORKs, food stamp administration, child support, and child care programs also remains on the table and is currently unchanged. There is no timing specified for when implementation of Phase Two will begin or any programmatic details available.

HEALTH AND HUMAN SERVICES

Specific significant May Revision proposals related to health and human services include the following:

Child Welfare Services and Foster Care

Overall, net child welfare services basic funding is held nearly constant for the 56 non-waiver counties from the January budget, providing \$1.1 billion total funds for the 56 non-waiver counties. For the two Title IV-E waiver counties, the May Revision provides a total of \$1.3 billion, a slight increase over the budget enacted in March. The May Revision assumes continuation of the \$80 million GF veto for 2011-12.

Foster Family Home (FFH) Rate Increase: – The May Revision increases funds for rates paid to foster family homes, including relative caregivers with children in approved homes, as a result of litigation, *Foster Parent Association, et al vs. John A. Wagner, et al*. The May Revision assumes implementation of the increased rates effective July 1 and will require accompanying trailer bill language to implement the new rate and to limit the increased rates to be applied prospectively to families who enter into adoption or legal guardianship and receive either the Adoption Assistance Program (AAP) and Kinship Guardianship Assistance Program (Kin-GAP or Fed-GAP) on or after the July 1 implementation date. The May Revision assumes the State Supplemental Clothing Allowance of \$100/child/year (paid entirely with state funds) will be eliminated, a reduction of \$1.6 million GF. The May Revision includes \$10.7 million (\$41.3 million total funds) to implement the rate increase for FFH's, Kin-GAP/Fed-GAP, and AAP cases.

AB 12 – Extension of Foster Care Benefits – The May Revision proposes funding to administer AB 12 to extend foster care benefits starting in January 1, 2010 to foster youth up to age 19. This includes \$1.5 million GF (\$2 million total funds) for SAWS automation changes, \$363,000 GF (\$800,000 total) for CWS/CMS programming, and \$461,000 GF (\$938,000 total funds) for CWS administration. The budget also proposes to shift \$846,000 from the THP Plus Program to support THP Plus Foster Care, a new placement option created by AB 12, leaving \$35 million in GF remaining for the THP Plus program.

AB 3632: Seriously Emotionally Disturbed (SED) Funding – The May Revision proposes to shift responsibility of serving SED children to the California Department of Education (CDE) starting July 1, 2011. The May Revision reflects a savings of \$100.5 million county funds (\$168.5 million total) for placements costs associated with this shift.

AB 340 Resource Family Approval Pilot – The May Revision delays, again, implementation of this CWDA-sponsored legislation to January 1, 2012.

CWS/CMS Probation Access – The May Revision provides \$800,000 to local child welfare agencies to provide for the ongoing annual costs of training probation staff regarding access to CWS/CMS.

CalWORKs

The May Revision provides \$3.2 billion for CalWORKs grants and \$1.9 billion for the CalWORKs Single Allocation, a combined total of \$169.8 million above the amounts reflected in the March 2011 budget. This increase is due to increased caseload and cost per person, as well as eroded savings due to delayed implementation of the March 2011 reductions included in SB 72. No additional specific reductions are proposed by the Governor, although the May Revision notes that an “all cuts” budget would result in further reductions in CalWORKs grants.

Reduce CalWORKs Grants by 8 Percent – SB 72 reduced the Maximum Aid Payment by 8 percent, effective July 1, 2011. Total savings for 2011-12 are estimated at \$321.4 million, reflecting a savings erosion of \$8.7 million for 2010-11 and \$16.9 million for 2011-12. Approximately 700 CalWORKs cases will lose eligibility as a result of this reduction in 2011-12.

Modify Earned Income Disregard – SB 72 modified the Earned Income Disregard to the first \$112 of earned income and 50 percent of remaining earned income, effective July 1, 2011. Total savings for 2011-12 are estimated at \$85.1 million. Approximately 1,906 CalWORKs cases will lose eligibility as a result of this reduction in 2011-12.

Reduce Single Allocation and Expand Young Child Exemptions – The Single Allocation reduction for 2011-12 is adjusted to \$412.6 million, somewhat lower than the \$426.9 million provided in March 2011. This reduction was initially \$377 million, beginning in 2009, to reflect expanding the young child exemptions to age 2. The reduction was increased by \$50 million in March 2011, along with expanded county flexibility to provide a young child exemption up to age 3. The May Revision reflects a \$14 million restoration in funding due to increased caseload, retains the young child exemption to age 3, and continues county flexibility to use CalWORKs Mental Health/Substance Abuse funding for other CalWORKs program components.

Reduce Time Limit from 60 Months to 48 Months for WTW Adults – SB 72 reduced the adult WTW time limit from 60 months to 48 months, for total savings of \$104.3 million in 2011-12, including \$30.5 million in grant savings and \$73.8 million in Single Allocation savings. The May Revision savings estimate reflects an implementation date of August 1, 2011, a two-month delay from the Governor’s Budget, as well as updated information from the WDTIP database. The 48-month time limit will result in 22,500 families having their grants reduced in 2011-12.

Establish Incremental Grant Reduction for Child-Only Cases – SB 72 established an incremental grant cut for child-only families when the longest currently-aided family member reaches 61 months (5 percent reduction), 73 months (10 percent reduction), or 85 months (15 percent reduction) on aid. The policy would apply to Sanctioned, Safety Net, Non-Needy Caretaker, Undocumented Parent, and Drug/Fleeing Felon cases. The May Revision estimates total savings of \$88.5 million in 2011-12, reflecting an implementation date of August 1, 2011. The incremental grant cut policy will result in a grant cut for 155,300 families, including a 5 percent grant cut for 27,400 families, a 10 percent grant cut for 20,000 families, and a 15 percent grant cut for 107,900 families.

Child Care

The May Revision provides \$382.4 million for Stage 1 child care, \$425 million for Stage 2, and \$118 million for Stage 3. These figures reflect updated savings estimates for the reductions enacted in March 2011 under SB 70, with no additional policy reductions.

Restore Stage 3 Child Care – The May Revision maintains \$118 million in funding for Stage 3, for an estimated caseload of 22,000 families in 2011-12.

Eliminate Services for 11- and 12-Year olds in Traditional Hours – The May Revision reflects \$17.3 million in Stage 1 savings to reflect the de-prioritization of child care in traditional hours for 11 and 12-year olds.

Reduce Exempt Care to 60 Percent – The May Revision reflects \$30.6 million in Stage 1 savings to reflect the reduction in the license-exempt provider rates from 80 percent to 60 percent of the 85th percentile of the Regional Market Rate (RMR) established by the 2005 RMR survey for Family Child Care Homes.

Other SB 70 Child Care Reductions – The May Revision continues to reflect the remaining child care reductions included in SB 70: reduce eligibility for non-CalWORKs child care from 75 to 70 percent of the SMI at the 2007-08 level, increase family fees by 10 percent (current CalWORKs recipients do not have a family fee), and implement a 15 percent across the board reduction for all programs except Stages 1 and 2.

Eliminate the Early Learning Advisory Committee – The May Revision proposes \$10.8 million federal fund savings to eliminate the Early Learning Advisory Committee (ELAC).

In-Home Supportive Services

IHSS caseload growth remains relatively flat, with the May Revision adjusting caseload growth expectations downward from the budget enacted in March. IHSS caseload is projected to average 434,521 clients in 2010-11, a growth of only 0.4 percent from the prior year, and is projected to be 437,997 in FY 2011-12, an increase of 1.7 percent.

County Administration – Due to slower projected caseload growth in IHSS, county administration funding was decreased by \$3.1 million GF (\$7.6 million total) from the budget enacted in March for 2011-12. The May Revision proposes a further cut in funding to reflect lowered caseload for 2011-12 for another cut of \$5.2 million GF (\$12.6 million total). In total, the county administration funding for IHSS is proposed to be cut by \$8.2 million GF (\$20.2 million total funds) from 2010-11. The five percent cut to IHSS county administrative costs that began with the 2008-09 State Budget is continued for a cut of \$5.3 million GF (\$14.9 million total funds).

Proposals Adopted Under the Budget Enacted in March – The following proposals were adopted in March and are assumed in the May Revision proposal:

- **Advisory Committees** – Eliminated the mandate requiring state support of Advisory Committees, for a savings of \$1.46 million GF, and provided \$3,000 for each Public Authority to support on a voluntary basis.
- **Medical Certification** – Proposed \$3.9 million GF (\$10.9 million total funds) for counties to administer the medical certification form which is a required form for all IHSS recipients effective July 1, 2011, and assumed ten percent of current and new recipients will be unable to obtain the required medication certificate, resulting in savings in IHSS services of \$71.2 million GF (\$216.1 million total funds).
- **Fingerprinting of Recipients** – Funding for this was eliminated and remains unfunded in the May Revision proposal.

- Community First Choice Option – Assumes October 1, 2011 implementation of new federal option which will provide a six percent enhanced federal participation rate to recipients in both the PCSP and IPO programs, for a savings of \$128.0 million GF, \$68.9 million county funds.
- Medication Dispensing Machines – Reflects cost savings associated with implementation of the Home and Community Based Medication Dispensing Machine Pilot Project for Medi-Cal recipients. Cost savings are assumed at \$140.0 million GF (\$430.7 million total funds). The implementing trailer bill requires a trigger of an across-the-board cut in IHSS services to the extent that savings are not realized.

Quality Assurance and Program Integrity – The May Revision continues to propose significant savings as a result of Program Integrity activities, although current year savings have been adjusted down to \$64.2 million GF (\$194.9 million total funds) to reflect the elimination of funding for fingerprinting recipients. The budget proposes savings of \$145.0 million GF (\$436.7 million total funds) in 2011-12. The following activities are proposed for continued funding:

- Quality Improvement Activities related to SB 1104 implementation: \$11 million GF (\$31.3 million total funds).
- County Program Integrity Activities: \$3.6 million GF (\$10.1 million total funds)
- County/District Attorney Activities: \$10 million GF (\$28.4 million total funds)
- Provider Enrollment Process: \$1.1 million GF (\$3 million total funds) to process provider enrollment forms and \$1.4 million GF (\$3.9 million total) to process criminal background checks and \$13,000 GF (\$13,000 total) to process a small percentage of recipients projected to request individual waivers for their providers.
- IPO Risk Assessment Form: \$261,000 GF (\$746,000 total funds).

Public Authorities Administration – The May Revision would reduce Public Authority Administration to reflect lower service hours, reduced service hours due to implementation of the Medical Certificate form and the 3.6 percent across-the-board cut that is continued into the next fiscal year. Total funding for Public Authorities is proposed to be \$6.6 million General Fund (\$17.0 million total funds) for 2011-12.

CalFresh (formerly Food Stamps)

Funding for Caseload Increases and SNAP-Ed – The budget proposes a net increase of \$69.3 million (\$17.0 million GF) for CalFresh Administration in 2011-12 above the March budget, which primarily reflects funding for the projected caseload increase in 2011-12, as well as increased federal funding for SNAP-Ed/Network for a Healthy California. Total CalFresh caseload is estimated to be 1.95 million households in 2011-12.

Child Support

Suspend County Share of Collections – The May Revision continues the suspension of the county share of child support collections in 2011-12. The county share of collections is estimated to be \$24.4 million in 2011-12. Currently, child support collections are used to offset the federal, state and county shares of assistance costs for child support cases on assistance. Under this proposal,

the entire non-federal portion of child support collections would benefit the General Fund and the county reimbursement would be eliminated. In effect, this changes the sharing ratios for those child support cases.

Adult Protective Services – May Revision funding remains level at \$44.1 million GF, which includes continuation of the ten percent cut.

SSI/SSP

The May Revision assumes a one-month delay in implementing the budget enacted in March that reduced SSI/SSP grants for individuals to the federal minimum levels permitted. This has the effect of reducing the average grant by \$15, from \$845 to \$830. This will result in net savings of \$183.4 million General Funds.

Medi-Cal and Healthy Families

The May Revision proposes substantial changes to the structure of health care eligibility and delivery in California. Specifically, the revised budget would:

- Shift Healthy Families recipients into Medi-Cal – This proposal would implement the Medicaid expansion for children to 133 percent of the federal poverty level required under federal health care reform early and take the additional step of transitioning all Healthy Families children to Medi-Cal. County human services departments would be responsible for eligibility determinations and annual redeterminations for these children. The proposal would phase in over a six-month period beginning January 1, 2012. The net statewide impact of this proposal is a savings of \$31.2 million GF in 2011-12.

A statutory change would be required in order to make these changes; the Administration's proposed trailer bill language had not been made available as of this afternoon. Based on conversations with state staff, it appears that the proposal delineates between children up to 150% of the Federal Poverty Level (FPL), who would be placed into Medi-Cal without a share of cost, and those between 150% and 250% of FPL, who would be subject to premiums and cost-sharing as with the current Healthy Families program. As of April 2011, about 870,000 children were enrolled in Healthy Families, and about a third of those children are below 150% FPL. The proposal would maintain a Single Point of Entry (run by Maximus) where applications would be screened and then transmitted electronically to county human services departments for eligibility determinations. County human services departments also would accept applications directly, as under current rules. As proposed, Maximus would be responsible for premium collection for the 150% to 250% FPL cases.

- Eliminate the Managed Risk Medical Insurance Board (MRMIB) – As part of the Governor's major government restructuring proposal, MRMIB would be phased out over a two-year period. In 2011-12, the board would be eliminated and the director would report directly to the Health and Human Services Agency Secretary. In addition to Healthy Families, the Access for Infants and Mothers (AIM) would transition to DHCS. In 2012-13, the remaining MRMIB programs – high-risk pools (Pre-Existing Conditions Insurance Plan (PCIP) and Major Risk Medical Insurance Program (MRMIP)) and the County Children's Health Initiative Program (provides coverage for children in families with income between 251-300 percent of the federal poverty level using county and federal funds) – would transfer to DHCS.
- Limit Managed Care Plan Changes – The May Revision proposes to limit managed care enrollees to one change of plan per year. The budget summary indicates that this is

consistent with practice in CalPERS and other major health care providers. Savings of \$1.7 million are assumed in 2011-12 due to this proposal.

- Develop new budget methodology – The May Revision will release proposed trailer bill language directing DHCS and counties to develop a new methodology for budgeting eligibility operations, to be put into place for 2012-13, that takes into account different costs for different types of cases.

Medi-Cal County Administration

CWDA received the Medi-Cal Administration budget information at the end of the day today, so we have not had a chance to go through the detail as of the writing of this budget update. We will provide more a detailed description tomorrow. In the meantime, based on the summary tables, the May Revision proposes to reduce total funding for Medi-Cal Administration by \$37.7 million total funds in the current year (2010-11), from \$1.303 billion to \$1.265 billion. The funding for the budget year (2011-12) remains the same as the revised amount proposed for 2010-11 (\$1.265 billion). The May Revision base allocation for 2010-11 and 2011-12 remains unchanged from the 2010-11 enacted Budget Act. The reduction on overall funding is due to policy changes, although it is not clear yet what those changes are.

Automation

LEADER Replacement System (LRS) – The May Revision proposes to suspend Los Angeles' system reprocurement indefinitely, saving \$26.2 million in GF in 2011-12.

CWS/Web Project – The May Revision proposes to suspend the CWS/Web project indefinitely, saving \$3.1 million in GF in 2011-12.

Other Automation Projects – All other automation projects appear to be funded at expected levels.

The complete summary of the Governor's proposed May Revision to the 2011-12 budget can be found at the following link. The health and human services portion begins on page 59 and the realignment portion begins on page 103.

http://www.dof.ca.gov/budget/historical/2011-12/governors/documents/May_Revision_2011-12_Summary.pdf