



COUNTY WELFARE DIRECTORS ASSOCIATION OF CALIFORNIA
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CWDA

October 8, 2010

To: All County Social Service Directors and Fiscal Officers
From: CWDA Staff
Pages: 5
RE: State Budget Update #7 – Legislature Adopts State Budget

After a long day and night, the Legislature finally took action this morning to adopt a 2010-11 budget and a host of trailer bills to implement its provisions. While the majority of the tax proposals contained in the version of the budget adopted by the Budget Conference Committee in August have been eliminated from the final package, the program cuts, particularly in health and human services, are generally not significantly deeper than they were in the Conference Committee budget. Instead, the final budget package relies on rosier revenue assumptions, additional federal funds receipts, and fund shifts, in addition to the program cuts already adopted by the Conference Committee, to bridge the \$18 billion budget gap. As a result, health and human services programs overall fared far better than expected in the final budget agreement.

Overall Budget

The adopted budget includes \$18.3 billion in budget solutions to cover the projected \$17.9 billion deficit and provide a \$300 million reserve. The budget solutions fall into the following major categories:

Expenditure Reductions:	\$7.5 billion
Federal Funds:	\$5.3 billion
Additional Revenues:	\$2.5 billion
Fund Shift, Other Revenues	\$2.8 billion
Alternative Funding:	\$0.5 billion
Baseline Workload Adjustments:	<u>-\$0.2 billion</u>
<i>Total Solutions:</i>	<i>\$18.3 billion</i>

The major revenue components of the adopted budget include the following:

- Delay of Corporate Tax Breaks – The adopted budget continues for two years the Net Operating Loss suspension, providing about \$1.2 billion in GF revenues for 2010-11. This suspension was also included in the Conference Committee version of the budget.
- Proposition 98 – The adopted budget suspends for one year the Proposition 98 funding guarantee to K-14 schools to free up \$1.7 billion GF in 2010-11 to be used for other purposes. Pursuant to the Constitutional provisions of Proposition 98, the \$1.7 billion will

be repaid to schools over future fiscal years. The Conference Committee version of the budget also suspended the Proposition 98 funding guarantee.

- LAO Revenue Assumptions – The adopted budget assumes \$1.4 billion more in GF revenues than the Governor’s proposed budget did. This assumption was included in the Conference Committee version of the budget and the additional revenue has already been realized in the 2010-11 fiscal year.
- The adopted budget no longer includes the new oil severance tax, the “reform” proposal to raise the State Personal Income Tax and Vehicle License Fee and reduce the state sales tax, and the delay of one of the corporate tax breaks.

The adopted budget package also contains various state budget and pension reforms:

- Budget Reform – The Legislature approved an initiative tentatively scheduled for the November 2012 ballot to strengthen the State’s “rainy day fund.”
 - Makes the existing Proposition 58 rainy day fund larger and makes it harder to suspend the annual contribution.
 - Restricts the use of the funds to rainy days.
 - Captures unanticipated revenue for additional rainy day fund contributions.
- Pension Reform – the Legislature approved changes to state pensions for new state employees hired on or after November 10, 2010.
 - Rolls new employees’ retirement benefits to pre-1999 levels.
 - Ends pension “spiking” by using a three-year final compensation method for calculating benefit levels for new employees.
 - Increases transparency of CalPERS’ actuarial assumptions through additional analysis and oversight.

Cash Management

The adopted budget package includes authority for the State Controller (SCO) to make additional deferrals of CalWORKs payments (both grants and the Single Allocation) and possibly other county administration funds beyond those that already occurred in July and September and already authorized for March 2011. Because of the late enactment of the 2010-11 budget, the State may not have sufficient cash on hand to repay all of the funding that has been withheld in the absence of an enacted budget. The budget gives the SCO the authority to delay “nonpriority” payments, specifically including CalWORKs, until sufficient external cashflow borrowing can be achieved. Nonpriority programs include those that are not constitutionally required to be paid or debt service. This means that it is likely that there will be additional deferrals of CalWORKs payments, since those are specifically mentioned in the trailer bill language, and possibly other county administration payments should the SCO determine necessary.

We will provide you more information on the timing and amount of any deferrals and subsequent repayments as we obtain information from CSAC and the state Department of Finance.

Health and Human Services

Regarding specific items in health and human services in the adopted budget, attached is the updated version of the budget tracking matrix, showing the original proposal and the final action taken by the full Legislature. Following is a recap of the major provisions.

- **IHSS** – The adopted budget includes a number of actions on IHSS that differ from those originally adopted by the Budget Conference Committee:
 - There is a total of \$300 million GF reductions to the IHSS program in 2010-11. The \$300 million is comprised of the following:
 - ✓ \$190 million GF savings resulting from the provider fee. As described in previous budget updates, the provider fee proposal would apply the state portion of the sales tax to IHSS provider services, generating additional revenue in the IHSS program that would draw down additional federal funds that could be used to offset GF in the program. The fee would be deducted from providers' paychecks and repaid (in the same check) with a supplemental payment of a like amount.
 - ✓ \$75 million GF savings resulting from a caseload reduction. The actual 2009-10 IHSS caseload is about 2.3 percent lower than the 2009-10 projection. The growth rate of 6.2 percent in 2010-11 over 2009-10 assumed in the May Revision remains the same.
 - ✓ \$35 million GF savings resulting from a 3.6 percent across the board cut to authorized hours for the majority of IHSS recipients. There is no new exceptions process or appeal for recipients to exempt themselves from the cut. The cut will take effect 90 days after enactment of the budget and will remain in effect only until June 30, 2012. The \$35 million represents nine months of savings (and includes the increased FMAP rate under ARRA). Projected full year savings for 2011-12 is approximately \$55 million.
 - The cuts to services based on FI ranks and scores and the reduction in the state participation in wages and benefits that were enacted as part of the 2009-10 budget, but suspended due to ongoing litigation, will now be officially suspended in statute until July 1, 2012. Those cuts will only take effect if a court has issued an order allowing them to proceed that is not subject to appeal or for which the time to appeal has expired. So, the cuts remain on the books to allow the current litigation to continue.
 - The 2010-11 budget agreement also contains the following programmatic changes:
 - ✓ The list of crimes for which a conviction would bar an individual from being an IHSS provider has been expanded to include all serious or violent felonies (as described in the Prop. 36 statutes – Sections 667.5(c) and 1192.7 of the Penal Code), felony offenses for which a person is required to register as a sex offender (pursuant to Penal Code section 290), and felony fraud in excess of \$950 in any public sector program. However, for these expanded crimes, a recipient may request an individual waiver from the ban for a specific provider. The county will be required to notify recipients if their intended provider has been convicted of any of the crimes on the expanded list and provide a waiver form, which if signed by the recipient, would release the county from any liability. In addition, an individual will be able to request a general exemption from CDSS from the ban, which would enable the individual to provide services to any recipient wanting to hire that individual. CDSS will be required to consider specified factors related to the individual's rehabilitation in granting or denying the request for the general exemption. If CDSS denies the request, then the individual may appeal in a fair hearing.

The expanded list of crimes would have a 10-year wash out period and only applies prospectively. Any providers who have already completed the provider enrollment process or who have completed at least one of the four requirements and are in pending status would not be subject to exclusion for the additional crimes. However, individuals who have already been denied as providers on the basis of their criminal background check and who are currently appealing that denial would be subject to the new list of crimes (estimated to be about 300 individuals in this status statewide).

These new provisions also take effect 90 days after the budget is enacted.

- ✓ IHSS providers working in more than one county will now be able to obtain multi-county background check clearances. A provider will now only have to obtain a background check in one county in which the provider works that, if clear, will enable that provider to work in other counties. Counties (or nonprofit consortia or public authorities) will need verify through CMIPS whether a potential provider has already been cleared by another county (or nonprofit consortium or public authority). However, the process around notification of subsequent arrests remains completely unclear and confused, which we expect will result in significant implementation problems. These new provisions take effect upon enactment of the budget.
- The requirement that recipients be fingerprinted and the funding for SFIS have been restored as part of the budget agreement.
- The \$10 million GF for program integrity activities has also been restored, but there is no change to the \$500 investigative threshold.
- **CalWORKs** – The CalWORKs budget remains status quo in the adopted budget. There are no grant cuts or further cuts to the Single Allocation beyond the existing \$375 million cut that was enacted in the 2009-10 Budget Act for the 2009-10 and 2010-11 fiscal years.
- **Child Care** – The adopted budget also restores most of the funding for child care programs that the Governor proposed to cut in the May Revision. The reimbursement rate ceiling for unlicensed providers was dropped from 90 percent of the 85th percentile of the regional market rate (RMR) to 80 percent of the 85th percentile.
- **Child Welfare Services** – The adopted budget maintains the restoration of the \$80 million GF that was vetoed by the Governor in 2009-10.
- **Food Stamps** – The adopted budget includes the CWDA proposal to waive the required county match above the CalWORKs/Food Stamps MOE. Counties will be allowed to draw down state and federal funds without putting up the normally-required county share of funding, as long as the county is meeting its CalWORKs/Food Stamps MOE entirely in the Food Stamps program.
- **Medi-Cal Administration** – The adopted budget maintains the reductions to Medi-Cal admin to correct for the overfunding of the COLA in the base, to suspend CODB for 2010-11, and to reduce eligibles growth funding. Regarding the latter reduction, the Administration originally asserted that eligibles growth was being double-funded and proposed to eliminate funding for one full year of growth for savings of \$87 million (\$43.9 million GF). Although we were able to demonstrate that growth is not double-funded, the

Budget Conference Committee still reduced growth funding by \$42 million (\$26 million GF). The adopted budget also maintains funding for MEDS security requests in 2010-11.

- **Realignment** – The adopted budget does not include any programmatic or funding realignment.

Trailer Bills

The following are the trailer bills of interest. Where bills are already on-line, we have provided the links:

1. Human Services – AB 1612
http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_1601-1650/ab_1612_bill_20101006_amended_sen_v97.pdf
2. Health – SB 853
3. Cash Management – AB 1624
http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_1601-1650/ab_1624_bill_20101006_amended_sen_v97.pdf
4. Budget Reform – ACA 4
5. Pension Reform –SB 871

Also, the budget bill itself is SB 870.

Next Steps

The budget bill and associated trailer bills now all move to the Governor's desk for signature. He is expected to sign all the bills today or tomorrow. In a press conference this morning, the Governor indicated that he would use his line-item veto to eliminate an additional \$965 million in expenditures. We will provide another budget update describing any Governor's line-item vetoes to health and human services programs.

If you have any questions on any budget actions taken by the Legislature, don't hesitate to contact CWDA staff.