



COUNTY WELFARE DIRECTORS ASSOCIATION OF CALIFORNIA
925 L Street, Suite 350, Sacramento, CA 95814
(916) 443-1749

CWDA

January 6, 2012

To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

Pages: 8

RE: State Budget Update #1 – Governor’s 2012-13 Proposed Budget

Governor Brown released his proposed 2012-13 budget yesterday, five days in advance of the required January 10 deadline, after the entire budget was inadvertently posted on a public web site. Because of the unanticipated early release, details are still flowing from the departments, but the following is information we have been able to obtain through materials released and briefings with Administration staff. As always, we will continue to provide you with updates as we learn more.

OVERALL BUDGET PICTURE

The budget projects a total General Fund (GF) deficit of \$9.2 billion, comprised of a current year (2011-12) shortfall of \$4.1 billion and a budget year (2012-13) shortfall of \$5.1 billion. The Governor proposes to cover the deficit with the following solutions: \$4.2 billion in program cuts; \$4.7 billion in increased revenues, and \$1.4 billion in “other” solutions (such as one-time borrowing from special funds). The budget also includes reserve of \$1.1 billion.

The Governor has proposed an initiative for the November 2012 election that would generate the bulk of the increased revenues, \$4.4 billion. These would be a temporary 1.0 to 2.0 percent tax increases on the highest income Californians and a temporary 0.5 percent increase in the Sales and Use Tax. Should the ballot initiative not pass, the budget contains \$5.4 billion of GF reductions to take effect January 1, 2013, which include:

- \$4.9 billion to K-14 schools.
- \$200 million each to the University of California and California State University.
- \$125 million to the courts.
- \$15 million reduction to the Department of Forestry and Fire Protection’s firefighting capabilities.
- \$6.6 million reduction to flood control programs.
- \$4.5 million reduction to state park rangers and wardens and elimination of lifeguards on state beaches.
- \$1.0 million reduction to Department of Justice law enforcement programs.

Some of the budget proposals assume that all necessary statutory changes to implement budget solutions will be adopted by the Legislature prior to June 30, 2012. Where accelerated approval is assumed in the health and human services proposals, we have noted it in the proposal descriptions below.

2011 REALIGNMENT

Included in the Governor's proposed ballot initiative for November 2012 is constitutional protection for the revenue dedicated to 2011 Realignment. The initiative also contains provisions to protect local government from future costs imposed upon them and provide mandate protections for the state.

2011 Realignment Revenues

The 2011 Realignment is funded through two sources: a state sales tax of 1.0625 percent and 0.5 percent in Vehicle License Fees (VLF). At the time the 2011-12 budget was adopted last summer, these revenue sources were estimated to generate \$5,105.7 million in sales taxes and \$453.4 million in VLF. The 2012-13 budget revises the 2011-12 estimates upward to \$5,107 million in sales taxes and \$462.1 million in VLF. Sales tax revenues are projected to grow by 4.2 percent in 2012-13, 8.0 percent in 2013-14, and 8.4 percent in 2014-15. VLF revenues are project to grow by 7.4 percent in 2012-13, decline by 0.9 percent in 2013-14, and remain flat for 2014-15.

Funding Structure for 2011 Realignment

The 2011 Realignment implementing statutes enacted last year contained program allocations and an account structure for the 2011-12 fiscal year only. The 2012-13 budget proposes an ongoing funding structure for 2012-13 and beyond, for both base and growth revenues. A copy of the chart showing the proposed structure is provided as an attachment to this budget update. This structure is similar to that developed by CSAC in their workgroup deliberations last summer.

- Accounts and Subaccounts – The ongoing funding structure would include two main accounts, a Support Services Account and a Law Enforcement Services Account, with various subaccounts in each. In the Support Services Account, there would be a Protective Services Subaccount including all of the CWS, foster care, adoptions and APS programs and a Behavioral Health Subaccount including Drug Medi-Cal, AOD programs, mental health managed care, and EPSDT. Community mental health programs previously funded by 1991 realignment are funded outside of the Support Services Account.
- Proposed Base Funding Principles – The base in each Subaccount should not experience a year-over-year decrease and a statutory mechanism should be put into place to deal with the possibility of a year's base being short due to significantly reduced revenues. The budget does not specify what that mechanism should look like. The base for each Subaccount should be a "rolling" base; that is, the base plus growth funding equals the subsequent year's base. Community mental health programs previously funding by 1991 realignment should continue to receive revenue based on the 1991 formula.
- Growth Funding – Program growth would be distributed on roughly a proportional basis, first among subaccounts and then by subaccounts. Within each Subaccount, federally required programs should continue to receive priority for funding as warranted by caseload and costs. **Growth funding for CWS is a priority once base programs have been established, with CWS receiving \$200 million of additional funding over time.**

- Transferability – Counties would have the ability to transfer a maximum of 10 percent of the lesser subaccount between the Subaccounts within the Support Services Account. Transfers would be for one-year only and would not affect the base of any program. Beginning in 2015-16, there would be a local option to transfer a (currently unspecified) portion of the growth among the Subaccounts within the Law Enforcement Services Account.

Phase Two Realignment

The budget does not contain any further details on Phase Two of realignment. The implementation of Phase Two is linked to ongoing discussions of how California will implement health care reform.

HEALTH AND HUMAN SERVICES

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

CalWORKs

The proposed budget includes net GF savings of \$946.2 million and makes significant and complex changes to the CalWORKs program. The budget proposes to establish two separate components of the CalWORKs program, CalWORKs Basic and CalWORKs Plus, and establish a new Child Maintenance Program to cover child-only cases. The budget assumes that the Legislature will enact the CalWORKs proposals by March 2012. CDSS will be providing additional supplemental documents, including a flow chart, to further describe these programs. Given the complexity of and still-emerging details on the proposals, the following is a high-level summary of what we currently know. CWDA will be working with counties in the coming weeks to identify the significant number of implementation challenges associated with these and the child care proposals described later in this budget update.

CalWORKs Basic – Assuming March 2012 enactment, CalWORKs Basic would take effect October 2012. The CalWORKs Basic program is similar to the existing CalWORKs program, with the significant difference being a reduction in the time limit from 48 months to 24 months. CalWORKs recipients would be in the CalWORKs Basic program if they are not meeting federal work participation requirements (WPR) fully through unsubsidized employment. Recipients who are meeting the federal WPR through subsidized employment or other activities, who are exempt from meeting work participation requirements, or who are on sanction status for less than three months in a 12-month period and where the adult has received fewer than 24 months of aid would be in the CalWORKs Basic program. All supportive services including child care would be available to CalWORKs Basic recipients until their 24-month clock is exhausted.

CalWORKs Plus – CalWORKs recipients who are meeting the federal WPR fully through unsubsidized employment would be in the CalWORKs Plus program. All supportive services, including child care, would be provided through the CalWORKs Plus program and recipients would receive a higher earned income disregard (first \$200 earned and 50 percent of subsequent income disregarded) than in the Basic program. The adult portion of the assistance grant will continue to be provided to CalWORKs Plus recipients for 48 months. After 48 months, the adult portion of the grant is removed, although eligibility for child care and the higher income disregard remains for the child-only case as long as the parent continues to meet the federal WPR through unsubsidized employment.

Retroactive Eligibility Determinations – Eligibility for CalWORKs Basic and CalWORKs Plus would be determined on a retroactive basis. That is, months of assistance already provided to existing

CalWORKs recipients will count toward the 24- and 48- month time limits. However, for CalWORKs Basic, all current recipients will be able to continue to participate in CalWORKs Basic for at least six more months to provide transition (such that full implementation of CalWORKs Basic would not occur until April 2013, again assuming the March 2012 enactment date.) CDSS staff indicated their desire for a six-month implementation period following enactment, such that a later enactment would push the start date back, rather than shortening the period of time for counties to prepare for and inform clients of these changes.

Clock Stopper Elimination and Sanction Changes – All clock stoppers are proposed to be eliminated under this proposal except those few required by federal law. Although welfare-to-work exemptions will continue to be granted under CalWORKs Basic, being exempt will no longer stop the time clock. Nor will being in sanction status stop the time clock. In addition, recipients sanctioned for three cumulative months in any 12 month period will no longer be eligible for CalWORKs Basic and will be moved to the Child Maintenance Program (discussed below). Recipients who cure their sanctions would be eligible again for the CalWORKs Basic program if they have fewer than 24 months of assistance or would be eligible for the CalWORKs Plus program if they meet federal WPR through unsubsidized employment and have fewer than 48 months of assistance (and their children would be eligible for CalWORKs Plus in a child-only case if the adult has exhausted the 48-month clock).

Child Maintenance Program – The program is intended to replace the current child-only component of CalWORKs including the safety net. The Child Maintenance Program grant will be 27 percent less than the current child-only MAP. This results in a decrease of the actual average monthly grant for child only cases from \$463 to \$392. In addition, the budget proposes to withhold the \$50 child support pass-through for those eligible cases who would have otherwise received it to generate additional GF savings. Child Maintenance cases would be outside the state's welfare-to-work program, but would have an annual reporting requirement. In addition, children will be required to have an annual well-child exam to remain eligible to be aided.

Child Maintenance Program cases can move to the CalWORKs Plus program anytime by obtaining unsubsidized employment meeting the federal WPR. Every six months, work-eligible adults who still have time remaining on their 48-month aid clock may request up to 30 days of child care to attend job search or participate in other activities such as a job interview. The 30 days would be cumulative and would not need to be used consecutively, according to CDSS staff. If a sanctioned adult still has time remaining on the 24-month services clock, the family can transfer to the CalWORKs Basic program after curing the sanction if they are participating but not meeting the federal WPR through unsubsidized work.

Additional Work Supports – Beginning July 1, 2013, the budget proposes to provide working families receiving CalFresh benefits or child care, who are meeting the federal WPR but are not in the CalWORKs program, with a \$50 per month supplemental work bonus.

Single Allocation and Automation – The budget proposes to provide \$35 million in funding in 2012-13 to ramp up efforts to get CalWORKs recipients to work in advance of the proposed changes. The budget also includes \$10 million spread over the current and budget year for automation changes needed to implement the CalWORKs changes. This is a placeholder number pending further discussions with the consortia. The \$375 million unallocated reduction to the Single Allocation is NOT proposed to continue (unlike what was said in yesterday's quick email), but it is difficult to discern from the CDSS subvention tables the amount of the reduction to the Single Allocation due to the CalWORKs changes proposed. We will provide you more detail on the Single Allocation in the coming days.

Caseload – The combination of proposed changes to CalWORKs are estimated to reduce the 2012-13 caseload to 324,000 families instead of the 597,000 families that would otherwise have been projected to be served in the absence of the changes. There are estimated to be 296,000 Child Maintenance cases.

Child Care

The budget also proposes significant changes and reductions to child care programs, including the following.

Subsidized Child Care Eligibility Change – Beginning in 2012-13, the budget proposes to provide subsidized child care (i.e., general child care outside of CalWORKs) only to those individuals who meet federal CalWORKs work participation requirements, whether or not the family ever participates in CalWORKs, for savings of \$293.6 million GF and elimination of about 46,300 child care slots.

Administrative Restructuring of Child Care – Beginning in 2013-14, the budget proposes to shift the child care eligibility and payment functions from alternative payment programs and Title 5 centers to the counties. Counties could contract with these agencies to provide the payment function. All eligible families would receive a voucher for payment to a provider of their own choice. This will shift responsibility for services for approximately 142,000 children from the California Department of Education (CDE) to the counties. The CDE would continue to administer preschool programs.

Reduce Income Eligibility Ceiling – The budget proposes \$43.9 million in GF savings and \$24.1 million in Proposition 98 savings to reduce income eligibility ceilings from 70 percent of the state median income (SMI) to 200 percent of the federal poverty level. This level equates to 61.5 percent of the SMI for a family size of three. This reduction will eliminate about 15,700 slots.

Reduce Reimbursement Rate Ceiling – The budget proposes \$17.1 million GF savings by reducing the reimbursement rate ceilings for voucher-based programs from the 85th percentile of the private pay market based on 2005 market survey data to the 50th percentile based on 2009 survey data.

New Licensed-Exempt Provider Requirement – The proposed budget would require licensed-exempt providers to meet certain health and safety requirements to be eligible for reimbursement.

In-Home Supportive Services

The budget indicates the average monthly caseload in IHSS continues to be stagnant. In 2010-11, the average monthly caseload was 430,521, an increase of just 0.5 percent from the prior year. In 2011-12 the average monthly caseload is projected at 444,854, an increase of 2.8 percent, and 459,647 in FY 2012-13, or an increase of 3.3 percent.

Across-the-Board Service Reductions – The budget adjusts its projected savings resulting from the delayed implementation of the 20 percent across-the-board reduction that was to implement January 1, 2012 but was delayed due to the court injunction. The budget instead assumes implementation on April 1, 2012 of the 20 percent cut, for a savings of \$39.4 million GF in the current year, and \$179 million in the budget year. The budget also includes a set-aside to fully fund the program in the event that the court rules in favor of the plaintiffs and against the state.

Medication Dispensing Pilot and IHSS Trigger: The budget proposes to repeal statute tied to implementation of a pilot for automated medication dispensing machines for IHSS recipients that would likely have resulted in an additional across-the-board cut in IHSS effective October 1, 2012. The cut would have further reduced hours to IHSS clients if the pilot failed to achieve a net GF savings of \$140 million. The pilot was authorized for the current budget year but was never implemented.

Elimination of Domestic and Related Services to Certain Recipients: The proposal would eliminate domestic and related services to recipients who are living with others in a shared-housing situation effective July 1, 2012, with an exception for households consisting entirely of IHSS recipients, and IHSS recipients whose need cannot be met by a household member due to a medically-verified condition. For children receiving IHSS benefits and living with their parent(s), domestic and related services would no longer be allowed under any circumstance. This cut was proposed in previous budget proposals and, as in the past, raises significant legal questions since in many cases there is no legal obligation for other individuals who happen to be living with the IHSS recipient to provide them with this care. This proposal is expected to impact 254,000 recipients, and will cut IHSS services by \$461.5 million (\$163.8 million GF).

Program Integrity Funding and Projected Savings: The budget reflects a \$10 million GF reduction for county program integrity efforts resulting from the trigger cut implemented as a result of the 2011-12 budget agreement. The reduction was effective January 1, 2012 and the budget proposes to make it permanent. The budget also projects \$469.7 million (\$151.6 million GF) savings as a result of existing county program integrity efforts.

Additional Budget Adjustments in IHSS: The budget reflects decreased savings as a result of delayed implementation of the IHSS Provider Fee (by six months), the Community First Choice Option (by two months), and Health Certification Form (by two months). Combined erosion of savings (including Medication Dispensing pilot elimination) equal \$231 million GF. With respect to the CFCO, savings are projected to be \$108.5 million GF in the current year and \$145.1 million GF in 2012-13, and county savings are estimated to be \$68.9 million.

County Administration – The budget remains largely unchanged in the current year for IHSS Administration, providing \$312.5 million (\$110.2 million GF). In the current year, the budget reflects an additional \$3.5 million to address the transition of ADHC clients, and \$9.9 million (\$3.5 million GF) to administer the 20 percent across-the-board cut effective April 1.

In the budget year, county administration is proposed at \$284.6 million (\$100.3 million GF), or \$27.4million (\$10 million GF) less than the current year. The budget attributes this to lower caseload in the program. Included in this is the continuation of the 5 percent reduction to County IHSS Administration implemented in 2008, a cut of \$15 million (\$5.3 million GF).

The budget year projects new administrative costs associated with implementation of the following activities:

- Domestic and Related Services proposal, \$9.5 million (\$3.3 million GF)
- Adult Day Health Care transition to Community Based Adult Services (CBAS) effective March 1, 2012, \$1.0 million (\$354,000 GF)

Integration of IHSS into Managed Care: The budget proposes to include IHSS and other home and community-based services, as well as nursing home care, as a managed care benefit beginning January 1, 2013. DHCS indicates that all IHSS consumers, including residual clients,

will be included in the capitated rate paid to managed care providers. A separate proposal will expand managed care from the current 30 counties to all 58 counties effective June 1, 2013.

During calendar year 2013 (which includes the full budget year 2012-13 and six months of budget year 2013-14), the budget proposes that County IHSS programs would continue perform existing functions that include intakes, assessments, and authorization of services. Starting January 1, 2014, managed care plans will either contract with the county to administer IHSS services or may take over this function from the county. The budget notes additional work will be necessary to developed a program design that incorporates (1) consumer protections for acute, long-term care, and a home and community-based services within managed care; (2) development of a uniform assessment tool for home and community-based services; and (3) consumer choice and protection when selecting their IHSS provider.

Over three years, all dual-eligible beneficiaries (Medicare and Medi-Cal) will be required to enroll into a managed care plan. In Year 1 (January 1, 2013) enrollment will be required in eight to ten counties that demonstrate capacity to coordinate care, under a proposed expansion of the Duals Demonstration from four counties to ten counties. DHCS has indicated that the initial counties may include the ten counties where a Special Need Plan (SNP) already exists due to the selection criteria being proposed, which among other things would require experience in providing services to dual eligibles. The budget estimates expansion to an addition 19 counties in Fiscal Year 2013-2014, with statewide implementation in fiscal year 2014-15.

The budget does not address several issues in this transition, including the role of Public Authorities in collective bargaining, impacts on current wage and benefit agreements, and the state-county financing relationship. State staff indicates that they will work with counties to ensure that the county funding contribution to IHSS under managed care is what it otherwise would have been under current law.

Child Welfare Services and Foster Care

The budget continues to assume a downward trend in foster care caseloads, assuming an average monthly caseload decrease of 8.4 percent in the current year and a 9.5 percent decrease in the budget year, to 42,363 children in care. AAP is forecast to experience modest growth, up 1.1 percent in FY 2011-12 to 84,453 cases, and up 1.8 percent in FY 2012-13 to 85,964 cases.

Administration – Foster Care administrative costs are projected to be \$51.1 million (\$17.6 million GF) in the current year, \$48.7 million (17.5 million GF) in the budget year. Administrative costs for Child Welfare Basic are estimated at \$824.7 million (\$278.5 million GF) in 2011-12, and \$794.1 million (\$295.7 million GF) in 2012-13, reflecting lower direct and emergency shelter costs.

AB 12 Administration – The budget increases funding in the budget year to reflect continued implementation of AB 12. In FY 2012-13, administrative costs are proposed to increase by \$5.9 million (\$2.9 million GF), to \$6.8 million (\$3.3 million GF).

Other Program and Funding Changes – Due to CWS Realignment, program funding has been consolidated and allocated to counties. CWDA staff will be analyzing the proposed budget to determine any net impacts to county funding across the realigned CWS and Foster Care line items. DSS Staff has indicated the only proposed policy change will be to institute an annual CNI-based adjustment to the Dual Agency basic rate, so that those rates keep pace with the rate increases to foster family homes resulting from the 2011 lawsuit. The CNI adjustment would be applied to the Dual Agency basic rate, however the supplemental rate is not proposed to change.

Adult Protective Services

This program was also realigned in 2011-12 and funding consolidated and allocated to counties through realignment. Total funding is proposed at \$136.3 million (\$54.6 million GF) for the budget year which incorporates the County Services Block Grant and continues to reflect the ten percent reduction of \$13 million (\$6.1 million GF).

CalFresh (formerly Food Stamps)

The budget proposes to adjust county funding for CalFresh Administration for 2012-13 to reflect actual expenditure patterns over the past few years, resulting in a reduction to county administration. It is not clear from the subvention tables or descriptions from CDSS how much of a reduction is associated with this change; we will provide additional detail as we get it.

Child Support

The budget proposes to continue the suspension of the county share of child support collections in 2012-13, estimated to be \$34.5 million. 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 GF and the county reimbursement would be eliminated. In effect, this changes the sharing ratios for those child support cases.

Medi-Cal Administration and Program

The projected caseload will increase approximately 7.9 percent from 2011-12 to 2012-13, primarily the result of shifting children currently in Healthy Families to Medi-Cal. Absent this proposal, caseload growth would be only 1.9 percent. State spending in the Medi-Cal program is expected to drop from \$15.4 billion in the current year to \$15.1 billion in the budget year, as a result of various savings proposals. Without these proposals, costs would grow by approximately 3.4 percent, to \$15.9 billion GF. The budget binder will not be available until next week, so details on county eligibility operations are not yet available. Typically there are few adjustments made in January to the county eligibility operations budget, with caseload and cost updates being incorporated into the May Revision.

Proposed Shift of Healthy Families into Medi-Cal – Similar to last year's May Revision proposal, the Administration is proposing to move all children currently enrolled in Healthy Families to the Medi-Cal program. This would affect about 875,000 children and be phased in over a nine-month period, starting in October 2012. This shift would coincide with movement of other programs currently administered by the Managed Risk Medical Insurance Board over to the Department of Health Care Services, and the ultimate elimination of the board by July 1, 2013.

Managed Care Expansion and Annual Enrollment – Currently, managed care is available in 30 counties statewide, with the remaining 28 counties operating in a fee-for-service only environment. The budget proposes to expand managed care to all 58 counties starting in June 2012, resulting in GF savings of \$2.7 million in 2012-13 and \$8.8 million in 2013-14. This proposal is coupled with a proposal to change from the current structure, in which beneficiaries can change managed care plans once per month or up to 12 times per year, to a more private-sector like system providing for annual open enrollment periods that require individuals to receive care for the entire year from their chosen plan. The annual enrollment period proposal appears to require federal approval.

Phase 2 Realignment – The summary budget documents mention the ongoing discussion of how California will implement health care reform as being linked to the development and implementation of the next phase of Realignment. As noted in the document, "Under health care reform, counties will have a significant role in Medi-Cal eligibility determinations." The document

looks forward to a discussion of the “appropriate relationships between the state and counties in the funding and delivery of health care.” Little additional detail is provided; however, CWDA will certainly be involved in those discussions along with CSAC and other county affiliates and client advocates.

The complete summary of the Governor’s proposed 2012-13 budget can be found at the following link:

<http://www.ebudget.ca.gov/BudgetSummary/BSS/BSS.html>