



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

CWDA

May 14, 2010

To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

Pages: 5

RE: State Budget Update #3 – Governor’s 2010-11 May Revision

Governor Schwarzenegger released his May Revision to the 2010-11 budget this afternoon. This update provides a high-level summary of the major health and human services proposals based upon the Governor’s May Revision Summary. We will provide you our more detailed Budget Update on the 2010-11 May Revision on Monday.

OVERALL BUDGET PICTURE

The May Revision reflects a slightly lower budget deficit from that projected in January, \$19.1 billion down from \$19.9 billion. This is comprised of a current year shortfall of \$7.7 billion, a budget year shortfall of \$10.2 billion and a reserve of \$1.2 billion. These figures reflect actions taken by the Legislature, increases in federal funds, and the gradual improvement in the economy, which is slowly emerging from the recession.

The reduction in the deficit is due to a number of factors illustrated below (\$ in billions):

| | |
|-------------------------------------|-----------------------|
| <i>Budget Gap in January</i> | <i>-\$19.9</i> |
| Special Session Approved Solutions | \$1.4 |
| Achieved Federal Funds | \$0.7 |
| Revenue Decline | -\$0.6 |
| Cost Increases | \$.05 |
| Increase Budget Reserve | -\$0.2 |
| New Budget Gap | -\$19.1 |

HEALTH AND HUMAN SERVICES

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

Federal Fund Assumptions

The Governor’s May Revision includes the following general assumptions about federal funding in health and human services:

- Increase in California’s base FMAP for Medi-Cal Not Going to Happen – The Governor’s January budget proposal assumed that the federal government would increase California’s base FMAP for Medi-Cal from 50 percent to 57

percent, resulting in overall savings of \$1.8 billion GF in 2010-11. This assumption is no longer included in the May Revision.

- Continuation of ARRA FMAP and Title IV-E ARRA through June 30, 2011 – The May Revision does continue the assumption that the 11.59 percentage point ARRA FMAP increase and the 6.2 percentage point ARRA Title IV-E FMAP increase will continue through June 30, 2011 resulting in overall savings of \$1.2 billion GF and \$38.4 million GF, respectively.

Trigger Reductions and Revenues – No Longer Included in the May Revision

The Governor's January budget proposal identified spending reductions and extensions of revenue increases that were to go into effect in the event that the federal government failed to provide \$6.9 billion of additional funding. The health and human services trigger cuts included the following: elimination of CalWORKs; elimination of the IHSS Program; elimination of THP-Plus; elimination of the Healthy Families Program; and reducing Medi-Cal eligibility to the minimum allowed under current federal law and elimination of most remaining optional benefits.

Although the full \$6.9 billion in additional federal funding was not obtained (only \$4.1 billion was secured), the Governor has abandoned his trigger proposals altogether.

Redirection of County Savings and Mental Health Realignment Funds

The May Revision proposes a total of \$961.4 million in GF savings resulting from the redirection of county savings from the ARRA FMAP and Title IV-E ARRA increases in 2010-11 and the IHSS May Revision proposal (discussed below) and mental health realignment funds to offset state costs (and increase the county share of costs) in Child Welfare Services (CWS), Foster Care, Foster Care Administration, Adoption Assistance Program (AAP), and Food Stamps. As a result of the redirections, the new sharing ratios are as follows:

- Foster Care: 20%/80% (state/county)
- Foster Care Administration: 48%/52% (state/county)
- AAP: 20%/80% (state/county)
- CWS: 20%/80% (state/county)
- Food Stamps: 19%/81% (state/county)

The redirections include the following:

- \$102.4 million in county savings resulting from the ARRA FMAP and Title IV-E ARRA increases in the IHSS, Foster Care, and AAP programs will be redirected to offset state costs in Foster Care (\$60.2 million) and AAP (\$42.2 million).
- \$257 million in county savings resulting from the May Revision IHSS proposal to offset state costs in Foster Care (\$91 million), Foster Care Administration (\$6 million), and AAP (\$160 million).
- \$602 million in mental health realignment funds will be redirected to offset state costs in CWS (\$291 million) and Food Stamps (\$311 million).

Health Care Reform Implementation

The May Revision summary document does not contain any specific proposals regarding the implementation of federal health care reform in California.

Child Welfare Services and Foster Care

Continuation of 2009-10 Veto – The May Revision continues the \$80 million GF veto in children’s services programs. CDSS staff indicate that, like last year, the budget does not specify which particular programs should be cut and by how much.

Rate Increase for Group Homes – The May Revision includes \$40 million in 2009-10 and \$69.6 million in 2010-11 to reflect the costs associated with the 32% group home rate increase resulting from the *California Alliance of Child and Family Services v. Cliff Allenby* court ruling. The May Revision also includes \$800,000 (\$400,000 GF) for a multi-year group home rate project to determine the appropriate rate structure for group home payments. The study would be completed in 2013, and will require a total of \$2.5 million (\$1.3 million GF) over the life of the project.

Eliminate Redirection of Proposition 10 Funding – The January budget proposed GF savings of \$550 million through redirection of California Children and Families Act of 1998 (Proposition 10) funds to health and human services programs serving children administered by CDSS and the Department of Developmental Services. This proposal is no longer included in the May Revision.

Delay in Expanded Federal Eligibility for Foster Care – The January budget assumed that the federal government would provide financial participation to all currently state-only foster care cases in 2010-11 resulting in GF savings of \$86.9 million. Although the Administration continues to pursue expanded federal eligibility for foster care, the savings are no longer assumed to occur beginning in 2010-11.

CalWORKs

The May Revision rescinds the CalWORKs proposals made in the January budget (to reduce grant levels and eliminate grants for Recent Legal Noncitizen Entrants) and instead proposes to eliminate the CalWORKs program completely, effective October 1, 2010, for a savings of \$1.6 billion. With the elimination of CalWORKs, the state would forego \$3.5 billion in TANF funding in 2010-11, growing to \$3.8 billion in 2011-12.

Child Care

Regional Market Rate Ceilings Reduction to 75th Percentile – The May Revision continues the Governor’s January proposal to reduce reimbursement rate limits in voucher-based programs from the 85th percentile of the market to the 75th percentile, based on the 2005 regional market rate survey, effective October 1, 2010 for Stage 1 GF savings of \$41.1 million. This proposal will also reduce the reimbursement rate limits for licensed exempt providers from 90 percent of the 85th percentile for Family Child Care Homes (FCCH) to 70 percent of the 75th percentile of FCCH.

Reduce State Median Income Limit for Subsidized Child Care and Unallocated Reduction for CalWORKs Stage 3 – The May Revision proposes to reduce the family income limit for all subsidized child care programs (except the State Preschool program) from 75 percent of the state median income (SMI) to 60 percent. The May Revision also maintains an unallocated reduction in Stage 3 Child Care, although the amount of the reduction is reduced by the savings from the SMI reduction. No additional details have been provided yet on the components of the Stage 3 reduction. Total savings from the SMI and unallocated Stage 3 reduction is \$123 million.

Stages 2 and 3 Caseload Reduction — The May Revision includes revised caseload estimates that result in funding reductions of \$15.4 million (\$3 million General Fund) in 2009-10 and \$31.5 million General Fund in 2010-11 in Stages 2 and 3.

Eliminate Remaining General Fund for Child Care, Except Preschool — The May Revision proposes to eliminate the remainder of state funding for need-based, subsidized child care except Preschool, a reduction of \$1.2 billion. This proposal would eliminate subsidized slots for approximately 142,000 children; \$594 million in federal funds would remain for 78,000 children.

Overpayment Collections — The May Revision proposes trailer bill language to increase collections of child care overpayments. Alternate Payment agencies would be expected to collect overpayments from families that benefit from errors, regardless of the reason for the error. All programs administered by CDE and CDSS, including state direct-funded centers and family child care homes are included in this proposal.

In-Home Supportive Services

The May Revision rescinds the Governor's January budget proposals in IHSS to limit the provision of services to consumers with the functional index of 4.0 or greater and to reduce state participation in the wages of IHSS workers. Instead, the May Revision includes \$637.1 million in GF savings in 2010-11 (increasing to \$750 million in 2011-12 and annually thereafter) associated with as-yet-to-be determined IHSS program changes or reductions. The Administration proposes to lead a stakeholder process through which proposals to achieve the savings will be developed. The Administration plans to have the package of proposals ready for legislative enactment by July 1, 2010.

Centralized Eligibility

The May Revision summary document contains no reference to the Administration's centralized eligibility proposal.

SSI/SSP

The May Revision continues the following SSI/SSP proposals made in January, which would now become effective October 1, 2010:

- Reducing SSI/SSP grants for individuals by \$15 per month (from \$845 to \$830) to the federal minimum for GF savings of \$132.8 million in 2010-11.
- Eliminating CAPI for GF savings of \$73.6 million in 2010-11.

Food Stamps

Elimination of CFAP – The May Revision continues the Governor's proposal to eliminate CFAP effective October 1, 2010 for GF savings of \$42.8 million in 2010-11.

Funding for SAWS Consortia Food Stamp Projects – The May Revision continues funding for the proposed SAWS modernization projects. Food Stamp ARRA funds will be used for normal administrative costs, freeing up funds for projects in each consortium.

Additional Stimulus Funding – The May Revision includes GF savings of \$10.5 million as a result of using additional Food Stamps federal stimulus funds to offset normal administrative costs and does not include CWDA's proposed additional automation modernization projects.

Inter-County Transfers – The Administration has endorsed the CWDA proposal on inter-county transfers in the May Revision.

Adult Protective Services

There are no changes to APS in the Governor's proposed 2010-11 May Revision.

Medi-Cal Administration and Program

Administration – The May Revision reflects a decrease of \$44 million due to a proposed change in the methodology used to determine funding growth for county eligibility operations. According to the budget summary, “the historical methodology included duplicative adjustments for caseload growth’s impact on administration (one for eligible growth based on caseload growth projections in the estimate, and a second one included by counties in their annual budget requests.)” Note that the total amount proposed for county eligibility operations was not available from DHCS at the time this memo was prepared, and will be included in the expanded memo provided next week.

Health Care Cost Containment – The May Revision replaces the \$750 million cost containment placeholder proposed in January with a list of policy changes that is estimated to save \$523 million. These include caps on optional benefits rather than the elimination of these services, and increased cost-sharing. Some of these changes are subject to approval by the federal government.

- Caps on optional benefits - \$90.2 million savings: Includes a cap of 10 physician or clinic visits per year; six prescriptions per month (excluding life-saving drugs); elimination of some over-the counter drugs and nutrition supplements; and setting maximum annual spending caps for hearing aids, durable medical equipment, incontinence supplies, urological supplies and wound care supplies.
- Cost-sharing increases - \$218.8 million savings: Includes \$5 copayments on physician/clinic/dental visits, \$3/\$5 copayments on prescriptions, \$50 copayments on emergency room visits, and \$100 per day copayments for inpatient hospital stays up to a maximum of \$200 per admission.
- Other program changes - \$213.7 million: Includes mandatory enrollment of seniors and persons with disabilities into managed care, a reduction in radiologist rates, a freeze on hospital rates to current levels and elimination of state payment for Part B premiums for beneficiaries whose share of cost is less than \$500 per month.

Medicaid 1115 Waiver – The May Revision proposes to continue three limited-term positions and create 53 additional limited-term positions to implement the provisions of the waiver, which has not yet been approved by the federal government. This proposal would cost \$4.1 million.

Healthy Families Program

Program Would Not Be Slated for Elimination – The May Revision rescinds the proposal to eliminate the entire Healthy Families program, which is considered to be not allowed under the federal health care reform law.

Increased Premiums – The May Revision proposes to increase monthly premiums in families with incomes from 200 to 250 percent of poverty by \$18 per child (\$54 maximum per family with 3 or more children). This would increase the current premium from \$24 per child to \$42 per child and the family maximum from \$72 to \$126. This proposal would take effect September 1, 2010.

The complete summary of the Governor’s proposed 2010-11 May Revision released today by the Department of Finance can be found at the following link:

<http://www.dof.ca.gov/budget/historical/2010-11/governors/documents/FullBudgetSummary.pdf>

