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To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

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RE: State Budget Update #1 – Governor's Proposed 2013-14 Budget

Governor Brown released his proposed 2013-14 budget this morning. Following is as much detail as we were able to obtain today. We will continue to provide you with updates as we learn more.

OVERALL BUDGET PICTURE

California's budget outlook is far less bleak in 2013-14 than it has been in many recent fiscal years, and General Fund (GF) revenues are projected to grow by a combined total of $2.1 billion in 2012-13 and 2013-14. The budget does project a starting two-year total GF deficit of $830 million, composed of a current year (2012-13) shortfall of $1.6 billion and a budget year (2013-14) surplus of $785 million. The increased GF revenue, combined with all the programmatic increases and decreases included in the Governor's budget proposal, eliminate the deficit and yield a 2013-14 budget that is balanced, but without a significant reserve. To obtain a reserve of $1.0 billion, the budget contains various proposals including: suspending of four newly identified mandates; using 2012-13 Proposition 98 funds above the minimum guarantee to prepay obligations to schools; continuing the use of state highway account revenues to pay for transportation bond debt service; and extending the hospital quality assurance fee and the gross premiums tax on Medi-Cal managed care plans.

REALIGNMENT

Phase Two Realignment

The budget does not contain any details on Phase Two of realignment, stating only that the implementation of health care reform will require an assessment of how much funding currently spent by counties should be redirected to pay for the shift in health care costs to the state and a broader discussion about the state-county relationship in the context of the funding and delivery of health care will need to be had. The budget does specify, however, that to the extent counties do assume additional programmatic and fiscal responsibility in exchange for the state assuming the majority of health care costs under a Medi-Cal expansion, subsidized child care would be one of the programs proposed to be shifted to counties. See below for more of a discussion of health care reform and a possible Medi-Cal expansion.

2011 Realignment Revenues

The 2011 Realignment is funded through two sources: a state sales tax of 1.0625 percent and 0.5 percent of Vehicle License Fees (VLF). The 2013-14 budget projects total growth to 2011 Realignment revenue from both sources to be 1.2 percent higher in 2012-13 than projected at the May Revision last year, 7.2 percent higher in 2013-14 over the revised 2012-13 estimate, and 7.6 percent higher in 2014-15 over 2013-14. Once the base level of funding for all the realigned programs is fully funded each year, the estimated total growth in 2011 Realignment revenues will yield $294.6 million of growth funding for 2012-13 (of which $191.5 million would go to the Support Services Account), $636.6 million for 2013-14 (of which $222.3 million would go to the Support Services Account), and $644.6 million in 2014-15 (of which $419 million would go to the Support Services Account).

HEALTH AND HUMAN SERVICES

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

Health Care Reform

The budget addresses three major components of the Affordable Care Act that will affect California's Medi-Cal program: (1) the effects of mandatory expansion for existing eligibles, (2) possible options for the optional expansion coverage group, and (3) effects on individuals between 138 and 200 percent of the federal poverty level (FPL) who are moving between Medi-Cal and private coverage subsidized through California Covered (the new name for California's Health Benefit Exchange)

1) *Effects of mandatory expansion for existing eligibles* – The budget contains a placeholder of $350 million General Fund for projected increased costs related to mandatory changes to Medi-Cal rules, such as the determination based on Modified Adjusted Gross Income (MAGI) rules, the elimination of asset tests for MAGI populations, and a new requirement to conduct "ex parte" reviews when making annual redeterminations of eligibility for existing coverage populations. This is noted to be a placeholder and subject to additional discussion in the coming months to derive a more refined estimate.

2) *Possible options for the optional expansion coverage group* – The budget sets forth two possible paths for expanding Medi-Cal eligibility to the non-disabled, childless adult population up to 138% FPL. The Administration notes that the implementation of health care reform will necessitate a discussion about the future of the state-county relationship, and states several goals: strengthening local flexibility, fairly allocating risk, and clearly delineating the respective responsibilities of the state and counties. These include:

    a. State-based option – Under this option, the state would offer a standardized, statewide benefit package comparable to that available today under Medi-Cal, with the exclusion of long-term care coverage. The budget notes that this option would require discussion with counties regarding the funding and delivery of services, including a Realignment-related discussion of what additional programs the counties would assume funding responsibility for if the state assumes a greater share of health care costs. In order to fund the expansion, the state would want to capture some portion of county savings and continue to use those funds to pay for health care coverage for those who were previously covered under medically indigent programs.

b. County-based option – This option would build on the current Low Income Health Programs (LIHPs) operating in 51 counties. Counties would maintain responsibility for medically indigent health care services. To provide coverage to the new expansion group, counties would be held to certain statewide eligibility requirements and be required to offer a minimum set of health benefits. Counties could opt to supplement the basic benefit package, except for long-term care. Activities that counties would be required to undertake include developing provider networks, setting rates, and processing claims.

Note that these two options are considered to be mutually exclusive – either one or the other would be enacted under the Administration's proposal, not a combination of both. Administration officials stated on briefing calls today that they assume the state or counties would receive 100% federal funding for health benefits provided to the expansion population under either option.

3) *Effects on individuals between 138% and 200% FPL* – Under the Affordable Care Act, some low-income individuals will transition back and forth between Medi-Cal and private insurance subsidized through the Exchange. There are concerns about continuity of care and affordability for these individuals if they were to transition right into Exchange-based coverage from no-cost Medi-Cal. In order to address this, the Administration, in conjunction with Covered California, is proposing a "Medicaid Bridge Program" for these individuals.

The bridge program would enable individuals with incomes between 138% and 200% FPL to obtain no-cost or low-cost coverage through the Exchange via participating Medi-Cal managed care providers, so these individuals do not have to change plans or providers. This proposed approach was described in briefings today as an alternative to the Basic Health Plan that is authorized in the federal Affordable Care Act, but has not yet been regulated on by the federal government.

CalWORKs

There are no significant programmatic changes to the structure of the CalWORKs program in the proposed 2013-14 budget. Because of the changes resulting from SB 1041 (Chapter 47, Statutes of 2012), the employment services caseload is projected to increase; however, the overall CalWORKs caseload is projected to decrease slightly by 0.08%. CWDA staff estimate overall funding for the Single Allocation, excluding Cal Learn, to increase in 2013-14 by approximately $130 million to $140 million. We will provide a more refined estimate of this figure in the coming days.

Welfare to Work Reengagement - The proposed budget includes an additional $142.8 million for Employment Services in 2012-13 and 2013-14 ($4.3 million in 2012-13 and $138.5 million in 2013-14). This funding reflects the costs estimated to be associated with programmatic changes to the CalWORKs program enacted by SB 1041, including the reengagement of those cases that had previously been exempt under the short-term young child exemption. These resources are necessary in order for counties to implement the expansion and enhancement of employment services and job development activities for program participants and to intensify case management efforts for non-participating individuals. The Administration has expressed to us their intention to continue to work with counties to refine this estimate as appropriate to reflect revised program structure.

The budget also proposes funding of $8.5 million in 2012-13 and $62.3 million in 2013-14 for child care for those cases being reengaged that had previously been exempt under the short-term young child exemption.

Administration – The base funding for CalWORKs Administration has been decreased by $12.4 million to reflect the projected overall caseload decrease.

Cal-Learn – The budget includes $35.9 million for Cal-Learn case management to reflect the full implementation of the program in 2013-14.

Child Care
Overall, the funding for non-CalWORKs child care and preschool programs is essentially flat for 2013-14. There are no changes to the current administrative structure of the programs.

Stage 1 – Stage 1 child care reflects a net increase of $35.4 million. This increase is comprised of a decrease of $26.9 million to the child care base funding, but an increase of $62.3 million for reengagement of cases as described above.

Stage 2 – Stage 2 child care reflects a decrease of $21 million non-Proposition 98 General Fund in the proposed 2013-14 budget, reflecting a total of $398.3 million. This decrease is the result of a projected decrease in CalWORKs families eligible for Stage 2 care. This decline in eligible caseload is reflective of those families who were granted diversion services in 2010-11, who will become eligible for Stage 3.

Stage 3 – Stage 3 child care is funded at $172.6 million, which includes an increase of $24.2 million non-Proposition 98 General Fund. This increase is primarily due to the transfer of families into Stage 3 who had previously been granted diversion services.

Child Care Stakeholder Workgroup – The 2013-14 budget proposes that the Department of Social Services convene a workgroup to assess the current bifurcated child care system and develop recommendations for streamlining and improving the structure of the system.

In-Home Supportive Services
The average monthly caseload in IHSS historically had been growing at a rate of six percent to eight percent per year until 2009-10, when several program integrity initiatives were implemented. Between 2009-10 and 2011-12 the caseload has remained flat. For 2013-14, the budget projects a 2.7 percent increase from the current year to 2013-14. This will bring the estimated average monthly caseload to 459,693. The budget proposes $1.8 billion General Fund expenditures for the IHSS program in 2013-14.

Across-the-Board Service Reductions – The budget proposes to maintain current law to restore the 3.6 percent across-the-board reduction on June 30, 2013, and provides a $59.1 million increase to reflect the restoration. However, the budget assumes that the State will resolve and implement the 20 percent across-the-board, effective July 1, 2013 with reductions beginning November 1, 2013. That cut has been stayed by the courts since December 2011. The budget proposes a $113.2 million reduction to the IHSS program as a result of the cut, which is net of state and county administrative costs to implement the cut.

The budget proposes that severely impaired recipients would not be subject to the cut and exempts from cuts hours for protective supervision and paramedical services. It includes a process for recipients to apply for supplemental care that would be processed by county staff. The methodology assumes an average reduction of 15.7 monthly hours per impacted client, and would permit up to 12 months of aid paid pending for recipients who appeal the county's decision.

State Funding for Services and Administration/County Maintenance of Effort – Effective July 1, 2012, counties' expenditures in the IHSS program for services and administration (including Public Authority expenditures) are held to an MOE based on the 2011-12 fiscal year. Any non-federal expenditures in service and administrative that exceed the county MOE shift to 100 percent General Fund. The budget proposes an increase in state GF of $47.1 million necessary to maintain its obligations in the IHSS program.

Community First Choice Option (CFCO) – The budget assumes that the state will incur $92.1 million in additional costs as a result of CFCO federal regulations that will go into effect on July 7, 2013. Those regulations restrict the population of IHSS consumers eligible for CFCO to persons who meet the standards for nursing home level of care. The state assumes that only 50 percent of IHSS recipients will meet this more stringent standard and thus reduces the number of recipients for whom the state can claim the enhanced 6 percent federal financial participation under CFCO.

Note that due to implementation of the county MOE, county savings as a result of CFCO are locked at the 2011-12 levels. For the 2011-12 fiscal year, counties received $64.7 million in reimbursements to account for CFCO implementation that went into effect December 1, 2012. The savings to the General Fund as a result of CFCO are estimated to be $200.7 million in 2012-13, and $107 million in 2013-14.

Health Care Certification Requirement – The budget reflects the continued implementation of the health care certification requirements enacted in the 2011-12 budget. It predicts an increase in the number of cases unable to obtain a health care certificate and thus reduces services spending by an additional $30.2 million General Fund.

Additional Budget Adjustments in IHSS:

- Presumes that the sales tax on services associated with the IHSS and similar personal care services will not be implemented.

Coordinated Care Initiative – The 2012-13 Budget established the Coordinated Care Initiative in 8 demonstration counties to coordinate care for Medi-Cal and Medicare dual eligibles. Under the initiative, all persons in the demonstration counties must enroll into a Medi-Cal managed care plan in order to receive their long-term care benefits, including IHSS. In addition, dual eligibles will have their medical, behavioral health, and long-term supports and services, including home and community based services, coordinated through a single health plan. County IHSS programs will continue to perform intake and assessments, eligibility determinations, and program administration, in coordination with the local health plan.

The proposed budget makes the following changes:

- Revises the estimated number of dual eligibles impacted by the CCI, from 685,000 estimated in the May Revise (2012) to 560,000. This is due to changes in the law which now excludes persons enrolled in the Developmentally Disabled waiver, in a Kaiser Plan, and beneficiaries with other health coverage.
- Delays the start date of the CCI from March 2013 to September 2013 for all eight demonstration counties. Los Angeles County would enroll persons over an 18-month

period starting September 2013. In Alameda, Orange, Riverside, San Bernardino, San Diego, and Santa Clara counties, enrollment would occur over a 12-month period, and San Mateo County enrollment would occur at once.

- Projects $170.7 million in General Fund savings in 2013-14 and projects savings to grow to $523.3 million annually thereafter. The Administration continues to work with the federal government to reach agreement on a shared savings methodology and notes that additional statutory changes will be necessary to implement the agreement with the federal government.

Child Welfare Services and Foster Care

In 2011-12, most funding for Child Welfare Services and Foster Care programs were realigned to counties, with a few exceptions (i.e. CWS/CMS statewide automation system, State training contracts, and state Kin-GAP assistance). The budget continues to assume a downward trend in foster care caseloads, assuming an average monthly caseload decrease of 7.2 percent in the current year and an 8.0 percent decrease in the budget year, to 40,030 children in care (excluding foster children placed with a relative receiving a CalWORKs grant). Adoption Assistance Program cases, which have experienced growth rates of 6-10 percent historically, are projected to have a much slower growth, increasing 1.4 percent in FY 2012-13 and 1.1 percent in 2013-14, to 86,494 cases statewide.

Foster Care, AAP and Kin-GAP/Fed-GAP COLA's – The budget proposes COLA's for these grants of 2.65 percent based on an increase in the CNI, effective July 1, 2013.

Adult Protective Services

This program was also realigned in 2011-12 and funding consolidated and allocated to counties through realignment. The proposed state budget continues to reflect $176,000 for the ongoing support of a statewide training curriculum for county APS workers.

CalFresh

Caseload Growth – The budget projects that CalFresh caseload will continue to increase in 2013-14, growing by 12.5 percent over 2012-13, and includes $176.5 million total funds for this growth.

One-Time 2012-13 Base Veto – The 2013-14 proposed budget does not extend the 2012-13 one-time veto of $62.8 million ($23.0 million GF).

CalFresh Match Waiver – The budget proposes to extend the county CalFresh match waiver for one more year through FY 2013-14.

SSI/SSP

The proposed budget passes through an increase to SSI/SSP grants due to a federally-required cost-of-living adjustment to the SSI grant. The COLA is based on the Consumers Price Index (CPI), which is projected to increase by 1.7 percent in 2013 and 1.1 percent in 2014. The grant increases become effective December 31, 2012 and January 1, 2014. The combined COLA's will result in a maximum SSI/SSP grant increase of $20 for individuals and $30 for couples in 2013-14. SSI caseloads are estimated to be 1.3 million recipients in 2013-14, a 1.3 percent increase over the 2012-13 projected levels.

Child Support

The budget does not appear to propose to another one-time suspension of the county share of child support collections in 2013-14, although CWDA staff will confirm that and provide an update accordingly.

Medi-Cal Administration

Base Administration Funding – It is our understanding that the proposed budget intends to hold the 2013-14 Medi-Cal administration base funding level the same as that in 2012-13 (including the eligibles growth funding provided in 2012-13), pending future discussions of Medi-Cal administrative funding more generally under health care reform. CWDA staff will examine the Medi-Cal administration base figures in more detail and provide any updates as appropriate.

Transition of Healthy Families Children into Medi-Cal – Prior to the release of the Governor's Budget for 2013-14 today, the Administration had allocated funding of approximately $20 million (total funds) in 2012-13 to fund the transition of existing Health Family cases into Medi-Cal. The $20 million provided up-front funding for the number of cases estimated to be transitioning in all four of the transition phases based upon the point in time during the fiscal year in which the phase occurs. The proposed 2013-14 budget includes an additional $13.6 million, for total funding in 2012-13 of $33.6 million ($11.8 million GF). It is our understanding that the additional funding provided for the current year is for the intake of new applications from the single point of entry that began in all counties on January 1, 2013.

The budget also proposes funding of $59.8 million ($20.9 million GF) for 2013-14 for intake and ongoing case management activities for applications and cases that would formerly have been in Healthy Families.

Prior Year Reconciliations – As was done last year, the 2013-14 budget proposes an early reconciliation of the 2012-13 expenditures and estimates resulting savings of $70.0 million ($35.0 million). We will confirm this with DCHS staff, but we expect that savings figure to be adjusted during the 2013-14 fiscal year once actual expenditures for the 2012-13 fiscal year are known and not to affect county allocations for 2013-14.

Automation

2012-12 One-Time Unallocated Reduction to SAWS – The Governor's proposed budget does not repeat the one-time $5 million GF cut to the SAWS systems.

CWS/CMS Replacement – Adequate funding is included in the proposed budget to fully fund planned 2013-14 activities necessary to pursue replacement of the CWS/CMS system.

The complete summary of the Governor's proposed 2013-14 budget can be found at the following link:

http://www.dof.ca.gov/documents/FullBudgetSummary_web2013.pdf