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

CWDA

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To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

Pages: 9

RE: State Budget Update #2 – 2013-14 May Revision

Governor Brown released the May Revision to 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

The 2013-14 May Revision reflects continuing recovery of the California economy, although federal actions since the release of the Governor's Budget in January have led to projections of slower state economic growth. As a result, General Fund (GF) revenues as of the May Revision are projected to be $2.8 billion higher in the current year (2012-13) than the January estimates, but lower by $1.3 billion in the budget year 2013-14 as compared to the estimates in January. The May Revision estimates total GF revenues of $98.2 million in 2013-14 and $97.2 million in 2013-14, and includes a $1.1 billion reserve in 2013-14.

HEALTH CARE REFORM

The May Revision Health Care Reform proposal would implement the state option for expanding Medi-Cal coverage, dropping the county option proposed in the January budget (which had been criticized). The proposal sets forth four key principles:

1) It must be sustainable and affordable.
2) It must fairly allocate risk and clearly delineate responsibilities between the state and counties.
3) It must maintain a strong public safety net.
4) It must support local flexibility.

The budget includes $1.5 billion ($21 million GF and $1.5 billion Federal Funds) to implement the expansion, assuming the benefits are 100 percent covered by the federal government in 2013-14 pursuant to the federal Affordable Care Act.

Key components of the proposal include:

County Fiscal Contribution

The Administration intends that counties would contribute the actual amount of their savings in indigent health Realignment spending to the state. A mechanism would be created (with input from counties, the Legislature and other stakeholders) to calculate actual county costs and savings and "true up" the assumptions at the end of each fiscal year. In the meantime, however, some amount of funding would be withheld from counties in 2013-14 and kept at the state level to reflect anticipated savings.

The amounts to be withheld are proposed to be:

- $300 million in 2013-14
- $900 million in 2014-15
- $1.3 billion in 2015-16

The Administration indicates that it would take additional years – possibly as long as 8 to 10 years, according to comments made by Health and Human Services Secretary Dooley on a briefing call today for stakeholders – to get to a more predictable, steady state. This is in part because of cuts to Disproportionate Share Hospitals starting in 2017-18 that will have a potentially significant effect on county hospital funding.

Currently, counties receive about $1.5 billion annually in the 1991 Health Realignment account, which is used for indigent health care and public health services. With regard to the concept of withholding funds off the top of Realignment in the budget year, Administration staff indicated that they would work with counties to develop a mechanism to avoid cash-flow issues that could occur due to the withholding, in the event a county need those funds to cover health care costs during the year.

It is unclear whether the out-year amounts are intended to be revised once actual experience is known, but comments made today by Secretary Dooley suggest that the Administration is open to adjustments once actual experience is known.

Additionally, the budget documents mention a need for a “cost containment” mechanism, specifically, a cap on the cost growth of counties’ expenditures based on historic trends, for the purpose of calculating costs and savings amounts.

Realignment

The proposal retains a Human Services Realignment component to accomplish the shift of funds out of county health and allow the Administration to realize the savings. Per the Administration, the transaction would be fiscal in nature for the first year but progress to a programmatic realigning of duties and oversight to counties in the CalWORKs program and CalWORKs-linked Child Care over some unspecified period of time. CalFresh Administration would also be a part of the Realignment, but on a fiscal basis only (i.e., no programmatic duties would go along with the transfer). It was stated on a briefing call today with stakeholders that a future act of the Legislature would be needed to provide flexibility to counties with regard to the CalWORKs-linked child care program.

For the CalWORKs and CalWORKs-linked Child Care Realignment proposals, counties would play an expanded role in directing the provision of services in these programs, though eligibility, grant levels and rates would continue to be set by the state. Counties would be given an ability to reinvest caseload savings and revenue growth in the programs.

In addition, the A pages mention the possibility that the state would take full fiscal responsibility for IHSS over time, opening the door for some additional programmatic or fiscal Realignment shift to counties to offset the IHSS cost reduction. Not a lot of detail is given, but it is worth noting that currently, the state is responsible for all costs incurred by counties above the Maintenance of Effort negotiated last year as part of the budget agreement to shift collective bargaining to the state.

Medi-Cal Benefit Package
The May Revision proposes to provide the same benefits to those who are newly eligible that are received by existing eligibles, with the following nuances:

- Long-term care services - Long term care services, which include IHSS, are proposed to be covered for new eligibles, provided the federal government allows the state to impose an asset test for these services. Essentially, this means an individual or family could receive general Medi-Cal coverage without the asset test, but if they need long-term care services, an asset test would be applied to determine their eligibility for those services only.

- Mental health services - Specialty mental health services would continue to be provided by counties under the carve-out.

- Substance use disorder services - These services would continue to be provided by counties. Counties could, at their option, provide enhanced services for substance abuse disorders to both existing and new enrollees.

Eligibility for Recent Legal Immigrants
In the January budget, it was proposed that recent legal immigrants (those in the country less than five years) would be shifted into the Exchange and out of the current state-only Medi-Cal program. The May Revision additionally proposes that the state cover all cost sharing not otherwise covered by federal advance premium tax credits.

County Administrative Funding
The May Revision contains about $100 million GF across several items to allow counties to hire new staff to respond to the anticipated increase in demand. This is a good start and recognizes the new costs and duties counties will be taking on. However, our estimates indicate that counties need $20 million GF more in order to meet the demand we are anticipating.

Components of the funding include:

- New funding of $143.8 million total funds ($71.9 million GF) to hire staff and conduct other implementation activities for the warm handoff from Covered California and for other county staffing needs.
- A commitment to not require early reversion of unspent funds from the current year and to allow counties to roll those unspent funds forward into 2013-14 for these purposes. The budget binder estimates this at $70 million total funds ($35 million GF). Note that this was an estimate in January that has not been updated for subsequent county spending.
- Provision of a cost-of-doing-business increase for the first time in several years, an additional $30.8 million total funds ($15.4 million GF).

See the Medi-Cal Administration section for additional detail on the proposed Medi-Cal administrative budget.

HEALTH AND HUMAN SERVICES

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

CalWORKs

As anticipated, the May Revision proposes several programmatic enhancements to CalWORKs that are intended to provide recipients with the greatest likelihood of success during their 24-months of CalWORKs services. In total, the May Revision includes an additional $48.3 million GF to implement these changes. Ongoing resources are intended to be addressed as part of the 2014-15 budget process, although we are trying to determine what the annualized funding amounts for each of these proposed activities would be. Specifically:

Robust Appraisal – Implementation of the new appraisal tool and process for early identification of barriers to employment is proposed to begin on January 1, 2014. Details on the development process for this new automated tool have not been included. Total funding of $9.42 million includes costs for automation, training, and appraisal time, and consists of:

- One-time funds of $600,000 to develop an automated appraisal tool;
- $2.19 million in funding to provide staff training; and
- One additional hour of time for each appraisal at a statewide caseworker cost per hour of $57.57.

Family Stabilization and Barrier Removal – This proposed addition to the CalWORKs array of services would provide some period of enhanced case management and services for eligible families. Additional details regarding this proposed component are expected to be forthcoming. A total of $10.83 million for these services has been included in the May Revision:

- Assumes an additional 2.5 hours per month of case worker time, at a cost of $57.57 per hour; and
- Assumes that 5.5 percent of the Employment Services caseload will participate in Family Stabilization during ramp-up (January – March 2014), increasing to 7.5 percent beginning April 2014.

Enhanced Subsidized Employment – The budget assumes an expansion of the subsidized employment program, with proposed funding at the net amount of $28.1 million, consisting of $39.2 million in program costs and $11.24 million in grant savings associated with earnings less the earned income disregard. Key assumptions include:

- Ramp-up beginning in November 2013, with 250 subsidized employment slots per month, increasing to 8,250 slots per month beginning in June 2014; and
- A monthly cost per slot of $1355, which includes subsidized wages and benefits, non-wage employer costs, supervision and training, and ongoing job development.

CalWORKs Caseload – The May Revision forecasts a caseload decline of 1.9 percent during FY 2013-14, which is a higher rate of decline than the November 2012 estimate of 0.1 percent. Average monthly caseload for FY 2013-14 is forecast to be 551,480.

CalWORKs Administration – Base funding in the May Revision for CalWORKs administration for FY 2013-14 shows adjustments that primarily reflect the forecasted caseload decline, as well as certain expenditures and savings. Total proposed funding is $907.4 million, which is $18.2 million lower than the amount provided in the January budget.

Welfare to Work Reengagement - The May Revision continues to include the additional $142.8 million provided in the proposed January budget for Employment Services to reflect 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.

The May Revision also continues to propose funding of $8.5 million in 2012-13 and $63.8 million in 2013-14 for child care for those cases being reengaged that had previously been exempt under the short-term young child exemption.

Cal-Learn – The May Revision includes $35.3 million for Cal-Learn case management (down very slightly from the $35.9 million included in the January budget) to reflect the full implementation of the program in 2013-14.

Child Care

CalWORKs Child Care – Specific May Revision details related to each of the stages of CalWORKs child care are as follows:

- Stage One – $278.92 million has been included for Stage One child care services, and $53.89 million has been included for administration, with a total cost of $332.81 million. The base monthly cost-per-case in FY 2013-14 is increased by 2.65 percent, resulting in an increased CPC of $649.22. However, there is an overall decrease in Stage One costs from FY 2012-13 to FY 2013-14, resulting primarily from a decrease in the child care caseload.

- Stage Two – Again reflecting a projected slight decrease in the caseload, Stage Two funding is being decreased by $511,000 non-Proposition 98 GF in 2013/14. The total base cost is $397.8 million.

- Stage Three – Total base funding for CalWORKs Stage Three is $157.5 million. This total reflects a decline in the actual caseload from the November estimate.

Non-CalWORKs Child Care – Both the capped child care programs and the state preschool programs show increases in funding in the May Revision due to increases in the zero to four year old population. Specifically:

- A $1.7 million GF increase for capped child care programs; and
- A $1.2 million Proposition 98 GF increase for state preschool.

Child Care and Development Funds – In 2013-14, a projected net increase in federal funds of $8.5 million is included the May Revision.

In-Home Supportive Services

For 2012-13 the May Revise projects that caseloads will increase by 2.3 percent from the prior year, to 442,769. In 2013-14, the May Revise projects caseloads will increase 1.2 percent, for an average monthly caseload of 448,225. The budget proposes $1.876 billion GF expenditures for the IHSS program in 2013-14.

The May Revise budgets an additional $80.3 million GF in 2012-13, and $120 million GF for 2013-14, as a result of a combination of caseload increases, increased costs per case, and an erosion of savings due to more recipients securing the required health certifications in order to qualify for benefits.

Across-the-Board Service Reductions – The May Revise implements the IHSS Settlement Agreement which will replace the 3.6 percent across-the-board reduction with an 8 percent across-the-board reduction in services effective July 1, 2013. The settlement agreement is contained in AB 112 and SB 67 and is expected to be approved into law by May 24, 2013 pursuant to the deadline identified in the agreement. The May Revise estimates that this across-the-board cut will result in total savings of $387.6 million total funds ($114.8 million GF).

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 administration that exceed the county MOE shift to 100 percent GF. The budget proposes an increase in state GF of $47.5 million necessary to maintain its obligations in the IHSS program in the current year and $76.5 million in 2013-14.

Community First Choice Option (CFCO) – The May Revise estimates that 41 percent of IHSS recipients will meet the more restrictive CFCO eligibility guidelines that go into effect due to implementation of federal regulations in July, 2013. The regulations require recipients to meet nursing level-of-care. In the current year, CFCO resulted in $207.3 million GF savings, and in 2013-14 the May Revise estimates savings to be $134.5 million GF. This change does not impact county CFCO savings due to the county MOE.

Coordinated Care Initiative – The 2012-13 Budget established the Coordinated Care Initiative in eight 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. County IHSS programs will continue to perform intake and assessments, eligibility determinations, and program administration, in coordination with the local health plan. On March 27, 2013, DHCS and CMS entered into a Memorandum of Understanding (MOU) for the demonstration.

The May Revise makes the following adjustments based on the implementation of the MOU:

- The January Budget proposal revised the estimated number of dual eligibles impacted by the CCI to 560,000. The May Revise further reduces the number of impacted participants to 456,000, which reflects a cap of 200,000 enrollees in Los Angeles County.
- Delays the start date of the CCI to no earlier than January 1, 2013 for all eight demonstration counties. Los Angeles County will enroll persons over a 12-month period subject to further discussions with the federal government. San Mateo County will phase in dual eligibles over three months, and in the remaining counties (Alameda, Orange, Riverside, San Bernardino, San Diego, and Santa Clara counties) enrollment will phase in over 12 months. The Administration indicates that statutory changes will be necessary to reflect the change in the implementation schedule.
- Projects $119.6 million in GF savings in 2013-14 as a result of CCI, which is $51.1 million less than the Governor's January proposed budget. This savings includes the net benefit that will result from the Administration's May Revise proposal to move Medi-Cal managed care plans into a higher tax rate, equal to the sales tax rate. These tax revenues are used to match federal funds to provide supplemental payments to plans.

- Provides $757,000 total funds ($380,000 GF) to support additional administrative activities in the CCI counties resulting from new cases coming into the IHSS program as a direct result of the CCI.

Statewide Authority – CDSS is seeking legislative approval for four positions (2 permanent, 2 limited-term) to implement and support the Statewide Authority and Statewide Advisory Committee. The Statewide Authority was created and authorized by AB 1496 and SB 1036 to serve as the employer of record for collective bargaining in the eight CCI counties.

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 6.4 percent in the current year and a 5.5 percent decrease in the budget year, to 41,534 children in care (excluding foster children placed with a relative receiving a CalWORKs grant).

CWS Realigned Programs – In 2011-12, most funding for Child Welfare Services and Foster Care programs was realigned to counties, with a few exceptions (i.e. CWS/CMS statewide automation system, state training contracts, and state-only Kin-GAP assistance). Revenues are deposited into the Local Revenue Fund (LRF). The May Revise estimates $1.64 billion in the LRF in 2012-13 and $1.66 billion in 2013-14, which is unchanged from the January budget.

Federal Sequestration Reductions – The following CWS programs are impacted by the Federal Sequestration:

- Chafee Education and Training Vouchers – reduced by $233,000 in the current year and $508,000 in the budget year.
- Title IV-B grants reduced by $1.3 million in the current year and $2.5 million in the budget year.
- PSSF reduced by $1.3 million in the current year and $2.8 million in the budget year.
- Social Services Block Grant reduced by $3.5 million in the current year and $11.8 million in the budget year.

Foster Care, AAP and Kin-GAP/Fed-GAP COLA's – Statute provides for annual cost-of-living adjustments (COLAs) to foster caregivers based on changes in the California Necessities Index (CNI). For 2013-14, the COLA is calculated to be 2.65 percent, effective July 1, 2013. Due to CWS realignment, counties are responsible for the non-federal share of cost for the COLAs in the foster care and AAP programs, with the exception of the state-only Kin-GAP program where the state maintains its financial obligation for the non-federal share of cost.

Foster Youth Services Program – The May Revise continues to propose elimination of the Foster Youth Services grants to county offices of education and the six core school district programs, instead proposing to fund local education agencies (LEAs) to serve foster youth through the Local Control Funding Formula. To address the needs of foster youth, the Governor proposes to provide LEA's with supplemental and concentration grants based on the number of English learners, economically disadvantaged and foster youth pupils. However, no pupil would be counted more than once if they fall into more than one of these categories.

The May Revise also adds new accountability measures to the Local Control Funding Formula proposal to address concerns raised by stakeholders:

- LEAs will be required to spend no less than the amount they spent for these students during the 2012-13 year and will be encouraged to spend more.

- LEAs will be required to spend any funding they receive for these special populations directly to support these pupils.
- LEAs will be required to demonstrate their compliance with these requirements and how they will increase their expenditures over time on these populations.
- CDE will be required to report on the educational progress of foster youth as part of the State's accountability system, and county superintendents will be required to develop plans to coordinate services for foster youth that are provided by various local agencies, including county child welfare.

CalFresh

The May Revision includes $621.4 million GF for CalFresh Administration, down by about $14.1 million GF from the January budget due to revised caseload growth estimates.

Caseload Growth – The May Revision projects that CalFresh caseload will continue to increase in 2013-14 but at a slower rate than projected in January. Caseload growth is projected to be 10.79 percent in 2013-14 over 2012-13 compared to 12.5 percent estimated in January. The May Revision includes $151.1 million total funds for caseload growth in 2013-14, down from the $176.5 million total provided in the January budget.

One-Time 2012-13 Base Veto – As was done in the January budget, the proposed May Revision does not extend the 2012-13 one-time veto of $62.8 million ($23.0 million GF).

CalFresh Match Waiver – The May Revision continues to include an extension the county CalFresh match waiver for one more year through FY 2013-14.

Medi-Cal Administration

See also the Health Care Reform section for additional detail on the proposed Medi-Cal administrative budget.

Base Administration Funding – The 2013-14 Medi-Cal administration base funding level provided in the May Revision is the same as that proposed in January, $1.3 billion ($651.3 million GF) and continues to include the eligibles growth funding provided in 2012-13.

Transition of Healthy Families Children into Medi-Cal – The May Revision includes a total of $28.3 million ($9.9 million GF) for 2012-13 and $33.7 million ($11.8 million GF) to fund the transition of existing Healthy Families cases into Medi-Cal, as well as the intake and ongoing case management activities for new applications and cases that would formerly have been in Healthy Families. The May Revision funding levels are down from those proposed in January, by $5.3 million ($1.9 million GF) in 2012-13 and $26.1 million ($9.1 million GF) in 2013-14. The reduction appears to be due to a change in the amount of funding shifting from CCS to Medi-Cal Admin for existing Healthy Families cases, but we are awaiting detailed back-up information to clarify exactly what is causing the funding change.

Automation

An initial review of the May Revision indicates that all of the automation projects are adequately funded. Proposed funding for the SAWS systems includes resources for the SAWS/CalHEERS interface, development of the customer service center networks to take the warm hand-off, creating an option for clients to receive electronic NOAs, and a number of other system specific improvements. CMIPS II funding levels are designed to continue the rollout as planned. Continuation of the New CWS/CMS system effort are also included at the same level as proposed in the Governor's January budget, which is sufficient to move procurement forward as planned.

1991 and 2011 Realignment Revenues

As of the writing of this budget update, updated information on 1991 and 2011 Realignment revenue projections for May Revision have not been released yet. We will provide that information to you as it becomes available.

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

http://www.dof.ca.gov/documents/2013-14_May_Revision.pdf