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**CWDA**

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To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

Pages: 8

**RE: State Budget Update #2 – More Details on Governor’s Proposed 2014-15 Budget**

Although summary information of the Governor’s proposed 2014-15 budget was provided yesterday, the detailed, back-up budget documents were not available until this morning. Following is more information on health and human services in the 2014-15 budget.

**Medi-Cal Administration**

ACA Implementation Funding – The Administration has expressed its intent to provide \$240 million (\$120 million (General Fund (GF)) in 2014-15 for continued implementation of the federal Affordable Care Act (ACA).

Base Administration Funding – The proposed budget continues to hold the 2014-15 Medi-Cal administration base funding level the same as that in 2013-14, which is \$1.3 billion (\$651.3 million GF). The 2012-13 Budget Act included trailer bill language that requires a new budgeting methodology for Medi-Cal administration funding to be developed as soon as 2015-16. Work on a new budgeting methodology has not begun and it has not been determined yet when it will. The proposed budget includes \$1.5 million (\$742,000 GF) and seven positions for the Department of Health Care Services (DHCS) for 2014-15 for development of the new methodology.

Transition of Health Families Children into Medi-Cal – The proposed budget provides \$43.1 million (\$15.1 million GF) for the on-going administrative costs associated with the transfer of Healthy Families children into Medi-Cal. This is down from the \$54.4 million (\$19.0 million GF) provided for 2013-14, presumably due to the removal of funding for start-up activities associated with the transition. We have not obtained the back-up calculations for the 2014-15 funding amount yet, but will provide additional information as it becomes available.

Prior Year Reconciliations – The budget does not propose to continue the practice begun two fiscal years ago of including an early reconciliation of prior year expenditures.

## **Medi-Cal**

**Caseload** – The proposed budget estimates that Medi-Cal caseload will increase approximately 10.2 percent in 2014-15 (from 9.2 million to 10.1 million), largely because of the implementation of federal health care reform and the shift of children from the Healthy Families Program to Medi-Cal. In the absence of those factors, caseload would increase by one percent.

**Health Care Reform Medi-Cal Expansion** – The budget estimates that Medi-Cal caseload will increase by an estimated 1.03 million in 2013-14 and 1.36 million in 2014-15 as a result of implementation of the mandatory and optional Medi-Cal expansions. (The mandatory expansion includes those individuals who were eligible for Medi-Cal prior to the effective date of the ACA, but who were not already enrolled and the optional expansion includes those individuals who are newly eligible under the ACA.) For the mandatory expansion, the budget assumes net costs of \$867.4 million total funds (\$404.9 million GF) in 2014-15. For the optional expansion, the budget assumes net costs of \$6.7 billion in federal funds in 2014-15 (the cost of the optional expansion is 100 percent federally funded for the first three years, with the federal share decreasing to 90 percent by 2020-21). See the 1991 Realignment section below for details on how the GF portion of the Medi-Cal expansion is being funded.

**Forgive Specified Retroactive Recoupments of Provider Payments** – The proposed budget includes \$5.8 million GF for 2013-14 and \$36.3 million GF for 2014-15 to cover the cost of forgiving the retroactive recoupment of the 10 percent provider rate reductions for the following provider groups and services: physicians, clinics, specified high-cost drugs for serious conditions, dental intermediate care facilities for the developmentally disabled, and medical transportation.

**Pediatric Dental Services Outreach** – The budget proposes to use \$17.5 million in Proposition 10 funds provided by the California Children and Families Commission to increase dental care outreach activities for children ages zero to five.

**Pregnancy Coverage** – The budget proposes to pay for the out-of-pocket costs for pregnancy-only Medi-Cal beneficiaries electing to receive comprehensive coverage through Covered California beginning in January 2015, which will result in net GF savings of \$16.6 million in 2014-15.

## **1991 Realignment**

With implementation of the ACA, county costs and responsibilities for indigent health care are expected to decrease as more individuals gain access to health care coverage through the Medi-Cal expansion. Those costs will shift to the State. Assembly Bill 85 (AB 85, Chapter 24, Statutes of 2013) changed the 1991 Realignment structure to enable counties' indigent health care savings to be captured and redirected to pay for CalWORKs GF assistance costs, thereby freeing up GF that can be used to pay for the state's Medi-Cal expansion costs.

To do this, AB 85 established a new subaccount at the state level within 1991 Realignment, the Family Support Subaccount. The amount of counties' indigent health care savings will be redirected from counties' 1991 Realignment Health Subaccounts and moved to the new Family Support Subaccount at the state level. Funds will then be allocated to counties from the Family Support Subaccount in lieu of GF for CalWORKs assistance payments. The distribution of the funds from the Family Support Subaccount to counties is still being determined, but it will be based on counties' CalWORKs GF expenditures.

To determine the indigent health care savings resulting from the Medi-Cal expansion, counties can either choose a reduction of 60 percent of their health realignment funds, including their maintenance of effort, or a formula that accounts for actual revenues and costs associated with the county's indigent care program. Counties participating in the County Medical Services Program (CMSP) are subject to an alternative savings calculation similar to the first option (the 60 percent reduction). County savings are estimated to be \$300 million in 2013-14 and \$900 million in 2014-15.

Child Poverty and Family Supplemental Support Subaccount – In addition to the Family Support Subaccount, AB 85 created another subaccount at the state level, the Child Poverty and Family Supplemental Support Subaccount. Funding in this subaccount is to be used to fund CalWORKs assistance grant increases, beginning with the five percent increase effective March 1, 2014. To provide funding for this subaccount, AB 85 changed the 1991 Realignment general growth formulas, capping general growth for health to 18.4545 percent of available general growth revenues and eliminating general growth funding for social services (the general growth distribution to mental health was not changed). General growth funding provided to the Child Poverty and Family Supplemental Support Subaccount rolls into the funding base of the subaccount.

With the Governor's Budget in January and the May Revision, the Administration will provide estimates of the total amount of funding that will be in the subaccount. If that amount is not sufficient to fully fund the costs of all the CalWORKs assistance grant increases already provided, the GF will make up the difference. If there is more funding in the subaccount than is need to fund all of the CalWORKs assistance grant increases, then an additional grant increase is triggered that equals an increase that the available funding is estimated to support.

The proposed budget assumes that there will be \$69 million available in 2013-14 and \$161.7 million in 2014-15 in the Child Support and Family Supplemental Support Subaccount. These estimated amounts for 2013-14 and 2014-15 are currently not enough to support another CalWORKs assistance grant increase beyond the existing five percent increase.

### **2011 Realignment**

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 proposed 2014-15 budget projects the growth rate of the sales tax portion (the portion that is used to fund the realigned social services and behavioral health programs) of 2011 Realignment revenue to be 6.60 percent higher in 2013-14 than the amount of revenues received for 2012-13 and 7.32 percent higher in 2014-15 than amount of revenue estimated to be received for 2013-14.

The proposed budget estimates that those overall sales tax growth rates will translate into growth funding for the Support Services Account of an estimated \$159.3 million in 2013-14 (of which \$98.5 million is for the Protective Services Subaccount) and \$395.9 million in 2014-15 (of which \$191.8 million is for the Protective Services Subaccount). Adding in these growth funds, the total amount for the Protective Services Subaccount is estimated to grow by 11.98 percent in 2013-14 and another 6.19 percent in 2014-15.

### **CalWORKs**

Caseload – The overall CalWORKs caseload is projected to decrease in 2014-15 by approximately 21,000 cases statewide, a 3.8 percent decrease from the prior year.

Subsidized Employment – AB 98 Subsidized Employment is funded for 5,180 participants per month in 2014-15, for a funding amount of \$14.1 million. This is offset by grant savings in an equal amount.

Expanded Subsidized Employment (ESE) is proposed to be funded for 8,250 ongoing monthly slots, at a monthly slot cost of \$1355. This is the same monthly number of slots and monthly slot cost as was appropriated for full ESE implementation in the 2013-14. Total funding for ESE in 2014-15 is \$134.1 million, with offsetting grant savings of \$38.3 million.

Standardized Appraisal Tool (Robust Appraisal) – Funding for the statewide appraisal tool is proposed at \$16.7 million in 2014-15. This figure includes automation costs, staff training costs and one-time contract costs, as well as one additional hour of time for each appraisal.

Family Stabilization – Funding for Family Stabilization is proposed at \$26.4 million, reflecting a full year of the component's implementation. This premise item continues to only provide for an additional 2.5 hours of case management per case per month and does not reflect any increase in specific funding for services. Furthermore, it assumes that 7.5 percent of the employment services caseload will participate in family stabilization.

Employment Services – The budget proposes \$939 million in total funding for employment services. This reflects a very slight increase from the 2013-14 appropriation due to the projected caseload increase.

Parent/Child Engagement Demonstration Pilot Project – New in the 2014-15 budget is a proposal for a three-year, six-county demonstration project called the Parent/Child Engagement Demonstration Pilot Project. This intervention is based on the evidence-based Chicago Child Parent Center model, which has been shown to demonstrate positive educational outcomes for children and a reduced need for public assistance by parents.

Six counties will be selected to participate in this pilot over a three year period, with 2,000 families participating statewide. Pilot counties will be asked to identify a cohort of CalWORKs families for participation in the project, with a focus on sanctioned families. Components of the project will include the provision of full-time, licensed child care; parent-child engagement in the child care setting; parenting and life skills; and work readiness and barrier removal activities for participating families. Home visitation, intensive case management, and lower client-worker ratios are also included in the budget for this project. The first cohort of parents is expected to begin participation in March 2015.

This project is proposed to be funded at \$9.9 million from a combination of TANF, GF, and county funds in 2014-15. This total includes funding for grant payments, child care, services, and administration.

Maximum Aid Payment Increase – Effective March 2014, the Maximum Aid Payment for CalWORKs will increase by five percent. The cost of the increase (as well as potential future increases) will be funded through growth revenues in the Child Poverty and Family Supplemental Support Subaccount, however, based on the projected funding in this subaccount, there will not be sufficient funds for a subsequent MAP increase in FY 2014-15.

SB 1041 Automation – The 2014-15 budget proposes \$428,000 in funding for additional automation activities related to the implementation of SB 1041.

CalWORKs Changes after Passage of Specific Legislation – Several bills were passed last year that have an impact on CalWORKs. These are:

- AB 419 – CalWORKs Children in Public Hospitals. Effective January 2014, this bill provides ongoing assistance to CalWORKs families with a child in a public hospital. The proposed funding for this change is \$21,000 for additional grant costs in 2014-15, as well as an augmentation of \$11,000 for additional grant costs in 2013-14.
- AB 1099 – Veterans’ Disability Compensation. Effective July 2014, this bill added veterans’ disability-based compensation to the types of disability-based unearned income that are subject to the CalWORKs Earned Income Disregard. The proposed funding for this change is \$987,000 in increased grant costs in 2014-15.
- AB 1640 – Pregnant Teen Mothers. Effective January 2014, this bill expands CalWORKs eligibility to non-Cal-Learn eligible pregnant teens upon verification of their pregnancy, rather than only for the three months prior to the anticipated month of delivery. This is expected to impact only a small number of individuals, and has a proposed funding level of \$2.2 million in 2014-15, as well as an augmentation of \$1.8 million in 2013-14.

### **Child Care**

Stage 1 – The proposed funding level for Stage 1 child care is \$321 million. This is a decrease of \$14.8 million, reflecting a change in the cost-per-case methodology, which is slightly offset by an increase in caseload.

Stage 2 – Stage 2 funding is proposed at \$364.1 million non-Prop 98 General Fund, an increase of \$6.3 million. The change is due to an increase in the cost-per-cases with a small offset due to a slight decrease in the number of cases.

Stage 3 – The proposed funding level for Stage 3 child care is \$182.5 million non-Prop 98 General Fund, an increase of \$2.8 million. The increase to Stage 3 is due to an increased cost-per-case with a small offset to the caseload.

CCDF – Funding for CCDF child care and development programs is \$555.6 million in federal funds. This is a decrease of \$9.1 million in federal funds, and is due to a reduction in the available carryover funds as well as a decrease to the base grant.

### **CalFresh**

Caseload – The budget estimates that Non-Assistance CalFresh caseload will increase by 5.2 percent in 2013-14 and 5.1 percent in 2014-15. The proposed budget slows the rate of growth in CalFresh caseload based on recent months of actual caseload data which show a slowing of the growth trend. The revised 2013-14 caseload number in the proposed budget is 5.5 percent lower than that number was estimated to be at the 2013-14 May Revision.

CalFresh Match Waiver – The Governor’s Budget does not propose to extend the CalFresh match waiver in 2014-15. However, the California Department of Social Services has indicated that they are willing to discuss a phase-out of the match waiver over time.

### **In-Home Supportive Services**

The Governor’s budget provides \$2 billion for the IHSS program, reflecting a 6.4 percent increase in costs for the program. The IHSS caseload is anticipated to grow by 1.2 percent in 2014-15, to 453,000 recipients. According to the Administration, this 6.4 percent growth reflects expected increases in negotiated wages and benefits, the impact of the State’s minimum wage

increase to \$9.00/hour effective July 1, 2014, and the impact of limiting payment of overtime. Additional details on the overtime proposal are provided below.

Wages, Benefits and County MOE – The budget reflects changes to the County MOE based on locally negotiated and annualized wages and benefits as well as savings resulting due to CFCO. As a result, the final base MOE for FY 2011-12 has been adjusted to \$925.8 million. In 2013-14, the Budget annualizes changes in local wages and benefits in the County MOE, resulting in an additional \$25.6 million to the County MOE for 2013-14. In addition, another \$8.1 million will be added for wage and benefit increases approved as of October 1 and billed to those counties separately (annualized this equals \$8.9 million). Beginning July 1, 2014, the county base MOE will be increased by an annual 3.5 percent inflationary factor, thus increasing county expenditures by \$33.6 million. The total county increase as a result of these changes in 2014-15 equals \$68.1 million.

Impact of Minimum Wage Increase – The budget projects a small impact due to the implementation of the minimum wage increase to \$9.00 per hour effective July 1, 2014, estimated to be \$5.7 million (\$2.9 million GF).

Reduction in IHSS Hours – The Governor's Budget continues implementation of the Oster Settlement Agreement which required an 8 percent cut in 2013-14, and reduces the amount of the cut to 7 percent beginning July 1, 2014 consistent with that Agreement. This reduction results in a cut of \$388.5 million (\$180.7 million GF), which is \$14.5 million (\$8.3 million GF) less than in 2013-14.

Federal Overtime Regulations – Federal Department of Labor (DOL) regulations will require, as of January 1, 2015, payment to domestic workers for time worked over 40 hours per week. In addition, the regulations require payment to providers traveling between multiple recipients, wait time that is associated with medical accompaniment, and time spent in mandatory provider training. The Governor estimates the regulations would increase IHSS program costs by over \$600 million (total funds) by 2015-16.

The Governor's budget proposes to prohibit any IHSS provider from working more than 40 hours in a week. A provider would not be allowed to work more than 40 hours in a week for a single client, and would additionally prohibit an IHSS provider who has multiple clients to work more than 40 hours combined for their clients (including clients served under Waiver Personal Care Services programs). There are approximately 49,000 recipients statewide who have over 160 authorized hours per month. Of those, 37,000 have a single provider and 12,000 have multiple providers. To implement this policy, the budget proposes the following:

- ***New Administrative Activities:*** The budget would establish a new process to implement these workweek agreements for all consumers and providers. New administrative activities would include: mailing initial notifications to consumers and providers of the workweek policy, sending warning notices to providers for first-time violations of overtime, and terminating providers who work overtime a second time.
- ***New Provider Backup System:*** In addition, the budget proposes a new Provider Backup System that would be activated by the consumer when his or her regular provider is expected to incur overtime. These requests would be revised by the County IHSS social worker who would review requests and coordinate services for the consumer. The system would be capable of sending a back-up provider on short-notice, and be paid at a higher rate than other IHSS providers. The Department estimates that counties would

need to recruit at least 22,000 more providers and anticipates those added costs to public authorities. The proposal notes that any services provided by the backup provider would be deducted from the recipient's authorized hours. The State would establish statewide standards for these locally-administered systems. The Budget provides \$68.6 million (\$32.1 million GF) to implement this new system.

- **Medical Accompaniment and Training:** Since the FLSA requires payment for the providers' time spent at medical appointments and training, the budget estimates that 85 percent of recipients will require three hours per month for medical accompaniment, and all providers will attend two-hour orientation training. The budget estimates these costs at \$87 million (\$40.3 million GF).
- **CMIPS II Modifications:** The Budget also includes \$78.5 million total funds for new functions to support these activities.

The total cost of implementing this policy will be \$208.9 million (\$99 million GF) in 2014-15 and \$327.9 million (\$153.1 million GF) thereafter.

IHSS Administration – The budget identifies \$476.8 million (\$238.9 million GF) for IHSS Administration. However, IHSS Administration funding is part of the IHSS MOE; therefore actual IHSS Administration expenditures will depend on county budgeting decisions.

### **Coordinated Care Initiative**

The Budget proposes no major changes for the Coordinated Care Initiative, but does affirm County IHSS's role with respect to eligibility determination, assessment of hours, and program administration. The Administration expects to launch CCI on April 1, 2014 in the eight demonstration counties (Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara) in the following manner:

- Beginning April 1, 2014, dual-eligibles in Orange, Riverside, San Bernardino, San Diego and San Mateo counties who are in Medicare fee-for-service will be passively enrolled for both their Medi-Cal and Medicare benefits. This same process will commence for Alameda and Santa Clara beginning July 1, 2014.
- For Los Angeles County, dual-eligibles may voluntarily enroll in Cal MediConnect or opt out beginning April 2014, with passive enrollment beginning July 1, 2014.
- Persons eligible for Medi-Cal or for partial Medicare coverage only (non-duals) in all eight demonstration counties will have long-term supports and services and home and community-based services (including IHSS) included in managed care beginning July 2014.

The budget projects net GF savings for the CCI of \$159.4 million in 2014-15. This figure includes GF savings from the sales tax on managed care organizations. Without the tax revenue, the CCI would have a GF cost of \$172.9 million in 2014-15.

CCI Care Coordination Teams – The budget proposes new funding to support social worker participation on care coordination teams, and proposes \$181,000 (\$91,000 GF) for 2013-14, and \$733,000 (\$367,000 GF) in 2014-15, for related administrative activities.

### **Supplemental Security Income/State Supplemental Payment (SSI/SSP)**

The Governor's Budget proposes to pass through an annual federal cost-of-living adjustment (COLA) based on the Consumer Price Index to the SSI portion of the grant, which is projected

to equal a 1.5 percent increase in 2014, and a 0.6 percent increase in 2015. This would result in maximum SSI/SSP monthly grant level increases of \$11 and \$16 for individuals and couples, respectively, effective January 2014. Maximum SSI/SSP grant levels before this COLA increase are \$866 per month for individuals and \$1,462 per month for couples. Cash Assistance Program for Immigrants (CAPI) benefits are equivalent to SSI/SSP benefits, less \$10 per month for individuals and \$20 per month for couples. There is no increase proposed to the state SSP portion of the grant.

### **Community Care Licensing**

The Governor's Budget proposes an increase of \$7.5 million total funds (\$5.8 million GF) and 71.5 positions to support quality enhancement and program improvement in Community Care Licensing (CCL), in response to a number of high-profile incidents at children's and adult residential care facilities licensed by the state. The proposal would significantly increase civil penalties to support this increased level of staffing to enable CCL to improve the timeliness of investigations. In addition, the budget proposes to establish a hotline for complaints in its facilities. The Administration notes that policy and practice changes are planned to improve quality and accountability for medical and mental health conditions in community facilities, through increased CCL training for field staff, supervisors, and managers. Additional resources are planned for quality assurance, consumer protection, and safety (no details yet available). These activities are proposed to be funded in part through a proposed 10 percent increase in licensing fees.

### **Child Welfare – Foster Care – Adoption Assistance**

The Governor's Budget continues to project declines in the foster care caseload, and predicts a 4.3 percent decline to 40,129 foster care cases in 2014-15 (this includes placement with foster family homes, foster family agencies, and group homes, and excludes relatives receiving CalWORKs). The Adoption Assistance Program (AAP) caseload continues to increase and for 2014-15 caseload is projected to increase by 0.4 percent, to 84,723 cases.

There are no programmatic changes or budget proposals in this budget area.

### **Automation**

The key automation projects appear to be funded at the levels needed to proceed as expected. Future budget updates will provide additional information as it becomes available.

The complete summary of the Governor's proposed 2014-15 budget can be found at the following link:

[http://www.dof.ca.gov/documents/FullBudgetSummary\\_2014.pdf](http://www.dof.ca.gov/documents/FullBudgetSummary_2014.pdf)