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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 #3 – ERRATA - 2014-15 May Revision

Governor Brown released the May Revision to his proposed 2014-15 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 economic forecast for California has not changed significantly since the Governor's Budget and the General Fund (GF) revenue projections remain strong. GF revenues at the May Revision are projected to be a net \$2.3 billion higher than what was projected in January. This increase is comprised of \$2.0 billion more in 2013-14 and \$856 million more in 2014-15, offset by a downward adjustment of \$513 million to 2012-13 revenues. The \$2.3 billion in additional revenues is proposed to be spent primarily on Medi-Cal due to caseload and other budget adjustments related to ACA implementation (about \$1.2 billion, which is discussed more below), K-12 Education as a result of the Proposition 98 funding guarantee (about \$659 million), drought-related expenditures (\$121 million), repayment to local governments a portion of existing owed mandate reimbursement claims (\$100 million), additional funding to trial court operations (\$60 million), and the rest largely on various adjustments for caseload- and enrollment-driven cost increases. Of this net \$2.3 million increase, \$1.4 billion is one-time and \$856 is projected to be ongoing. The May Revision continues to include from the January budget a \$1.6 billion supplemental payment to pay off the Economic Recovery Bonds and \$1.6 million for the Budget Stabilization Account (the existing Rainy Day Fund established by Proposition 58 in 2004), as well as \$967 million proposed for the regular reserve.

The net \$2.3 billion increase in GF revenues is less of an increase than we were hearing from other sources could be available at the May Revision. We will keep you apprised of upcoming discussions on the Administration's May Revision revenue estimates and whether the GF revenue projections of Legislative Analyst's Office corroborate the current May Revision projections.

HEALTH AND HUMAN SERVICES

With a couple of small exceptions, there is programmatically nothing new proposed in the May Revision in the health and human services budgets. Based on the information that we have

received so far, the May Revision appears to largely reflect cost changes associated with caseload and other technical budget adjustments. Specific updates include the following.

Medi-Cal

The subvention binder with all of the back-up for the Medi-Cal budget will not be available until tomorrow, so the following information is what we have been able to glean from the May Revision summary document and brief communications with Administration staff.

According to the May Revision summary documents, Medi-Cal costs due to implementation of the Affordable Care Act are up by \$1.2 billion GF in 2013-14 and 2014-15 from the January estimates. At this time, we do not know completely what the \$1.2 billion GF increase is comprised of, although we do know that it includes the following:

- \$602.3 million GF in 2013-14 and 2014-15 due to additional caseload from the mandatory expansion
- \$94.4 million GF in 2013-14 and 2014-15 due to the assumption that redeterminations will not resume until July
- \$175.1 million GF in 2014-15 due to erosion of the \$900 million in estimated 1991 health realignment savings

Overall Caseload – The May Revision estimates that Medi-Cal enrollment will increase to 11.5 million in 2014-15, up from the January estimate of 10.1 million. The increase is due to stronger than expected enrollment resulting from the implementation of federal health care reform.

Health Care Reform Medi-Cal Expansion – The budget estimates that Medi-Cal enrollment will increase by an estimated 2.4 million 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.) This enrollment estimate is up about 1.1 million from the January estimate of 2014-15 enrollment due mostly to an increase in the optional expansion caseload. For the mandatory expansion, the budget assumes GF costs of \$918 million in 2014-15, up \$513 million GF from the January estimate. For the optional expansion, the budget assumes net costs of about \$12 billion in federal funds in 2014-15, up \$6.0 billion from the January estimate (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.

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) and conversations with Administration staff prior to release of the May Revision indicate that the full amount is included.

Base Administration Funding – We are told that the May Revision 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).

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 have chosen either 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). The May Revision estimates county savings to be \$300 million in 2013-14 and \$724.9 million in 2014-15. The 2014-15 May Revision savings estimate is down by \$175.1 million from the \$900 million January estimate.

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 needed 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 May Revision assumes that there will be \$70.1 million available in 2013-14 and \$157.7 million in 2014-15 in the Child Support and Family Supplemental Support Subaccount. These estimates are down slightly from those in January and 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 May Revision estimates that 2011 Realignment sales tax revenues (the revenues used to fund the realigned social services and behavioral health programs) will be down slightly from the January estimates and projects the growth rate of those sales tax revenues to be 5.55 percent higher 2013-14 than the amount of

revenues received for 2012-13 (down from 6.60 percent in January) and 7.14 percent higher in 2014-15 than amount of revenue estimated to be received for 2013-14 (down from 7.32 percent in January).

The May Revision estimates that those overall sales tax growth rates will translate into growth funding for the Support Services Account of an estimated \$125.8 million in 2013-14 (of which \$77.8 million is for the Protective Services Subaccount) and \$376.1 million in 2014-15 (of which \$186 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 5.41 percent in 2013-14 and another 10.55 percent in 2014-15.

Compared to the January estimates, the May Revision estimate of funding for the Support Services Account is down by \$33.5 million in 2013-14 (down \$20.7 million for the Protective Services Subaccount) and down \$19.8 million in 2014-15 (down \$20.6 million for the Protective Services Subaccount).

CWDA staff will provide a summary chart comparing the January and May 2011 Realignment revenue estimates in the coming days.

CalWORKs

Caseload - The May Revision includes revised projections for the CalWORKs caseload, which continues to decline, but at a slower rate than previously assumed. The projected Employment Services caseload trend for 2014-15 reflects a slightly higher caseload than the January Budget estimate, primarily due to previously-exempt cases that have been reengaged.

Administration – The May Revision reflects \$880.6 million for CalWORKs Administration in 2014-15, which is an increase of \$16.7 million over the January Budget. This increase is primarily due to the slower than previously anticipated decline in caseload.

Employment Services – The funding for Employment Services is proposed at \$953 million in the May Revision. This is an increase over the January Budget of just under \$14 million, and reflects the projected increase in the Employment Services caseload.

Grants – The growth revenues in the Child Poverty and Family Supplemental Support Subaccount that was created in 2013-14 to fund CalWORKs grant increases are not expected to be sufficient to fully fund the March 1, 2014 MAP increase. The May Revision contains \$13 million GF to cover the cost of the grant increase in 2014-15, which reflects an increase of \$6.8 million GF from the January budget. Based on the May Revision projected funding in this Subaccount, there will not be sufficient funds for a subsequent MAP increase in 2014-15.

Expanded Subsidized Employment – There is no change in the total proposed funding amount for ESE for 2014-15 in the May Revision. It remains at \$134.15 million.

Family Stabilization – Due to the projected increase in the Employment Services caseload, there is a very slight increase in funding in the May Revision for 2014-15 of \$400,000 for a total of \$26.8 million. There is no additional funding included for Family Stabilization services.

Standardized Appraisal Tool (OCAT) – Funding for OCAT reflects a very slight decrease of approximately \$600,000 in 2014-15 due to a decrease in the estimated number of monthly appraisals. The May Revision reflects \$15.52 million for appraisal services, which includes

one-time funding for worker training. Projected automation costs in 2014-15 remain at the \$500,000 amount proposed in January.

Parent-Child Engagement Demonstration Project – The proposed Parent-Child Engagement Demonstration Project remains in the May Revision with no changes to the projected funding level. Proposed funding for 2014-15 for this project remains at \$9.9 million, which includes grant payments, child care, services, and administration.

Child Care

Stage 1 – The May Revision reflects total Stage 1 costs of \$345.1 million in 2014-15, which is an increase of \$25.1 million from the January Budget. This increase is the result of a higher caseload projection for 2014-15, slightly offset by the lower cost-per-case that resulted from the methodology change that removed the CNI adjustment.

Stage 2 – The Stage 2 caseload is projected to decline and the May Revision reflects a decrease of \$15.6 million non-Proposition 98 General Fund as a result.

Stage 3 – Stage 3 reflects an increase of \$30.2 million non-Proposition 98 General Fund. This increase is the result of a small increase in the projected caseload and cost-per-case.

CalFresh

Caseload – The May Revision projects an increase over the January estimate of 134,000 CalFresh cases by June 2015 as a result of ACA implementation, bringing the total estimated 2014-15 CalFresh caseload increase due to ACA implementation to 279,000.

Administration – The May Revision reflects an increase of \$89.7 million in total funds (\$24.2 million GF) above the January Budget for CalFresh Administration, for a total of \$1.64 billion in 2014-15. The GF increase is primarily driven by increased caseload growth due to ACA implementation.

Heat & Eat – The May Revision reflects \$10.5 million GF in 2014-15 to provide for the continuation of the Heat & Eat program in California. This state-funded energy assistance subsidy will allow the state to comply with the changes to the minimum LIHEAP payment amount required by the passage of the Farm Bill (Pub.L 113-79).

Modified Categorical Eligibility - The May Revision proposes to increase the gross income limit to 200 percent of the FPL for the TANF- and State MOE- funded service that confers modified categorical eligibility for all households. This is an allowable federal option and it will eliminate the administrative complexity of programming different Income Reporting Threshold levels and separating those who are categorically eligible for CalFresh under AB 191 from other CalFresh applicants.

This change will create a new group of people who will become eligible for CalFresh who are not currently receiving or eligible to receive Medi-Cal, and will also impact those who are current Medi-Cal recipients, those who were Medi-Cal eligible prior to the ACA, and those who became Medi-Cal eligible under the ACA. It is estimated that these four groups will increase the CalFresh caseload by 6500 cases in the current year, and by 92,000 cases in FY 2014-15. There is no change in the CalFresh Administration funding level in the current year; however, in 2014-15, the May Revision shows an increase in CalFresh Administration of \$7.8 million

over the January Budget to account for the projected caseload increase associated with this proposal.

In-Home Supportive Services

The Administration projects an increase in caseload of 2.2 percent in 2013-14, and 2.4 percent in 2014-15 to 463,939 recipients.

County Maintenance of Effort (MOE): The May Revision reflect the counties' MOE costs for the IHSS program to equal \$950.2 million for SFY 2013-14. This is largely unchanged from the January budget proposal and is an increase of \$19.6 million from the prior fiscal year due to inclusion of an estimate of annualized costs and wage increases. In 2014-15, the May Revision reflects \$985.2 million in County IHSS MOE costs, which is an increase of \$6.5 million due to annualized adjustments from the prior fiscal year, and \$33.3 million and due to the implementation of the statutorily required 3.5 percent inflation factor effective July 1, 2014. The state costs to support the County MOE for 2014-15 is \$8.7 million less than projected in January.

IHSS Basic Costs and Impact of Minimum Wage Increase – The May Revision projects increased overall costs to the IHSS program, which the Governor attributes to increases in caseload, hours per case, and costs per hour. For the current year, additional costs are estimated to be \$143 million SGF, which is \$108 million higher than projected in January. For 2014-15, additional costs are estimated to be \$134.4 million higher than projected in January. The budget continues to project a small impact due to the implementation of the minimum wage increase to \$9.00 per hour effective July 1, 2014, estimated to be \$5.4 million (\$2.7 million GF).

Preliminary analysis of increases costs appear in the weighted average hours per case per month, which are estimated at 91 hours, up from 89.5 hours assumed in the January budget. Share of Cost paid by recipients in IP mode is projected to decline by \$5.5 million in 2013-14 and by \$5.7 million in 2014-15. In addition, total workers' compensation costs have increased \$16 million in 2013-14 and \$17.2 million in 2014-15.

Reduction in IHSS Hours – The May Revision 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. The May Revision reflects a net savings of \$405 million (\$189.9 million GF) in 2014-15, which is \$10.5 million (\$4.9 million GF) less savings than in 2013-14. The May Revision projects higher anticipated savings from the Governor's January budget, resulting in an increased cut of \$5.9 million in 2013-14 and \$9.2 million in 2014-15 directly attributable to the 7 percent reduction.

ACA Impact on IHSS: The May Revision anticipates a new cost in the IHSS Program due to implementation of the ACA as IHSS serves newly eligible individuals in the optional expansion as well as previously unserved Medi-Cal eligible individuals who apply as a result of ACA outreach efforts. Increased service costs are anticipated to equal \$66.5 million and are 100 percent federally-funded. County administration costs are projected to be \$14.5 million (\$7.3 million GF) in 2013-14 and \$27.5 million (\$13.8 million GF) in 2014-15.

Federal Overtime Regulations – The May Revision does not propose any major changes from the Governor's January Budget proposal to restrict payment of overtime to IHSS providers. Beginning January 1, 2015, the Federal Department of Labor (DOL) regulations require payment to domestic workers for time worked over 40 hours per week as well as payment to

providers traveling between multiple recipients and wait time that is associated with medical accompaniment. The May Revision projects that 19 percent of providers work for multiple recipients and will spend one hour per month commuting between recipients, and that 87 percent of providers will incur three hours of additional time per month waiting for recipients to complete their medical appointments.

The May Revision projects \$14 million (\$6.4 million GF) for the IHSS service costs of the Provider Backup System, \$95.3 million (\$44.4 million GF) for the implementation of the travel time and medical wait time, and \$52.4 million (\$26.3 million GF) for County Administration. This represents a decrease from the Governor's January Budget projection by \$54.6 million (\$25.7 million GF) for the Backup System, due to a correction in the wage adjustment for emergency back up providers, shifting some costs to the CMIPS II premise.

IHSS Administration – The budget identifies \$476.8 million (\$238.9 million GF) in total costs for IHSS Administration. This includes County Administration for the IHSS program which is projected to cost \$312.3 million (\$156.7 million GF) and \$320 million (\$160.7 million GF) in 2014-15. However, IHSS Administration funding is part of the IHSS MOE; therefore actual IHSS Administration expenditures will depend on county budgeting decisions. This also includes \$20.5 million for Quality Assurance (county QA staff), a state interagency agreement with the State Controller's Office and State Treasurer's Office for payroll issuance and reconciliation, and a new Consumer Satisfactory Survey. While these two latter costs were included in the January budget, the overall expenditures under this item are projected to be \$9.2 million (\$4.6 million GF) higher than projected in January.

CFCO – The May Revision projects GF savings of \$224.7 million in 2013-14 and \$229.8 million in 2014-15 under the Community First Choice Option (CFCO). This is an increase in GF savings from the January Budget by \$7.2 million in 2013-14 and \$9.8 million in 2014-15, due to an increase in IHSS Basic Costs which can be claimed under CFCO.

Coordinated Care Initiative

The May Revision continues to project new administrative costs in the IHSS program for counties participating in the CCI demonstration. In 2013-14 projected county administration costs are \$757,000 plus \$181,000 for social workers to participate in care coordination teams for ten percent of the CCI participants. In 2014-15, the May Revision proposes \$4.6 million (\$2.3 million GF) in new county IHSS administrative activities, plus an additional \$1.1 million (\$561,000 GF) for care coordination teams. The May Revision increases its projected costs over the Governor's January budget projections for 2014-15 by a total of \$3.6 million (\$1.8 million GF).

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

The May Revision continues to pass through the annual federal cost-of-living adjustment (COLA) based on the Consumer Price Index to the SSI portion of the grant. The 2014 federal COLA increased the federal portion of the grant by 1.5 percent and the budget projects a 0.5 percent increase effective January 1, 2015.

Child Welfare – Foster Care – Adoption Assistance

The May Revision projects an increase of 0.8 percent for monthly average Emergency Response cases in 2013 and a 1.3 percent increase in 2014-15, while the foster care caseload (not including foster children placed with relatives receiving CalWORKs) is projected to decrease by 1.4 percent in 2013-14 and by 2.0 percent in 2014-15. The Adoption Assistance

Program (AAP) caseload is projected to decrease 0.4 percent in 2013-14 and increase by 0.4 percent in 2014-15.

The May Revision estimates a total of \$5.3 billion expenditures under the CWS and Foster Care Realigned Program, of which \$1.6 billion is Title IV-E funding, \$1.7 billion is Local Revenue Fund (2011 Realignment). KinGAP, which was not realigned, is projected to experience an increase in cases, from 7,963 in FY 2013-14 to 8,080 in 2014-15, and total cost in 2014-15 is projected to equal \$67 million (\$52.9 million GF and \$14.1 million county funds).

With respect to non-realigned funding premises, the May Revision contains the following new proposals:

Case Record Reviews – Proposes funding to enable California and counties to comply with new federal requirements for case record reviews as part of the California Child and Family Services Review (CFSR). This would enable counties to conduct ongoing case reviews as well as interviews of individuals involved in the case plan on an on-going basis, in compliance with the new federal requirements. The May Revision proposes \$10.9 million (\$3.5 million GF and \$3.5 million county funds), with counties sharing in the non-federal cost with the state 50 percent consistent with Proposition 30 requirements. The proposal assumes counties with fewer than 101 cases will receive 0.5 FTE, 500 cases will receive funding for 1.0 FTE, and counties with more than 500 cases (including LA and Alameda Counties) will each receive 2.0 FTE.

Katie A. Settlement Agreement Reporting Requirements – The May Revision provides \$800,000 total funds (\$400,000 State GF) to support county CWS administrative activities necessary for the completion of the semi-annual progress reports which require counties to report to DSS and DHCS of the subclass members and mental health services provided to subclass members. The May Revision also proposes a like amount (\$1.2 million total, \$600,000 GF) for county mental health departments. The Administration cites its obligation under Proposition 30 (2012) to pay for these newly required activities. In addition, the Administration indicates that the use of this funding is subject to further discussion with counties to determine if overall Katie A. costs have increased.

Child Near Fatality Reviews – The May Revision assumes new costs to comply with federal policy issued on September 12, 2012 which requires the public disclosure of the findings or information of a child abuse or neglect which results in a child near fatality. The May Revision assumes \$281,000 total funds (\$68,000 GF and \$68,000 county funds) for counties to implement these new activities.

CWS Training – Increases funding for CalSWEC by \$1.7 million (\$900,000 GF) to comply with the Katie A. v. Bonta settlement.

Title IV-E Waiver Extension – Proposes funding for additional positions within CDSS to support expansion of the Title IV-E Waiver in up to 18 additional counties, for a cost of \$3.1 million (\$1.5 million GF).

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.

CMIPS II – The May Revision includes funding of \$10 million 2014-15 for CMIPS II system enhancements for time sheets for people who are blind and visually impaired, in response to potential litigation.

CWS – New System – As anticipated, funding has been reduced in the May Revision in both 2013-14 (\$1.9 million) and 2014-15 (\$22.3 million) for the CWS – New System, due to the previously reported 19 month delay in the project's initiation.

County Expense Claim Reporting Information System (CECRIS) – The May Revision proposes increases in 2013-14 funding for CECRIS of \$30,000 due to increased procurement support hours, and decreases in 2014-15 funding by \$1.3 million due to a five month delay in the procurement phase, which will reduce contract costs during that year.

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

http://www.dof.ca.gov/documents/2014-15_May_Revision.pdf