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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 #1 – 2009-10 Proposed Budget**

Governor Schwarzenegger has released the details of the proposed 2009-10 budget.

**Overall Budget Picture**

The budget projects a deficit of \$39.6 billion (\$41.6 billion including the Governor's proposed \$2 billion reserve) through 2009-10 by far the largest deficit in the state's history. The staggering deficit amount far exceeds the \$4-6 billion gap thought by many to exist upon enactment of the 2008-09 budget and is primarily the result of the sharp decline in revenues due to the national economic crisis estimated to continue through the budget year.

Current Year – The budget projects \$91.1 billion in General Fund revenues for 2008-09, a decrease of \$10.9 billion from the 2008-09 budget enacted September 23, 2008. Total statewide expenditures for the current year are proposed at \$92.4 billion, a decrease of \$11.0 billion from the 2008-09 enacted budget. Note that the revised 2008-09 expenditures include a \$4.7 billion reduction in General Fund due to issuing revenue anticipation warrants (RAWs).

Budget Year – The proposed 2009-10 budget projects a \$6.6 billion increase in General Fund revenues over the revised current year estimates for a total of \$97.7 billion. Expenditures are proposed at \$95.5 billion, a decrease of \$7.9 billion from the 2008-09 enacted budget. Note that the proposed expenditures include a \$6.1 billion reduction in General Fund based on securitizing the State Lottery.

The below chart has general descriptions of the proposed solutions.

Tax increases and other revenues	\$14.3 billion
Spending reductions	\$17.4 billion
State Lottery securitization	\$5.0 billion
Revenue Anticipation Warrants and Loans	\$5.0 billion
<b>Total</b>	<b>\$41.7 billion</b>

Cash Flow – The Administration indicates that even if the Legislature were to adopt all of the proposed current year reductions and revenues in the next few weeks, there will not be sufficient cash reserve for the state to continue paying all of its bills beginning in March. As such, the State Controller's Office is preparing to issue registered warrants (IOUs) for some payments as soon as

February. It is not yet clear how limited or widespread the use of registered warrants would be, their likely duration, and what payments to local governments would be included. We will send further information regarding the use of registered warrants as it becomes available.

### **Overall Health and Human Services**

The “workload” budget for health and human services includes a \$2.4 billion General Fund increase due to rising caseloads and utilization of the safety net in the face of the national economic crisis. Across all health and human services programs, the budget proposes a reduction of \$1.1 billion General Fund from the 2008-09 enacted budget. Due to the rising demand of safety net services, \$1.1 billion reduction requires \$3.5 billion, or 11.3 percent, in cuts to health and human services programs from the 2008-09 enacted budget.

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

#### **Human Services Funding Deficit**

The budget does not propose to fund cost increases to counties to deliver mandated programs on behalf of the state. Through 2008-09, counties are funded about a \$1 billion (\$576 million GF) below what is needed to cover the actual cost to deliver human services. As such, to the extent human services programs receive funding increases based on rising caseloads, amounts are based on 2001 cost levels. Also, the human services funding deficit amount does not include the \$447 million (\$346 million GF) in cuts to base program funding that have occurred since 2002.

#### **CalWORKs**

Revised average monthly caseload estimates for the program are 493,635 cases in 2008-09 and 527,811 cases in 2009-10 for a 5.9 percent increase in the current year and a 6.9 percent increase in the budget year. However, the proposed policy changes are estimated to significantly reduce the caseload by 111,050 cases in the budget year for adjusted caseload estimates of 416,761.

Single Allocation – The budget proposes to fund the Single Allocation at \$2.03 billion for a \$106.2 million increase over the current year to account for the projected caseload increase, child care utilization, and partial restoration of the current year incentives-related reduction based on the actual amount of unspent incentives.

Employment Services – The Governor proposes to continue the \$60 million veto from the current year but fund projected increases in caseload.

Eligibility – The Governor proposes to augment eligibility in the current year by \$12.9 million based on the actual unspent balance of performance and fraud incentives. The 2008-09 budget included a \$20.6 million reduction based on the Administration’s estimated amount of unspent performance and fraud incentives as of June 30, 2008. However, the final budget also included CWDA suggested language to limit the reduction to the lesser of \$20.6 million or the amount available which effectively reduces the cut from \$20.6 million to \$7.7 million.

Pay for Performance – The Governor proposes to suspend the Pay for Performance program for savings of \$40 million. The Pay for Performance program was established in 2005-06 to create incentives to counties to achieve program outcomes; however, counties have never received funding for meeting or achieving those outcomes.

CalWORKs Grants – The Governor proposes to suspend the 2.94 percent statutory cost-of-living-adjustment for CalWORKs recipients effective July 1, 2009, for cost avoidance of \$79.1 million. In addition, the Governor proposes a 10 percent grant cut to all CalWORKs families effective May 1,

2009 for savings of \$46.3 million in the current year and \$301.3 million in 2009-10. This proposal would reduce the maximum monthly grant for a family of three from \$723 to \$651.

Modified Safety Net – The Governor proposes to eliminate benefits for safety-net families not meeting federal work participation requirements effective May 1, 2009, for savings of \$37.4 million in the current year and \$266.7 million in 2009-10.

60-month Time Limit on Child-only Cases – The Governor proposes a 60-month time limit for certain child-only cases (children of undocumented parents, drug felons or fleeing felons) for savings of \$39.4 million in the current year and \$268 million in 2009-10. This reduction assumes a May 1, 2009 implementation date.

CalWORKs Self Sufficiency Review – The Governor proposes a face-to-face “Self Sufficiency Review” every six months with a county Welfare-to-Work worker for all CalWORKs families who are not meeting federal work participation requirements. Child-only cases would be included in these reviews, though non-needy caretaker relatives of foster children would not be included. Failure to comply would be treated as non-compliance with an eligibility requirement and would result in being cut off aid. The proposal would be effective May 1, 2009 and would result in \$15 million in savings in the current year and \$100 million in 2009-10.

CalWORKs Data – The proposed budget includes \$1.8 million to begin a 29 month project to develop a statewide system to track Welfare to Work data.

Quarterly Reporting/Prospective Budgeting – The budget assumes net administrative savings of \$61.4 million, a \$4 million increase from the current year. This amount includes increased administrative costs of \$214.3 million offset by savings of \$275.7 million.

Tribal TANF – Total funding is proposed at \$92.0 million, including \$84.0 million for grants, \$2.5 million for employment services, and \$5.5 million for administration. This amount is a \$7.7 million increase over the current year.

TANF Reserve – The budget proposes no TANF reserve.

Substance Abuse and Mental Health – The Governor proposes \$118.9 million for the current year, a mid-year augmentation of \$13.1 million (\$8.5 million Substance Abuse, \$4.6 million Mental Health) based on increased costs and a revised expenditure based versus caseload based methodology. Budget year funding is proposed at \$124.1 million (\$54.1 million Substance Abuse, \$70.0 million Mental Health) for a \$5.2 million increase over the revised current year amount.

## **Child Care**

Stage One – The budget proposes total funding of \$670.7 million, a \$56 million increase over the current year primarily related to a projected 10.9 percent caseload increase (63,223 to 70,114) and the annual impact of the March 2009 Regional Market Rate ceilings adjustment. The Stage One reserve is proposed at \$34.5 million.

Regional Market Rate Ceilings Reduction to 75<sup>th</sup> Percentile – The Governor proposes to decrease the Regional Market Rate (RMR) ceilings from the 85<sup>th</sup> percentile to the 75<sup>th</sup> percentile in July 2009, to achieve savings of \$30.9 million. Last year the Governor proposed to implement the new RMR in January 2009, but at the 75<sup>th</sup> percentile. Instead the Legislature shifted the implementation date of the RMR to March 2009, and kept the RMR at the 85<sup>th</sup> percentile.

### **Food Stamps**

Caseload has increased 15 percent over the last year and is projected to increase 6.9 percent next year to 814,787 families. As such, there is a proposed current year augmentation of \$15.7 million General Fund for a revised current year allocation of \$291.7 million General Fund. Budget year funding is proposed at \$323.9 million General Fund for a \$32.2 million increase over the revised current year amount. This amount includes continuation of last year's base cut of \$21.0 million (\$8.6 million GF) that resulted in the elimination of funding for 181 eligibility workers providing food stamps benefits to thousands of needy families.

Quarterly Reporting/Prospective Budgeting – The budget assumes net administrative savings of \$80.0 million (\$28.0 million GF), a \$10.1 million increase from the current year. This amount includes increased administrative costs of \$121.0 million (\$42.4 million GF) offset by savings of \$201.0 million (\$70.4 million).

### **Child Welfare Services and Foster Care**

The Administration proposes no cuts to child welfare services. Overall, child welfare services funding increases slightly from \$1.16 billion in the current year to \$1.2 billion in the budget year, a net increase of \$43.6 million. The proposed budget includes significant funding from the redirection of \$275 million state and local Proposition 10 funds, of which \$93.0 million is presumed to support various child welfare activities, \$107 million is proposed to support foster care and AAP expenditures, and \$75 million is proposed to support the Title IV-E waiver. Note that the redirection of Proposition 10 funds requires approval by voters.

The Administration projects a decrease in the foster care caseload in both the current year and budget year. The current year foster care caseload is projected to average 68,855, a decrease of 2.7 percent from 2007-08. In FY 2009-10, the foster care caseload is expected to decline further by 1.8 percent, to 67,585 foster children.

Foster Care Grants – Continues the 5 percent rate increase implemented last January 2008 for foster family homes, group homes and KinGAP providers. No rate cut is proposed.

Dual Agency and KinGAP – Extends the Dual Agency rate and supplemental rate to KinGAP recipients, retroactive to July 1, 2007 when the Dual Agency rate was established.

Monthly Social Worker Visits – Provides \$11.9 million (\$5.3 million GF) to support increased monthly social worker visits, in an effort to comply with new federal standards for monthly visitation. Another \$1 million in PSSF is also available to counties (an increase of \$508,000 federal funds).

HR 6893 – The proposed budget contains three items related to implementation of the federal Fostering Connections to Success and Increasing Adoptions, which was signed into law in October 2008. This includes: \$294,000 (\$131,000 GF) to create Transitional Independent Living Plans prior to youth emancipation, commencing January 1, 2010; \$1.5 million (\$652,000 GF) to support activities related to identifying and notifying relatives within 30 days of a child's removal beginning January 1, 2010; and \$1.1 million federal funds pass-through in adoption incentive funds to support basic adoption services.

Program Improvement Plan (PIP) Activities – The following proposed expenditures would support activities to comply with the State's PIP, and both presume counties to provide a 30 percent county match:

Case Planning – \$7.4 million (\$3.3 million GF) to increase family and youth engagement via case planning meetings. The funding would support three case planning meetings per year per youth prior to reunification, benefitting approximately 12,630 youth statewide.

Family Finding – \$15.2 million (\$6.8 million GF) to increase family finding and engagement efforts, including locating relatives upon foster care entry and establishing familial connections. The proposal would assist over 14,000 foster children and 3,400 foster youth over age 16.

AB 340 – The budget proposes to defer implementation of the Resource Family Approval Pilot from October 2008 to April 2009 and provides \$713,000 (\$317,000 GF) in the current year and \$1.8 million (\$786,000) in the budget year for up to five counties to implement the pilot.

Chafee Federal National Youth in Transition Database (NYTD) – The budget proposes \$1.2 million (\$647,000 GF) for county staff to inform and obtain written consents from foster youth to participate in a federally-required study of outcomes prior to and after emancipation. An additional \$600,000 is proposed to support a contract with a university to perform the study.

Child Welfare Training – The budget proposes a slight increase in training funds (\$695,000 total, \$462,000 GF) to partially offset a decrease in PSSF training funds and increased training needs as a result of the Program Improvement Plan.

Child Welfare Claiming Change – As a result of concerns from the Administration of Children and Family over Emergency Assistance case management being funded with Title IV-E funds, the budget proposes to shift \$10.6 million from Title IV-E to General Fund in the current year and then \$25.1 million from the General Fund to TANF in the budget year. Our understanding is that the intent of these shifts is to hold counties harmless for the change.

Sex Offender Search – The budget proposes a new Registered Sex Offender (RSO) background check for prospective and approved licensed facilities, including family day care, foster homes and relative/NREFM caregivers. The proposal would require counties to investigate any address matches discovered upon a check conducted by either the county prior to licensure/approval, or by CCL (check conducted via cross-match with CWS/CMS annually after initial licensure/approval). Funding is proposed at \$576,000 (\$366,000 GF) to county child welfare and \$132,000 (\$92,000 GF) to county licensing to perform these functions. The costs of this proposal would be supported by a 16 percent increase in licensing fees, which requires statutory change.

Kin-GAP – Estimated caseload is revised down in the current year to 15,823 based on roll-out of the Kin-GAP enhancements anticipated to occur in full in the budget year rather than the current year. As such, the budget proposes revised funding in the current year of \$138.5 million (\$106.2 million GF) and \$176.2 million (\$131.6 million GF) in the budget year. 2009-10 caseload is projected at 18,472 children.

Transitional Housing Program-Plus – The budget proposes to maintain funding at the current year level of \$40.9 million.

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

The IHSS caseload is projected to increase both in the current year and budget year. The current year caseload is projected to be 428,110, for a growth rate of 7 percent from 2007-08. In FY 2009-10, the IHSS caseload is expected to grow by 6.5 percent, to 456,146 recipients.

County Administration – The budget proposes total funding of \$330.7 million (\$117.2 million GF) in the current year for a mid-year augmentation of \$9.1 million. Budget year funding is proposed at \$358.5 million (\$126.8 million GF), a \$27.8 million increase over the revised current year amount. These amounts are a result of rising caseload and include continuation of last year’s five percent base cut to IHSS social workers, which results in a \$15.0 million (\$5.3 million GF) reduction in county operating costs and the eliminating funding for 100 social workers.

Domestic and Related Services – The budget proposes to eliminate domestic and related services for IHSS consumers with functional index rankings under 4 (consumers with a functional index score of 1 would not be impacted as they do not currently receive these services) effective May 1, 2009. This is estimated to impact 81,000 consumers who would lose an average of 22.6 hours per month and would save \$36.7 million (\$11.9 million GF) in the current year and \$220.8 million (\$71.4 million GF) in 2009-10.

Share of Cost Buy-Out – The budget proposes to eliminate the state share-of-cost buyout for IHSS consumers with a functional index score below 4, whereby the state pays the difference between the Medi-Cal share-of-cost and the IHSS share-of-cost for PCSP and Waiver cases, effective May 1, 2009, for savings of \$6.4 million (\$6.4 million GF) in the current year and \$46.0 million (\$46.0 million GF) in 2009-10. Note the budget also assumes that additional IHSS recipients will qualify for the buy-out pending roll-back of the Aged and Disabled Federal Poverty Level Program and provides \$1.5 million (\$1.5 million GF) in the current year and \$9.3 million (\$9.3 million GF) in 2009-10 for the increase in recipients that would be subject to the share-of-cost as a result.

Provider Wages and Benefits –The Governor proposes to roll back the state’s participation in wages and benefits to the state minimum wage of \$8.00 per hour plus 60 cents for health benefits effective May 1, 2009, for savings of \$44.5 million (\$44.5 million GF) in the current year and \$266.8 million (\$266.8 million GF) in 2009-10. The proposal would result in a direct cost shift to counties. Under current law the state participates in wages up to \$11.50 per hour plus 60 cents for health benefits. There is no proposal to remove the statutory requirement for counties to collectively bargain for wages and benefits.

IHSS Quality Assurance – Maintains funding for county IHSS Quality Assurance activities at \$32.6 million (\$11.5 million GF).

Provider Enrollment Form – The budget proposes \$7.3 million (\$2.4 million GF) for county administration activities necessary to implement a required provider enrollment form as of July 1, 2009.

**APS**

The Governor proposes \$44.1 million General Fund to continue the 10 percent cut to the APS program for savings of \$11.4 million (\$6.1 million GF). The cut results in the loss of 75 social workers that would have investigated 18,775 reports of abuse or neglect.

**Medi-Cal Administration and Program**

County eligibility operations base funding is proposed at \$1.228 billion (\$614 million GF) to maintain funding at the current year level. In addition to base funding, the \$42.1 million current year base cut is restored, and \$57.5 million (\$28.7 million GF) is budgeted for caseload growth. Funding for cost-of-doing-business increases in the budget year is suspended for savings of \$49.4 million (\$24.7 million GF).

MEDS Security Agreements – The budget proposes \$32.5 million (\$16.2 million GF) to maintain funding at the current-year level.

Citizenship Requirements – The budget proposes \$27.5 million (\$13.8 million GF) to maintain funding at the current-year level.

1931 (b) Program – The budget proposes to reinstate the 100 hour rule and reduce eligibility for parents in 1931(b) to 61 percent of the Federal Poverty Level effective May 1, 2009. This would be phased-in with new applicants, not applied to current recipients. The proposal would result in savings of \$5.2 million (\$2.6 million GF) in the current year and \$176.4 million (\$88.2 million GF) in 2009-10. The proposal assumes that 429,000 adults will lose eligibility, phased in over a three year period. When fully implemented in 2011-12, this change would save the state about \$700 million (\$343 million GF).

Month-to-Month Eligibility for Undocumented Immigrants – The budget proposes to required undocumented immigrants receiving limited-scope benefits to reapply on a monthly basis effective May 1, 2009. The savings are in emergency services, as the monthly requirement would not apply to pregnancy, pre-natal, long-term care or breast and cervical cancer services. The proposal would result in estimated General Fund savings of \$25.2 million (\$12.6 million GF) in the current year and \$151.1 million (\$75.6 million GF) in 2009-10.

Newly Qualified Immigrants – Benefits for newly qualified immigrants (those who have been in the United State for less than five years and are subject to the five-year bar on benefits) and PRUCOLs would be reduced from full-scope to limited-scope and the same monthly re-application requirements would apply. The proposal would result in estimated General Fund savings of \$4.3 million (\$9.4 million GF) in the current year and \$64.6 million (\$139.9 million GF) in 2009-10.

Impose Share of Cost for Aged, Blind, and Disabled Individuals above SSI/SSP Income Ceiling – The budget proposed to eliminate no share-of-cost Medi-Cal for aged, blind, and disabled individuals above SSI/SSP income eligibility ceiling for savings of \$87.6 million (\$43.8 million GF) in the current year, \$407.4 million (\$203.7 million GF) in 2009-10. Savings would be \$425.6 million (\$212.8 million GF) annually thereafter. This proposal reinstates the share of cost provisions in effect prior to 2001.

Aged and Disabled Federal Poverty Limit Program Eligibility Rollback – The budget proposes to roll back the Aged and Disabled Federal Poverty Limit Program income levels to the SSI/SSP income levels effective May 1, 2009, for savings of \$28.6 million (\$14.3 million) in 2008-09 and \$371.6 million (\$185.8 million) in 2009-10. This would drop the income level for eligibility from the current \$1,097 for individuals to \$870 for individuals. The eligibility level would remain the same for couples. The proposal would affect nearly 175,000 individuals in 2008-09.

Aged, Blind, and Disabled Asset Verification – The budget would required DHCS to develop methods for electronic verification of assets for all Aged, Blind and Disabled beneficiaries by October 1, 2009, as required by House Resolution 2. The department intends to contract with a third-party vendor that would provide information to county eligibility staff. If unreported assets are identified, counties would have to follow up with the applicant/beneficiary for additional documentation. No savings are included for this activity in the current or budget year.

IHSS Program Integrity – The Administration indicates that it plans to increase IHSS investigations as required by SB 1104 (Statutes of 2004) which requires DHCS to investigate fraud in the provision or receipt of IHSS services. No savings are included for this activity in the current or budget year.

PARIS Matching Pilot – The budget indicates that DHCS intends to pilot-test participation in the Public Assistance Reporting Information System (PARIS), an information system maintained by

the U.S. Department of Health and Human Services, to test the viability of identifying beneficiary residence changes and public assistance benefits received in other state. Savings of \$204,000 are assumed in 2009-10 for this pilot.

**Automation**

The proposed budget reduces funding for the Los Angeles LEADER Replacement System (LRS) by delaying the schedule six months. All other automation projects are funded sufficiently to continue as planned.

**SSI/SSP**

The Governor proposes, effective May 1, 2009, to reduce SSP grants to the federal minimum based on the 1983 payment standards for savings of \$180.0 million General Fund in the current year and \$1.1 billion General Fund in 2009-10. This proposal would reduce the grant to aged/disabled individuals from \$870 per month to \$830 and to aged/disabled couples from \$1,524 to \$1,407. The federal COLA was implemented January 1, 2009, increasing the SSI portion of grants by 5.8 percent. The federal COLA for 2010 is estimated to be -1.1 percent leaving grants at the same level as 2009. The state portion of the COLA has already been suspended for 2009 and is proposed to be suspended again in 2010.

**CAPI**

The Governor proposes to eliminate the program effective May 1, 2009 for savings of \$20.0 million GF in the current year and \$129.6 million GF in 2009-10. This proposal would eliminate benefits for 11,773 aged, blind, and disabled immigrants.

**CFAP**

The Governor proposes to eliminate the program effective July 1, 2009 for savings of \$37.8 million. This proposal would eliminate food assistance for 27,665 aged, blind, and disabled immigrants.

**Realignment**

The Administration projects a five percent shortfall for the current and budget year Realignment base which would result in an unprecedented three straight years of funding below the base. Through the first four months of the Realignment fiscal year, revenues are currently tracking seven percent below the base compared to last year (five percent in sales tax and nine percent in VLF). Counties are already owed \$175 million in unfunded caseload growth from the past couple of years.