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CWDA

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To: All County Social Service Directors and Fiscal Officers

From: CWDA Staff

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RE: State Budget Update #11 – ERRATA – Governor Releases Two Versions of May Revision

Governor Schwarzenegger released a summary of two versions of the May Revision to the 2009-10 budget at a press conference this afternoon. The first version assumes that Propositions 1A through 1E on the May 19 ballot are passed by the voters. The second version includes additional contingency proposals should those propositions fail. Of note, only three of the propositions on the May 19 ballot are the revenue-generating propositions (Propositions 1C, 1D, and 1E, which together will generate \$5.8 billion in revenue if passed). However, the Governor has described in his May Revision summary that the first version of the May Revision is contingent on all five of Propositions 1A through 1E passing.

Although the due date for the May Revision was statutorily changed as part of the February budget agreement to June of this year so that the outcomes of the May 19 special election could be incorporated into the revised budget, the Administration had previously announced that they would be releasing the May Revision on May 28. However, the release of the summary of the May Revision and the additional contingency proposals today is intended to inform voters of the budgetary consequence of not passing Propositions 1A through 1E. It is our understanding that the Administration still plans to release the details behind this high-level information on May 28. In the meantime, the following descriptions of the Governor's May Revision proposals were provided today.

May Revision Version 1 – Propositions 1A Through 1E Pass

As state and local revenues have continued to decline far beyond what was originally projected in January, the budget projects an additional deficit of \$15.4 billion through 2009-10 (including a proposed \$2 billion reserve for 2009-10). This is on top of the \$41.6 billion deficit that was addressed through a mix of program cuts, tax increases, and borrowing in the budget agreement in February 2009, and assuming passage of Propositions 1A through 1E. This version of the May Revision projects \$85.9 billion in General Fund revenues in 2008-09 and \$92.2 billion in 2009-10.

To close the budget gap, Version 1 of the May Revision proposes \$6.3 billion in program cuts, including \$750 million that require federal waivers; \$6.0 billion in borrowing through the issuance of Registered Reimbursement Warrants (RAWs); \$988.9 million in revenue accelerations and new fees; \$105.4 million in fund shifts; \$50 million by reorganizing and consolidating state departments and functions; and \$1.1 billion in "other" proposals, \$1 billion of which is selling a portion of the State Compensation Insurance Fund.

There are no updated cash flow projections available at this time. The Director of the Department of Finance indicated during the press conference today that his department is currently working with the State Controller's Office to determine the amount and timing of the cash shortage, and that updated cash flow information would be available in a week or two.

The proposed changes to health and human services programs include the following. There is no backup information available at this time for any of these proposals; consider the following information preliminary.

In-Home Supportive Services (IHSS)

The May Revision includes the following IHSS proposals, many of which have been made by the Governor and rejected by the Legislature before:

Domestic and Related Services – Eliminate the provision of domestic and related services to individuals with lower levels of need effective October 1, 2009. This would result in General Fund savings of \$40.8 million in 2009-10. This proposal was made by the Governor most recently in January 2009 and rejected by the Legislature as part of the February 2009 budget package.

Share-of-Cost Buy-Out – Eliminate completely for all current and future IHSS consumers with less severe needs the state share-of-cost buy-out, whereby the state pays the difference between the Medi-Cal share-of-cost and the IHSS share-of-cost for PCSP and Waiver cases. This would result in General Fund savings of \$38.2 million in 2009-10. As part of the February 2009 budget agreement, the share-of-cost buy-out was already eliminated prospectively for IHSS consumers.

Provider Wages and Benefits – Limit state participation in wages and benefits to the state minimum wage of \$8.00 per hour plus \$0.60 per hour for benefits, effective October 1, 2009. This would result in General Fund savings of \$114.1 million in 2009-10. Under current law, state participation in wages up to \$9.50 per hour and plus \$0.60 for benefits.

Anti-Fraud Initiative – The May Revision includes an anti-fraud initiative in IHSS intended to result in General Fund savings of \$15.8 million. While the May Revision summary provides no details around the initiative, CWDA has been informed that there will be 30 new investigator staff provided to the Department of Health Care Services (DHCS) and an unknown number of additional quality assurance staff provided to the California Department of Social Services (CDSS). In addition, CWDA has been told that there will be a requirement that timecards be signed by IHSS workers under the penalty of perjury and that a requirement that notice of action "lite" be given to all providers that will need to be signed by both providers and recipients to ensure that providers and recipients are aware of the number of hours approved.

CWDA was also verbally informed today that the threshold for reporting and investigating IHSS fraud would be eliminated as part of the IHSS anti-fraud initiative. There is no additional funding to be provided to counties for any of the additional IHSS fraud activities that may occur locally as a result of eliminating the threshold. We are told that a fiscal incentive to encourage investigations would be provided by allowing counties to keep a small portion of any recovered funds. However, given that the recoveries from IHSS fraud investigations are small to begin with, this incentive is likely to yield little additional funding.

Under current law, counties are required to report suspected instances of fraud above \$500 to DHCS for investigation and counties may investigate suspected instances of fraud totaling \$500 or less. Under this proposal as described, it is unclear what the responsibilities of the state versus the counties will be in IHSS fraud investigation. Given that DHCS is the single state agency responsible for investigating Medicaid fraud and that the May Revision proposes to give them 30

new investigator staff, there seems to be an expectation that DHCS will continue to conduct IHSS fraud investigations. Without the statutory threshold, however, there is no clarity around when the state or the county investigates.

CalWORKs

The May Revision proposes the following “reforms” and “cost containment” measures, all of which have been proposed by the Governor and rejected by the Legislature before. These proposals would be effective October 1, 2009 and are estimated to result in \$156.7 million in General Fund savings in 2009-10. However, we note that under the Emergency Contingency Fund (ECF) provisions of the federal stimulus act, for every \$1 cut from CalWORKs, the State loses \$0.80 in federal ECF funding and therefore only saves \$0.20. Furthermore, to the extent that the following proposals result in a reduction in caseload below the federal fiscal year 2007 level, California loses all access to federal ECF funding for basic assistance.

- Modify the Safety Net program to continue benefits for safety net families only if they meet federal work participation requirements.
- Impose a 60-month time limit on benefits to child-only families.
- Institute a face-to-face “self-sufficiency review” every six months with a county worker for CalWORKs families who are not meeting work requirements.
- Reduce CalWORKs grants by six percent. This is on top of the four percent grant cut included in the February 2009 budget package, and would bring the total CalWORKs grant cut to ten percent (the original grant cut proposed by the Governor in January 2009).

The May Revision proposes no unallocated cut to the Single Allocation.

Child Welfare Services

The May Revision includes \$31 million in General Fund savings as a result of receiving a like amount of new federal funds through the recently enacted federal Fostering Connections to Success and Increasing Adoptions Act, which makes federal funding available for the Kin-GAP program prospectively. The Governor requested the federal Health and Human Services Secretary amend federal guidance on this legislation to allow California’s 16,000 existing guardianship agreements in Kin-GAP also be eligible for federal funding. General Fund savings of \$31 million would result in 2009-10 if all cases are ultimately federal eligible.

SSI/SSP

The May Revision proposes to reduce the maximum monthly SSI/SSP grants to the minimum federally allowed levels for individuals and couples effective September 1, 2009. This would reduce the maximum monthly SSI/SSP grant to \$830 per month for individuals and \$1,407 per month for couples and result in General Fund savings of \$248.5 million in 2009-10. A 2.6 percent SSI/SSP grant cut was already approved for 2009-10 as part of the February 2009 budget package.

Cash Assistance Program for Immigrants (CAPI) and California Food Assistance Program (CFAP)

The May Revision proposes to eliminate CAPI and CFAP effective October 1, 2009, resulting in General Fund savings of \$120.2 million. These proposals would eliminate benefits for approximately 12,000 aged, blind, and disabled legal immigrants under CAPI and for 22,000 low-income legal non-citizens between the ages of 18 and 65 under CFAP.

Medi-Cal

Program Eligibility Reductions – The Governor will be petitioning the Obama Administration for a waiver from federal American Reinvestment and Recovery Act (ARRA) restrictions that required the State to roll-back Medi-Cal eligibility reductions previously. Under the ARRA, states would not be eligible for federal stimulus funds in the Medicaid program if they imposed eligibility restrictions greater than those in place as of June 2008, which forced California to roll-back eligibility restrictions it made in the Medi-Cal program in the 2008-09 budget. The waiver is intended to achieve General Fund savings of \$750 million in 2009-10. The May Revision summary does not specify which eligibility reductions the Administration intends to reinstate.

Anti-Fraud Initiative – The May Revision provides 62 new positions and \$3.4 million General Fund to the Department of Health Care Services to target fraud in adult day health care centers, pharmacy, physicians, durable medical equipment, and transportation. General Fund savings as a result of these efforts are estimated to be \$47.9 million in 2009-10 and grow to \$87.0 million in the out years.

Reduce Payments to Private Hospitals – The May Revision proposes to reduce payments to private hospitals by 10 percent, resulting in General Fund savings of \$20 million in 2009-10.

Roll Back Rates for Family Planning Services – The May Revision proposes to reduce rates for family planning services to the pre-January 2008 level, resulting in General Fund savings of \$36.8 million.

Eliminate Certified Application Assistance – The May Revision proposes to eliminate certified application assistance, which provides up to \$60 to contractors for helping individuals enroll and remain in the subsidized children's health insurance coverage. This will result in General Fund savings of \$2.7 million in 2009-10.

Limit Benefits for Newly Qualified Legal Immigrants and for Those Permanently Residing Under Color of Law – The May Revision proposes to limit benefits to emergency services only for newly qualified legal immigrants and for those permanently residing under color of law effective October 1, 2009 for General Fund savings of \$125 million.

May Revision Version 2 – Contingency Proposals Should Propositions 1A Through 1E Fail

The failure of Propositions 1C, 1D, and 1E adds \$5.8 billion more to the May Revision deficit, for a total deficit of \$21.2 billion. In addition to the solutions described above, Version 2 of the May Revision also proposes \$3.4 billion more in program cuts; \$1.5 billion more in borrowing; and \$1.8 billion more in revenue acceleration and new fees, of which \$1.7 billion is by increasing suggested withholding amounts by 10 percent.

The \$1.5 billion in additional borrowing includes \$2.0 billion from local governments pursuant to Proposition 1A (2004), which is eight percent of the property tax revenues received by cities, counties, and special districts in 2008-09. Pursuant to Proposition 1A (2004), repayment must be made within the next three years. Legislation is also proposed to create a joint powers authority to allow local agencies to borrow against the state repayment as a group. Under the May Revision contingency proposals, the size of the RAWs would be reduced by \$500 million from \$6.0 billion amount assumed in May Revision Version 1. (The \$2.0 billion borrowed from local governments under Proposition 1A (2004) is offset by \$500 million less in RAWs for a total of \$1.5 billion in additional borrowing.)

The additional May Revision contingency proposals in the health and human services program area include the following:

In-Home Supportive Services (IHSS)

The May Revision contingency proposals include an IHSS “cost containment” proposal that would eliminate domestic and related services for individuals who require minimal physical assistance from another person to perform an activity and would eliminate IHSS eligibility altogether for individuals needing only supervision from another person to perform an activity. These changes would result in General Fund savings of \$301.5 million.

It is unclear from the May Revision summary exactly to which IHSS recipients these proposals would apply and how the proposals relate to the previously described May Revision proposals. However, CWDA has been verbally informed that in lieu of the IHSS reductions described earlier, this proposal would eliminate completely all services to IHSS consumers with a functional index below 2, eliminate domestic and related services for IHSS consumers with a functional index between 2.1 and 3, and only provide full scope IHSS services to consumers with a functional index between 3.1 and 4.

Child Welfare Services

Reduce Certain Rates by 10 Percent – The May Revision contingency proposals include a 10 percent cut to group home, foster family agency, and specialized care and clothing allowance rates, which would result in General Fund savings of \$13.9 million in 2009-10. There is no proposed cut to the foster family home basic rate.

Reduce Program Funding by 10 Percent – The contingency proposals also include a 10 percent cut to the General Fund allocation to counties for Child Welfare Services resulting in General Fund savings of \$70 million in 2009-10. Counties would be left to determine how to prioritize the use of remaining funds to protect the health and safety of children and their families (i.e., the Administration is not proposing to reduce or eliminate any specific CWS statutory requirements). This proposal was made by the Governor and rejected by the Legislature in 2008-09.

Medi-Cal

The May Revision contingency proposals include a reduction to the Adult Day Health Care optional benefit by limiting benefits to three days per week. This would result in General Fund savings of \$25.5 million in 2008-09.

Healthy Families Program

The May Revision contingency proposals include a roll-back in Healthy Families eligibility to 200 percent of the federal poverty level resulting in General Fund savings of \$54.5 million. Approximately 225,000 children would no longer receive health coverage through the program.

CWDA will provide further details on these and any other May Revision proposals as we receive them.