February 27, 2018

The Honorable Richard Pan, M.D.
Chair, Senate Budget and Fiscal Review Subcommittee #3
State Capitol, Room 5114
Sacramento, CA 95814

RE: In-Home Supportive Services Maintenance of Effort Implementation

Dear Senator Pan,

On behalf of the California State Association of Counties (CSAC), the County Welfare Directors Association of California (CWDA), the California Association of Public Authorities (CAPA), the County Health Executives Association of California (CHEAC), the County Behavioral Health Directors Association (CBHDA), the Urban Counties of California (UCC), the Rural County Representatives of California (RCRC), and the County Medical Services Program (CMSP), we are writing to share the county perspective on the implementation of the new County In-Home Supportive Services (IHSS) Maintenance of Effort (MOE) that was enacted through 2017-18 budget-related legislation (SB 90, Chapter 25, Statutes of 2017). In addition to examining the implementation progress and outlook for 2017-18 and 2018-19, it remains important to look ahead to future years when this MOE framework will become unsustainable for counties. It will be vital for the Legislature, the Administration, and counties to work together to find a long-term solution that ensures counties can partner with the state to effectively deliver IHSS and other critical services in our communities, including health and mental health services.

The 2017-18 Budget Act enacted numerous reforms to the IHSS fiscal structure, but did not affect the provision of IHSS services to eligible recipients. These changes included a new county MOE, additional collective bargaining provisions, and refinement of the costs for county administration of the IHSS program. This letter focuses on the new County IHSS MOE and counties’ ability to offset these new costs. Last year’s budget legislation on the IHSS funding structure included provisions that:

- establish a new County IHSS MOE with an annual inflation factor (5% for 2017-18, 7% thereafter),
- provide State General Fund contributions to partially offset increased county IHSS costs ($400 million in 2017-18, $330 million in 2018-19, $200 million in 2019-20, $150 million thereafter),
- redirect Health and Mental Health 1991 Realignment vehicle license fee (VLF) growth funding to Social Services to partially offset increased county IHSS costs (100% of growth in the first three years, 50% of growth in the next two years),
- redirect County Medical Services Program (CMSP) 1991 Realignment VLF growth funding to Social Services to partially offset increased county IHSS costs in the 35 CMSP counties (100% of growth in the first three years, 50% of growth in the next two years),
- redirect Health, Mental Health, and CMSP (for the 35 CMSP counties) 1991 Realignment 2016-17 sales tax growth funding to Social Services to partially offset increased county IHSS costs, and
- accelerate caseload growth payments from 1991 Realignment sales tax growth so that counties receive this funding earlier to partially offset increased county IHSS costs.

Counties have dedicated significant time and effort to partnering with the Department of Finance and Department of Social Services on implementing these changes for 2017-18. While there are still ongoing discussions to implement certain provisions, significant progress has been made related to establishing the new County MOE, redirecting realignment funding, and distributing the State General Fund contribution. For 2017-18, counties will likely manage to mitigate the impact of the IHSS cost shift to the county General Fund. However, it is important to note that within the new IHSS funding structure, Health and Mental Health 1991 Realignment programs were deprived of vital funding that otherwise would have been used to support mental health, indigent health and public health services.

For 2018-19, the January budget proposal does not propose any structural changes to the new IHSS County MOE. Based on current revenue projections, it is likely that counties will be able to mitigate the impact of the IHSS cost shift to the county General Fund in this second year of the new MOE, as long as no additional legislative changes are made to the program that could increase county or program costs. In addition, the impacts on other county programs may be more pronounced in 2018-19. For Health and Mental Health programs, this will be the second year in which 1991 Realignment growth has been redirected to Social Services, which will result in flat Realignment funding and negative program impacts. For other county priorities, there could be additional consequences as counties continue to prepare for subsequent years of this IHSS funding structure and the looming cost increases.

Looking ahead to 2019-20, there is a critical reopener provision that requires the Administration to consult with CSAC and other affected stakeholders to reexamine this IHSS funding structure in the development of the 2019-20 budget. Specifically, the Department of Finance must submit a report to the Legislature by January 2019 that examines and provides recommendations on four specific aspects:

1. The extent to which revenues available for 1991 Realignment are sufficient to meet program costs that were realigned.
2. Whether the IHSS program and administrative costs are growing by a rate that is higher, lower, or approximately the same as the MOE, including the inflation factor.
3. The fiscal and programmatic impacts of the IHSS MOE on the funding available for the Health Subaccount, the Mental Health Subaccount, the County Medical Services Program Subaccount, and other social services programs included in 1991 Realignment.
4. The status of collective bargaining for the IHSS program in each county.

This reopener provision is vital because counties are significantly concerned about the possibility of an economic downturn at the same time the IHSS cost shift is anticipated to become unsustainable for counties in 2019-20. Even with the updated revenue projections, counties will have difficulty managing the increased IHSS costs in this third year and the problem will grow each subsequent year. Economic downturn and increased IHSS costs would further erode 1991 Realignment funding to the Health and Mental Health Subaccounts, likely resulting in a decrease to the critical health and mental health services counties provide. In addition, growing costs will further threaten county General Fund spending, most of which is applied to public safety, elections, and other state and local priorities. Counties critically need a
long-term solution for IHSS funding and this provision provides the opportunity to revisit this structure.

While counties are striving to manage the first two years of this new MOE, there are still significant concerns about the anticipated impacts of this new IHSS funding structure in the out years. Counties remain committed to partnering with the Administration and the Legislature to ensure counties can successfully deliver realigned services on behalf of the state. All of our organizations are dedicated to tracking the impact of this new MOE and evaluating the options for a long-term solution. Counties look forward to the 2019-20 budget discussions and working together to find a solution that will provide stability and sustainability for the IHSS program and other critical county services.

Thank you,

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cc: Honorable Members, Senate Budget and Fiscal Review Subcommittee #3
The Honorable Holly Mitchell, Chair, Senate Budget and Fiscal Review Committee
Theresa Pena, Consultant, Senate Budget and Fiscal Review Committee
Rebecca Hamilton, Senate Republican Fiscal Office
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