



BUDGET ACTION BULLETIN

CALIFORNIA STATE ASSOCIATION OF COUNTIES

2011-12 State Budget Week of March 6, 2011

March 8, 2011

TO: CSAC Board of Directors
County Administrative Officers
CSAC Corporate Associates

FROM: Paul McIntosh, CSAC Executive Director
Jim Wiltshire, CSAC Deputy Executive Director
Jean Kinney Hurst, Legislative Representative

RE: **Budget Action Bulletin No. 1**

The ten-member Budget Conference Committee (Committee) finished their work on Thursday, March 3rd, passing its final report on a party-line vote. The report includes \$12.5 billion in cuts and a \$1.1 billion reserve. In addition, the Committee adopted the \$12 billion associated with the Governor's realignment proposal.

The report includes substantial cuts to nearly every area of state government, including many programs that counties run on their behalf. Examples include the one-time sweep of First 5 (Proposition 10) funds and significant reductions to CalWORKs – including reductions to the single allocation, grant levels, lifetime limits, and child care. The Committee also adopted the elimination of redevelopment agencies.

Notably, the report passed without Republican support. While the Legislature can pass the Budget Bill itself on a majority vote, as well as any bills necessary to implement it, the realignment proposal and its accompanying tax extensions require a constitutional amendment, which requires a two-thirds vote and therefore at least a few Republican votes. To get such an amendment on an early June special election ballot as planned, the Legislature will have to act in the near future.

General Fund Solutions

Starting Shortfall	-\$26.6 billion
▪ Expenditure Reductions	\$12.5 billion
▪ Revenue Solutions	\$12 billion
▪ Other Solutions	\$3.2 billion
Total Solutions	\$27.7 billion
Reserve	\$1.1 billion

Governor’s Realignment Proposal: Realignment is an important component of the Governor’s proposed budget, and the Committee included it in their report. However, the activities surrounding the plan are moving so quickly that we have not included additional information about it in this Budget Action Bulletin.

What’s Next: The Legislature is planning a budget vote on Thursday of this week, despite press reports that Senate Republicans have walked out of negotiations with Governor Brown. The Legislature needs to act in the coming days in order to get the realignment constitutional amendment on the June ballot. Things may be happening quickly and furiously over the next week.

ADMINISTRATION OF JUSTICE

Outside of the Committee’s party-line approval of the revised realignment proposal, there were two budget actions of note – summarized below – in the justice area. Please be advised that, at this time, the corrections/public safety components of realignment generally consist of a framework of programs and populations to be shifted, with most of the implementation details to be worked out in the coming months. CSAC will keep counties apprised of realignment actions through our larger realignment working group as well as our technical public safety realignment subcommittee.

Judiciary. The Committee approved a \$200 million reduction to the trial court funding, with the majority of the reduction applied to trial courts (\$176.8 million) and the remainder (\$23.2 million) to state operations. In taking this action, the Committee made clear that the reduction will be implemented in a way that is intended to avoid court closures and minimizes the impact on court operations

California Department of Corrections and Rehabilitation (CDCR). The CDCR budget was reduced by \$636 million (\$245 million cut to the receiver’s office and \$391 million to CDCR) to reflect state savings that will be realized if the low-level offender population is shifted to the local level.

GOVERNMENT FINANCE AND OPERATIONS

Redevelopment. The Committee adopted the Governor’s proposal to eliminate redevelopment agencies, including a placeholder for managing the transition and creating successor agencies.

Several Democrats spoke of their regret at voting for the proposal, but also their frustration at being unable to reform the system sufficiently within the bounds of Proposition 22. They said they look forward to creating a new local economic development program over the course of the year. Republicans wanted to score the savings of \$1.7 billion, but leave the issue open to either of a couple of compromises — one that they are creating but have not made public or another that some cities have advocated.

After the Governor released proposed language to implement the dissolution of redevelopment agencies, counties provided technical input to the Department of Finance. Counties would handle many of the ministerial aspects of the transition to successor agencies, and the technical input did not advocate for or against the plan, but merely intended to ensure that implementation would be manageable and efficient if it should occur.

Mandates. The Committee had few decisions to make about state mandated programs because both the Senate and Assembly actions agreed on most of the items. Most notably, both houses voted to suspend the election-related mandates and to defer the \$94 million payment owed to local agencies for pre-2004 mandates.

The Committee rejected the Governor’s proposal to suspend the reimbursable pieces of the Open Meeting/Brown Act mandate, which relate to agendizing public meetings. However, counties should note that language similar to the Governor’s budget proposal also appeared in the Administration’s draft constitutional amendment for realignment.

Libraries. The Governor proposed eliminating \$30.4 million of funding for local libraries, which represents the great majority of local library assistance from the state. The cuts were to eliminate General Fund (GF) support for the Public Library Foundation, the California Library Literacy and English Acquisition Services, and the California Library Services Act. The Committee unanimously voted to restore half of that funding as follows:

- Public Library Foundation: \$3 million
- Service Act: \$8.5 million
- English Acquisition: \$3.7 million

EMPLOYEE RELATIONS

Unemployment Insurance (UI) Fund. The Committee approved a \$362.3 million transfer from the Unemployment Compensation Disability Fund to the GF.

A \$13.4 billion deficit in the UI Fund is expected by the end of 2011, due to an imbalance between annual employer contributions and benefit payouts. To continue paying benefits out of the UI Fund without interruption, the California Employee Development Department borrowed funds from the Federal Unemployment Account starting in January 2009. A \$362.3 million interest payment on this loan is due in September 2011. The transfer approved by the Committee will cover this interest payment with the funds being repaid from the GF over the next four fiscal years.

Veterans Services. While the Committee restored funding for County Veterans Services Offices and the Operation Welcome Home Program, they achieved \$7.1 million in GF savings by delaying the openings of the Veterans Homes of California in Redding and Fresno by three months and phasing in levels of care.

HEALTH AND HUMAN SERVICES

Of the \$12.5 billion in expenditure reductions approved by the Committee, \$6 billion are in health and human services programs. The following is a summary of the actions.

CALWORKS

The Governor had proposed a series of deep CalWORKs cuts, including reducing the time an adult may receive CalWORKs benefits from 60 months to 48 months to save \$158 million in 2011-12, a 13 percent grant cut, and \$377 million cut to the CalWORKs single allocation.

The Committee adopted the following:

- Cutting grants by 8 percent, effective June 1, 2011, which saves approximately \$300 million.
- Approving the Governor's proposal to limit an adult's time on aid from 60 months to 48 months, effective June 1, 2011. This would save the state \$13 million in the current year and \$158 million in 2011-12.
- Additional grant cuts to "child only" CalWORKs cases after 48 months on aid, for a savings of approximately \$100 million.

- \$427 million reduction to the single allocation.
- Enacting an earned income disregard policy in which the first \$100 of relevant income and then 50 percent of all other relevant earnings are disregarded. This would save the state \$112.5 million if the changes are enacted by June 1, 2011. This proposal is a new proposal.
- Expand the state's participation in the subsidized employment program created by AB 98. This change is cost neutral.
- Reductions in the CalLearn program (\$45 million), the elimination of Community Challenge grants (\$20 million), \$5 million reduction for substance use disorder and mental health services for CalWORKs recipients, and \$5 reduction across the SAWS automation systems.

CHILD CARE

The Governor proposed a series of cuts in the child care area (excluding preschool), including a 35 percent subsidy reduction for child care providers, eliminating services for 11- and 12-year-olds, and reducing the income eligibility from 75 percent of the State Median Income (SMI) to 60 percent, for a total of \$716 million in state savings in 2011-12.

The Committee instead took the following actions to save \$501 million:

- **Income eligibility:** Reduce income eligibility for subsidized child care from 75 percent of SMI to 70 percent of SMI. (Governor had proposed 60 percent) for a savings of \$30.084 million.
- **Age eligibility:** De-prioritize 11- and 12-year olds, but prioritize them for before and after school programs. Includes exempted children who are in non-traditional hours of care and children who are disabled, at risk of abuse, or homeless. This action scores a total savings of \$38.5 million.
- **Subsidy reduction and co-pay:** The compromise is a 10 percent increase in the family fee as opposed to the 35 percent co-pay proposed by the Governor, for savings of \$12 million.

Across-the- Board Reduction: The Committee compromise is a reduction of 15 percent across-the-board, excluding CalWORKs Stages 1 and 2, for savings of \$267 million.

Reimbursement - License-exempt: Reduce license-exempt providers from 80 percent to 60 percent of the licensed provider rate for savings of \$44.1 million.

Reimbursement: Approve a reduction of up to 10 percent for the Title 5 Standard Reimbursement Rate, based on final Prop 98 funding package for savings of \$109 million.

ACTION

IN-HOME SUPPORTIVE SERVICES (IHSS)

The Governor had proposed a series of reduction to IHSS program, and assumed an implementation date of July 1, 2011.

Health Care Certification. The Governor proposed to require IHSS recipients to obtain a physician’s written certification that personal care services are necessary to prevent out-of-home care.

Both houses of the Legislature approved this provision. The state estimates a savings of \$152 million GF in 2011-12.

Caseload Savings. The Legislature cut \$83.4 million GF from the program due to caseload savings in 2010-11 and 2011-12.

Community First Choice Options. The Legislature adopted \$121 million in GF savings due to expected approval of an additional 6 percent FMAP as a result of IHSS qualifying under the new federal Community First Choice Options.

Service Hour Reductions. The Governor’s budget included an 8.4 percent reduction to assessed hours for all IHSS recipients, for a \$127.5 million GF savings in 2011-12.

The Committee instead adopted additional “unspecified” savings of \$128.4 million in the In-Home Supportive Services (IHSS) program to be implemented with trailer bill language.

Eliminate Domestic and Related Services for Certain Recipients. The Governor proposed to eliminate domestic and related services for consumers living with their provider. In addition, his proposal would eliminate domestic and related service hours for recipients under 18 years of age who live with a parent who is able and available to provide these services.

This was not adopted.

Eliminate State Funding for IHSS Advisory Committee. The Administration proposed to eliminate the mandate for counties to establish advisory committees, for GF savings of \$1.6 million in 2011-12.

The Legislature did not eliminate the mandate, and instead reduced funding to local IHSS Advisory Committees by \$1.4 million, retaining \$3,000 for each of the 56 Public Authorities.

MEDI-CAL

The Governor had proposed a series of cost and utilization controls for Medi-Cal in the 2011-12 budget year, including capping doctors visits, limiting over-the-counter drugs, and reducing provider payments. The Committee report differs from the Governor's proposals in many ways. Below is an outline:

- **Cap on Doctor Visits.** The Governor had proposed capping doctor's visit for adult Medi-Cal at 10 per year, but the Committee instead approved a "soft cap" of seven in order to save \$44.9 million GF in Medi-Cal. The soft cap affects both Medi-Cal Fee-for-Services and Managed Care plans, and should the Committee's recommendation be approved by the Legislature and signed by the Governor, is expected to be implemented on October 1, 2011.
- **Increased Co-Pays.** The Committee raised co-pays for Medi-Cal recipients to save the state an estimated \$557.2 million in 2011-12. The co-pays are as follows: \$5 for a physician or clinic visit; \$3 for generic drugs or \$5 per prescription; \$50 for emergency room visits and \$100 per day in the hospital, with a maximum of \$200 per admission; and \$5 for each dental visit.
- **Provider Rate Cut.** The Governor had proposed a 10 percent cut to the payments the state provides to physicians, pharmacies, clinics, medical transport companies, home health providers, Adult Day Health Care (ADHC) (see below for more ADHC news), certain hospitals, and nursing facilities for Medi-Cal services. Governor Brown also proposed reducing payments to long-term care facilities – including nursing homes – but this requires federal approval. If all of Governor's Brown's proposed provider cuts were implemented, it would save an estimated \$9.5 million in the current year and \$709 million in 2011-12.

The Committee approved the provider rate cuts proposed by the Administration – including the long-term care cut – and made a technical adjustment to the action by both houses for an additional savings of \$39 million.

Caps on Supplies and Equipment. The Governor had proposed to cap the annual amount that Medi-Cal would pay for certain equipment and services, including durable medical equipment - \$1,604; incontinence supplies - \$1,659; urological supplies - \$6,435; auditory equipment - \$1,510; and wound care - \$391. The Committee instead only adopted the cap on auditory equipment, and denied caps on the other supplies and equipment.

Eliminate Reimbursement for Over-the-Counter (OTC) Drugs. The Governor had proposed to eliminate Medi-Cal reimbursement for OTC drugs, such as cough and cold

medicines and nutritional supplements for a savings of \$556,000 in 2010-11 and \$16.6 million 2011-12. The Committee concurred, enacting the cut.

FIRST 5 COMMISSION (Proposition 10)

The Governor had proposed a statewide ballot measure to shift \$1 billion in Proposition 10 funding from the state and local First 5 Commissions in 2011-12 to fund Medi-Cal services for children up to age five during that budget year. Governor Brown also wanted to divert 50 percent of the First 5 revenue to the state GF on an ongoing basis in 2011-12.

The Committee instead narrowed the Governor's proposal to a one-time take of \$1 billion in 2011-12 and modified it to be a statutory proposal, instead of a statewide ballot measure.

This one-time take would be accomplished through a two-thirds vote of the Legislature, rather than through a ballot initiative. Fifty percent of each county commission's fund balance as of June 30, 2010, is included in this redirection. The smallest counties (receiving less than \$600,000 in annual Proposition 10 revenue) are excluded from the requirement. Should the Committee's recommendation be approved by the Legislature and signed by the Governor, County commissions would be required to shift these reserves to the State by June 30, 2012.

MENTAL HEALTH SERVICES ACT (Proposition 63)

The Administration proposed redirecting \$861 million in Mental Health Services Act (MHSA) (Proposition 63) funds to be used to reimburse counties for the costs in 2011-12 of administering and funding three mental health programs – the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program, mental health managed care, and special education mental health services for children (AB 3632). The Governor intended the Proposition 63 sweep to be a single-year, one-time solution to backfill the state's obligation for the three programs, and asserted that this proposal could be done statutorily, rather than through a statewide ballot measure and a vote of the people.

The Committee adopted the language to shift \$861 million in Proposition 63 funds from MHSA programs to backfill the state's obligation for the three identified programs. At the time of this writing, the details of the realignment proposal are not yet known, but the three programs are still slated to be realigned to counties beginning in the 2012-13 budget year.

LOCAL MADDY FUNDS TO MEDI-CAL

The Governor had not proposed any fund shifts from local Emergency Medical Services Funds – also known as “Maddy Funds” – but the Committee adopted a new proposal to take \$55 million from local Maddy Funds to pay for uninsured emergency medical services for Medi-Cal recipients. These funds are local funds and are intended to help hospitals, physicians and counties pay for some of the costs of providing emergency services to uninsured patients. Details on how the sweep would occur are not yet available.

HEALTHY FAMILIES PROGRAM (HFP)

The Governor had proposed a series of HFP premium increases and cuts, including eliminating the vision benefit (\$11.3 million GF savings), increasing premiums (\$22.2 million GF savings), and increased co-payments (\$5.5 million GF savings).

The Committee approved the premium increases and co-pay increases as follows:

Premiums:

- **Under 150 percent FPL:** No change.
- **150-200 percent FPL:** Premiums would increase by \$14 per child (from \$16 currently to \$30) and the maximum limit for a family with three or more children would increase by \$42 for a family maximum of \$90.
- **201-250 percent FPL:** Premiums would increase by \$18 per child (from \$24 currently to \$42) and the maximum limit for a family with three or more children would increase by \$54 for a family maximum of \$126.

Co-Pays. The Committee voted to increase HFP co-payments for emergency room visits from \$15 to \$50 and institute inpatient co-pays of \$100 a day with a \$200 maximum. These proposals would take effect on October 1, 2011.

The Committee also chose to retain the HFP vision benefit, but in lieu of elimination, adopted a \$3 million reduction to expenditures associated with both glass frames and lenses and at a lower fee schedule.

CHILD WELFARE SERVICES (CWS)

The Governor had proposed to sustain Governor Schwarzenegger’s \$80 million veto from CWS in the 2011-12 budget year. However, the Administration’s revised realignment proposal includes restoration of the \$80 million by 2013-14. The new proposal, contingent on CWS being realigned to counties, includes \$40 million for CWS in 2012-13 and \$80 million in 2013-14 and each year thereafter.

ACTION

The Governor had also proposed to cut \$19 million GF from the Transitional Housing Program-Plus (THP-Plus), which would have impacted housing and services for 18- and 19-year-olds. The Governor also included this cut in his revised realignment proposal. In 2011-12, \$19 million is included in the child welfare allocation for the THP-Plus program.

CHILD SUPPORT

The Governor had proposed to suspend the county share of child support collections in 2011-12 to gain \$24.4 million in savings. This proposal allows the entire non-federal portion of child support collections to benefit the state GF. The Committee adopted this proposal.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTAL PAYMENT (SSI/SSP)

The Governor proposed to reduce monthly SSP grants for individuals to the federally required minimum payment standard, from \$845 to \$830. The grant reduction would be implemented on June 1, 2011, and would save the state \$14.7 million in 2010-11 and \$177.3 million in 2011-12. The Committee approved the grant cut.

AGING

The Governor had proposed eliminating both ADHC and the Multi-Purpose Senior Services Program (MSSP). The ADHC program costs the state about \$176.6 million a year and serves 27,000 seniors each month in 330 centers throughout the state, while the MSSP costs \$19.9 million and serves 11,798 clients a month at 41 sites across the state.

Ultimately, the Committee eliminated ADHC as a Medi-Cal optional benefit to save \$90 million GF, but also directed the creation of a similar new program in the future and provided \$85 million GF to fund this new future program. The Committee also enacted a \$2.5 million cut to the MSSP.

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