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UCC Summary
Governor's Proposed Budget 2012-13
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Due to a technical glitch, the Budget was posted on a public website, so the Governor decided to release his budget today, which was a surprise.

The Governor's Budget proposes a total of $10.3 billion in cuts and revenues to balance and to rebuild a $1.1 billion reserve. This includes significant cuts to CalWORKs of $1.4 billion, Medi-Cal ($842 million) and IHSS ($164 million). Similar to last year, the Budget assumes that a portion of its proposals will be adopted by the Legislature by March 1, 2012.

The Governor's Budget assumes the passage of the Governor's proposed initiative at the November election. This measure temporarily increases the personal income tax on the state's wealthiest taxpayers and temporarily increases the sales tax by one-half percent. The measure guarantees these new revenues to schools and constitutionally protects the 2011 Realignment funds for local public safety. This measure would generate an estimated $6.9 billion through 2012-13.

As noted below, if the Governor's Initiative fails to pass, trigger cuts would be enacted in 2013. The Governor continues to propose his pension 12-point pension plan in the budget as another way to provide savings.

Realignment

Funding Structure
The Governor's Budget notes that the revenue stream for the 2011 Realignment is on-going, but the program allocations were for the 2011-12 fiscal year only.

The Governor's Budget proposes a permanent funding structure for 2011 Realignment following discussions with CSAC. (See Attachment for the complete chart). This proposed funding structure is very similar to the super structure that was proposed through the CSAC Realignment Implementation Planning Group last year.

The proposed funding structure is designed to provide local entities with a known, reliable funding source for the realigned programs. Within each Subaccount, counties will have the flexibility to meet their highest priorities.

<u>Base Funding</u>
The Governor's Budget provides for base funding in each subaccount, and the base in each subaccount should not experience a year-over-year decrease. A statutory mechanism should be in place to deal with the possibility of a year's base being short due to significantly reduced revenues.

The base should be a rolling base for each Subaccount and the 1991 Mental Health program should continue to receive revenue based on its 1991 formula.

Growth Funding

The Governor's Budget also provides that growth in realignment funds should be distributed on a roughly proportional basis, first among Account, and then by Subaccounts. Within each Subaccount, federally required programs should receive priority for funding if warranted by caseload and costs.

The Governor's Budget also provides that growth funding for the Child Welfare Services (CWS) program is a priority once base programs have been established. Over time, CWS should receive an additional $200 million.

Transferability

The Governor's Budget provides the following on transferability in the realignment funding:

- Counties should have the ability to transfer a maximum of 10 percent of the lesser subaccount between the Subaccounts within the Support Services Account.
- Beginning in 2015-16, there should be a local option to transfer a portion of the growth among Subaccounts within the Law Enforcement Services Account.
- Transfers should be for one-year only and not increase the base of any program.

Realignment Implementation

The Governor's Budget also notes the following areas that need to be worked on for implementation:

- Refocus State Efforts. The Governor is committed to a 25-percent reduction in the state operations of program areas that have been realigned. The Budget notes that the Department of Social Services will develop its 25-percent reduction plan upon county decisions regarding workload within realigned programs and based on federal programs. The Governor's Budget also states that in 2012-13 state correctional costs will be reduced by $1.1 billion to reflect the smaller prison population.
- County Flexibility. The Administration continues to support efforts to increase the flexibility of counties in administering programs.
- Ongoing Training for AB 109. The Budget proposes $8.9 million for a second year of training efforts related to the implementation of AB 109 programs. Of this amount $1 million if for statewide training efforts. The rest of the allocation is for the Community Corrections Partnerships that have been established in each county.
- Other Efforts. The Administration does note that other issues may come up and that they will continue to work with counties on any implementation issues.

Juvenile Justice Reform (See also Public Safety)

The Governor's Budget proposes to stop the intake of new juvenile offenders to the Division of Juvenile Justice (DJJ) effective January 1, 2013. The DJJ's population will gradually diminish through attrition. Recognizing that counties will need resources and support to secure appropriate placements and treatment options for additional offenders, the Budget proposes $10 million General Fund in 2011-12 for counties to begin planning for this population. To help with this transition, the state will delay collection of the recently imposed fees (DJJ Trigger Cuts).

Phase 2 Realignment

The Governor's budget notes that several proposals in the Budget lay the foundation for further realignment. The implementation of Phase 2 of Realignment is linked to the ongoing discussion of how California will implement federal health care reform. Under health care reform, counties will have a significant role in Medi-Cal eligibility determinations. The Governor's Budget notes that the focus of Phase 2 realignment discussion with counties and others in the coming months will revolve around the appropriate relationships between the state and counties in the funding and delivery of health care as about two million people will shift from county indigent programs to the Medi-Cal caseload. The discussion will also involve what additional programs the counties should be responsible for when the state assumes the majority of costs of healthcare.

Trigger Cuts for 2012-13

If the Governor's proposed initiative fails to pass in November 2012, the following trigger cuts would be pulled in January 2013:

- Funding for schools and community colleges would be reduced by $4.8 billion. A reduction of this magnitude would result in a funding decrease equivalent to more than the cost of three weeks of instruction. It would also continue to provide 20 percent of program funds a year in arrears.
- The University of California and California State University would each be reduced by $200 million.
- The courts would be reduced by $125 million, the equivalent of court closures of three days per month.
- The number of the state's public safety officers in the departments of Parks and Recreation (park rangers) and Fish and Game (wardens) would be reduced, and the state would no longer staff its beaches with lifeguards.
- The Department of Forestry and Fire Protection's firefighting capabilities would be reduced substantially. The emergency air response program would be reduced, and fire stations would be closed.
- Flood control programs in the Department of Water Resources would be cut, which would reduce channel and levee maintenance and floodplain mapping.
- The Department of Justice's law enforcement programs would be reduced.

Revenues

The Governor's budget assumes the passage of the Governor's initiative at the November election. This measure temporarily increases the personal income tax on the state's wealthiest taxpayers and temporarily increases the sales tax by one-half percent. This will generate $6.9 billion. The Governor's Budget notes that this measure will prevent deeper cuts to schools, protect local public safety funding, and assist in balancing the budget. This will also allow the state to pay off the $33 billion in outstanding budgetary borrowing and deferrals by 2015-16.

Health and Human Services

The Budget transfers a number of Department of Mental Health and Department of Alcohol and Drug Programs to other state departments to better align the program's mission with that of the department. These transfers include: licensing functions to the Department of Public health (DPH) and DSS; mental health workforce development programs to the Office of Statewide Health Planning and Development; the Early Mental Health Initiative to the Department of Education; problem gambling, driving under the influence, and licensing of narcotic treatment programs to DPH; and Mental Health Services Act technical assistance and training to the Mental Health Services Oversight and Accountability Commission.

Transfer of the following medical services programs from DPH to DHCS effective July 1, 2012: (1) Every Woman Counts, (2) Prostate Cancer Treatment, and (3) Family Planning Access Care and Treatment. The transfer of these programs is consistent with the Administration's goal of placing direct health care service programs with the DHCS to improve service delivery.

Child Support

The Governor's Budget proposes to suspend the county share of child support collections in 2012-13. Under this proposal, the entire non-federal portion of child support collections would benefit the General Fund. This would not reduce the revenue stabilization funding of $18.7 million counties receive to maintain caseworker staffing levels in order to stabilize child support collections.

CalWORKS

The Governor's Budget proposes major changes to the CalWORKS program including restructuring the program into two components: CalWORKs Basic and CalWORKs Plus. Below is a description of the changes to CalWORKs.

- CalWORKs Basic Program. The CalWORKs Basic program will provide up to 24 months of welfare-to-work services, including job search, employment training, child care, and barrier removal services to families. Effective October 2012, clients not participating in sufficient hours of unsubsidized employment after an initial job search will be placed in the CalWORKs Basic program and will be required to participate in welfare-to-work activities. After the first 12 months, the adult will again participate in job search. If, during the second 12 months, the adult remains unable to find unsubsidized employment, the adult will continue to participate in welfare-to-work activities, including subsidized job placements. Clients unable to meet federal work participation requirements after 24 months, or cases in sanction status for more than three months will be disenrolled from CalWORKs.

- CalWORKs Plus Program**.** The CalWORKs Plus program will serve those clients working sufficient hours in unsubsidized employment to meet federal work participation requirements, generally 30 hours per week. Effective April 2013, this program will reward clients who meet federal work participation requirements with a higher grant level by allowing them to retain more of their earned income through a higher income disregard (first $200 earned and 50 percent of subsequent income disregarded for purposes of computing the monthly grant level). This equates to an average increase of $44 per month. These clients will also have full access to supportive services and child care. These benefits will continue for up to 48 months as long as clients continue to meet work participation requirements through unsubsidized employment. After 48 months, the adult will no longer be aided, but the higher earned income disregard will remain available if the employment continues.

- Transition to Success. To assist families in obtaining employment sufficient to meet federal work participation requirements, all currently aided eligible adults will be eligible for up to six months of welfare-to-work services and child care following the October 2012 implementation of the CalWORKs Basic Program. Prior to this transition, $35.6 million will be provided to counties to serve these families.

- Providing Additional Work Supports**.** The Administration proposes to align eligibility and need criteria for low-income working family child care services with federal TANF rules for work participation requirements. Over time, the three-stage child care system for current and former CalWORKs recipients and programs serving low-income working parents will be replaced with a work-based child care system administered by county welfare departments. In addition, the Administration proposes to create a state benefit to increase support for low-income working families. Beginning July 1, 2013, the state will provide working families receiving CalFresh benefits or child care, but who are not in the CalWORKs program, with a $50 per month supplemental work bonus.

- Child Maintenance Program. Beginning in October 2012, the state will create a new Child Maintenance program to provide for child well-being through basic support to children whose parents are not eligible for aid under the restructured CalWORKs program. Income and resource eligibility criteria for the Child Maintenance program will be the same as for CalWORKs families, but the Child Maintenance program grant will be less than the current amounts available for child-only cases. This will decrease the average monthly grant for child-only cases from $463 to $392.

Healthy Families

The Governor's Budget provides the following changes to the Healthy Families Program:

- Healthy Families Program Rate Reduction. The Budget proposes to reduce Healthy Families managed care rates by 25.7 percent effective October 1, 2012. This rate reduction will achieve General Fund savings of approximately $64.4 million in 2012-13 and $91.5 million in 2013-14.

- Transition of Children from the Healthy Families Program to Medi-Cal. The Budget proposes transferring approximately 875,000 Healthy Families Program beneficiaries to Medi-Cal over a nine-month period beginning in October 2012. This transition will create benefits for children, families, health plans, and providers, by simplifying eligibility and coverage for children and families; improving coverage through retroactive benefits, increasing access to vaccines, and expanded mental health coverage; and eliminating premiums for lower-income beneficiaries.

- Transition of Other Programs. In preparation for California's implementation of federal health care reform, the Budget proposes to eliminate the Major Risk Medical Insurance Program (MRMIP) by July 1, 2013. The two programs that provide insurance to individuals with pre-existing conditions, MRMIP and PCIP, will be eliminated in January 2014 because these individuals will be able to purchase health insurance through the California Health Benefits Exchange as part of federal health care reform implementation.

IHSS

The Governor's Budget proposes $1.4 billion General Fund for the IHSS program in 2012-13, a decrease of $292.3 million General Fund from the revised 2011-12 IHSS budget. Specifically, General Fund costs of $231 million result from a six-month delay in extending the state sales tax to IHSS providers, a two-month delay in implementing the Community First Choice Option for enhanced federal funding, a two-month delay in eliminating services for recipients without health care certification, and from not implementing the medication dispensing machines proposal. Additionally, an increase of $130 million accounts for savings from program integrity efforts already being captured in the caseload projections.

Here are the proposals:

- Eliminate Domestic and Related Services for Certain Recipients**.** Domestic and related services include housework, whopping for food, meal preparation and cleanup, laundry, and other shopping and errands. Under this proposal, IHSS beneficiaries residing in a shared living arrangement will not be eligible for domestic and related services that can be met in common with other household members. In addition, IHSS beneficiaries who have a need for domestic and/or related services that cannot be met in common because of a medically verified condition of other members of the shared living arrangement can be authorized hours for any of these services that meet the need assessment metrics. Similarly, when minor recipients are living with their parent(s), the need is being met in common; hence, the authorization of domestic and related service hours will no longer be allowed. Since minors would not be expected to be able to perform these services independently, the parent will be presumed available to perform these tasks unless the parent can provide medical verification of his/her inability to do so.

- Coordinated Care for Dual Eligible Beneficiaries**.** The Governor's Budget also proposes to better coordinate IHSS, other home and community-based services, and institutional long-term care. All individuals receiving both Medi-Cal and Medicare benefits will be required to enroll in managed care health plans for their Medi-Cal benefits.

- 20-Percent Reduction in Service Hours. A 20-percent across the board reduction in IHSS hours was to be implemented on January 1, 2012. Because of a court injunction, the state currently is prevented from implementing this reduction. However, the Budget assumes this reduction will be implemented April 1, 2012. To be prudent, the Budget also includes a set-aside to fully fund the IHSS program in the event of an adverse court ruling.

Medi-Cal

Care Coordination

The Governor's Budget continues his proposal to improve care coordination for dual eligible beneficiaries. This will be phased in over a three-year period beginning January 1, 2013. The transition to managed care for Medi-Cal benefits will occur in the first year, with the benefits becoming a more integrated plan responsibility over the subsequent two years. The transition of Medicare benefits to managed care will occur over a three-year period starting first with eight to ten counties that already have the capacity to coordinate care for these individuals. Beneficiaries in counties in which Medi-Cal managed Care plans may not yet have the capacity to take on additional beneficiaries will begin to transition six or twelve months later. The Budget separately proposes to expand Medi-Cal managed care statewide starting in June 2013. Beneficiaries in these managed care expansion counties will transition in 2014-15.

The Governor's proposals are as follows:

- Promote Coordinated Care – Managed care done properly results in high-quality care. This initiative provides managed care plans with a blended payment consisting of federal, state, and county funds and responsibility for delivering the full array of health and social services to dual eligible beneficiaries.
- Enhance the Quality of Home and Community-Based Services – Within an expanded system of coordinated care, it is critical to better coordinate medical services with the full continuum of long-term services, including In-Home Supportive services, Community-Based Adult Services, and nursing home services.

In year one, IHSS, other home and community-based services, and nursing home care funded by Medi-Cal will become managed care benefits. The IHSS program will essentially operate as it does today, except all authorized IHSS benefits will be included in managed care plan rates. Beneficiaries in the eight to ten selected counties will also receive their Medicare benefits and long-term services and supports through their Medi-Cal plan. This represents about 800,000 of the 1.2 million dual eligible beneficiaries currently in California. These changes will be phased-in over a 12-month period starting January 1, 2013. Over time, managed care plans will take an increasing responsibility for home and community-based services, including IHSS.

The Governor's Budget does note that delivering these services through Medi-Cal raises important issues including consumer protections, consumer choice, and development of a uniform assessment tool. Additional issues to consider related to the sate-county relationship and financing and delivering services include determining the collective bargaining structure for IHSS providers, and the long-term county financial responsibility for IHSS and other health care programs. The Administration will work with counties and stakeholders to address these overarching issues through the development of legislation that will be necessary to implement this Budget proposal.

Annual Open Enrollment.

Current law authorizes Medi-Cal beneficiaries to change plans once per month or up to 12 times in a year. The Governor's Budget proposes an annual open enrollment period for beneficiaries to select their Medi-Cal health plan and receive care through that health plan for the entire year.

Medical Therapy Program Eligibility.

The Governor's Budget proposes to align income eligibility requirements for the Medical Therapy Program with the broader California Children's Services (CCS) Program. Currently, there is no financial test for eligibility. Under the proposed eligibility standards, families with annual income less than $40,000 or with annual CCS-related medical expenses exceeding 20 percent of their annual income will continue to be eligible for the Medical Therapy Program.

Stabilization Funds.

The Governor's Budget proposes a one-time redirection of private and non-designated public hospital stabilization funding that has not yet been paid for fiscal years 2005-06 through 2009-10 to provide General Fund savings and avoid direct service reductions. This proposal will achieve one-time savings of $42.9 million General Fund.

Gross Premium Tax.

The Governor's Budget proposes to eliminate the sunset date of the Gross Premiums Tax on Medi-Cal managed care plans. Continuing the tax, coupled with increased managed care utilization, will generate General Fund savings of $161.8 million in 2012-13 and $259.1 million in 2013-14.

Public Health

The Governor's Budget reflects a decrease of $14.5 million in 2012-13 as a result of increasing client share of cost in the ADAP to the maximum percentages allowable under federal law. This proposal will result in General Fund savings of $16.5 million, which will be offset by program administrative costs of $2 million for a net General Fund savings of $14.5 million. Average monthly copayments will range between $28 and $385, depending upon the client's income.

State Hospitals

The Governor's Budget proposes a major reorganization of state hospitals with the creation of a new Department of State Hospitals (DSH). Among the many changes listed in the proposal is an impact to counties by increasing bed rates charged to counties for civil commitments to more accurately reflect actual patient cost of care.

Local Government/General Government

- Suspend and Repeal Mandates. The Budget proposes to suspend various mandates except for mandates related to law enforcement or property taxes. The Budget proposes to repeal dozens of the approximately 50 mandates that have been suspended for the past two years or more. This proposal will result in a decrease of $728.8 million in 2012-13.

- Mandate Deferral. A one-time reduction of $94 million by deferring the 2012-13 payment of mandates obligation for costs incurred prior to 2004-05. These costs are required to be completely paid by 2020-21.

Public Safety

DJJ Trigger Cuts
As previously reported, the Governor's Budget proposes to assess but not collect the DJJ trigger cut which would charge counties for placements to DJJ. However, it is also proposing to transfer the responsibility for managing all youthful offenders to local jurisdictions. The Budget proposes to stop intake of new juvenile offenders effective January 1, 2013 and also proposes $10 million General Fund to support local governments in planning for this transition.

Redevelopment

The Governor's budget notes the recent Supreme Court case which eliminated redevelopment and states that as a result redevelopment agencies will be dissolved on February 1, 2012. Revenues that would have been directed to the RDAs will be distributed to make pass through payments to local agencies that they would have received under prior law, and to successor agencies for retirement of the RDAs' debts for limited administrative costs. The remaining revenues will be distributed as property taxes to cities, counties, school and community college districts and special districts under existing law. The Governor's Budget reflects an estimate that approximately $1.05 billion in additional property tax revenues will be received by K-14 schools in 2011-12 which will offset the state's Proposition 98 General Fund obligation. Additional property tax revenues are estimated at $340 million for counties, $220 million for cities, and $170 million for special districts. These amounts are expected to grow as property values increase and debts are retired. Additional revenues will be distributed in the next several years as RDA assets are monetized.

During the press conference on the Budget, the Governor was asked about the possibility of providing an extension on some of the deadlines for eliminating the RDAs, and he stated that the Supreme Court ruling stands. While he stated he is open to talking to stakeholders about a possible extension, he believed they should be eliminated due to the budget crisis. If there is a proposal to reinstate he indicated that it would have to include a revenue source due to the budget deficit.

State Government – Reorganization

The Governor's Budget also proposes to reduce the number of state agencies from 12 to 10, eliminate 39 state entities and eliminate 9 programs. The proposal to reduce agencies includes eliminating the California Volunteer Agency, the California Emergency Management Agency, and the California Technology Agency.

The Governor's Budget notes that more than 15,000 positions were eliminated in 2011-12 and DOF will conduct a department-by-department review to identify additional positions for elimination.

Some other major proposals for reorganization include:

- Transfer Housing Finance Agency into Department of Housing and Community Development.
- Eliminate the Fair Employment and Housing Commission and Transfer its functions to the Department of Fair Employment and Housing.
- Eliminate the Commission on the Status of Women.
- Eliminate the Managed Risk Medical Insurance Board and Transfer its functions to the Department of Health Care Services.
- Transfer CalRecycle to the California Environmental Protection Agency.
- Reduce the Number of Regional Water Boards.
- Consolidate the Colorado River Board within the Natural Resources Agency.

The full list is available at www.ebudgets.ca.gov