

AGENDA

SUBCOMMITTEE No. 1 ON HEALTH AND HUMAN SERVICES AND SUBCOMMITTEE No. 2 ON EDUCATION FINANCE

ASSEMBLYMEMBERS DAVE JONES AND WILMER AMINA CARTER, CHAIRS

**WEDNESDAY, MAY 19, 2010
STATE CAPITOL, ROOM 4202
1:00 P.M.**

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6110-196 CALIFORNIA DEPARTMENT OF EDUCATION**ISSUE 1: OVERVIEW OF THE GOVERNOR'S ELIMINATION PROPOSALS OF CHILD CARE & DEVELOPMENT PROGRAMS**

The issue before the Subcommittee is the Governor's May Revision proposals to eliminate all General Fund support for the Child Care and Development Programs, except for State Pre-School.

GOVERNOR'S PROPOSAL

The Governor's May Revision proposes General Fund reductions and policy changes, listed below:

Eliminates \$1.2 billion, out of a \$2.3 billion budget, in subsidized Child Care Services and CalWORKs Stage 2 and 3, except for State Preschool. This proposal would eliminate subsidized slots for approximately 174,000 children. The Administration proposes to use \$594 million in federal funds for 78,000 slots. Eliminates \$36 million in Child Care Support programs. This proposal would be in effect October 1, 2010.

Lowers the Eligibility Ceiling from 75 percent to 60 percent of the State Median Income, a reduction of \$54.4 million.

Proposes trailer bill language to require the California Department of Education, County Welfare Departments, and Alternative Payment Programs to identify and recover payments made in error, due to fraud or overpayment, and impose sanctions on providers and families for high error rates or intentional violations. There are no cost-savings associated with this proposal.

The Governor's January Budget proposals, which had reduced Child Care & Development Programs by \$316 million, are listed below:

Proposes the reduction of reimbursement rate limits in voucher-based programs from 85th percentile of the market to the 75th percentile, and licensed-except providers' reimbursement rate limits from 90 percent of the ceilings for licensed-family child care homes to 70 percent, based on the 2005 Regional Market Rate (RMR) survey. Total savings \$132 million, of which \$77.1 million would be from Proposition 98 General Fund.

Proposes negative COLA of -0.38 percent, \$5.9 million to programs. Essentially an unallocated reduction. And various adjustments and fund swaps that generate \$55 million in savings.

Proposes \$123 million in reductions to CalWORKs Stage 3, or 18,000 children, because it is not an entitlement program.

BACKGROUND ON CHILD CARE & DEVELOPMENT PROGRAMS
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Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness programs; (2) families transitioning off public assistance programs; and, (3) other families with exceptional financial need.

Program	Estimate Enrollment (2009-10)	Governor's Proposal (2010-11)	Description
CalWORKs Child Care			Recipients of CalWORKs assistance are eligible for subsidized child care. This care is administered in three stages. All CalWORKs providers are paid through a voucher reimbursement system based on regional market rate (RMR).
Stage 1	66,316	-	Stage 1 begins when a participant enters the CalWORKs grant program. Stage 1 is overseen by the Department of Social Services.
Stage 2	63,004	-	CalWORKs families are transferred into Stage 2 when the family is deemed to be stable. Participation in Stage 1 and/or Stage 2 is limited to two years after the family stops receiving a CalWORKs grant. (A small portion of these programs are run through the California Community Colleges.)
Stage 3	55,873	-	A family may enter Stage 3 when it has exhausted its two-year limit in Stage 1 and/or Stage 2 (referred to as timing out), and remain as long as they remain otherwise eligible for child care
Non-CalWORKs Child Care			Child care for children from low-income families ages birth through 12 years of age and older children with exceptional needs.
General Child Care	86,169	13,685	Care provided in a licensed center or family child care home (FCCH). Providers paid through direct contract with California Department of Education (CDE) at standard statewide reimbursement rate.
Alternative Payment Program	37,186	62,650	Care provided in licensed center, FCCH, or by license-exempt provider. Providers paid through voucher reimbursement system based on RMR.
State Pre-School	116,832	116,832	Early childhood education programs for three- to five-year-old children from low-income families.
Total Enrollment	435,560	193,167	Source: LAO

Support Activities and Services. A small portion of total Proposition 98 and CCDF monies are used to fund programs that do not provide direct services to children but rather provide support services designed to improve program effectiveness.

- Some support programs are geared toward parents and providers. For example, resource and referral agencies provide information to parents and the community about child care available in the area and offer training to providers.
- Some support programs are geared more toward government planning. For example, the county-based Local Planning Councils are responsible for assessing need, planning, and coordinating child care services within the county.
- The CDE also maintains a Centralized Eligibility (wait-) List. There are approximately 200,000 children on the waitlist for subsidized child care programs.
- Other support programs, collectively called “Quality Programs,” are intended to improve the quality and availability of child care.

IMPACTS ON FAMILIES AND THE ECONOMY

The State currently administers a waitlist for eligible families to enroll for services. There are approximately 200,000 children on the Central Eligibility List. Under the Governor's proposal, 174,000 slots would be eliminated. These families are low-income earners and would be at risk of losing employment without child care availability.

The Subcommittee has already heard testimony that there are not sufficient child care providers, as many have been impacted by the mortgage crisis as well as high unemployment reduces how many children they service as parents can no longer afford care, lowering providers ability to sustain their businesses. It is estimated that approximately 62,000 providers would be impacted by these reductions.

The CalWORKs families would be shifted to the AP Program on a space-available basis. However, the federal funds require a state match; the Governor proposes to use preschool General Fund as the match but it is not clear if these funds would qualify as an AP matching requirement.

As the Subcommittee analyzes the CalWORKs and Child Care elimination proposals, it will need to take into account: 1) the impact to families left without services on October 1, 2010; 2) the impact to the economy and child care providers who will be impacted by the RMR reductions and contract eliminations; and, 3) the impact of potential federal funds loss to the State.

5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 1: GOVERNOR'S PROPOSAL TO ELIMINATE CALWORKS

The Governor proposes in the May Revision to eliminate the CalWORKs program effective October 1, 2010 for a savings of \$1.2 billion General Fund. Eliminating CalWORKs would cause California to lose three-quarters (\$2.8 billion) of the state's federal TANF block grant in 2010-11 and to lose the state's entire annual \$3.7 billion TANF block grant every year thereafter. In addition, an estimated \$1.8 billion in state and county funds would not be available to help low-income families with children in 2010-11. Moreover, California could lose more than \$500 million in temporary federal Emergency Contingency Funds (ECF).

Impact on Caseload.

This proposal would terminate cash assistance and a range of intensive employment services for more than 1.4 million low-income children and adults in 600,000 families. More than three out of four recipients are children, or 77.9 percent, so more than 1 million children would be affected by this program elimination. CalWORKs provides temporary cash assistance, job training, education, child care, and employment programs to families who are unable to meet basic needs (i.e. shelter, food, and clothing) without this aid.

As part of the CalWORKs elimination proposal, the May Revision provides General Fund of approximately \$664 million for areas of the budget that had received federal Temporary Assistance for Needy Families (TANF) Block Grant funds and assisted with meeting California's Maintenance of Effort (MOE) requirement. Without CalWORKs and the federal TANF Block Grant that funds the program and these other government services, General Fund is further required.

Interaction with Prior Proposals.

The Governor previously proposed reductions in CalWORKs, including a 15.7 percent grant reduction, elimination of the Recent Noncitizen Entrants Program, and reductions for reimbursement to Stage 1 Child Care providers. The costs of rejecting these proposals, assuming the extension of the ECF through 2010-11, is \$89.4 million. The elimination proposal would have resulted in additional savings of \$1.07 billion, so the required amount to reject the Governor's previous reduction proposals and this elimination proposal is \$1.2 billion.

Detail on these previous proposals has been presented to and discussed by the Subcommittee at its March 24, 2010 hearing on the "Toll on Californians of Adopted and Proposed Health and Human Services Cuts" and the hearing on the major CalWORKs budget items on April 28, 2010.

Effect of Program Elimination.

California has had a welfare program in some form since the enactment of the Aid to Dependent Children program in 1911. Counties and advocates project that the elimination of CalWORKs could result in dramatic increases in unemployment, poverty, and homelessness among recipient families, as well as costs in other state and local services (e.g. the child welfare, foster care, and education systems). The Governor's Budget forecasted an unemployment rate of 12 percent during 2010. According to the U.S. Census Bureau, California had an overall poverty rate of 13.3 percent of the state's population in 2008. The poverty rate was higher, at 18.5 percent, for children under 18 years of age.

Impact on the Economy.

The lowest-income individuals and families spend a higher percentage of their income locally and immediately than do individuals with more disposable income. In addition to these effects on recipient families and their economic activities, as well as local governments, below are examples of others who would be directly impacted by elimination of CalWORKs:

- Employers who might otherwise avert layoffs or expand their workforce via up to 15,000 ECF-supported subsidized employment slots.
- Tens of thousands of local child care providers who provide child care to children whose care is subsidized by the CalWORKs program; and
- An estimated 14,000 county and 170 state employees who work within the state's CalWORKs program.

Additional Program Characteristics.

The following are additional considerations regarding the program for the Subcommittee's review to provide context for this proposal:

- **Caseload Decline Prior to Recession.** The number of families in CalWORKs dropped starting in the mid-1990s, but enrollment increased substantially after the recession began in 2007.
- **Previous Reductions.** The Legislature made significant cuts to CalWORKs in the February 2009 and July 2009 budget agreements, including a four percent grant reduction, the elimination of the state COLA, and cutting funding for employment services and child care by \$375 million for two budget years (2009-10 and 2010-11).
- **Grant Levels.** The maximum monthly grant (\$694) for a family of three in 2009-10 is at 45.5 percent of the federal poverty level. With Food Stamp benefits, this overall benefit level to 78.1 percent of the federal poverty level. To have the

same purchasing power as the grant did in 1989-09, when it was the same amount as it is now of \$694, it would have to rise to \$1,316. The current grant level is lower than TANF grants in 20 states after adjusting for housing costs.

- **Program Spending.** Cash assistance has declined dramatically as a share of total welfare spending, while employment services and child care have increased. Welfare spending as a share of total spending in California has dropped by more than half since 1996-97.
- **Californians in Poverty.** 22.3 percent of Californians in poverty in 2008 received cash assistance. This percentage has steadily decreased since 1995.
- **Unemployment.** The number of unemployed and underemployed Californians more than doubled between January 2007 and January 2010. California's annual jobless rate is projected to peak in 2010 and remain above 10 percent through 2012.
- **Recent Increases.** The number of families receiving CalWORKs cash assistance rose sharply in Federal Fiscal Year 2009, by 9.9 percent and is projected to continue to rise.

Caseload Adjustments.

DSS estimates in May Revision that CalWORKs caseload growth in the program has increased at a rate slower than estimated in the January budget. Specifically:

- Total Caseload – In November 2009, DSS estimated that the average monthly caseload for 2009-10 would be 558,664, an increase of 10.6 percent from the previous fiscal year, and that the caseload for 2010-11 would be 605,542, an increase of 8.4 percent. In the May Revision, DSS estimates that the average monthly caseload for 2009-10 is 554,352, an increase of 9.8 percent from the previous fiscal year, and that the caseload will be 580,527 in 2010-11, an increase of 4.7 percent.
- All Other Families (Including Safety Net) – In November 2009, DSS estimated that the average monthly caseload for 2009-10 would be 508,833, an increase of 9.8 percent from the previous fiscal year, and that the caseload for 2010-11 would be 549,179, an increase of 7.9 percent. In the May Revision, DSS estimates that the average monthly caseload for 2009-10 is 503,210, an increase of 8.5 percent from the previous fiscal year, and that the caseload will be 526,394 in 2010-11, an increase of 4.6 percent.
- Two-Parent Families – In November 2009, DSS estimated that the average monthly caseload for 2009-10 would be 49,831, an increase of 20.4 percent from the previous fiscal year, and that the caseload for 2010-11 would be 56,362, an increase of 13.1 percent. In the May Revision, DSS estimates that the average

monthly caseload for 2009-10 is 51,142, an increase of 23.6 percent from the previous fiscal year, and that the caseload will be 54,133 in 2010-11, an increase of 5.8 percent.

PANELISTS

- Department of Social Services. Please present on the Governor's May Revision proposal, including expected impacts for low-income families and children, effects on the economy, and the loss of federal funds.
- Department of Finance.
- Legislative Analysts Office
- Center for Labor Research and Education, University of California, Berkeley
- California Budget Project
- California Welfare Directors Association
- Western Center on Law and Poverty
- Public Comment

Staff Recommendation

Staff recommends that the Subcommittee accept the estimate changes for caseload in CalWORKs, reject the Governor's May Revision elimination proposal (with direction to staff to work with the Department of Finance on the technical aspects of this), and hold open the remainder of the CalWORKs budget until the Subcommittee meets to close out items in its final hearings.

ISSUE 2: GOVERNOR'S PROPOSAL FOR REDUCTION IN IN-HOME SUPPORTIVE SERVICES (IHSS) PROGRAM

The Governor proposes in the May Revision to replace the Governor's prior proposals to (1) eliminate IHSS services for anyone with a Functional Index Score below 4.0 and (2) reduce state participation in wages of IHSS workers to the state minimum wage with a proposal to achieve \$637 million in 2010-11 (\$750 million ongoing) in unspecified General Fund savings by July 1, 2010.

The administration is proposing that this reduction be developed with stakeholder consultation and enactment of trailer bill prior to July 1. To date, the administration has not shared a process outline or proposed content for this stakeholder process, so the Legislature has very little information to understand or evaluate the proposal.

BACKGROUND

Fiscal Implications.

Total program funds in IHSS include \$5.6 billion, with \$1.43 billion General Fund for 2010-11. The Governor had previously proposed the service reduction and decrease in state participation in wages, but these reductions have been enjoined by the courts and are not viable proposals in 2010-11. The \$637 million reduction proposal for 2010-11 would leave \$790 million General Fund in the program, bringing down the overall funding for the program from \$5.6 billion to \$3.5 billion, accounting for a loss of \$1.14 billion in federal funds and \$343 million in county funds.

The Legislature adopted modified changes from what the Governor had proposed to achieve savings in the program as part of the 2009-10 Budget, most of which were halted as a result of the aforementioned court action. These included a reduction in state participation in wages from \$12.10 per hour to \$10.10, which was estimated to generate \$98 million in General Fund savings in 2009-10. The service reductions adopted as part of the 2009-10 Budget in the July Package included a reduction to target domestic and related care services to the most impaired recipients and to eliminate all IHSS services for those with an FI score under 2.0. Together, the intended savings for these proposals was \$73 million in 2009-10.

Program Characteristics.

The IHSS program provides in-home personal care and domestic services to approximately 466,000 qualified individuals who are blind, aged, or who have disabilities. These services, which include bowel and bladder care, bathing, grooming, paramedical services, housecleaning, meal preparation, laundry, grocery shopping, accompaniment to medical appointments, and protective supervision, allow recipients to stay in their homes and avoid institutionalization. Currently, there are approximately

385,000 IHSS individual providers statewide and 2,330 county and state staff who work in the program.

Major program changes adopted as part of the 2009-10 Budget Package have been reviewed and discussed by the Subcommittee, namely in the May 5, 2010 hearing. These changes range from a new provider enrollment process, including criminal background checks and provider orientations, to enhanced program integrity measures like social worker trainings, the development of protocols for targeted mailings and unannounced home visits, and the fingerprinting of recipients and providers. This Subcommittee took action to repeal the fingerprinting requirements and the requirements for fingerprints on timesheets due to multiple, varied concerns, including high costs, associated with these requirements and their implementation.

Caseload Adjustments.

DSS estimates in May Revision that IHSS caseload growth in the program has increased at a rate slower than estimated in the January budget. Specifically, in November 2009, DSS estimated that the caseload for 2009-10 would average 460,041, an increase of 7.0 percent over the previous year, and that the caseload in 2010-11 would average 489,972, an increase of 6.5 percent. In the May Revision, DSS estimates that the average monthly caseload for 2009-10 is 439,147, an increase of 2.2 percent from the previous fiscal year, and that the caseload will be 466,292 in 2010-11, an increase of 6.2 percent.

PANELISTS

- Department of Social Services. Please present on the Governor's May Revision proposal, including the schedule, content, and anticipated outcome for the proposed stakeholder process.
- Department of Finance.
- Legislative Analysts Office
- Center for Labor Research and Education, University of California, Berkeley
- Public Comment

Staff Recommendation:

Staff recommends that the Subcommittee accept the estimate changes for caseload in IHSS, reject the Governor's May Revise proposal, and adopt placeholder trailer bill language to establish an IHSS Budget Advisory Workgroup to tackle issues of cost containment and maximizing federal financial participation, beginning its work in the 2010-11 budget year. The IHSS budget will remain open until the Subcommittee closes down final issues in IHSS and across DSS programs in future hearings.

4200 DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

ISSUE 1: GOVERNOR'S PROPOSAL TO ELIMINATE DRUG MEDI-CAL EXCEPT FOR PERINATAL AND YOUTH SERVICES PROGRAMS

The Governor proposes in the May Revision to eliminate Drug Medi-Cal (DMC) programs with the exception of the Perinatal and Minor Consent programs, effective October 1, 2010, for a decrease of \$53.4 million. This includes a reduction of \$522,000 to reflect a reduction in the ADP state staffing associated with the elimination.

ADP administers the Drug Medi-Cal Program, which provides substance abuse treatment services for beneficiaries of the Medi-Cal Program. ADP also allocates other funds to local governments and contract providers, including funds provided under the Substance Abuse and Crime Prevention Act, the 2000 initiative also known as Proposition 36.

BACKGROUND

Program Descriptions.

The two DMC modalities proposed for elimination, the Narcotic Treatment Program (NTP) Regular and the Outpatient Drug Free (ODF) Regular, currently are expected to serve 226,193 individuals in 2010-11 (more detail is included in the table below). NTP is a DMC modality using methadone directed at stabilization and rehabilitation of persons who are opiate addicted and have substance abuse diagnoses. The program doesn't include detoxification treatment. Services include intake, treatment planning, medical direction, body specimen screening, physician and nursing services related to substance abuse, medical psychotherapy, individual and/or group counseling, admission physical examinations and laboratory tests, and medication services. ODF is a modality that is designed to stabilize and rehabilitate persons with substance abuse diagnoses in an outpatient setting. Services include admission physical examinations, intake, medical direction, medication services, body specimen screens, treatment and discharge planning, crisis intervention, collateral services, and group and individual counseling.

Characteristics of DMC.

The table on the following page was provided by the Department at the request of Subcommittee staff and displays the universe of DMC modalities, showing which are affected by the elimination proposal, what percentage of the caseload these account for, and the appropriation associated with this modality, both before and after the elimination proposal.

Department of Alcohol and Drug Programs
May Revise- Drug Medi-Cal Elimination Proposal Summary

Modality	Proposed for Elimination?	FY 2010-11 Caseload (Elimination Proposal) *	FY 2010-11 Caseload (Pre-Elimination)	% of Total Caseload (without elimination)	FY 2010-11 GF Appropriation (Elimination Proposal)*	FY 2010-11 GF Appropriation (Pre-Elimination Proposal)
Narcotic Treatment Program (NTP) Regular*	Yes	18,284	76,810	26.83%	\$10,648,186	\$48,098,063
NTP Minor Consent	No	326	326	0.11%	\$15,723	\$15,723
Day Care Rehabilitative (EPSDT)	No	21,470	21,470	7.50%	\$10,330,503	\$10,330,503
Outpatient Drug Free (ODF) Regular*	Yes	36,203	149,383	52.17%	\$4,489,706	\$19,919,584
ODF Minor Consent	No	29,411	29,411	10.27%	\$11,074,506	\$11,074,506
NTP Perinatal	No	1,708	1,708	0.60%	\$235,553	\$235,553
DCR Perinatal	No	1,084	1,084	0.38%	\$706,987	\$706,987
ODF Perinatal	No	4,524	4,524	1.58%	\$305,071	\$305,071
Perinatal Residential	No	1,600	1,600	0.56%	\$1,308,467	\$1,308,467
TOTAL		114,610	286,316	100.00%	\$39,114,702	\$91,994,457

* For modalities proposed to be eliminated, caseload and dollars assume one quarter of services.

Prior Year Reduction and Impact.

The 2009-10 Budget included an across-the-board 10 percent reduction in the rates paid to Drug Medi-Cal providers that is estimated to achieve \$8.8 million in GF savings.

- **Contraction of Service Network and Provider Closures.** Providers have noted closure of sites and service reductions due to the ten percent reduction. They additionally note the diminishing county resources for treatment, which creates greater pressures and demand for private providers and their services.
- **Fewer Treatment Slots to Fend Burgeoning Addiction Trends.** Providers note new trends in oxycontin and opiate addictions among youth and in high-income neighborhoods. The availability of these drugs and movement into lower-income communities is creating a greater demand seen in Drug Medi-Cal.

Advocates and providers assert that the elimination of these modalities would cause major closures in the provider network, increasing costs dramatically in other systems. Perinatal services are preserved in the proposal, however they are only available until the end of the month in which sixty days has passed since the birth of the child. After this period, the mother is no longer able to utilize the services and her child would not

be eligible either unless the child qualifies under the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program. The Department indicates that, practically speaking, her child would need to be old enough to be a substance using youth that requires medically necessary treatment in order to utilize services under EPSDT. Therefore, the family unit would no longer be eligible for services post-partum but for a short window of approximately two months.

PANELISTS

- Department of Alcohol and Drug Programs. Please present on the Governor's May Revision proposal and discuss the implications this has for (1) impact on the current caseload, (2) post-partum services for the mother and child, (3) lost federal funds, and (4) California's Maintenance of Effort requirement in ADP per federal rules.
- Department of Finance.
- Legislative Analysts Office
- Public Comment

Staff Recommendation:

Staff recommends that the Subcommittee accept the caseload changes in Drug Medi-Cal and reject the Governor's proposal to eliminate DMC for the modalities affected by the proposal.