AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 1 ON HEALTH AND HUMAN SERVICES

ASSEMBLYMEMBER DR. JOAQUIN ARAMBULA, CHAIR

MONDAY, MAY 15, 2017
2:30 P.M. - STATE CAPITOL, ROOM 4202

ITEMS TO BE HEARD

ITEMS TO BE HEARD – MAY REVISION PROPOSALS

4700 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT – MAY REVISION PROPOSALS

ISSUE 1: PROGRAM NUMBER CHANGE

PANEL

- Department of Community Services and Developments
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

Issue 403 – The Administration's May Revision requests that Items 4700-001-0890 and 4700-101-0890 be amended to change the FI$Cal program number assigned to Energy Programs from 4180 to 4181. These technical changes will allow the Department to track budgeting and accounting detail at the subprogram and subtask level in the FI$Cal System.

Staff Recommendation:

Staff recommends that these changes be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES – MAY REVISION PROPOSALS

ISSUE 2: LOCAL ASSISTANCE ESTIMATE CHANGE

PANEL

- Department of Child Support Services
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

Issue 402 – The Administration's May Revision requests that Items 5175-101-0890 be decreased by $2,154,000 and Item 5175-101-8004 be increased by $2,154,000 to reflect a projected decrease in Federal Performance Incentives Funds and a corresponding increase in Child Support Collections Recovery Fund.

Staff Recommendation:

Staff recommends that these changes be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

5180 DEPARTMENT OF SOCIAL SERVICES – MAY REVISION PROPOSALS

ISSUE 3: IN-HOME SUPPORTIVE SERVICES (IHSS)

PANEL

- Department of Social Services
  Please walk through the May Revision changes to each component of this Issue:
  A. Effects of Elimination of the Coordinated Care Initiative
  B. Fair Labor Standards Act – Travel Time and Medical Accompaniment Wait Time Decrease
  C. Overall Estimate Changes
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

A. EFFECTS OF ELIMINATION OF THE COORDINATED CARE INITIATIVE

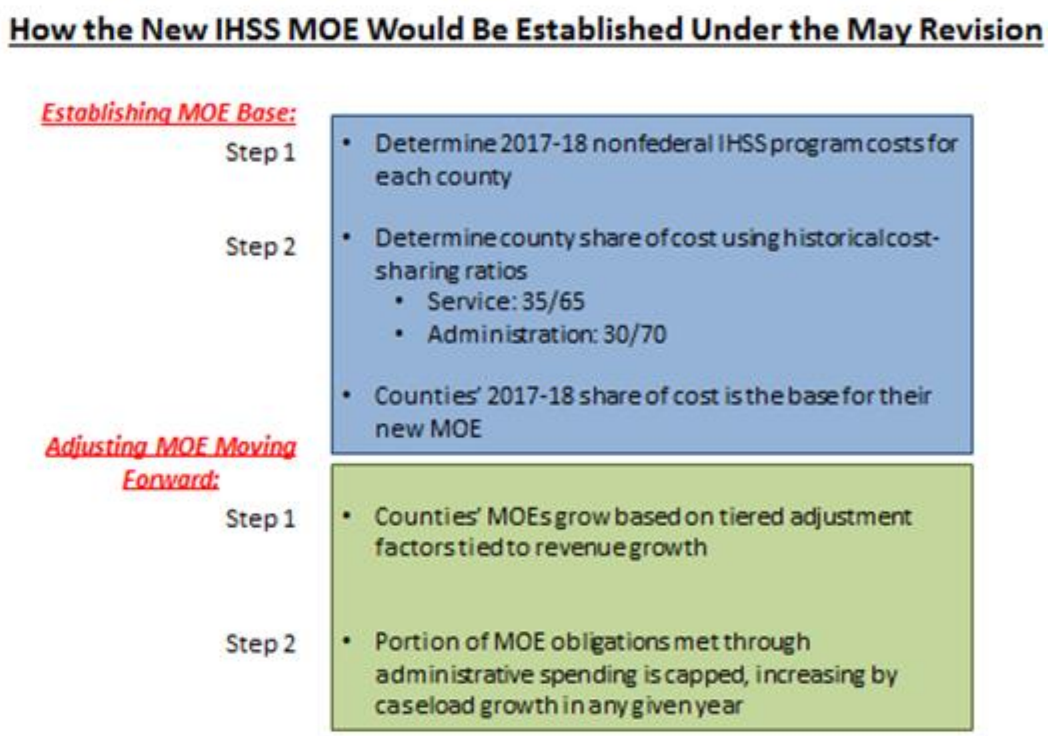
Background - In-Home Supportive Services (IHSS) County Costs Significantly Increased Due to Termination of the Coordinated Care Initiative (CCI). The CCI replaced counties' share of IHSS program costs (historically 35 percent of the nonfederal portion of costs) with a maintenance-of-effort (MOE), known as the county IHSS MOE. Effective July 1, 2012, IHSS county costs were set at 2011-12 expenditure levels, with an annual growth factor of 3.5 percent plus any additional costs associated with locally negotiated IHSS wage increases. The state General Fund assumed the remaining nonfederal IHSS costs.

Pursuant to current law, all components of CCI, including the IHSS MOE, remained operational as long as the CCI generated net General Fund savings and was cost-effective as determined by the Department of Finance. In January, the Administration determined that the CCI was not cost–effective, automatically ending the program in 2017–18. This resulted in the termination of the IHSS MOE and reinstated the historical state-county IHSS cost sharing ratios. The May Revision estimates that the termination of the IHSS MOE and restoration of the prior IHSS cost-sharing ratio would shift about $600 million in IHSS General Fund costs back to counties in 2017-18.

May Revision Proposes a New State-County Cost Sharing Agreement. In January, the administration signaled an intent to work with counties to provide some form of relief due to county cost pressures that would result from the elimination of the CCI IHSS MOE. The May Revision proposes a new, complex cost-sharing structure for county and state IHSS costs.

The May Revision Proposes Establishing a New County IHSS MOE. Rather than return to the original 1991 realignment cost sharing ratios for IHSS as initiated by the Governor in January, the administration proposes establishing a new MOE for counties' share of IHSS cost. The new MOE would include both services and administration using 2017-18 costs. The new MOE would significantly increase costs to counties in 2017-18 relative to 2016-17. Figure 1 below walks through how the new MOE would be calculated. While the MOE shifts significant costs to counties, the proposal provides state General Fund support and additional realignment revenue to partially offset this increase. Figure 2 shows the main features of the IHSS cost-sharing proposal.

Figure 1



MOE Would Increase Starting in 2018-19. As shown in Figure 2 below, under the proposal, the MOE would increase by 5 percent in 2018-19. Starting in 2019-20, the MOE would grow based on tiered adjustment factors. These adjustment factors would vary based on the growth in realignment revenues, which generally reflect overall economic conditions. In years that realignment revenues decline—like during recessions—there would be no increase to the MOE and counties' costs would be the same year-to-year. If realignment revenues increase by less than 2 percent, the MOE would increase by 3.5 percent. When realignment revenue growth exceeds 2 percent—which the Department of Finance expects will be the case through at least 2020-21—the MOE would grow by 7 percent.

Figure 2

Main Features of the Proposal

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 And On
General Fund support to partially offset increased county IHSS costs	$400 million	$330 million	$200 million	$150 million	$150 million	$150 million
Realignment revenue growth to partially offset increased county IHSS costs[a]	All sales tax and VLF growth	All sales tax and VLF growth	All sales tax and VLF growth	All sales tax growth and half of VLF growth	All sales tax growth and half of VLF growth	All sales tax growth
Adjustment factor to maintenance of effort[b]	0%	5%	0, 3.5, or 7%	0, 3.5, or 7%	0, 3.5, or 7%	0, 3.5, or 7%
DOF estimate of county IHSS costs not covered by state General Fund or realignment revenues	$141 million	$129 million	$230 million	$251 million	No projection	No projection

[a] A small portion of VLF growth would still be provided to the Child Poverty and Family Supplemental Support Subaccount in 1991 realignment.

[b] Starting in 2019-20, the adjustment factor will depend on the rate of growth in realignment revenues. If realignment revenues are negative, the adjustment factor will be zero. If the realignment revenues are less than 2 percent, the adjustment factor will be 3.5 percent. If the realignment revenues exceed 2 percent, the adjustment factor will be 7 percent. DOF forecasts the adjustment factor will be 7 percent in 2019-20 and 2020-21.

IHSS = In-Home Supportive Services; VLF = vehicle license fee; and DOF = Department of Finance.

Despite Additional Revenue, Counties Would Face Some Costs. As seen in Figure 2, General Fund support to counties would decline over the next five years, but the state would provide $150 million on an ongoing basis. Under the existing 1991 realignment fiscal structure, IHSS only receives sales tax growth and vehicle license fee (VLF) growth is provided to other realignment programs. (Other realignment programs also receive sales tax growth when available.) To increase realignment funding for IHSS, the proposal would redirect VLF growth from other realignment programs to IHSS for five years. For the first three years, almost all VLF revenue growth would be redirected to IHSS. In the last two years, half of VLF revenue growth would be redirected to IHSS. While these additional sources of revenue would significantly reduce the cost increase to counties due to the new MOE (from $592 million to $141 million in 2017-18), the proposal does not cover all of counties' IHSS costs. The last row of Figure 2 shows the Department of Finance estimates for the costs counties would face over the next few years. Counties would need to find other revenue sources—likely their county general funds—to cover these amounts.

Other 1991 Realignment Programs Would Not Receive Any Growth Funding Until 2020-21. Due to the increased costs in IHSS and redirection of VLF growth, no realignment revenue growth would be available for other 1991 realignment programs until 2020-21. Under the proposal, the revenue growth these programs would have received in the Governor's January budget—VLF revenue—would be redirected temporarily to cover IHSS costs. Starting in 2020-21, VLF growth funding for these programs—Health, Mental Health, and Child Poverty—would be partially restored. Growth funding from the VLF would be fully restored in 2022-23 and onwards. Sales tax growth, however, likely will not be provided to these programs for many years. Due to the decreased realignment funding to these programs, counties may have to provide local general fund to support costs in these programs or make program reductions.

Other Elements of the Proposal.

Adjustments to State Cap on IHSS Wages and Benefits. State participation to total IHSS county wage and benefit costs is capped at $12.10. The May Revision proposes to increases the state contribution cap to $1.10 above the state minimum wage in any given year. Additionally, the proposal maintains the state and county cost-sharing ratios for the nonfederal wage and benefit costs below (35 percent county and 65 percent state) and above (100 percent county) the state contribution cap.

In addition, the May Revision institutes a three-year alternative cost-sharing structure for wage increases in counties currently above the $12.10 cap. For those counties, the state would share a portion of costs associated with wage increases over the next three years that, in sum, do not exceed 10 percent of wages and benefits. For example, if a county is currently at $13 the state would participate in wage increases up to an additional $1.30 over the next three years. After three years, the state would have no share of cost in any wage or benefit increases above the state contribution cap for all counties.

Portion of MOE Obligation Met by Administrative Costs is Capped. While the MOE determines the total county share of IHSS costs in any given year, the May Revision limits the portion of the MOE obligation that can be met by county administrative costs. Specifically, to the extent that counties spend more than is determined necessary to cover increasing administrative costs due to caseload growth, the exceeding administrative costs will not be counted towards their MOE obligations, meaning counties will pay the full nonfederal share of the cost. In contrast, there is no cap to the county share of IHSS services costs that can be counted towards the MOE obligation, meaning any county IHSS service cost in excess of the MOE cap will be paid by the state.

Counties Would Not Receive Caseload Growth Costs Incurred in 2016-17. Under the existing 1991 realignment fiscal structure, counties receive funding for increased costs due to caseload growth in arrears. That is, year-over-year increases in realignment revenue pay for prior-year increases in county costs for realignment programs. As a result, counties effectively receive "reimbursement" for the costs they incur. The May Revision shifts revenues that traditionally would have paid for costs incurred in 2016-17 to cover IHSS costs that will be incurred in 2017-18. As a result, counties will be paid on a "cash basis" for IHSS costs in 2017-18, however, costs incurred in 2016-17 will not be fully reimbursed. As a result, counties will have to cover costs incurred in 2016-17 that traditionally realignment revenues had paid. Moreover, due to this shift, year-to-year changes in IHSS costs will be calculated differently than all other 1991 realignment programs.

Additional Provisions. The MOE proposal contains several other additional components, many of which lack detail. These components are outlined below.

Loans to Counties. The Department of Finance indicates it is willing to provide low-interest loans to counties facing financial hardship due to the shift in IHSS costs. The terms and extent of these loans have yet to be determined.

Realignment Revenue Growth. As described above, the adjustment factor applied to counties MOEs would grow based on the growth in realignment revenues. The proposal does not specify whether this determination would be made based on the growth in sales tax, VLF, or a combination.

Sales Tax Forgiveness. Recently, the Department of Finance and others have identified issues in the Board of Equalization’s distribution of sales tax revenue. The proposal indicates counties would not need to repay any over-allocation provided to 1991 realignment through 2015-16. How any changes in the sales tax allocation would affect the growth in sales tax revenues for 1991 realignment, however, is not clear.

Wage Cap for Some Counties. As described above, under the proposal, the state would share in up to 10 percent of additional wage growth for counties already at or above the $12.10 wage cap for three years. The proposal does not specify whether counties that exceed the wage cap during the three-year period would be eligible for this assistance as well.

Future Discussions. The Department of Finance indicates a willingness to continue to discuss the cost-sharing structure for the IHSS program. The conditions under which such discussions would take place are not clear, however. Moreover, the Department of Finance does not indicate whether there are specific circumstances under which this proposal would be revisited.

LAO Comments and Recommendations.

Proposal Achieves Some County Priorities. The Governor’s January proposal was widely understood to be problematic for counties. The May Revision substantially reduces 2017-18 IHSS cost to counties. The May Revision proposal also achieves two other county priorities for IHSS cost sharing: (1) the MOE and tiered adjustment factors make increases to counties’ IHSS costs relatively predictable and (2) the adjustment factors are tied to the growth in realignment funding. In addition, the administration’s proposal to adjust the wage cap based on changes to statewide minimum wage recognizes the impact of this state policy decision on counties’ IHSS costs.

Proposal Extremely Complex, Many Details Unsettled. The newly proposed cost-sharing structure for county and state IHSS costs adds additional complexity to the already labyrinthine 1991 realignment fiscal structure. Moreover, some key elements of the proposal have yet to be finalized. Some of these elements could affect overall costs for counties and the state in future years. Offering this solution in the May Revision gives the Legislature virtually no time to review an extraordinarily complex—as well as incomplete—proposal that could have significant long-term impacts to both state and county finances.

Policy Basis for Continued MOE Unclear. When considering the appropriate levels of state and county cost shares for programs, fiscal responsibility for a program should be matched with the level of control over that program. Matching fiscal responsibility with the level of control gives both the state and counties an incentive to manage costs to the extent possible. It is not clear that the new MOE proposal was developed with the intent of establishing cost-sharing that would be reflective of state and county levels of control.

Counties Likely Would Not Share in Cost-Saving Policy Changes. While the MOE and tiered growth factors would give counties certainty as to the maximum growth in IHSS costs, counties would have limited opportunities to lower their costs. For instance, during recessions, the state may take steps to reduce program costs. In those years, nonfederal IHSS costs may not increase at all. Due to the MOE, however, counties would not see a reduction in their costs—all savings would accrue to the state.

Issue 407 – Technical Adjustments Associated with these Changes.

The May Revision sets aside $363,998,000 General Fund to help mitigate the impact to counties associated with their increased share of IHSS program costs. In addition, CalWORKs General Fund costs were revised to reflect the redirection of 1991 Realignment county indigent health funds to further offset the increased county IHSS program costs. This redirection totaled $12.6 million in fiscal year 2016-17 and $23.4 million in 2017-18, which is reflected in the CalWORKs caseload adjustment.

It is also requested that Item 5180-111-0001 be increased by $31,847,000 and reimbursements be decreased by $40,546,000 to reflect a reduced shift of General Fund costs to the counties resulting from the elimination of the IHSS county maintenance-of-effort under the Coordinated Care Initiative. The General Fund cost shift to the counties reflects lower projected IHSS federal Fair Labor Standards Act compliance costs offset by the counties' share of IHSS Case Management, Information, and Payrolling System (CMIPS) II costs, which were not calculated in the Governor's Budget. A technical amendment to Provision 6 of Item 5180-111-0001 is requested to reflect a shift of $1,351,000 set aside from the General Fund to counties for CMIPS II transitional activities.

LAO Recommendation: Adopt a Simpler, Shorter-Term Solution. The Governor's May Revision includes a complex, multi-year plan with many details that have not yet been provided. It is difficult to determine all of the potential benefits and drawbacks of the proposal in the short timeframe of the May Revision. Referencing the volatility of

1991 realignment revenues, the administration has already signaled the intent to continue to have ongoing conversations with counties about this plan in future years. The LAO does not see the need for the Legislature to authorize a complex, multi-year policy at this time and recommends that the Legislature instead approve a simpler, short-term solution that provides some General Fund relief for the counties in the next few years, while allowing time for the Legislature to fully consider a simpler solution for the long term. Below the LAO provides some options of what this short-term solution could be:

> **Option 1:** Provide Some Level of General Fund Relief to Counties for Two Years. For the next two years, the Legislature could decide to have the counties return to their historical IHSS sharing ratios while providing them with some level of General Fund relief. The level of General Fund relief could be the same as that proposed by the Governor, or some higher or lower amount. This approach would not require any changes to 1991 realignment in the short term.
>
> **Option 2:** Adopt the Governor's Proposal for Two Years. Alternatively, the Legislature could adopt the Governor's proposal on a short-term basis while a longer-term solution is more fully considered. This would provide counties with the same level of fiscal relief as proposed by the Governor, while guaranteeing that the issue will be reconsidered for the long-term. A drawback to this approach is that, similar to the Governor's proposal, it will require changes to the complex 1991 realignment structure.

B. FAIR LABOR STANDARDS ACT - TRAVEL TIME AND MEDICAL ACCOMPANIMENT WAIT TIME DECREASE

Change from 2017-18 Governor's Budget. Issue 409 – It is requested that Item 5180-111-0001 be decreased by $84,842,000 and reimbursements be decreased by $189,761,000 to reflect a reduction in the projected number of providers claiming travel time and medical accompaniment wait time associated with the federal Fair Labor Standards Act.

Based on updated actual data, a net decrease in costs for both 2016-17 and 2017-18 is due to fewer providers claiming travel time and wait time than previously projected, offset by a higher number of providers claiming overtime, qualifying for the exemptions and an increase in social worker activities and cost per hour.

Caseload. It is assumed that approximately 1,550 providers will qualify for the first exemption in 2016-17 and 2017-18 based on actuals, a slight increase from the estimated 1,300 providers in the 2017-18 Governor's Budget. It is assumed that approximately 100 providers by the end of 2016-17 and 200 providers by the end of 2017-18 will qualify for the second exemption.

C. OVERALL ESTIMATE CHANGES

Change from 2017-18 Governor's Budget:

The net decrease of $22.5 million GF in FY 2016-17 and $ 79.4 million GF ($80.8 million GF with the inclusion of $1.4 million for CMIPS II Vendor Transition Activities cost) in 2017-18 is driven primarily by a decrease in the FLSA Travel and Wait Time estimate. This decrease reflects a lower projected number of providers claiming travel and wait time, fewer hours spent on travel between recipients and fewer hours spent on medical wait time than what was projected in the 2017-18 Governor's Budget. The net decrease is partially offset by higher cost factors which include higher caseload, cost per hour, paid hours per case and administrative costs.

The net increase from 2016-17 to 2017-18 is due to the increase in minimum wage from $10.50 per hour to $11.00 effective January 1, 2018, higher caseload, cost per hour, paid hours per case and administration costs. The net decrease in GF reflects the impact of eliminating the county MOE.

The 2017 May Revision continues to reflect the end of the Coordinated Care Initiative and the County IHSS MOE, thereby returning a 35-percent share of nonfederal services costs and 30-percent share of nonfederal administrative costs to counties, as required under current state law. In the 2017-18 Governor's Budget, the increased county costs associated with this change were estimated at $622.7 million. Based on updated caseload and cost estimates, the revised costs to counties in the May Revision are now estimated to be $590.8 million ($592.2 million with the inclusion of the $1.4 million for CMIPS II Vendor Transition Activities cost).

The 2017 May Revision includes GF and other state resources to help mitigate the impact of transitioning back to a share-of-cost environment. This mitigation includes approximately $12.6 million GF in 2016-17 and $387.4 million GF in 2017-18 (for a total of $400 million) to assist with the increased services and administration costs. This funding will come from priority use of 1991 Realignment growth funds by temporarily redirecting these funds from county indigent health and mental health services, and establishing a new MOE structure with a new base for county IHSS costs and an inflation factor that can be adjusted if revenue growth is negative or below 2.0 percent. The combined effect of these changes is estimated to reduce the impact to counties in 2017-18 from $592.2 million to $141 million, a $451.2 million decrease. The amount of GF relief will be phased down over time, decreasing to $330 million in 2018-19, $200 million in 2019-20, and $150 million annually thereafter. This proposal also allows for a low interest GF loan to counties with fiscal hardship and wage cap increases based on minimum wage plus $1.10.

Caseload, Hours Per Case and Cost Per Hour:

The average monthly paid caseload for IHSS Basic in 2016-17 is projected to be 493,111 cases, a 0.4 percent increase compared to the 491,141 cases projected in the

2017-18 Governor's Budget. The average monthly paid caseload for IHSS Basic in FY 2017-18 is projected to be 517,115 cases, a 4.9 percent increase over 2016-17.

The average monthly hours per case are projected to be 106.1 in 2016-17 and 2017-18 compared to 105.2 in the 2017-18 Governor's Budget. The average cost per hour is projected to be $13.42 in 2016 17, compared to $13.38. The average cost per hour is projected to be $13.59 in 2017-18 compared to $13.50.

From the LAO.

The Governor's May Revision includes about $3.5 billion from the General Fund for support of the IHSS program in 2017-18—which is essentially flat when compared to updated estimated General Fund costs in 2016-17. It is important to note that this flat year-over-year General Fund expenditure level masks a number of cost increases, savings, and costs shifts. Specifically, the May Revision assumes General Fund savings from shifting over $590 million in General Fund costs from the state to counties as the result of a new IHSS state-county fiscal structure proposed in the May Revision (please see the attached email that we sent yesterday morning for more information on this issue). This estimated savings is mostly offset by the Governor's proposal to provide $400 million in General Fund relief to counties as they transition to the newly proposed state-county fiscal structure for IHSS; along with estimated increases in the IHSS caseload, hours per case, and average wages.

IHSS Costs in 2016-17 and 2017-18 Down Relative to January. The Governor's May Revision estimates that the General Fund cost of the IHSS will be $22 million lower in 2016-17 and $80 million lower in 2017-18 than what was estimated in the Governor's January budget. The decrease in General Fund IHSS costs in the current year and budget year relative to January estimates is primarily driven by fewer IHSS providers being compensated for travel time and medical accompaniment. These savings are partially offset by updated adjustments made to caseload, hours per case, and cost per hour relative to January estimates.

Decrease in IHSS Provider Travel Time and Medical Accompaniment Costs Relative to January Estimate Appear Reasonable. Relative to the Governor's January Budget, the number of IHSS providers claiming travel time decreased by 88 percent in 2016-17 (from 83,545 to 10,000) and 2017-18 (from 88,527 to 10,578). Additionally, the number of IHSS recipients requiring medical accompaniment decreased by 12 percent in 2016-17 (from 462,470 to 404,844) and 2017-18 (from 490,450 to 424,551). Relative to January, this decrease results in estimated savings of $123 million in 2016-17 and $149 million in 2017-18. These adjustments were primarily informed by actual data presented in the *Report to The Legislature on the Impact of the Fair Labor Standards Act Overtime Rule* released by DSS in March 2017. We believe these updated numbers are reasonable.

Increases in Caseload, Hours Per Case, and Cost Per Hour Relative to January Estimates Appear Reasonable. We have reviewed the Administration's estimates of

IHSS caseload, hours per case, and cost per hour estimates in light of actual caseload and provider wage data, and raise no concerns at this time. Below, we outline the Department of Social Services' (DSS) revisions to their estimates for IHSS: (1) caseload growth, (2) hours per case, and (3) provider cost per hour.

- ***Caseload*.** The Governor's May Revision estimates that the IHSS caseload will grow by 5.7 percent in 2016-17 to 493,111 (0.4 percentage points higher than the January estimate). In 2017-18, the caseload is estimated to grow by 4.9 percent to 517,115 (0.4 percentage points less than the January estimate).
- ***Hours Per Case.*** Based on more recent actuals, the Governor's May Revision estimates that average hours per case will increase to 106.1 per month in 2016-17 (an increase of about 1 hour per month over what was estimated in January). Estimates for 2017-18 hours per case are held at 2016-17 levels. We have reviewed the average hours per case calculation for 2016-17 in light of actual hours per case data available to date and do not raise any concerns at this time. However, to the extent that hours per case continue to grow in the budget year and exceed 2016-17 average hours per case (106.1), General Fund costs for IHSS in 2017-18 would be higher than estimated in the Governor's May Revision.
- ***Provider Cost Per Hour.*** The Governor's May Revision estimates IHSS provider costs per hour to be $13.42 in 2016-17 (an increase of 4 cents from January) and $13.59 in 2017-18 (an increase of 9 cents from January). We note that this cost includes things other than wages and benefits, such as certain associated taxes and administrative costs. The increased provider cost per hour reflects: (1) updated annualized estimates of the statewide minimum wage increase to $10.50 effective January 1, 2017, (2) updated estimates for the statewide minimum wage increase to $11.00 effective January 1, 2018, and (3) inclusion of locally negotiated provider wage and benefit increases not captured in January estimates, including an $0.18 wage increase for IHSS providers in Los Angeles county that took effect February 1, 2017.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 4: CALWORKS

PANEL

- Department of Social Services
  Please walk through the May Revision changes to each component of this Issue:
  A. Overall Estimate Changes and Single Allocation
  B. Housing Program Changes
  C. Temporary Assistance for Needy Families (TANF) Block Grant Funds Transfer to California Student Aid Commission (CSAC)
  D. Stage One Child Care Rate Increase
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

A. ESTIMATE CHANGES AND SINGLE ALLOCATION

Relative to January, Total Estimated CalWORKs Spending Is Down by $23 Million in 2016-17. As shown in the summary table, the Governor's May Revision estimates that CalWORKs costs in 2016-17 will be $5.2 billion, which is $23 million lower than in the January proposal. This change reflects the net effect of savings from a more rapid caseload decline than previously anticipated, partially offset by increased funding for homeless assistance and the Family Stabilization program, based on more recent actual expenditure data. The May Revision makes essentially no change to the aggregate amount of funding provided to counties in the Single Allocation in 2016-17, consistent with current practice when funds have already been allocated to counties.

The Governor's May Revision estimates that CalWORKs costs in 2017-18 will be $5 billion, which is $31 million lower than in the January proposal. This change similarly reflects savings from lower overall caseloads, partially offset by increases in funding for homeless assistance, the Family Stabilization program, as well as other adjustments. Savings from lower caseloads include a $47 million reduction in Single Allocation funding relative to the January proposal. On a year-over-year basis, the May Revision would provide $245 million less for the Single Allocation in 2017-18 than in 2016-17.

The May Revision projects that an average of 452,705 families will receive CalWORKs assistance each month in 2016-17, an 8.6 percent decline relative to 2015-16. The May Revision further projects that an average of 451,022 families will receive CalWORKs assistance each month in 2017-18, a dramatically smaller decline of only 0.4 percent relative to 2016-17. This estimate is based in part on recent actuals that show that the rate of decline in the CalWORKs caseload may be slowing. While the LAO agrees that the rate of decline in the CalWORKs will likely slow in 2017-18 and is subject to some uncertainty, the LAO believes the rate of decline will be more significant than assumed in the May Revision. Based on the LAO projections of underlying economic conditions, it estimates that an average of roughly 436,000 families will receive CalWORKs assistance each month in 2017-18, a decline of 3.7 percent relative to 2016-17.

CalWORKs May Revision Budget Summary

All Funds (Dollars in Millions)

	2016-17			2017-18			Year-to-Year Change at May Revision	
	January	May Revision	Change	January	May Revision	Change	Amount	Percent
Cash Grants	**$2,969**	**$2,940**	**-$29**	**$3,045**	**$3,055**	**$10**	**$115**	**4%**
Single Allocation								
Employment services	$968	$968	—	$882	$816	-$66	-$152	-16%
Eligibility determination and administration	458	458	—	379	429	50	-29	-6%
Stage 1 child care	416	416	—	384	359	-25	-57	-14%
Cal-Learn case management	20	20	—	19	13	-6	-7	-35%
Subtotals	**$1,862**	**$1,862**	**—**	**$1,664**	**$1,617**	**-$47**	**-$245**	**-13%**
Other County Allocations								
Mental health/substance abuse services	$127	$127	—	$127	$127	—	—	—
Expanded subsidized employment	138	138	—	134	134	—	-$4	-3%
Housing Support Program	47	47	—	47	47	—	—	—
Family Stabilization Program	40	47	$7	40	47	$7	—	—
Subtotals	**$352**	**$359**	**$7**	**$348**	**$355**	**$7**	**-$4**	**-1%**
Other[a]	**$20**	**$19**	**-$1**	**$20**	**$19**	**-$1**	**—**	**—**
Totals	**$5,203**	**$5,180**	**-$23**	**$5,077**	**$5,046**	**-$31**	**-$134**	**-3%**

[a] Primarily includes various state-level contracts.

Recommend Reducing Funding for CalWORKs Cash Assistance to Reflect Lower Caseload Assumptions. Consistent with our expectations of a more significant caseload decline than assumed in the May Revision, the LAO recommends that the Legislature reduce funding in CalWORKs for cash assistance by $55 million in 2017-18 relative to the May Revision, to free up these funds for other Legislative priorities. This estimate reflects an assumption that the average cost of cash assistance for the remaining caseload will be somewhat higher than assumed in the May Revision, in recognition that cases that leave the caseload are more likely to have wages and, therefore, lower grants, than those that remain in the program. This erodes the potential savings associated with the LAO estimate of the 2017-18 caseload, but attempts to account for uncertainty about the characteristics of families receiving CalWORKs assistance in the future.

The state's current budgeting practice for CalWORKs reduces funding provided through the Single Allocation when caseload declines. Under this current practice, our lower estimates for the CalWORKs caseload in 2017-18 would result in an additional $35 million in savings in the Single Allocation. (The LAO notes that in its view the May Revision's estimates for the number of children requiring Stage 1 child care vouchers is reasonable and would not need to be adjusted. The savings would be related to the other components of the Single Allocation related to administration and employment services.)

Questions Remain About Potential Unintended Consequences of Significant Reductions to Single Allocation for County Operations. If the amount of funding provided for the Single Allocation in 2017-18 was reduced as described above, the overall reduction in Single Allocation funding from 2016-17 to 2017-18 would be $280 million (about 15 percent). As described in the previous LAO analysis of the Governor's January proposal, it is reasonable to expect that county workload and the demand for services will generally decrease as the CalWORKs caseload declines. However, counties may have difficulty adjusting to this level of funding reduction, and the practical effect of the reduction is uncertain and will vary across counties. To address concerns about the level of the reduction, the Legislature could consider deviating from the state's current budgeting practice and provide a higher level of funding for the Single Allocation in 2017-18 than the current methodology would suggest given estimated caseloads, for example, the amount proposed in the May Revision, the amount proposed in the Governor's January proposal, or some other amount.

B. HOUSING PROGRAM CHANGES

CalWORKs Homeless Assistance Program (Issue 406)—It is requested that Item 5180-101-0001 be increased by $5,038,000 and Item 5180-101-0890 be increased by $15,910,000 to reflect recent caseload data indicating increased participation in the CalWORKs Homeless Assistance Program.

Reappropriation of Funding for the CalWORKs Housing Support Program (Issue 413)—It is requested that Item 5180-493 be amended to extend the availability of funds appropriated in the 2016 Budget Act for the Housing Support Program for an additional year. The 2016 Budget Act included $46,675,000 million General Fund for the program. Five counties were newly awarded grants in 2016-17 and require additional time to fully spend their allocations as they ramp up program activities. As such, amendments are proposed to reappropriate the 2016-17 funding until June 30, 2018 (see Attachment 2).

C. TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) BLOCK GRANT FUNDS TRANSFER TO CALIFORNIA STUDENT AID COMMISSION (CSAC)

Issue 405 —It is requested that Item 5180-101-0890 be increased by $211,587,000 to reflect an increase in the amount of federal TANF block grant funds available to offset General Fund costs of $17,553,000 in the Department of Developmental Services and $194,034,000 in the California Student Aid Commission's Cal Grant program**.** An increase in unspent TANF funds from prior years, decrease in the CalWORKs caseload projection, and other TANF and TANF maintenance-of-effort funding adjustments result in excess TANF funds (see Item 6980-101-0001, Issues 626 and 627, and Item 4300-101-0001, Issue 406).

D. STAGE ONE CHILD CARE RATE INCREASE

CalWORKs Stage One Child Care Rate Increase (Issue 417)—It is requested that Item 5180-101-0890 be increased by $8,505,000 to reflect an increase to the Regional Market Rate to the 75th percentile of the 2016 Survey, effective January 1, 2018 (see Item 6100-194-0001, Issue 498).

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 5: CALFRESH AND OTHER FOOD ASSISTANCE PROGRAMS

PANEL

- Department of Social Services
  Please walk through the May Revision changes to each component of this Issue:
  A. Overall Estimates Changes
  B. CalFood Program
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

A. Overall Estimate Changes

The 2017 May Revision includes $1.8 billion in total funding ($625.9 million GF) for the CalFresh administration in 2017-18, which represents a $67.9 million total funds ($31.9 million GF) decrease from the previous estimate in the 2017-18 Governor's Budget. The California Food Assistance Program includes $70.5 million (GF) in total funding for benefits and administration in 2017-18, which represents a $446,000 increase from the previous estimate in the 2017-18 Governor's Budget.

The total CalFresh program is projected to reach an average of 2.0 million total households (public assistance and non-assistance combined) in 2016-17 and 1.9 million in 2017-18. The non-assistance CalFresh caseload represents 87.0 percent of the total caseload and is projected to decrease 4.0 percent in 2016-17, which continues the caseload decline as previously projected in the 2017-18 Governor's Budget and reflects a directional shift from 15 years of caseload growth. This decline is primarily attributed to fewer applications and more discontinuances due to higher household earnings in calendar year 2016.

The Improving Participation for the Elderly and Disabled initiative has received approval of two important federal waiver requests. The three-year certification with no interview at recertification waiver was approved for elderly or disabled households with no earned income. This waiver was not approved for those households with earned income which make up less than 2.5 percent of the targeted population. Approval was also received for a Standard Medical Deduction (SMD) of $155 for all households with an elderly or disable member. The three-year certification waiver was modified to implement on October 1, 2017, rather than July 1, 2017, in order to align it with the implementation of the SMD.

LAO on CalFresh. Relative to January, General Fund Support for CalFresh Administration Is Down by $32 Million in 2017-18, Estimates Appear Reasonable. The

May Revision estimates that CalFresh administration costs in 2017-18 will be $32 million lower than in the January proposal. This lower cost primarily reflects lower estimated growth in the CalFresh caseload. In the LAO's view, the administration's CalFresh caseload estimates, and the adjustment to CalFresh administrative funding, are reasonable.

B. CalFood Program

The 2017 May Revision provides $2.0 million GF in one-time funding in 2017-18 for the CalFood program, which provides emergency food and funding to food banks to help support hungry people in California. These funds may be used to purchase, store or transport food that is grown or produced in California and will be disbursed only to food banks that are eligible recipient agencies with a current Memorandum of Understanding with CDSS.

Issue 418 — Aligning to the May Revision proposal above, it is requested that Item 5180-101-0001 be increased by $2 million on a one-time basis to allow the CalFood Program to purchase and distribute food to needy families.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 6: IMMIGRATION SERVICES FUNDING

PANEL

- Department of Social Services
  Please walk through the May Revision changes to each component of this Issue:
    A. Immigration Services Program
    B. Unaccompanied Undocumented Minors Legal Services Funding
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

A. Immigration Services Program

Issue 410 —The May Revision proposal requests that Item 5180-151-0001 be increased by $15 million on a one-time basis to further expand the availability of legal services for people seeking naturalization services or assistance in securing other legal immigration status. Trailer bill language is necessary to implement this program.

Advocates have requested that trailer bill language changes be considered that would allow for otherwise qualified organizations to partner with more established entities in order to be eligible for grant awards, particularly in areas of the State, such as the Central Valley, that are more difficult to serve and that are currently developing capacity.

B. Unaccompanied Undocumented Minors Legal Services Funding

The Subcommittee is in receipt of recent recommended trailer bill language proposals from a host of immigrant counsel organizations that together attempt to clarify access and definitions pertaining to Special Immigrant Juvenile Status (SJIS) findings. These are currently under review by the Subcommittee.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 7: CHILD WELFARE SERVICES

PANEL

- Department of Social Services
  Please walk through the May Revision changes to each component of this Issue:
  A. Continuum of Care Reform (CCR) Changes
  B. Approved Relative Caregiver (ARC) Program, Infant Supplement and Dual Agency Rate Parity
  C. Reappropriation of Funding for Various Child Welfare Services Items
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

A. Continuum of Care Reform (CCR) Changes

Continuum of Care Reform (CCR): Social Worker Hourly Rate (Issue 411)—It is requested that Item 5180-151-0001 be increased by $5,504,000, Item 5180-151-0890 be increased by $2,690,000, and Item 5180-153-0001 be increased by $4,054,000 to reflect the actual county social worker rates for the Child and Family Team and Second Level Administrative Review components of CCR.

B. Approved Relative Caregiver (ARC) Program, Infant Supplement and Dual Agency Rate Parity

Infant Supplement and Dual Agency Rate Parity (Issue 412)—It is requested that Item 5180-101-0001 be increased by $1,610,000 to provide foster youth placed with relative caregivers the same infant supplement and dual agency rate for special needs as federally eligible foster youth. This provides parity for all foster youth, regardless of federal eligibility, consistent with CCR efforts. Trailer bill language is necessary to implement this program. This responds to issues raised in the Subcommittee's prior hearing on this issue.

C. Reappropriation of Funding for Various Child Welfare Services Items

Reappropriation of Funding for Various Child Welfare Services Items (Issue 414)—It is requested that Item 5180-492 be added to extend the availability of funds appropriated in the 2016 Budget Act for counties to perform various child welfare services administrative activities. The primary programs affected are Commercially Sexually Exploited Children and Foster Parent Recruitment, Retention, and Support. As such, language is proposed to reappropriate the 2016-17 funding until June 30, 2018.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 8: SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT (SSI/SSP)

PANEL

- Department of Social Services
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

The SSI/SSP budget reflects a net decrease in 2016-17 and 2017-18 due to lower caseload and average SSI/SSP grant than previously projected.

The 2016-17 budget includes $36.3 million GF in 2016-17 for a half year impact of the 2.76 percent SSP Cost of Living Adjustment (COLA) and $10.0 million total funds for the 0.3 percent 2017 Federal COLA. The 2017-18 budget includes $72.7 million GF for the full year cost impact of the 2.76 percent SSP COLA, $20.0 million total funds for the 0.3 percent 2017 Federal COLA and $106.0 million in total funds for the estimated 2.6 percent 2018 Federal COLA.

Caseload. The average monthly caseload is projected to be 1,273,515 cases in 2016-17, which reflects a 0.7 percent decline from the previous projection. The total average grant is projected to be $622.92 after COLAs are applied. In 2017-18, the average monthly caseload is projected to be 1,275,638 cases and the total average grant is projected to be $632.82 after COLAs are applied.

From the LAO.

The May Revision provides $2.8 billion from the General Fund for SSI/SSP in 2017-18. This is a $52 million increase compared to revised estimated costs in 2016-17. Below are our initial thoughts on the estimate of the federal cost-of-living adjustment (COLA) and caseload assumptions included in the Governor's May Revision for SSI/SSP.

Caseload Assumptions Appear Reasonable. The Governor's May Revision estimates the SSI/SSP caseload to be 1,273,515 in 2016-17 (1.1 percent below 2015-16), and 1,275,638 in 2017-18 (0.2 percent above the revised 2016-17 estimates). These caseload estimates are slightly lower (0.7 percent) than what the administration expected in January. Primarily due to lower SSI/SSP caseload projections, General Fund costs have decreased by $34.1 million in 2016-17 and $37.3 million in 2017-18 relative to January SSI/SSP cost estimates. We have reviewed the administration's caseload estimates and have no concerns at this time.

Governor's May Revision Assumes No Change to Federal SSI COLA, But Amount Not Final Until Fall. The Governor's May Revision makes no adjustment to the estimate of the Consumer Price Index (CPI) in 2017-18 (2.76 percent)— which the federal government uses to provide a federally funded statutory COLA to the SSI portion of the grant— relative to January estimates. As shown in Figure 1, similar to January estimates, the administration estimates that total monthly maximum grants for individuals will increase by $20 and grants for couples will increase by $29 in 2018 as a result of the federal SSI COLA.

Figure 1. SSI/SSP Monthly Maximum Grant Levels[a]
Governor's May Revision

	2016-17	2017-18 Governor's May Revision[b]	Change from 2016-17
Maximum Grant — Individuals			
SSI	$735.00	$755.00	$20.00
SSP	$160.72	$160.72	—
Totals	**$895.72**	**$915.72**	**$20.00**
Percent of Federal Poverty Level [c]	*89%*	*91%*	
Maximum Grant — Couples			
SSI	$1,103.00	$1,132.00	$29.00
SSP	$407.14	$407.14	—
Totals	**$1,510.14**	**$1,539.14**	**$29.00**
Percent of Federal Poverty Level [c]	*112%*	*114%*	

[a] The maximum monthly grants displayed refer to those for aged and disabled individuals and couples living in their own households, effective as of January 1 of the respective budget year.

[b] Reflects (1) the Governor's May Revision assumption that the January 2018 federal COLA for the SSI portion of the grant will be 2.76 percent.

[c] Compares grant level to federal poverty guideline from the U.S. Department of Health and Human Services for 2017.

May Revision Continues to Reflect Proposed Elimination of County Housing and Disability Income Advocacy Program Funding. The Governor's May Revision continues to reflect the administration's January proposal to eliminate $45 million in one-time funding in 2016-17 meant to assist counties in establishing or expanding programs that help homeless individuals with disabilities apply for various assistance programs, including SSI/SSP.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 9: AUTOMATION UPDATES AND PROJECTS

PANEL

- Department of Social Services
  Please walk through the May Revision changes to each component of this Issue:
  A. Automation Updates
  B. Appeals Case Management System
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

A. Automation Updates

The 2017 May Revision for Statewide Automated Welfare System (SAWS) Automation Maintenance and Operations and Updates for 2016-17 includes $309.7 million ($109.6 million in GF) which reflects a net decrease of $18.6 million ($8.0 million in GF).

The 2017-18 year includes funding of $317.1 million ($121.0 million in GF), an increase of $11.0 million from 2017-18 Governor's Budget ($6.5 million in GF).

There are cost shifts from 2016-17 to 2017-18 primarily due to shifts in programming timelines. The costs also reflect the following automation efforts or key implementation milestones:

- The California Work Opportunity and Responsibility to Kids Information Network (CalWIN) functionality modifications are scheduled to begin in July 2017, but are still pending approval for federal financial participation. The modifications to the CalWIN system will ensure the ongoing efficiency and dependability of operations, the interoperability with other partner systems and proficiency in adaptations to address changes in the health and human services environment.

- The LRS C-IV Migration, that converts the 39 counties utilizing C-IV to the new 40-county California Automated Consortia Eligibility System, will begin January 2018. The 2017-18 May Revision proposes $38.6 million ($4.9 million GF) for this project.

B. Appeals Case Management System

Budget Bill Language, Issue 415 —The May Revision requests that Items 5180-141-0001 and 5180-141-0890 be amended to include provisional language to (1) allow the transfer of funds between these items and Items 5180-001-0001 and 5180-001-0890 to continue funding for Appeals Case Management System project staff that are set to expire on December 31, 2017, and (2) allow the project to increase expenditure authority to the extent project vendor contract negotiations result in additional up-front costs, subject to Department of Finance and California Department of Technology approval. Total project costs remain unchanged from Special Project Report #1, and this language will allow the project to accelerate funding estimated for future fiscal years based on the final vendor agreement.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 10: OVERALL DSS ESTIMATES AND CASELOAD ADJUSTMENTS

PANEL

- Department of Social Services
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

Amendment to and Addition of Various Budget Bill Items and Reimbursements, Local Assistance, Department of Social Services

The May Revision requests that the following local assistance items for the Department of Social Services (DSS) be amended to reflect a net increase of $934,837,000. This net increase is comprised of $1,042,917,000 reimbursements, $50,294,000 Federal Trust Fund, $250,000 Special Olympics Fund, and $1,000 Child Health and Safety Fund, partially offset by a decrease of $158,244,000 General Fund, $375,000 State Children's Trust Fund, and $6,000 Emergency Food Assistance Program Fund.

May Revision Caseload Adjustments (Issues 401, 402, 403, and 404) —The May Revision proposes a net increase of $946,241,000 (increase of $1,273,224,000 reimbursements, $250,000 Special Olympics Fund, and $1,000 Child Health and Safety Fund, partially offset by a decrease of $138,455,000 General Fund, $188,398,000 Federal Trust Fund, $375,000 State Children's Trust Fund, and $6,000 Emergency Food Assistance Program Fund) primarily resulting from updated caseload estimates since the Governor's Budget. Realigned programs are displayed for the purpose of federal fund and other technical adjustments. Caseload and workload changes since the Governor's Budget are displayed in the following table:

Program	Item	Change from Governor's Budget
California Work Opportunity and Responsibility to Kids (CalWORKs)	5180-101-0001 5180-101-0890 Reimbursements	-$44,299,000 -$163,449,000 -$40,000
Kinship Guardianship Assistance Payment	5180-101-0001	-$4,170,000
Supplemental Security Income/State Supplementary Payment (SSI/SSP)	5180-111-0001	-$37,266,000
In-Home Supportive Services (IHSS)	5180-111-0001 Reimbursements	-$26,461,000 $1,259,776,000

Program	Item	Change from Governor's Budget
Other Assistance Payments	5180-101-0001 5180-101-0122 5180-101-0890 5180-101-8106	-$283,000 -$6,000 $3,566,000 $250,000
County Administration and Automation Projects	5180-141-0001 5180-141-0890 Reimbursements	-$27,823,000 -$34,466,000 $20,668,000
Community Care Licensing	5180-151-0001 5180-151-0890	-$347,000 -$65,000
Special Programs	5180-151-0001	-$201,000
Realigned Programs		
Adoption Assistance Program	5180-101-0890	$2,325,000
Foster Care	5180-101-0001 5180-101-0890 5180-141-0001 5180-141-0890	$676,000 -$2,529,000 $2,000 -$435,000
Child Welfare Services (CWS)	5180-151-0001 5180-151-0279 5180-151-0803 5180-151-0890 Reimbursements	$1,999,000 $1,000 -$375,000 $15,630,000 $8,000
Title IV-E Waiver	5180-153-0001 5180-153-0890	-$282,000 -$9,090,000
Adult Protective Services	5180-151-0890 Reimbursements	$115,000 -$7,188,000

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES – MAY REVISION PROPOSALS

ISSUE 11: SAFETY NET PLAN AND ASSOCIATED CHANGES

PANEL

- Department of Developmental Services
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

Governor's May Revision Proposal for DDS Safety Net Services

May Revision Proposes a Variety of Safety Net Crisis Interventions. The Governor's May Revision proposes $21.2 million ($7.5 million General Fund) in one-time funding in 2017-18 to expand the safety net for people with developmental disabilities. The proposal calls for a variety of temporary residential options that could house upwards of 50 people in total. It calls for two mobile acute crisis teams—one based in Northern California and one in Southern California—as well as intensive "wrap-around" services for consumers transitioning to long-term community settings from either restrictive settings such as Institutions for Mental Disease (IMD) or secure settings such as the Secure Treatment Program (STP) at Porterville Developmental Center (DC).

Proposal Begins Addressing Longstanding Concerns. Because DCs are state-operated (meaning that unlike privately operated facilities, they will not turn someone away) and have onsite health facilities and medical staff, they have traditionally served as the safety net for consumers in crisis. Sonoma DC and Fairview DC each house an acute crisis center called Northern STAR and Southern STAR, respectively (STAR stands for Stabilization, Training, Assistance, and Reintegration). With the planned closure of the DCs, concerns have been raised about whether DDS would still provide options of last resort—facilities that cannot turn away consumers with the most challenging service needs. Consumers in crisis may have extreme behavioral problems, be at risk of harming themselves or others, have complex medical and/or mental health needs, and/or have criminal backgrounds that make them difficult to treat or place. The Developmental Services (DS) Task Force, a group established by the Department of Health Care Services (DHCS) and comprised of consumers, family members, regional center staff, service providers, consumer advocates, and DDS and DHCS staff, has provided guidance to DDS about general principles and recommendations for designing a safety net. The current proposal appears to begin addressing many of these recommendations.

Safety Net Proposal Complements Community Efforts. In addition to acute crisis centers at two of the DCs, some safety net services are currently available through regional centers. Regional centers coordinate mobile crisis services and emergency housing (including crisis beds in group homes, crisis foster homes, hotel rooms, or beds at psychiatric facilities) and provide 24-hour on-call staff and other support such as behavioral services, transportation, or psychiatric treatment. In addition, through the Community Placement Plan (CPP), which provides funding to develop community-based resources for people moving out of DCs, DDS is working with regional centers to develop new housing models and other supports to serve consumers with complex service needs.

Proposal Includes a Resourceful Funding Model. The current proposal would use a combination of existing funds (including CPP funding) and new General Fund resources ($7.5 million, one-time) to bolster the safety net. DDS would renovate existing, empty homes on the Fairview DC property to develop the two Southern STAR facilities. If proposed trailer bill language is approved, funding for renovation would come from the Developmental Disabilities Services Account, which collects proceeds from the Harbor Village rental properties also located on Fairview DC property. The Northern STAR facilities would be developed using a combination of General Fund and CPP funding. Vendor-operated step-down homes for individuals with the most challenging service needs would be developed using CPP funding. Mobile acute crisis teams would be paid for through the General Fund. Regional centers would use their purchase-of-service dollars to pay for intensive wrap-around services for consumers with co-occurring developmental disabilities and mental health needs, while General Fund dollars would pay a private organization to provide intensive wrap-around services for consumers transitioning out of STP at Porterville DC.

The Administration just recently released its "Plan for Crisis and Other Safety Net Services in the California Developmental Services System" on May 13, 2017. It is available at http://www.dds.ca.gov/.

LAO Comments (these were received by the Subcommittee prior to the "Plan" mentioned above being released on May 13, 2017). Although the proposal clearly responds to some of the recommendations made by the DS Task Force and begins to address some enduring concerns about the health and safety of consumers with complex service needs, it lacks sufficient detail to provide a full assessment, as outlined below.

The extent of the demand for safety net services is unclear. Aside from anecdotal evidence, few details have been provided about how many people in the developmental services community need safety net services. What is known is how many people accessed available state-operated services at DCs. For example, in 2016 the DCs admitted 108 consumers, 19 by court order (because they were considered dangerous to themselves or others), 88 who were deemed incompetent to stand trial, and one who had been provisionally placed and returned to the DC under court order. Of the 19 under court order, 11 were served at the acute crisis STAR facilities at Sonoma and Fairview DCs, each of which have five beds, which has been indicated are always full.

The Governor's May Revision requests 14.5 positions to staff the mobile acute crisis teams, but it is otherwise unclear how many state staff will be needed to run the five STAR facilities or how many headquarters staff might be requested to administer these new services. This has implications regarding whether additional position authority may be needed to fully implement the proposal. Aside from the specific location of the two Southern STAR facilities, only the broad geographic location for other facilities is known at this time. Therefore, it is not known whether the group of facilities will be developed in areas with the greatest need for safety net services. DDS has not yet determined what types of facilities the step-down homes run by vendors will be. These determinations have important implications: whether they will be eligible for federal financial participation, what types of services, such as medical care will be offered, and what restrictive characteristics will be employed, such as delayed egress devices or delayed egress in combination with secured perimeter.

Planning approach, including extent of recognition of cultural differences, is unclear. The safety net proposal does not mention how services will be chosen by and for consumers, nor does it mention whether the design of services will be culturally sensitive. New federal Home- and Community-Based Services (HCBS) rules require a person-centered planning approach as a condition of receiving federal funding, yet the safety net proposal does not discuss how the consumer or the consumer's family will be involved in determining a course of crisis intervention. Nor does the plan identify ways in which the safety net services will reflect attempts to narrow the racial/ethnic disparities in the authorization and utilization of services. For example, there is no mention of whether multilingual staff will be available or whether mobile teams will receive training on how to be sensitive to cultural issues when entering peoples' homes. In a recent State Senate hearing on disparities, DDS was urged to consider cultural factors in the initial design of any program, even if the program was not directly related to reducing disparities.

The proposal does not include information on how it will measure success. The proposal makes no mention of how DDS will evaluate the proposal's effectiveness in providing a consumer safety net, or how DDS will determine the need for future development. One small illustration of how offering services without assessing demand may not work as intended is how transitional beds at the Canyon Springs Community Facility in Riverside County are not used as often as anticipated. DDS staff are unsure why the beds often go unused, but suspect it is due to the facility's location in Cathedral City.

LAO Recommendations.

Despite the lack of detail in the proposal, there is a programmatic need to begin timely development of safety net services given the imminent closure of the DCs – Sonoma DC in 2018 and Fairview DC and the General Treatment Area of Porterville DC in 2021.

Once those facilities are closed, the state will lose important stopgap services for people in crisis unless it gets resources in place now. In addition, intentionally designed resources for this population will deflect placements in large IMDs, which are not eligible for federal financial participation and are contrary to the state's deinstitutionalization goals under the Lanterman Act.

To reconcile the need for timely safety net development and the need for greater detail to assist the Legislature in the evaluation of this proposal, the LAO recommends that the Legislature have DDS report at May Revision budget hearings on:

- ✓ The criteria it plans to use to make decisions about facility locations funded under this proposal.
- ✓ How the person-centered approach and cultural issues will be considered in the design of services funded under this proposal.
- ✓ Whether full and effective implementation of the proposal may require additional staffing resources beyond those requested.
- ✓ Its plans to evaluate the effectiveness of its mobile crisis teams, wrap-around services, and safety net housing facilities funded under this proposal in addressing the health and safety needs of developmental services consumers in crisis.

In addition, the LAO recommends that the Legislature adopt supplemental report language to direct DDS to submit a long-term funding plan for crisis and other safety net services in conjunction with the submittal of the 2018-19 Governor's Budget. Among other things, the plan should provide details on the extent of current and projected demand for safety net services in the developmental services community, as well as outline existing and projected new funding and staffing resources required to implement the plan over the long term.

Proposed Safety Net Services for Individuals With Developmental Disabilities

	Number Proposed	Description	Intended Population	Number of Beds per Home	Total Number of Beds	2017-18 Cost	General Fund Request
Facilities						*(In thousands)*	
STAR Northern California	3 homes	State-operated acute crisis homes	Consumers placed by court order	4 or 5 per home	12 to 15	$3,000	$2,600
STAR Southern California	2 homes	State-operated acute crisis homes	Consumers placed by court order	5 per home	10	1,300	-
Step-Down Homes	4 homes	Vendor-operated homes to aid in transition from restrictive setting to community	Consumers with dual diagnoses (developmental disability and mental health)	4 per home	16	6,000	-
Step-Down Homes	3 homes	Vendor-operated homes to aid in transition from STP to community	Consumers with forensic involvement	4 per home	12	3,000	-
Crisis Services							
Mobile Acute Crisis Teams	2 teams	State-operated mobile acute crisis units based in Northern and Southern California	Consumers needing in-home crisis intervention and stabilization	N/A	N/A	1,900	1,900
Wrap-Around Services	N/A	Intensive services to aid transition from restrictive setting to the community	Consumers with dual diagnoses (developmental disability and mental health)	N/A	N/A	3,000	-
Wrap-Around Services	N/A	Contracted intensive services to aid transition from STP to the community	Consumers with forensic involvement	N/A	N/A	3,000	3,000
TOTAL	**12 homes**				**50 to 53 beds**	**$21,200**	**$ 7,500**

STAR = Stabilization, Training, Assistance, and Reintegration; STP = Secure Treatment Program

Language Change Recommendations from Advocates.

The Subcommittee is in receipt of language changes recommendations to the Administration's January 10 trailer bill proposals. These came to the Subcommittee after the DDS issues were heard on March 1, 2017 and remain under review by the Subcommittee staff. These changes come principally from Disability Rights California and respond to concerns around the creation of more restrictive settings in the community, given the movement of consumers and pending closure of the DCs.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 12: DEVELOPMENTAL CENTERS – POPULATION AND TECHNICAL ADJUSTMENTS

PANEL

- Department of Developmental Services
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

Population and Technical Adjustments (Issue 400)—It is requested that Item 4300-001-0001 be increased by $8,847,000 and 136.3 positions and reimbursements be increased by $3,629,000. Of the 136.3 positions requested, 85.8 are existing positions erroneously omitted from the November Estimate and 50.5 are new positions to support population adjustments at the Developmental Centers.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 13: REGIONAL CENTERS

PANEL

- Department of Developmental Services
  Please walk through the May Revision changes to each component of this Issue:
  A. Caseload Adjustments
  B. Behavioral Health Treatment (BHT)
  C. Title XX Reimbursement Authority
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

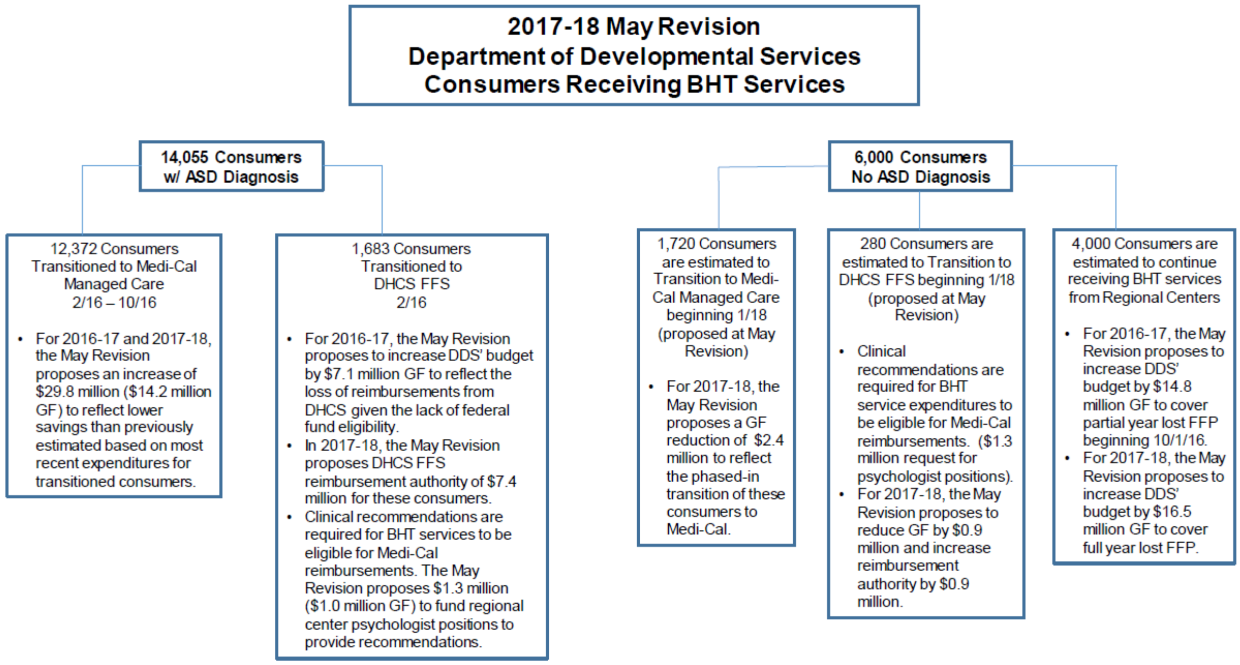
A. Caseload Adjustments

Caseload Adjustments (Issue 404)—It is requested that Item 4300-101-0001 be decreased by $54,720,000, Item 4300-101-0890 be decreased by $828,000, and reimbursements be increased by $1,224,000. These changes reflect updated expenditures in caseload-driven operations and purchase of service costs.

B. Behavioral Health Treatment (BHT)

Behavioral Health Treatment (BHT) (Issues 402 and 403)—It is requested that Item 4300-101-0001 be increased by $14,237,000 and reimbursements be increased by $15,573,000 to reflect higher service costs for individuals who continue to receive BHT services through the regional centers than previously assumed at the Governor's Budget. These changes are reflected in Issue 402.

It is also requested that Item 4300-101-0001 be increased by $9,746,000 and reimbursements be decreased by $26,507,000 to provide resources to regional centers to perform clinical evaluations to enable consumers with an Autism Spectrum Disorder (ASD) diagnosis to receive reimbursable BHT services through the regional centers. In addition, the adjustments reflect the loss of federal funding reimbursement for, and the cost of transitioning these children to receiving services through Medi-Cal.



C. Title XX Reimbursement Authority

Title XX Reimbursement Adjustment (Issue 406)—It is requested that Item 4300-101-0001 be decreased by $17,553,000 and reimbursements be increased by $17,553,000 to reflect an adjustment of additional federal Title XX reimbursements from the Department of Social Services (DSS) used to offset General Fund costs. (See related Issue 405 in the DSS May Revision Finance Letter.)

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.

ISSUE 14: TRAILER BILL LANGUAGE ON FAIRVIEW DEVELOPMENTAL CENTER CAMPUS LEASE EXTENSIONS

PANEL

- Department of Developmental Services
- Department of Finance
- Legislative Analyst's Office
- Public Comment

MAY REVISION PROPOSALS

Fairview Developmental Center Campus Lease Extensions—Trailer bill language is requested to allow the Department to extend the ground lease on the Fairview Developmental Center campus to encompass two community homes that will be refurbished to operate as Stabilization, Training, Assistance, and Reintegration crisis facilities (see Attachment 1). The language will also allow the Department to enter into an agreement with a company to develop and manage the facilities.

Amend section 14670.35 of the Government Code to read:

(a) Notwithstanding Section 14670, the Director of General Services, with the consent of the State Department of Developmental Services, may let in the best interests of the state and at a price which will permit the development of affordable housing for persons eligible under this section, to any person, including but not limited to any corporation or partnership, real property not exceeding 60 acres located within the grounds of Fairview State Hospital, for the purpose of developing affordable housing, which may include manufactured housing, for the employees of Fairview State Hospital, and for a period not to exceed 55 years. The lease authorized by this section shall be nonassignable, except it may be assignable, subject to approval by the Department of General Services and the State Department of Developmental Services, to a partnership in which the lessee has an interest of not less than 50 percent or to an individual, corporation or partnership which has a net worth of at least three million dollars ($3,000,000) and has experience substantially equal to that of the lessee in building, marketing, managing and leasing residences of the type to be built under the lease, and shall be subject to review every five years by the Director of General Services, to assure the state that the original purposes of the lease are being carried out.

In the event of default by the lessee under the terms of the lease, the state shall take all necessary steps to cure the default but in no event shall state general funds, except funds collected pursuant to Section 15863, be expended to operate the property.

The housing developed pursuant to this section shall be available for the employees of Fairview State Hospital and to provide transitional housing for patient-clients of Fairview State Hospital returning to the community; provided that the housing available for transitional housing for patient-clients shall not be in excess of 10 percent of the units developed. In the event that vacancies occur in the units which cannot be filled by either employees of Fairview State Hospital or transitional patient-clients, then the units may be made available to persons who are in need of affordable housing and whose incomes do not exceed 80 percent of the median income for Orange County as that income may be defined from time to time by the United States Department of Housing and Urban Development. Should any vacancies exist in excess of 60 days after lessee has conducted a marketing program in cooperation with the Orange County Housing Authority and approved by the State Department of Developmental Services, and during the 60 days the vacancies were made available to employees, transitional patient-clients and persons whose incomes do not exceed 80 percent of the median income for Orange County, then, upon approval by the State Department of Developmental Services, the vacant units may be made available to any persons employed in the City of Costa Mesa.

The Legislature finds and declares that the provision of decent and affordable housing for state employees and transitional patients, i.e. clients of state mental hospitals, is a public purpose of great statewide importance.

(b) Effective July 1, 2017, the Director of General Services, with the approval of the State Department of Developmental Services, shall amend the existing lease established pursuant to subsection (a) to include a portion of the Fairview Developmental Center property in the area of Mark Lane, for the purpose of developing additional housing units to serve individuals with developmental disabilities. The amendment shall provide that the additional acreage be subject to the existing lease conditions. The amendment shall require a management agreement between the Lessee and the State Department of Developmental Services be established including terms and conditions determined by the Director of the State Department of Developmental Services to be in the best interests of the state. The management agreement shall allow the State Department of Developmental Services to determine the type of housing units to be developed and whether housing is developed by renovation of existing units or construction of new units suitable for providing services to individuals with developmental disabilities. The management agreement shall also give the State Department of Developmental Services the first right of refusal for all housing established pursuant to this section on the subject acreage.

(c) The housing developed for employees of Fairview State Hospital or transitional patient-clients pursuant to paragraph (a) of this section shall first be available for individuals with developmental disabilities receiving services from a regional center pursuant to Division 4.5 of the Welfare and Institutions Code and then, to individuals in need of affordable housing as described in this section.

Staff Recommendation:

Staff recommends that these proposals be held open pending a vote-only action at the Subcommittee's close-out hearing, currently scheduled for May 23rd.