ANALYSIS OF THE GOVERNOR'S JUNE 2009 "REFORM" AGENDA

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TABLE OF CONTENTS

Summary:

The Governor has shifted the FY 2009-10 budget negotiations away from the State's immediate cash crisis and budget deficit toward a discussion of various unrelated long-term policy changes that were unveiled only two weeks ago. These "reforms" have been framed as cost saving measures by the Governor, a view that has gone largely unproven, yet unchallenged up until this point.

Only three of the sixteen proposals made by the Governor provide savings in FY 2009-10, the vast majority of savings above the conference version comes from a two thirds vote fee increase on hospitals, thus, inclusion of these proposals distracts from the challenge of achieving a consensus at fixing our cash crisis and budget deficit. While the Governor's package does contain some promising ideas that are worth further discussion, the merit of these few legitimate proposals is overshadowed by the underlying effect of the package: to liquidate government services and assets at the expense of taxpayers and to allow unfettered and unregulated privatization by corporations.

This document provides specifics regarding the Governor's "reform" proposals to illustrate the net impact of all of the "reform" efforts, and better articulate the true motivation of the package.

The Governor's Reforms—what do they really do?

- Provides minimal savings in FY 2009-10. Only three of the sixteen proposals save money in FY 2009-10.

- Proposes prospects of future savings to justify policy changes to increase opportunities for privatization of public services and reduce oversight and ethics requirements for such efforts.

- Suddenly includes pension reform ideas, a current media hot topic, in the budget package, despite the fact that such reforms would not render any savings for close to a decade.

- Allows the Governor to hide draconian cut proposals to social service programs behind a patina of "reform."

- Does not include additional costs needed to implement reforms, but scores very optimistic future savings upon implementation.

Summary of Reform Efforts

Reform Proposal	FY 2009-10 savings above Conference version	Rational for Proposing	Comments
Centralized Eligibility	None.	Potential future savings by contracting out eligibility services at state level.	Huge unspecified upfront costs. Other states have not seen promised savings from similar automation efforts.
Repeal SB 1419 (Contracting out of school services)	None.	Hopes that local districts save money by removing contracting guidelines that require districts to prove cost savings, engage in competitive bidding, ensure that new employees are qualified to perform the job.	Potential state cost of $2-8 million in lower PERS offsets. Minimal savings.
Procurement Reform	None.	Removes various oversight requirements for procurement, including prohibition of self-dealing.	No savings achieved, loss of oversight would make the state vulnerable to fraud by contractors.
Medi-Cal Reform	None.	Out-year reductions in Medi-Cal costs through managed care approach.	Savings depends upon when federal approval is granted.
CalWORKs Reforms	None.	Savings beginning in FY 11-12 by eliminating almost all of the caseload and significantly shrinking the program.	Reform limits aid to adults and includes various other proposals that eliminate aid for hundreds of thousands of children and families.
COLA Eliminations	None.	Out-year savings from permanently eliminating the state COLA for Cal WORKs and SSI/SSP recipients.	COLAs were previously suspended in FY 09-10 in the February package.
Hospital Fee	$615 million.	Requires a 2/3 vote. Saves state money by getting more federal match, similar to other quality assurance fees charged by health care entities.	Requires a 2/3 vote. Legislature is interested in exploring this fee proposal but savings projected by Governor assume unlikely immediate federal approval and a very aggressive rate.
IHSS Fraud	None—Savings already adopted in Conference Committee Budget.	Various proposals to dramatically increase anti-fraud activities and oversight to the IHSS program.	Legislature already adopted savings—this reform has additional program requirements and hires 42 additional state staff.

Reform Proposal	FY 2009-10 savings above Conference version	Rational for Proposing	Comments
Employee Compensation (Health Care Costs)	$99 million.	Savings is the same as May Revision Proposal from state contributing less to health care and moving health benefit administration from PERS to Department of Personnel Administration.	These savings would shift health care costs to state employees—this additional cost would be on top of reduction in salary from the 3 furlough days and 5 percent pay cut proposed by Governor.
Electronic Court Reporting	An unspecified net cost to acquire equipment.	Automating this function could lead to lower staffing costs in future years.	Rejected in Conference because other states have failed to realize anticipated savings. All costs not assumed in proposal.
Employee Compensation (Pension Reforms)	$35 million.	Significant savings over next 30 years, but no savings for several years.	Since most savings occur after more than ten years, it should be discussed in policy process.
Sale-Leaseback of State Buildings	None.	Allows for the sale of some buildings that the state would lease instead of own.	Savings is one time but results in costs that increase in future years for leases.
Long-term Lease Authority	None.	Allows state to lease out property it isn't using for about $1 million annual savings starting in FY 11-12.	
Surplus Property Reporting	None.	Technical language to identify additional properties that could be sold by the State.	
Sale of various properties (Cow Palace, Del Mar, etc)	None.	Results in one-time savings starting in FY 12-13.	All one-time savings.
Mid-Year Cut Authority	None.	Proposal to allow governor to make certain cuts in the middle of the year.	Every reduction proposed in the May Revision that could be cut with this authority was adopted by the Legislature. This proposal also has Constitutional problems.
Total	$749 million		
Total w/out 2/3 vote for Hospital Fee	$134 million		

Medi-Cal, CalWORKs, Food Stamps -- Centralized Eligibility

What it does:
Centralizes and competitively procures the application and eligibility functions for the Medi-Cal, CalWORKs, and Food Stamp Programs. The goal is to provide an on-line application process for multiple programs. The state would enter into a performance-based contract with a vendor to process enrollments on a statewide basis and put the necessary technology in place. Clients would be able to apply for multiple programs at one time, integrating the Healthy Families program.

How does it save money:
The intent is to shift application and eligibility functions that are performed at the county-level to a state automated system. The savings are attributed to lower costs by having more of the eligibility functions automated and transitioning these functions to the state level. The Administration says that this will reduce redundancies in automation systems across programs and streamline the application process for people enrolling in multiple state programs.

Savings in FY 2009-10 from reform:
Unspecified costs of building a huge statewide automated system. The Administration estimates that implementation will take 36 months.

Savings in FY 2010-11:
Unspecified costs. Indiana spent over $1 billion to develop a similar system that was not implemented.

Savings in future years:
The Administration estimates full savings of $500 million General Fund after the system is implemented. Texas and Indiana failed to achieve any savings from similar efforts to achieve such savings.

Staff Comments:
Medi-Cal is an extremely complex program in terms of eligibility, far more complex than the Healthy Families Program. While there is widespread support for simplifying the application process and eligibility determinations, and for maximizing use of technology and on-line applications, it is unknown how many Medi-Cal applicants have access to computers. To best serve the largest number of people, the state should maintain many different avenues for individuals to apply for state programs.

Despite Healthy Families being a much simpler program, with simpler eligibility requirements, centralized eligibility has not been without problems and weaknesses such as the absence of accessible staff to contact to resolve discrepancies and ask questions, resulting in unnecessary preventable denials.

Some experiences of other states in privatizing and centralizing eligibility determinations in public programs have been negative, citing cost overruns, lost coverage, and poor customer service.

The Department of Health Care Services is already engaged in a stakeholder process with county welfare directors and others to create internet-based applications for these programs.

Articles relating to these reforms:

Texas' welfare privatization **efforts snagged**
Lost paperwork, other glitches often block help to needy Texans
11:24 PM CDT on Sunday, April 6, 2008
By ROBERT T. GARRETT / The Dallas Morning News

AUSTIN – Lawmakers are worried that a partly privatized system for determining who receives public assistance is still shaky and may not be salvageable.

Paperwork for applicants has been lost. Needy Texans have received little help from state workers when they've complained of mistakes. And all too often, Texans who should qualify for state-paid health care and other benefits have been refused because of such errors.

When one closely watched measure of the state's performance on aid requests plunged recently, lawmakers sharply questioned Health and Human Services Commissioner Albert Hawkins. He has announced several new initiatives this year to lure and retain state eligibility workers – and to train more of them on a computer system causing most of the delays.

But those steps haven't calmed lawmakers' nerves. They and advocates for the poor are skeptical he can quickly fix a system that's been in crisis for most of the five years since the Legislature and Gov. Rick Perry slashed the payroll of the state's welfare offices and ordered a shift of many screening duties to four privately run call centers.

State leaders acknowledge that promised cost savings haven't materialized and mistakes are common. Now, the system could be headed for more severe problems, as a jittery economy means more Texans may soon apply for public assistance.

The problems could also distract Texas officials as they separately seek to overhaul Medicaid, the nation's main health care program for the poor. Some advocates for low-income Texans fear that if Mr. Hawkins' agency remains preoccupied with fixing the eligibility system, it will be distracted just as it needs to focus on huge changes designed to cover more adults and improve preventative and dental care for poor children.

"These problems need to be resolved now – not in the next [legislative] session – because people's health is at stake," said Senate Health and Human Services Committee Chairwoman Jane Nelson, R-Flower Mound.

The Texas call-center experiment was supposed to make it easier for the needy to get help. The state would create centralized offices where Texans would call and provide information about their income and family, and workers would determine their eligibility for the state's biggest assistance programs – Medicaid, food stamps, cash assistance and the Children's Health Insurance Program.

There's every indication, though, that it's actually compounded confusion at the gates.

'Just reapply'

Dallas-area health care providers and social workers say inconvenience for aid applicants has spread from the program's initial pilot area, around Austin, to North Texas and beyond.

"They can't give us an answer," nurse Gloria Bugarin of Dallas said of the call centers and state welfare offices, where harried state and private workers shuttle callers back and forth. "They're just, 'Oh, start all over. Just reapply.' Well, that takes a lot of time to go get those documents and copy and fax them again."

Ms. Bugarin, who visits the homes of low-income women having their first child, said the eligibility system's woes threaten a child abuse and juvenile delinquency prevention program she works in, the YWCA of Metropolitan Dallas' Nurse Family Partnership. In the past two years, babies of 10 of her 25 clients lost Medicaid coverage, disrupting immunizations and doctor visits, she said.

State officials acknowledge the failures but say there's no turning back. The new system is "a much more flexible system. It's modern, it's Web-based, and it allows us to provide Texans with a great deal of choice in how they apply for benefits," said Stephanie Goodman, a Health and Human Services Commission spokeswoman.

She said the promised savings and improved efficiency haven't materialized because the program ordered by lawmakers in 2003 hasn't been fully implemented. "But it's also incredibly difficult to modernize a system that 4 million Texans rely on every day. It's like trying to remodel a hotel that's full of guests," Ms. Goodman added.

Transferring data

Lawmakers' original vision would have had private employees assuming a lot more of state workers' duties. But after widespread problems with the Austin-area launch in early 2006, Mr. Hawkins persuaded the Legislature to let him dial back the privatization and partially rebuild the state workforce.

Also of concern to state employees' representatives and some advocates for the poor was Mr. Hawkins' unflappable confidence in a 9-year-old computer system known as TIERS – Texas Integrated Eligibility Redesign System.

By 2007, Mr. Hawkins wanted to complete a big job: Transferring to TIERS the case histories and personal information of all 3.8 million Texans enrolled in the four big social programs. The old mainframe-based system, he argues, can't be sustained.

Just a small part of the job was done on time, though – mostly because of high turnover of state workers, many of whom say TIERS is unwieldy. The problem got worse when Mr. Hawkins decided to route all applications for a new Medicaid benefit for low-income women of childbearing age into TIERS starting in January 2007.

The program's popularity – and a much-criticized decision to move the public assistance cases of the applying women's family members – helped to more than double the TIERS workload last year, to more than 400,000 active cases.

"All is not well, clearly," said Rep. Patrick Rose, the Dripping Springs Democrat who heads the House Human Services Committee. "We've got to find a solution that doesn't allow further cases from the Women's Health Program to be converted into TIERS."

Ms. Goodman said it would cost $1 million and take about a year to reprogram the old mainframe system to handle the women and their families.

In January, Mr. Hawkins, decided to hire his way out of a jam. He announced emergency pay raises for state workers of at least 5 percent. They take effect June 1.

At the Feb. 19 hearing before a new House-Senate panel overseeing the eligibility system, Mr. Hawkins said he had just launched a nine-week drive to train 313 state workers to use the computer system, to be followed by more training and hiring

Ms. Goodman said there are early indications that the promise of higher pay may be slowing attrition. Though she touts raises of as much as 17 percent for newly hired workers, starting salaries remain low. Before the raises, they averaged about $26,000.

Also, veteran state eligibility workers complain that Mr. Hawkins simply has pulled manpower away from the older computer system, so that it soon will be mired in delays, too. Fewer than half of food stamp cases processed using TIERS are now decided in the maximum 30 days allowed by federal law.

Problems continue

As policymakers and experts in Austin bicker, needy Texans continue to report problems. When they complain, poorly trained state and contractor employees respond inadequately, they say.

Plano housewife Cecilia Davidson is one such person, baffled – and frustrated – by the sputtering system.

Ms. Davidson, whose husband got laid off from a construction job and struggled to find work, got her two sons on Medicaid. When their six months of coverage ended last April, she applied for renewal, but state workers' errors left the family without coverage until December.

Ms. Davidson abandoned hope of getting help from the state. Despite her own chronic medical condition, she took a job last summer, hoping it would be the ticket to private family coverage. It wasn't.

She said that by September, her 16-year-old son, Leth, who has a mild form of autism known as Asperger's, needed care. So she applied again to get government coverage for him and his brother Scott, 8.

In December, Ms. Davidson rushed Leth to the emergency room because he had seizure-like "twitching and jerking." Hit with a $3,000 tab, she redoubled efforts to get coverage for the boys. On some days, she recounted, she spent up to five hours on the phone.

"You get run around so much," she said. "My application had so much weighing on it."

Ms. Goodman acknowledged that Ms. Davidson provided all information requested of her, and the boys should have had continuous coverage.

Under Medicaid, a child's bills from the last three months can be paid when they enroll – so Leth's ER visit is covered. Ms. Davidson said she winces, though, when state workers tell her that millions more Texans eventually will have their records pulled into TIERS.

"Everybody's going to be on it," she said. "God help everybody."

$1B privatization deal at risk
State could cancel contract to run welfare system
By Will Higgins, Indianapolis Star
July 07, 2009

Nearly two years into the privatization of Indiana's welfare system, state officials are considering scrapping it amid widespread concerns that include the mishandling of nearly one in five food-stamp cases.

State welfare officials acknowledge that in about three-quarters of those cases, eligible Hoosiers are being denied aid they should be receiving.

"It's possible we'd have to cancel the contract," said Anne Murphy, secretary of the Indiana Family and Social Services Administration, referring to a $1.16 billion deal with IBM. She said the company will have until September to make improvements.

In January 2007, before the IBM system was rolled out, the portion of food-stamp cases that were mishandled was 4.38 percent. By January 2009, that number had shot up to 18.2 percent.

"The horror stories I've heard," said Charles Warren, chairman of the Indiana Institute for Working Families' advisory committee. "Applications rejected for the flimsiest of reasons, lost paperwork, people being told to start all over again."

Jane Jankowski, a spokeswoman for Gov. Mitch Daniels, said the governor is concerned about the system's performance so far but remains confident it will succeed.

Under the 10-year contract, one of the richest in state history, IBM Corp. and its subsidiary Affiliated Computer Services agreed to manage the state's system for doling out food stamps, Temporary Assistance to Needy Families and Medicaid payments to about a million Hoosiers. Critics' complaints are systemwide, though TANF and Medicare statistics were not readily available Tuesday.

The system allows applicants for public assistance to apply over the telephone or a computer as well as in person during extended hours, but applicants no longer are assigned caseworkers.

Despite critics' objections that welfare requires a personal touch, the gradual rollout began county by county in October 2007. After a chorus of complaints from social workers, aid recipients and lawmakers, the rollout was halted abruptly in March, with 33 counties to go, Marion County among them.

Murphy says the new system is no worse than the previous state-run system but that the economic recession -- unemployment is 10.6 percent -- combined with last year's extensive flooding has swollen the welfare rolls and bogged down the system. In April, when FSSA last compiled its food-stamp numbers, 695,000 Hoosiers received stamps, compared with 584,000 in April 2007.
Texas tried a similar welfare privatization in 2006, but with Accenture, not IBM. That plan was abandoned as Indiana's was launched.

Indiana's privatization plan was roundly endorsed by Daniels, who is known nationally as a champion of privatization after leading a successful effort in 2006 to lease out the Indiana Toll Road.

Daniels was on vacation with his family in West Virginia and unavailable for comment Tuesday, but Jankowski said he expressed his concerns to IBM executives last winter "about the need to step up service to customers."

A spokesman for IBM did not return phone calls for comment.

Last month, IBM implemented changes that involved hiring more than 300 additional staffers, some retraining of existing staff and adding new computers and more scanners. Murphy said it's too early to appraise the new strategy.

Critics are skeptical. "I've had tons and tons of complaints," said Sen. Vaneta Becker, R-Evansville, one of two Republicans who pushed for legislative oversight of the FSSA before the agency went further with its privatization. "I've heard of two people who died after losing Medicaid."

Becker characterized the changes IBM is implementing as "fine, but they won't solve the problem."

Jankowski said that "of course" Daniels is confident of the privatized system's ultimate success.

Murphy, the FSSA secretary, said she is hopeful.

Additional Facts

HOW THE ROLLOUT HAS PROGRESSED
October 2007: $1.16 billion, 10-year contract with IBM to privatize welfare begins to roll out.

June 2008: USDA tells state it "expects FSSA to realize measurable improvement" in food stamp processing before a wider rollout.

July 31, 2008: "It's not operating perfectly. . . . We will continue to work with it until it does," said FSSA chief Mitch Roob.

January 2009: Roob leaves FSSA; Anne Murphy, his deputy secretary and chief of staff, succeeds him.

Tuesday: Murphy says the welfare project is so troubled that the state could move to cancel its contract with IBM this fall. "We're not satisfied with the timeliness rates and error rates. There are problems right now," Murphy said.

Repeal of SB 1419

What it does:
Repeals education code, as authorized by *SB 1419 (Alarcon), Chapter 894, Statutes of 2002,* that governs the conditions under which a Local Education Agency (LEA) or community college may contract for services customarily provided by classified school employees. SB 1419 set forth guidelines that require districts to prove cost savings, engage in competitive bidding, ensure that new employees are qualified to perform the job, minimize the risk of future contract rate increases, and contract with a legitimate company.

This reform proposal would instead authorize school districts, county offices of education, and community college districts to contract for the provision of any non-instructional services of any type (including, consulting, management, supervision and direct provision of services) as long as the contract meets provisions of the Public Contract Code, and the governing board of the school district has determined, in its sole discretion, that the contract will provide a benefit for the school district.

Provides that institutions of higher education are not restricted by the Higher Education Employer-Employee Relations Act from entering into contracts for the provision of non-instructional services.

How does it save money:
No state level cost savings. Potential annual state costs of $2-8 million due to lower PERS offsets.

Savings would vary widely at the local level. The LAO estimates that school districts will spend about $6.8 billion in non-instructional services in 2009-10. The amount of savings a district would achieve from this reform proposal depends on the total number of services that are contracted and the amount of savings achieved from contracting. For example, if school districts contracted out 10 percent of non-instructional activities and saved 10 percent on those activities, there would be about $70 million in local savings statewide.

Savings in FY 2009-10 from reform:
No additional state savings. Savings will vary widely at the local level.

Savings in FY 2010-11:
No additional state savings. Savings will vary widely at the local level.

Savings in future years:
No additional state savings. Savings will vary widely at the local level.

Procurement

What it does:
Changes existing law which restricts a firm hired to consult on a State IT project from being the firm that receives the contract to provide the service, and allows such a situation to occur under specified circumstances. Existing law protects the state from receiving consultative services by a biased firm who stands to potentially gain from their recommendations. The Governor's proposal would allow this to take place.

Additionally changes existing contract laws so that bidders must meet minority business, women business, and disabled veteran business enterprise goals, and "making a good faith effort" to meet the goals will no longer suffice.

How does it save money:
In theory, this language would encourage single procurements conducted in multiple phases, which could potentially reduce costs for those contracts. It opens up the state to considerable risk, however, and could in the end cost the state much more than it saves.

Savings in FY 2009-10 from reform:
None, when appropriate, these contracts can already be used without granting them this exemption from best practices.

Savings in FY 2010-11:
None, when appropriate, these contracts can already be used without granting them this exemption from best practices.

Savings in future years:
None, when appropriate, these contracts can already be used without granting them this exemption from best practices.

Medi-Cal Reform

What it does:
Requires the Department of Health Care Services to restructure Medi-Cal by:

1. Requiring seniors and persons with disabilities to be enrolled in managed care or a medical home model;

2. Promoting home and community based alternatives to institutional care, by using home and community based services, including Medi-Cal waivers and IHSS, to improve coordination between Medicare and Medi-Cal;

3. Improving coordination of care for children with significant medical needs with case management and care coordination through medical homes or specialty centers instead of county CCS offices; and

4. Improving coordination of care between physical and behavior health services by ending the mental health carve out.

How does it save money:
The restructuring would seek to provide better coordinated and integrated care, through disease management and managed care, to the most vulnerable Medi-Cal beneficiaries including seniors, disabled individuals, and children with significant medical needs. The waiver would also seek to improve coordination between Medi-Cal and Medicare, and between physical and behavioral health care. Cost savings are expected to result from administrative efficiencies and better coordination of care, more efficient use of treatment resources, more effective care, and improved health outcomes.

Savings in FY 2009-10 from reform:
No savings in 2009-10 due to time required to implement

Savings in FY 2010-11:
No savings in 20010-11 due to time required to implement

Savings in future years:
The Administration anticipates savings of roughly $400 million General Fund by 2012-2013.

Staff Comments:
The Department of Health Care Services currently facilitates a stakeholder process to design and implement a model of coordinated care for seniors and persons with disabilities.

Substantial risks are associated with these proposals, including:

- Moving seniors and people with disabilities into managed care would likely create major disruptions in continuity of care for these individuals who have significant medical needs and relationships with providers;
- This could substantially undermine base funding for safety net providers such as hospitals and community clinics that currently serve many fee-for-service individuals as well as non-Medi-Cal patients; and
- Managed care arrangements could reduce access for patients, such as children with significant medical needs, to appropriate specialists.

CalWORKs

What it does – includes the following:

- New Time Limit for Aid – Establishes a new time limit to aid of 24 months, rather than 60 months. Assistance beyond the two year limit would be available for families meeting federal work participation requirements.

- Self-Sufficiency Review – Requires CalWORKs recipients to attend a face-to-face self-sufficiency interview every six months to assess what services or resources may be needed to help adults increase their work participation hours or remove barriers that might prevent them from working and/or participating in work activities. The SSR is required as a condition of eligibility, or a family loses aid entirely if the SSR requirement is not met.

- Sanction Reforms – Counts months in sanction status towards the lifetime limit on aid, undercutting the welfare to work character of the program, and implements graduated sanctions for long-term non compliance.

- Modified Safety Net and Child-Only Benefits – Cuts all aid for families receiving safety net benefits beyond the time limit unless families meet federal WPR. Cuts all aid for child-only cases, such as those with an undocumented parent, after 60 months.

- Additional Grant Cut - These cuts are in addition to a reintroduced proposal to cut grant levels by an additional six percent. Grants were cut July 1, 2009 by four percent – from $723 to $694 for a family of three in a high-cost county. Six percent more would reduce the grant to $651, lower than it was 20 years ago in 1989.

How does it save money:
Various reduction proposals make children and families ineligible for the program, resulting in a significantly decreased caseload starting in 2010-11.

Savings in FY 2009-10 from reform:

The Self-Sufficiency Review begins in 2009-10, but doesn't yield any notable savings in the near-term. Similarly, the 24-month time clock for aid doesn't see effects until the FY 2011-12. The other reforms, such as the sanction reform and the elimination of the safety net, don't take effect until at some point after budget year, after the TANF Emergency Contingency Fund expires under the Federal ARRA.

In total, the package doesn't provide any real General Fund savings associated with program reform at all for 2009-10.

Savings in FY 2010-11 from reform:
The picture is similar for 2010-11, although affected by the sunset of ARRA in September 2010 and the effect of the reforms that would be implemented in the Governor's package starting at some point in the 2010-11 budget year. The precise number for these savings is unknown.

Savings in future years:
The Administration states that savings achieved through the longer-term reform proposals reach $2 billion in 2012-13.

CalWORKs and SSI/SSP COLA Elimination

What it does:
Permanently eliminates the annual CalWORKs cost of living adjustment (COLA), scheduled for July 1 of each year, and the state SSI/SSP cola, scheduled now for June 1 of each year.

How does it save money:
CalWORKs and SSI/SSP Grants will continue to lose value as the cost of living in California increases. Grants will be suppressed at their already low level indefinitely.

Savings in FY 2009-10 from reform:
None. The FY 2009-10 COLA were suspended in February Budget Package.

Savings in FY 2010-11:
The savings for the CalWORKs COLA deprivation in 2010-11 is $71 million.

The full-year savings for the June 2010 SSI/SSP cola deprivation in 2010-11 is $325 million.

Savings in future years:
The savings from permanent COLA eliminations compound in future years from cost-avoidance. Also CalWORKs savings increase due to loss of ARRA funding.

Hospital Fee

What it does:
Assesses hospitals a 5 percent fee in order to raise revenue that would then be matched with federal funds. This fee would be similar to other existing provider fees on nursing facilities and managed care organizations. Includes an initial fee collected quarterly to maximize federal revenue during the time period of the temporary increase in FMAP as a result of ARRA, through December 2010. Establishes a permanent fee beginning in 2011. The revenue generated from these fees would be used to support the Medi-Cal program and increase Medi-Cal rates to hospitals. The Governor's intent is to structure the fee in a way that maximizes the number of hospitals that receive more in additional Medi-Cal payments than they pay in fees.

How does it save money:
A 2/3 vote required 5 percent fee increase would raise approximately $2 billion, which would be matched with federal funds at either a 62 percent match, until the end of 2010 ($3.2 billion in federal funds) or 50 percent match beginning in 2011 and thereafter ($2 billion in federal funds). Much of this new funding would go back to hospitals, but the state would keep a portion to offset Medi-Cal costs.

Savings in FY 09-10 from reform:
Full year savings was estimated at $615 million in savings from new revenue for Medi-Cal—actual savings would erode because fiscal year has already begun.

Savings in FY 10-11:
$500 million in savings from new revenue for Medi-Cal.

Savings in future years:
$500 million in annual savings from new revenue for Medi-Cal.

In-Home Supportive Services Fraud Initiative

What it does:
Proposes the following activities and new requirements to address fraud and to improve program integrity:

- Program integrity reviews by way of unannounced home visits
- Targeted mailings for suspect providers
- Fraud Training for County staff
- Face-to-face provider enrollment
- Fingerprinting and background checks for all providers
- Timecard accountability (signature under penalty of perjury)
- Provider acknowledgement of delivering services
- Requiring all beneficiaries to complete fingerprint imaging to eliminate duplicate aid claims
- Prohibit the use of post office boxes to mail provider checks
- Address confusion regarding the use of local IHSS funds for fraud prevention and program integrity efforts

How does it save money:
The Administration contends that savings are achieved from massive fraud that will be ferreted out as a result of these new efforts. This projection lacks any substantiation.

According to 2007-08 results of state/county QA efforts, of the nearly 24,000 total cases reviewed, only 523 were referred for further investigation for potential fraud – just two percent. County data of actual fraud referrals shows even fewer potentially fraudulent cases, including Los Angeles County with less than one percent over a three-year period referral for fraud.

Savings in FY 2009-10 from reform:
Adopted by Conference Committee the Administration states that this proposal will generate a net savings of $47.7 million. To achieve savings of $73.6 million in 2009-10, California would need to invest $25.9 million GF.

Savings in FY 2010-11:
Same as 2009-10, presumably.

Savings in future years:
Unknown, but the Administration will argue that savings grows due to greater and improved fraud prevention, deterrence, etc.

Employee Health Care

What it does:

1. Allows someone other than PERS to purchase health care plans for state employees in order to lower health care coverage costs.

2. Changes health care vesting policy to require new employees to serve for 25 years prior to fully vesting their health benefits upon retirement.

3. Reduces the states contribution for retiree healthcare from 100 percent to approximately 85 percent.

How does it save money:
Lower health care costs will likely be achieved through reduced services to employees and increased employee premiums. Changes in vesting periods will reduce the number of people receiving the benefits in retirement. Reduction in state contributions for retiree health care will directly reduce state costs.

Savings in FY 2009-10:
Approximately $99 million from lower health care costs (rejected by the Legislature in Conference Committee).

Savings in FY 2010-11:
Approximately $177 million annually from lower health care costs (rejected by the Legislature in Conference Committee).

Savings in future years:
Extending the vesting period to 25 years for retiree health benefits is projected to save $27 billion in "accrued actuarial liability" (AAL) through 2040. AAL is the cost that the state would be on the hook to pay for. These savings will not be achieved for 25 years, as this change would only apply to new employees.

Reduced contributions to retiree health benefits are projected to reduce AAL by $10 billion. These savings would also not be achieved for some time as this change would only apply to new employees.

Changes to pension formulas (discussed under pension reforms) are also projected to reduce AAL by $10 billion through 2040 based on changes to retirement ages.

Staff Comments:
Lower health care costs will be paid for through reduced services and increased costs to employees. Retirees will have to pay the remaining health care costs out of their own pockets. These savings come squarely on the shoulder of state employees who have already been asked to take a 15 percent cut based on furloughs, a 5 percent straight pay cut, plus the cuts proposed in the Governor's pension reform proposal.

Electronic Court Reporting

What it does:
Eliminates the Court Reporters Board and provides the State Bar with the discretion to regulate court reporting.

Note: The reform language provided by the Administration does not pertain to electronic court reporting.

How does it save money:
According to the Department of Finance (DOF), elimination of the Court Reporters Board would provide a transfer to the General Fund at the end of fiscal year 2009-10 estimated to be $1.9 million. However, in its current form, the Administration's language does not provide for such a transfer. In addition, transfer of these funds will reduce resources that are available to provide services for low income litigants.

It is worth noting that the State Bar has indicated no interest in assuming these responsibilities, at least in part because of the conflict of interest between the consumers (attorneys and litigants) and the providers of court reporting services.

In the May Revise, the Administration proposed trailer bill language that authorized the use of electronic court reporting. The May Revise proposed to phase in electronic court reporting into 20 percent of California's court rooms in 2009-10, estimating $13 million in savings as a result.

There are numerous issues that raise questions as to whether savings could be achieved from implementation of electronic court recording, such as; initial and on-going costs associated with purchasing recording equipment, installing and wiring court rooms, software use licensing fees, recruitment and training costs for new staff to operate and monitor recording devices in court rooms, recruitment of additional clerk staff to handle the Administration of recorded discs and transcripts, increased transcription costs, and separation costs associated with dismissal of court reporters. In addition, the courts have indicated that they do not want to use electronic recording in criminal cases.

Electronic court reporting also raises policy issues such as; problems with lost testimony, the ability to tamper with recordings, and recording privileged conversations between lawyers. Furthermore, federal courts, as well as several states have begun to stop using electronic recording exclusively and have begun to go back to the use of court reporters. Following are examples:

- ***Texas.*** In 2001 brought back stenographic reporters after trying both audio and video taping methods, citing real-time court reporting and the ability to have an immediate transcript; saving money during expert witness testimony by having the experts review the transcript from the day before instead of sitting through previous days of court; time and equipment involved in reviewing video testimony

– taking at least five hours to review five hours of testimony, compared to 30 minutes to review the same transcript; inherent problems and inaccuracies in transcription of recorded proceedings; unanticipated costs and additional personnel to perform all the functions that a stenographic reporter provides.

- ***Florida.*** The Supreme Court is currently reviewing an appellate court decision to determine what the official record is - the recording or the transcript from the recording. Digital recording systems record everything, including whispered conversations between clients and attorneys or onlookers. Keeping the recording from the public preserves the attorney-client privilege. The appellate court ruled the recordings are not an official record but are used to create the official record. If this decision is upheld, the court will be required to provide written transcripts, resulting in no cost savings to the court.

- ***New Mexico.*** Started using recording systems in 1982. By 1986 brought back stenographic reporters, citing unexpected costs, frustrations, backlog of cases at the appellate level, and great increases of time and additional personnel costs with the tape systems. The state abandoned the systems and returned to faster and more cost-effective court reporters.

- ***Federal Courts.*** Appellate and trial court judges taking part in a two-year study said videotapes of trials were too cumbersome and took too long to find specific portions. As a result, the Judicial Conference of the United States voted to end the experiment in 1986.

Savings in FY 2009-10 from reform:
The Administration reports one-time savings of $1.9 million from the elimination of the Court Reporters Board by transferring existing funding for the board to the General Fund. However, language would need to be drafted to achieve this transfer and it would affect funding available to provide services for low income litigants. In addition, there is concern that elimination of the Board could actually result in an ongoing General Fund loss of approximately $150,000 that the Court Reporters Board currently pays in "pro rata" fees to the Department of Consumer Affairs for shared services as it would be difficult to absorb this loss.

Savings in FY 2010-11:
No additional savings.

Savings in future years:
No additional savings.

Pension Reform

What it does:

1. Modifies retirement formulas for new employees hired on or after July 1, 2009. Primarily returning retirement formulas to those in place prior to 1999, and including a change in retirement formulas for CHP and CalFire employees.

2. Require employees to contribute more towards their pensions.

How does it save money:
Increased employee payments will decrease state payments. The modified formulas will achieve significant savings in out years by decreasing payouts to employees.

Savings in FY 2009-10:
Reduced employer contributions of $35m per year based on increased employee contributions.

Savings in FY 2010-11:
Reduced employer contributions of $35m per year based on increased employee contributions.

Savings in future years:
Estimated savings of $40 billion over the next 30 years. Savings will not be realized for some time as these changes only apply to employees hired on and after July 1, 2009.

Staff Comments:
The $35m in annual savings is all money that will come out of employee's pockets that would have gone back into the economy. These savings come squarely on the shoulder of state employees who have already been asked to take a 15 percent cut based on furloughs, a five percent straight pay cut, plus the cuts proposed in the Governor's employee health care reform proposal.

Sale-Leaseback of State Buildings

What it does:
Allows Department of General Services to sell or enter into a long-term lease of specified properties, including the "east end complex," Attorney General building, and the San Francisco Civic Center. Long-term leases must include an option for the state to repurchase the property. It exempts these sales/leases from provisions of CEQA.

How does it save money:
Any properties sold or leased long term will provide immediate revenues to the state. Those revenues will be offset by increased rent costs for the space needed for those state operations. In the long term, this will be more expensive than just maintaining ownership of these properties.

Savings in FY 2009-10 from reform:
None.

Savings in FY 2010-11:
Finance estimates savings of $266 million for the lease of 5 buildings.

Savings in future years:
Estimated savings of $164 million in 2011-12, $66 million in 2012-13, and ongoing increase in costs eventually leading to an overall increase in state costs.

Long Term Lease Authority

What it does:
This proposal authorizes the Director of the Department of General Services to lease real property under the jurisdiction of a state agency, department, or district agricultural association if the property is determined to be of no immediate need to the state but may have some potential future use to the program needs of the agency, department, or district agricultural association. The proposal contains an exemption for lands under the authority of the State Lands Commission, land distributed to the state by court decree, land under the jurisdiction of the State Coastal Conservancy, and land under the jurisdiction of the Department of Transportation, CSU system, or UC Regents.

How does it save money:
According to this proposal, the net proceeds of a lease entered into will be deposited into the General Fund.

Savings in FY 2009-10 from reform:
None.

Savings in FY 2010-11:
None.

Savings in future years:
Starting in 2014-15 the state may see an ongoing savings of $1 million that could increase year to year.

Surplus Property Reporting

What it does:
Agencies are currently required to report to Department of General Services a record of their real property holdings including information regarding project uses during the next three years. This bill would require agencies to include additional information such as: specific programmatic uses, whether the property is fully utilized, partially utilized, or excess, agreements relating to the use of the property, and projected future use during the next five years.

How does it save money:
This proposal could help to identify unused property that could be leased or sold and possibly generate savings.

Savings in FY 2009-10 from reform:
None.

Savings in FY 2010-11:
None.

Savings in future years:
None.

Surplus Property Sales

What it does:
This reform consists of a series of bills, each of which authorizes the Department of General Services to sell all or portions of various properties. The current proposed properties are: Orange County Fair, Ventura County Fair, Cow Palace, Del Mar Fair, and the Los Angeles Memorial Coliseum.

How does it save money:
The state would sell these properties pursuant to a public bidding process. The savings generated in these sales would be deposited into the General Fund after reimbursing the Department of General Services for transactional services.

Savings in FY2009-10 from reform:
None.

Savings in FY 2010-11:
None.

Savings in future years:
2011-12:
- $40 million from Cow Palace (RN 16123)
- $37 million from Ventura County Fair (RN 16126)
- $96 million on Orange County Fair (RN 16120)

2012-13
- $350 million from Del Mar Fair (RN 16121)
- $50 million from L.A. Memorial (RN 16125)

Also Considering:
- San Quentin State Prison
- Cal Expo

Mid Year Cut Authority

What it does:
Allows the Governor the ability to make mid-year reductions to General Fund appropriations without legislative approval. This authority would have taken effect if Prop 1A passed in the May election. The Governor proposes to grant the authority anyway. It also allows DOF to suspend certain COLA adjustments during fiscal emergencies.

How does it save money:
Gives the Governor the ability to make unilateral reductions in state operations. Payments to locals, state employee benefits, debt service, and other areas are exempted from this authority. A preliminary analysis indicates that the Legislature has already agreed to all of the May Revision reductions that meet the criteria for mid-year reduction, so this would do little to achieve additional savings in the budget year.

Savings in FY 2009-10 from reform:
None, it appears the Legislature has already agreed to all cuts that would be subject to this authority.

Savings in FY 2010-11:
No additional savings. The Governor would have the ability to achieve the same savings using a line-item veto authority when signing budget.

Savings in future years:
No additional savings. The Governor would have the ability to achieve the same savings using a line-item veto authority when signing budget.