



CALIFORNIA HEALTH AND HUMAN SERVICES AGENCY

2008-2009 Budget Facts

May 2008

GOVERNOR ARNOLD SCHWARZENEGGER

SECRETARY KIM BELSHÉ



**HEALTH AND HUMAN SERVICES AGENCY
BUDGET FACTS – MAY REVISION
FISCAL YEAR 2008-2009**

The California Health and Human Services Agency (CHHS) oversees twelve departments and one board that provide a range of health care services, social services, mental health services, alcohol and drug services, income assistance, and public health services to Californians from all walks of life. More than 33,000 people work for departments in CHHS at state headquarters in Sacramento, regional offices throughout the state, state institutions and residential facilities serving the mentally ill and people with developmental disabilities. CHHS receives nearly \$30 billion from the state's General Fund, second only to education, with a total budget (including federal and special funds) of approximately \$80 billion.

Major programs include no-cost and low-cost health care coverage for 6.6 million Californians (Medi-Cal); income support for 1.3 million aged, blind or disabled Californians (SSI/SSP); income support for 1.14 million CalWORKs recipients; and low-cost public health insurance (Healthy Families) for more than 850,000 California children from working families. Other large programs administered by CHHS departments include food stamps, child welfare services, in-home supportive services, support for the developmentally disabled, foster care, mental health services, drug and alcohol treatment and vocational rehabilitation. CHHS directly serves millions of Californians, while touching the lives of all Californians through statewide efforts, such as public health protection and emergency preparedness and response.

CHHS' substantial reliance on the state's General Fund means most programs and departments in CHHS will face reductions in the budget proposed for fiscal year 2008-09. In the Governor's January budget proposal, efforts were made to spread the reductions as evenly as possible across programs, including state administration. With the state's worsening fiscal condition, virtually all of the previous CHHS reductions continue to be proposed for next year as well as additional reductions to major health and human service programs. The May Revision proposes:

- Additional savings in Medi-Cal, In-Home Supportive Services (IHSS), and SSI/SSP;
- Changes to CalWORKs to better meet federal work participation rates and maintain CalWORKs within the General Fund Maintenance of Effort (MOE) requirements;
- New strategies to slow the rate of growth in program spending; and
- Targeted reductions that endeavor to prioritize services to those most in need.

In total, changes proposed for fiscal year 2008-09 will reduce CHHS General Fund spending by \$3.4 billion 2008-09, from a projected General Fund budget of \$33.2 billion to \$29.8 billion General Fund.

Despite the breadth and depth of the budget-balancing reductions proposed for 2008-09, a number of facts help put the proposed budget for CHHS in perspective:

- California will remain a leader among states in providing comprehensive support and services to low-income and needy Californians.
- California will fully fund an estimated 54,483 additional children from low- and moderate-income working families in the Healthy Families insurance program next fiscal year, an all-time high of more than 935,000 children.

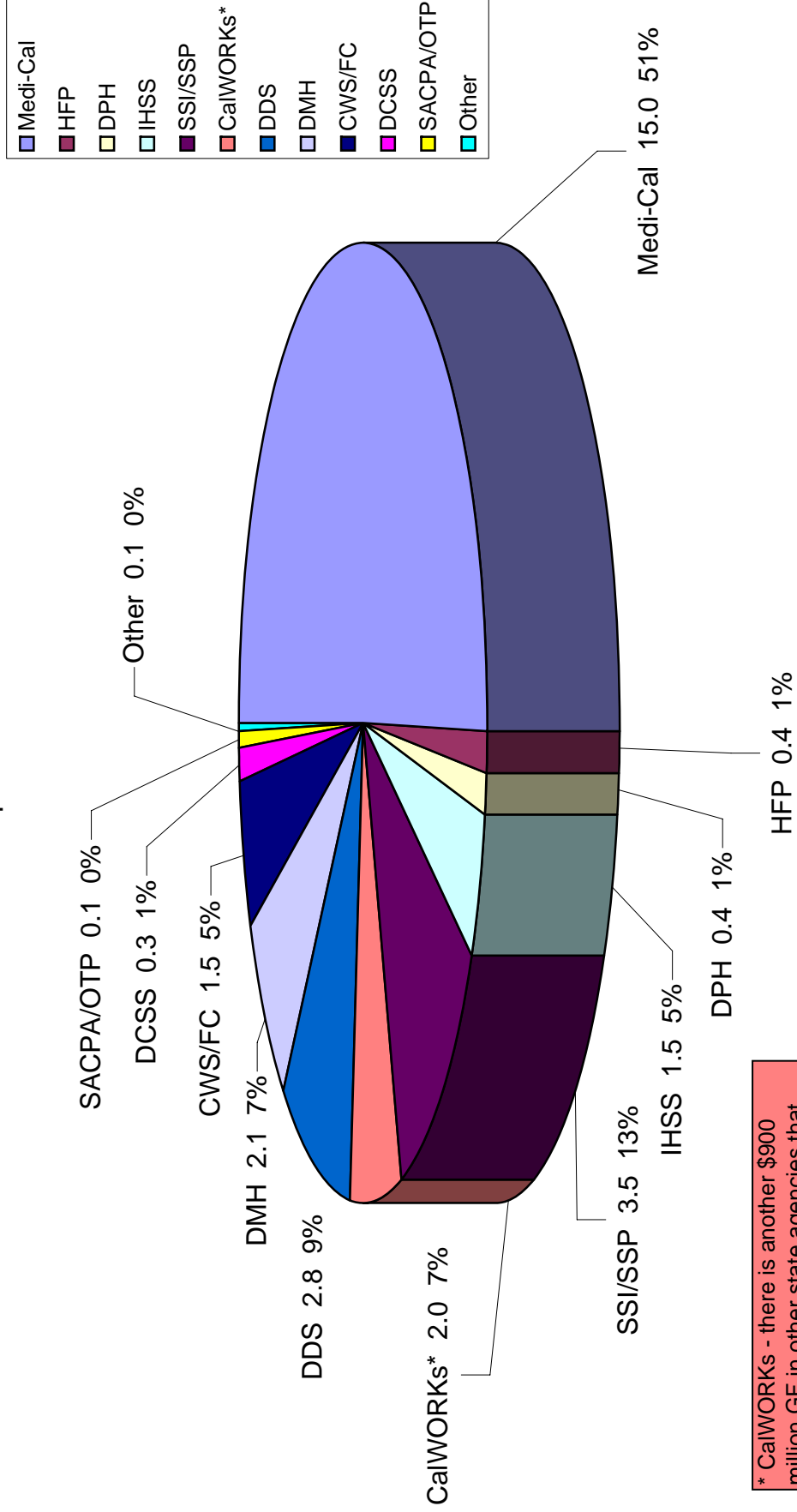
- The May Revision proposes additional \$2.9 million Proposition 99 funds for investment in the Major Risk Medical Insurance Program (MRMIP) to serve medically uninsurable individuals.
- The May Revision includes \$325.3 million to fund the AIDS Drug Assistance Program (ADAP), which is 16.2 percent above the \$280 million identified in the Governor's Budget.
- More than 26,000 individuals will qualify for aid to the aged, blind and disabled (SSI/SSP) in California for the first time, with an estimated 1.27 million Californians support next fiscal year – an all-time high. Grants will not decrease.
- California will continue with its effort to automate child support collections in one statewide system. Thirty-nine counties have successfully implemented the system and the state expects to complete statewide implementation in November 2008.
- All judicially committed mentally disordered offenders (including sexually violent predators) will remain supervised and treated.
- California will spend more than \$108 million from the General Fund to provide drug and alcohol services through the Substance Abuse and Crime Prevention Act and the Substance Abuse Offender Treatment Program.
- The budget includes increased resources to conduct periodic licensing surveys of long-term care facilities to ensure that California provides long-term care residents with a higher quality of care than required by federal law.
- California will have the needed resources to begin implementation of the Money Follows the Person Grant. The goal of the program is to transition 2,000 clients from nursing homes into the community.
- California will have the needed resources to continue program reforms and new rate methodologies for the Adult Day Health Care program to ensure needed services remain available for clients in the community.
- The May Revision provides \$169.8 million to fund rate adjustments for Medi-Cal managed health care plans serving vulnerable Californians. These plans play a crucial role in providing access to health care for 3.3 million Medi-Cal beneficiaries each year. The amount of the rate increases, determined by state actuaries and consultants in the spring after the release of the Governor's Budget in January, represents the minimum amount needed to ensure federal funding for managed care programs.
- The May Revision also includes funding to allow medical providers to screen Medi-Cal patients in an emergency department setting for non-dependent substance abuse, provide for a brief intervention, and as necessary, refer patients for appropriate services, to catch problems early and to avoid more costly services in the future.

CHHS is committed to improving the Medi-Cal fee-for-services program in order to improve health outcomes and slow the overall rate of growth in Medi-Cal spending. Working with the

Legislature, stakeholders, and others, CHHS will work to identify strategies that focus on the relatively small numbers of enrollees that account for large percentages of benefit expenditures. Through enhancements to the Medi-Cal fee-for-services program, we can both slow the rate of growth in health care expenditures and improve the health of program beneficiaries.

It is not without precedent for Governors to propose reductions in large GF-supported CHHS programs during difficult fiscal times. These previous and pending reductions are difficult, given the nature of the services and the people served. We look forward to working with the Legislature and stakeholders to restore the state's fiscal balance while maintaining essential services to our state's most vulnerable, at-risk residents.

All Major CHHS Programs*
SFY 2008/09 General Fund (\$ in billions)
Total: \$29.8 Billion GF



* CalWORKs - there is another \$900 million GF in other state agencies that meets California's Maintenance of Effort.

OVERVIEW OF THE PROPOSED FISCAL YEAR 2008-09 BUDGET BY DEPARTMENT

Department of Aging

The California Department of Aging (CDA) administers programs that serve older adults, adults with disabilities, family caregivers, and residents in long-term care facilities throughout the state. CDA administers funds allocated through the federal Older Americans Act, the Older Californians Act, and the Medi-Cal program.

CDA contracts with the network of Area Agencies on Aging, who directly manage a wide array of federal and state-funded services that help older adults find employment; support older and disabled individuals to live as independently as possible in the community; promote healthy aging and community involvement; and assist family members in their vital caregiving role. CDA also contracts directly with agencies that operate the Multipurpose Senior Services Program through the Medi-Cal home and community-based waiver for the elderly, and certifies Adult Day Health Care centers for the Medi-Cal program.

The May Revision to the Governor's Budget for 2008-09 includes \$219 million (\$56.4 million General Fund) for the Department, a net decrease of \$6.3 million from the 2007-08 Budget Act level. The May Revision includes an increase of \$514,000 in federal funds for the Health Insurance Counseling and Advocacy Program.

Budget-balancing reductions proposed in the fiscal year 2008-09 include Senior Community Employment (\$1.5 million), Multipurpose Senior Services Program (\$2.5 million), and additional reductions in services totaling \$2.3 million.

Department of Alcohol and Drug Programs

The Department of Alcohol and Drug Programs (ADP) leads the state's efforts to reduce alcoholism, drug addiction and problem gambling. The department is responsible for administering funding to local governments; certifying, licensing, monitoring and auditing alcohol and other drug programs; and developing and implementing prevention programs and strategies.

The May Revision to the Governor's Budget for 2008-09 includes \$691.6 million for ADP (\$300.1 million General Fund). It maintains the proposed \$28.1 million General Fund reduction for fiscal year 2008-09 originally proposed in January. The May Revision proposal also reflects a \$13.3 million General Fund increase due to Drug Medi-Cal caseload changes. In addition, the budget includes a \$5 million Non-General Fund increase for the Problem Gambling Treatment Program.

Budget-balancing reductions proposed for fiscal year 2008-09 continue to include reductions in Prop. 36 (the Substance Abuse and Crime Prevention Act of 2000), the Substance Abuse OTP, the drug court programs, the California Methamphetamine Initiative, and other drug treatment services. The fiscal year 2008-09 budget also includes reductions in Drug Medi-Cal provider rates (See page 30 for additional information).

The state will continue to provide General Fund support for Prop. 36, investing approximately \$90.1 million, even though there is no requirement to fund the program. The reduction in funding will not change sentencing law requirements of Prop. 36.

Department of Child Support Services

The Department of Child Support Services (DCSS) ensures effective implementation of all functions necessary to establish, collect and distribute child support for the statewide child support program. Child support program services are delivered through 52 local child support agencies. The following services are available to the public: locating a parent; establishing paternity; establishing, modifying and enforcing a court order for child support; and establishing, modifying and enforcing an order for health insurance coverage.

The May Revision to the Governor's Budget estimates that child support collections will be \$2.3 billion (\$231.4 million General Fund) in fiscal year 2007-08 and \$2.4 billion (\$216.3 million General Fund) in 2008-09. Of these amounts, \$18.8 million (\$2.2 million General Fund) in 2007-08 and \$56.3 million (\$6.6 million General Fund) in 2008-09 are one-time intercepts of Federal Stimulus Tax Rebate payments.

DCSS continues to work toward statewide automation of its child support collections with the California Child Support Automation System (CCSAS). Implementation began in May 2007 and 39 counties have successfully implemented the system. The state expects to complete statewide implementation in November 2008. The CCSAS implementation is exempted from the budget reductions because completing the project and receiving federal certification will prevent future federal automation penalties and allow the state to recover \$193 million in penalty payments.

Department of Community Services and Development

The Department of Community Services and Development (CSD) administers federal programs to assist low-income families to achieve and maintain self-sufficiency, meet their home energy needs, and reside in housing free from the dangers of lead hazards. In addition, CSD administers a General Fund Naturalization Services Program that assists legal permanent residents in obtaining citizenship. CSD works with a network of more than 100 agencies throughout California that provide services and programs directly in the community.

The May Revision to the Governor's Budget for 2008-09 includes \$2.7 million General Fund for the Department, a net decrease of \$300,000 General Fund from the 2007 Budget Act level.

Budget-balancing reductions proposed in fiscal year 2008-09 are achieved by a 10 percent decrease in the Naturalization Services Program, the only General Fund program in CSD.

Department of Developmental Services

The Department of Developmental Services (DDS) is responsible under the Lanterman Developmental Disabilities Services Act for ensuring Californians with developmental disabilities receive the services and supports they need to lead more independent and productive lives and to make choices about their lives.

The term "developmental disability" refers to a disability that originates before the age of 18 and continues indefinitely. It includes people with mental retardation, cerebral palsy, epilepsy, autism, and related disabling conditions.

California provides services and supports to more than 230,000 individuals with developmental disabilities in two ways: the vast majority of people live in their families' homes or other

community settings and receive state-funded services that are coordinated by one of 21 non-profit corporations known as Regional Centers. A small number of people with significant medical or social concerns live in one of seven state-run residential facilities, known as Developmental Centers.

The May Revision to the Governor's Budget includes \$4.6 billion (\$2.8 billion General Fund) for the DDS in 2008-09, an increase of \$256.4 million above the revised Budget Act of 2007.

The number of consumers with developmental disabilities served by Regional Centers is expected to grow by more than 8,000 in the next fiscal year from 221,069 to 229,675. The number of Developmental Center consumers will drop in fiscal year 2008-09 from 2,620 to 2,404 due to the planned closure of the Agnews Developmental Center.

The 2007-08 and 2008-09 May Revision reflects full funding of DDS' programs through a maximization of federal funds and reimbursements, including accelerated claiming of Early Start federal funds.

Emergency Medical Services Authority

The Emergency Medical Services Authority (EMSA) coordinates emergency medical services statewide; develops guidelines for local emergency medical service (EMS) systems; regulates the education, training, and certification of EMS personnel; and coordinates the state's medical response to any disaster by preparing, training, and deploying California's mobile medical assets which include mobile field hospitals, California Medical Assistance teams, and Ambulance Strike Teams.

The May Revision to the Governor's Budget for 2008-09 includes \$25 million (\$12 million General Fund) for EMSA.

Budget-balancing reductions proposed in fiscal year 2008-09 include reducing local assistance funding for the California Poison Control System by 10 percent for a \$690,000 savings and reducing local assistance funding for selected local emergency medical services agencies by \$278,000.

Department of Health Care Services

The Department of Health Care Services (DHCS) works to ensure that eligible individuals and families receive comprehensive health care services. By ensuring appropriate and effective expenditure of public resources to serve those with the greatest health care needs, DHCS promotes health and well-being.

DHCS administers Medi-Cal (California's Medicaid program), a health care program for low-income individuals and families who receive public assistance or lack health care coverage. Medi-Cal serves an estimated 6.6 million people, one in six Californians, and is the largest General Fund expenditure in state government except for education.

The May Revision to the Governor's Budget for 2008-09 includes \$37.2 billion (\$13.9 billion General Fund), an increase of \$1.17 billion (\$315.7 million General Fund) from the Governor's budget and an increase of \$421.6 million (\$197.9 million General Fund decrease) from the Budget Act of 2007. The General Fund decrease primarily reflects implementation of quarterly status reports and reductions in benefits and provider rates.

Budget-balancing reductions in Medi-Cal include reducing most provider rates by 10 percent. This includes reducing rates for physicians, medical service providers, and managed care plans, and shifting federal Safety Net Care Pool payments from designated public hospitals to other programs, allowing a corresponding reduction in General Fund spending. The Governor's Budget for 2008-09 also reduces reimbursement rates for hospitals that do not contract with Medi-Cal; reduces payments to certain long-term care facilities; reduces payments to Medi-Cal Disproportionate Share Hospital hospitals; eliminates certain optional Medi-Cal benefits; ends payment of Medicare Part B premiums for Medi-Cal share-of-cost beneficiaries; reinstates quarterly status reports for Medi-Cal eligibility and reduces Medi-Cal payments to counties. The May Revision proposes additional budget balancing reductions that reduce benefits for newly qualified immigrants, implement a monthly eligibility requirement for emergency services for undocumented immigrants, and lowers the eligibility level for working families (see page 14 for more details).

DHCS also administers the California Children Services (CCS) Program and the Genetically Handicapped Person Program, Child Health and Disability Prevention Program (CHDP) and the primary care and rural health programs. There will be a 10 percent reduction for provider payments for these programs as well as a 10 percent reduction in county case management of CHDP and CCS clients, and grants and payments to safety net clinics. Commensurate reductions will also be taken in county administrative and state operations expenditures.

No changes are proposed in income levels for eligibility and basic health benefits will continue to be provided.

Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board (MRMIB) was created in 1990 with a broad mandate to advise the Governor and the Legislature on strategies for reducing the number of uninsured persons in the state. MRMIB is comprised of volunteer members appointed by the Governor and the Legislature. MRMIB administers three health care programs plus the County Health Initiative Matching Fund (CHIM) program:

1. The Healthy Families Program which provides low cost health, dental and vision coverage to uninsured children until age 19 in working families. The State and Federal governments provide funding for this program.
2. Access for Infants and Mothers (AIM), which provides low-cost, comprehensive health coverage to uninsured pregnant women with family incomes between 200 and 300 percent of the federal poverty level. AIM is funded with federal funding and revenues from the Perinatal Insurance Fund.
3. The Major Risk Medical Insurance Program (MRMIP) which provides health insurance for Californians unable to obtain coverage in the individual health insurance market because of their pre-existing conditions. Californians qualifying for the program participate in the cost of their coverage by paying premiums. The State of California supplements those premiums to cover the cost of care in MRMIP. Tobacco tax funds currently subsidize the MRMIP.

The May Revision to the Governor's Budget for 2008-09 includes \$1.3 billion (\$392.4 million General Fund) for MRMIB, a decrease of \$2.3 million (\$5.9 million General Fund) from the revised 2007-08 budget and \$19.3 million (\$18.1 million General Fund) below the Budget Act of 2007.

AIM and MRMIP will not be subject to General Fund budget-balancing reductions as neither program receives funding from the state General Fund. MRMIP funding, however, is reduced by \$1 million as a result of declining tobacco tax funds (Prop. 99).

Budget-balancing reductions proposed in fiscal year 2008-09 include reducing General Fund spending for Healthy Families by \$37.1 million by reducing rates, increasing premiums and co-pays, and establishing an annual cap on dental benefits (see page 28 for more details).

The May Revision to the Governor's Budget for 2008-09 projects that Healthy Families will serve 6.2 percent more children next year, reaching an all-time high of more than 935,000 enrollees. Healthy Families will continue to serve all children in families with incomes up to 250 percent of the federal poverty level.

Department of Mental Health

The Department of Mental Health (DMH) ensures that a continuum of care exists throughout the state for children and adults who are mentally ill by providing oversight of community health programs and direct services through state mental hospitals.

The May Revision to the Governor's Budget includes \$5 billion (\$2.1 billion General Fund) for DMH in 2008-09, a net increase of \$56.3 million (an increase of \$109.1 million General Fund) from the revised 2007-08 budget and a decrease of \$186 million (\$133.6 million General Fund) from the Budget Act of 2007.

The net change primarily reflects continued growth in the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program, fully funding AB 3632 mental health services program mandates, employee compensation adjustments including funding for Coleman-related classifications, growth in the state hospitals, continued compliance with the Civil Rights of Institutionalized Persons Act (CRIPA), and the continued activation of Coalinga State Hospital.

Budget-balancing reductions proposed in this fiscal year and fiscal year 2008-09 include reduced rates for providers and other mental health professionals in the EPSDT program, as well as reduced managed care rates to county mental health plans (see page 26 for more detail).

Department of Public Health

The Department of Public Health (CDPH) works to keep Californians safe and healthy through the delivery of quality public health services, including licensing of health facilities throughout California – from maintaining safe drinking water to responding to natural disasters and other emergencies, to protecting communities from communicable diseases, epidemics and contaminated food.

The May Revision to the Governor's Budget for 2008-09 includes \$3.3 billion (\$382 million General Fund) for CDPH, an increase of \$159 million (\$14 million General Fund) from the 2008-09 Governor's Budget.

Budget-balancing reductions in fiscal year 2008-09 include reducing state support and local assistance for AIDS programs, including the AIDS Drug Assistance program (ADAP) (see page 32 for more details). The state will continue to meet the federal maintenance-of-effort requirement for receipt of Ryan White CARE Act funds. Other savings are achieved through

reductions to family health programs (\$5.4 million General Fund) and chronic and infectious disease programs (\$3.3 million General Fund).

The May Revision budget includes 68 new positions and \$8.9 million from the Licensing and Certification Program Fund to enable CDPH to conduct periodic licensing surveys of long-term care facilities.

Loans were requested to the General Fund from two new items: \$1.1 million from the Occupational Lead Poisoning Prevention Account, and \$1.6 million from the Drinking Water Operator Certification Special Account. These are one-time only loans to the General Fund from these new items.

Transfers were requested to the General Fund from two new items: \$2.1 million from the Cancer Research Fund, and \$8.5 million from the Drinking Water Treatment and Research Fund.

Department of Rehabilitation

The Department of Rehabilitation (DOR) works in partnership with consumers and other stakeholders to provide services and advocacy resulting in employment, independent living and equality for individuals with disabilities.

The May Revision to the Governor's Budget for 2008-09 includes \$392 million (\$55.5 million General Fund) for DOR, a net increase of \$6.2 million (\$0 General Fund) from the revised 2007-08 budget and \$4.9 million (\$217,000 General Fund) above the 2007 Budget Act level.

Budget-balancing reductions proposed in fiscal year 2008-09 include a 10 percent reduction in the rates paid to vocational rehabilitation service providers, reductions to DOR's operating budget, and a reduction of five positions.

Department of Social Services

The Department of Social Services (DSS) provides aid, service, and protection to children and adults in need of assistance. DSS programs are aimed at promoting the well-being of children, strengthening families, and helping adults and parents achieve their potential for economic self-sufficiency and independence.

The May Revision to the Governor's Budget for 2008-09 includes \$19.9 billion (\$8.7 billion General Fund) for DSS, a decrease of \$216.9 million General Fund from the revised 2007-08 budget and \$154.4 million General Fund from the Budget Act of 2007.

Budget balancing reductions are proposed in the California Work Opportunities and Responsibility to Kids (CalWORKs), Child Welfare Services, Supplemental Security Income/State Supplementary Payment (SSI/SSP), In-Home Supportive Services (IHSS), and Community Care Licensing programs.

CalWORKs proposals include elimination of the 2008-09 cost-of-living adjustment, a five percent grant reduction for CalWORKs recipients, a Pre-Assistance Employment Readiness Program for new or returning program participants, bi-annual self sufficiency reviews, reduction of child care regional market rate ceilings from the 85th to the 75th percentile, graduated full family sanctions, a Work Incentive Nutritional Supplement (WINS) and a modified Safety Net

Program and new rules for Child Only cases (see page 34 for detail). The proposed changes are designed to accomplish three goals by:

- 1) Assisting families in moving out of poverty by rewarding work and providing incentives to adults who engage in activities to increase their earned income and sanctioning those who do not engage in employment or employment-related activities;
- 2) Setting California on a better course to meet future federal work participation rates (WPRs) by engaging more of the CalWORKs population in work activities, thus avoiding costly federal sanctions; and,
- 3) Accomplishing these goals within the current challenging fiscal climate.

The Governor's Budget proposes reducing funding for child welfare services through a reduction in basic care, specialized care and clothing allowance rates in the Foster Care, Kin-GAP, and Adoption Assistance programs. The proposal reduces maintenance payments for Foster Care, Group Homes, and Seriously Emotionally Disturbed placements. Rates paid to Foster Family Agencies (FFA) will be reduced as well, but by a lesser amount, as FFA placements are the only foster care category that did not receive a 5 percent rate increase effective January 1, 2008 (see page 21 for more details).

The Budget also proposes not passing through the January 2009 federal cost-of-living adjustment (COLA) to the aged, blind and disabled on SSI/SSP, and suspending both the state COLAs in October 2008 and June 2009 (See page 16 for more details). In addition, the May Revision proposes to eliminate the Cash Assistance Program for Immigrants.

The May Revision limits state participation in the wages of IHSS workers to the state minimum wage plus \$0.60 per hour, because wage growth has been the primary cost driver in the program over the past 10 years (see page 23 for more details)

Other DSS budget-balancing reductions include reducing random licensing visits by the Community Care Licensing Division - 14 percent of facilities would receive random inspections annually, while responses to complaints and 5-year safety net inspections would be unaffected. Under this proposal, inspections would still be more frequent than when the Governor took office.

Office of Statewide Health Planning and Development

The Office of Statewide Health Planning and Development (OSHPD) promotes healthcare accessibility through leadership in analyzing California's healthcare infrastructure, promoting a diverse and competent healthcare workforce, providing information about healthcare outcomes, assuring the safety of buildings used in providing healthcare, insuring loans to encourage the development of healthcare facilities, and facilitating development of sustained capacity for communities to address local healthcare issues.

The May Revision to the Governor's Budget for 2008-09 includes \$84.8 million (\$4.6 million General Fund) for OSHPD, a net increase of \$1.3 million (\$860,000 General Fund decrease) from the revised 2007-08 budget and an increase of \$8.3 million above the 2007 Budget Act level (\$513,000 General Fund decrease).

OSHPD is also requesting increased budget authority of \$2.8 million for the Health Professions Education Foundation to fund the Mental Health Loan Assumption Program. The Foundation, in

collaboration with the Department of Mental Health, through loan repayments will increase the number of mental health providers practicing in rural and urban underserved areas of California.

The May Revise includes loans to the General Fund from three of OSHPD's special funds totaling \$23 million.

CHHS BUDGET CHANGES PROPOSED IN FISCAL YEAR 2008-09

Budget changes in 10 major areas of the California Health and Human Services Agency account for \$3.1 billion of the \$3.4 billion in General Fund reductions in the CHHS Agency revised budget proposal for fiscal year 2008-09:

Reductions proposed in Fiscal Year 2008-09 (budget year)

Medi-Cal	\$1.1 billion
California Work Opportunities and Responsibility to Kids (CalWORKs)	\$784.1 million
Cash Aid to the Aged, Blind and Disabled (SSI/SSP & CAPI)	\$521.4 million
Funding for Individuals with Developmental Disabilities	\$283.1 million
In-Home Supportive Services	\$274.1 million
Child Welfare Services	\$145.2 million
Mental Health Services	\$66.3 million
Healthy Families Children's Insurance Program	\$37.3 million
Drug Treatment Services	\$28.1 million
HIV/AIDS Programs	\$11 million
More than 100 additional budget changes	\$114 million
TOTAL	\$3.4 billion

TABLE OF CONTENTS

Medi-Cal Page 14

Cash Aid to the Aged, Blind, and Disabled (SSI/SSP & CAPI)..... Page 16

Funding for Individuals with Developmental DisabilitiesPage 20

Child Welfare Services Page 21

In-Home Supportive Services Page 23

Mental Health Services Page 26

Healthy Families Children’s Insurance ProgramPage 28

Drug Treatment ServicesPage 30

HIV/AIDS ProgramsPage 32

CalWORKs ProgramPage 34

- Chiropractic care, incontinence creams and washes, acupuncture, audiology, optometry, opticians and optical labs, podiatry, speech therapy and psychology (\$11.6 million savings).
- Adult dental benefits in Medi-Cal (\$73.8 million savings).

Other - \$203.7 million in savings is achieved by:

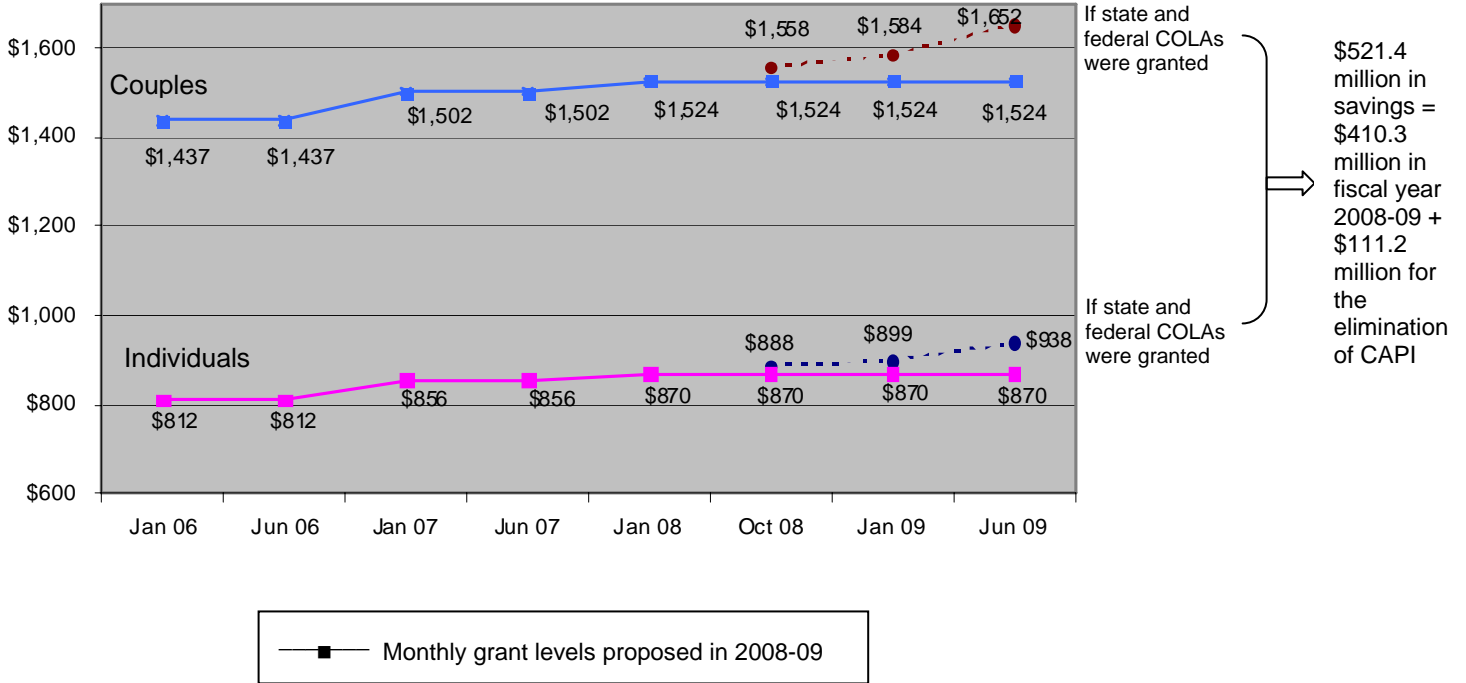
- Reinstating quarterly status reporting of income for children and families (\$43.3 million savings).
- Disproportionate Share Hospital (DSH) funding. DSH hospitals are those that receive additional funding for incurred uncompensated costs for Medi-Cal beneficiaries and the uninsured (\$22.6 million of a \$240 million budget).
- Eliminating payment of Medicare Part B Premiums for beneficiaries who do not qualify for Medi-Cal without a share of cost (\$53.8 million savings).
- County and other administrative reductions (\$79.5 million savings).
- Fiscal Intermediary reductions (\$4.3 million savings).

Additional Proposals from the Governor's May Revision Budget

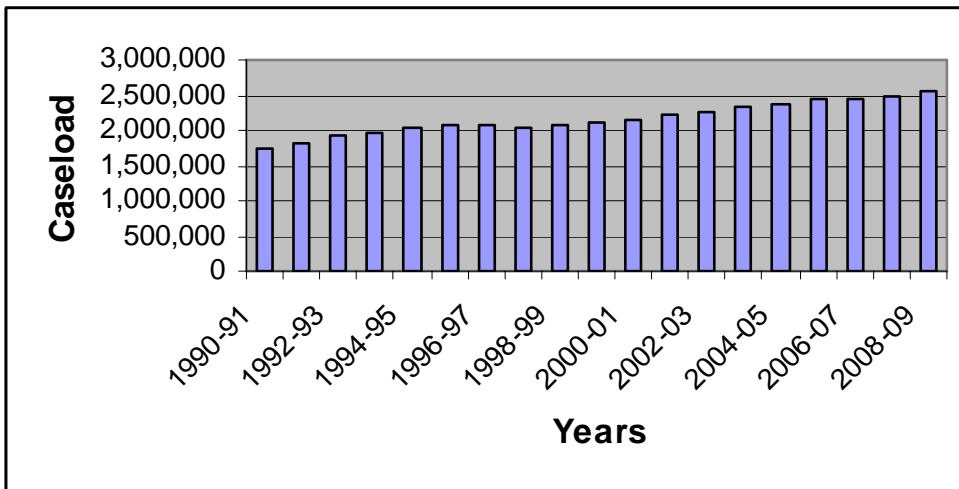
- Reduce the allowable income level for the enrollment of two parent households in Medi-Cal to 61 percent of Federal Poverty Level, and reinstate a rule requiring primary earner to work no more than 100 hours per month, regardless of income (\$31.2 million savings).
- Limit the period of eligibility for emergency services (except pregnancy-related emergency services) for eligible undocumented immigrants to the month or months during which emergency services are received (\$42 million savings).
- Eliminate Non-emergency services other than prenatal care, nursing facility care, and breast and cervical cancer treatment for new immigrants, and all undocumented immigrants receiving benefits under the "Permanently Residing in the US under Color of Law" standard (\$86.7 million savings).
- Reduce non-contract hospital rates (except for rural hospitals) to either the rate paid to contract hospitals minus 5 percent; or 90% of costs, whichever is lowest (\$11.3 million savings). Adopt similar provisions for Medi-Cal managed care.
- Delay the implementation of Senate Bill 437, which would ease enrollment of children in Medi-Cal and Healthy Families programs, until Fiscal Year 2010-11 (\$13 million savings).

CASH AID TO THE AGED, BLIND AND DISABLED (SSI/SSP & CAPI)

Supplemental Security Income/State Supplementary Payment (SSI/SSP)



SSI/SSP Caseload (1990/1991 – 2008/2009)



- Supplemental Security Income/State Supplementary Payment (SSI/SSP) is a federal/state income program that provides a monthly cash benefit to low-income aged, blind, or disabled individuals or couples.

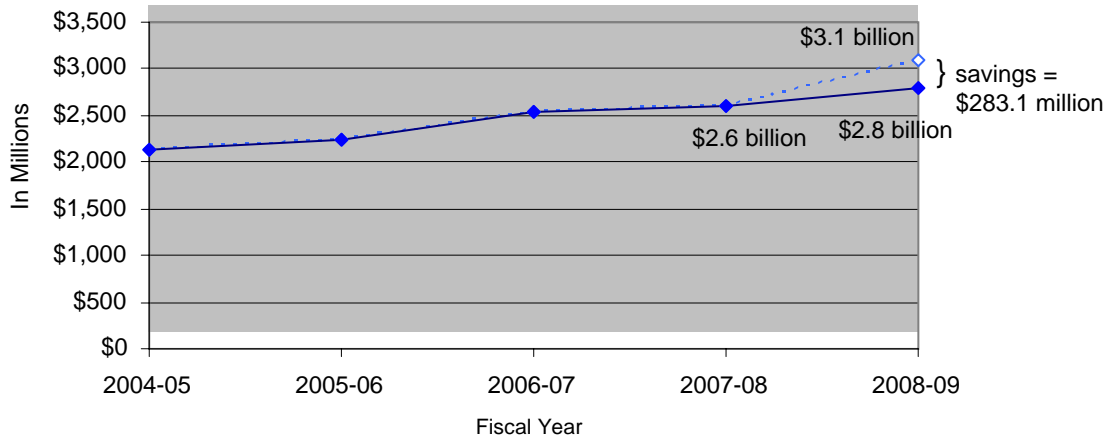
- Low-income Californians who are 65 years and older, blind, or disabled may qualify for a typical monthly payment of up to \$870 for an individual and \$1,524 for couples. They may also qualify for Medi-Cal health care coverage, and In-Home Supportive Services.
- The federal Social Security Administration provides assistance to qualifying residents of all states through the federal SSI program. California is one of 24 states that supplements the SSI payment for aged or disabled individuals living independently with a state payment known as the State Supplementary Payment (SSP). SSI/SSP rates may vary depending on living arrangements and other factors.
- Approximately 1.2 million children and adults receive monthly SSI/SSP assistance. 859,456 (69 percent) are disabled; 368,501 (29 percent) are aged; 21,618 (2 percent) are blind). As this population experiences continuous growth, the number of individuals California serves is expected to reach an estimated 1,274,000 in fiscal year 2008-09 – an all-time high.
- SSI/SSP maximum grant levels increased by 2.3 percent in January 2008 due to a federal cost-of-living adjustment (COLA), raising monthly grant levels from \$856 to \$870 each month for individuals and from \$1,502 to \$1,524 each month for couples.
- In March 2008, the Legislature passed and the Governor signed a bill delaying the 3.7 percent COLA from June 2008 to October 2008. This resulted in savings of \$22.2 in the current year and \$66.1 savings in 2008-09 for total savings of \$88.3 million.
- The Governor's revised budget proposal for 2008-09 achieves savings of \$344.2 million by freezing SSI/SSP rates at their current level, including:
 - \$198.3 million savings in fiscal year 2008-09 (SSP October 2008 3.7 percent COLA suspension).
 - \$108.8 million savings from not passing through the 2.7 percent federal COLA scheduled to take effect in January 2009; and
 - \$37.1 million savings by suspending the 5.26 percent state COLA scheduled for June 2009.
- No changes to eligibility for SSI/SSP recipients are proposed.
- California will continue to be one of 24 states that supplements federal SSI grants.
- More than 26,000 recipients will be added to the rolls in 2008-09, with SSI/SSP rolls reaching an estimated 1,274,000, an all-time high.
- California will maintain the highest SSI/SSP grant levels in the nation for couples and the second-highest behind Alaska for individuals.

Elimination of Cash Assistance Program for Immigrants (CAPI)

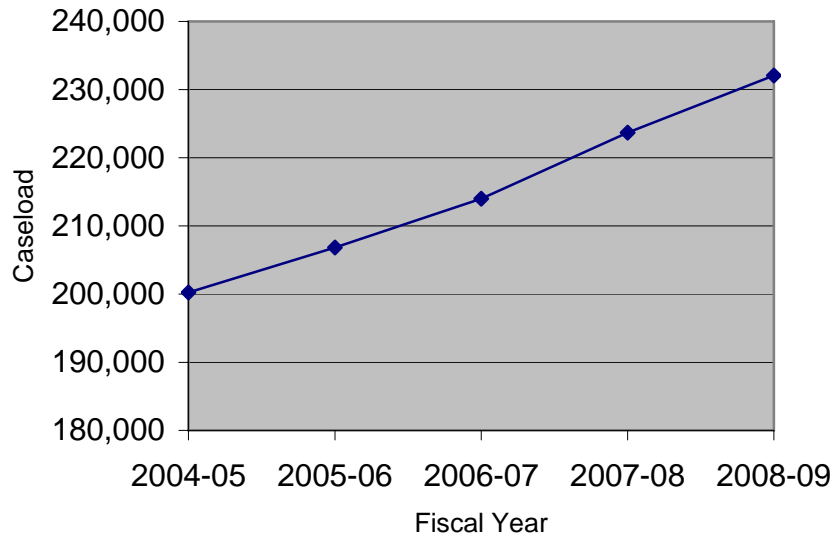
- CAPI is a program for legal immigrants who do not qualify for SSI/SSP due to their immigration status. CAPI beneficiaries were made ineligible for SSI/SSP under federal welfare reforms enacted in 1996.
- CAPI provides a cash benefit (\$10 less than the SSI/SSP benefit of \$870 for an individual and \$1,524 for couples) to needy aged, blind and disabled immigrants who meet all other SSI/SSP eligibility requirements.
- CAPI serves approximately 10,300 individuals a month.
- The May Revision proposed to eliminate the state-only program for savings of 111.2 million General Fund in 2008-09.

FUNDING FOR INDIVIDUALS WITH DEVELOPMENTAL DISABILITIES

State General Fund Support



Regional Center and Developmental Center Caseload



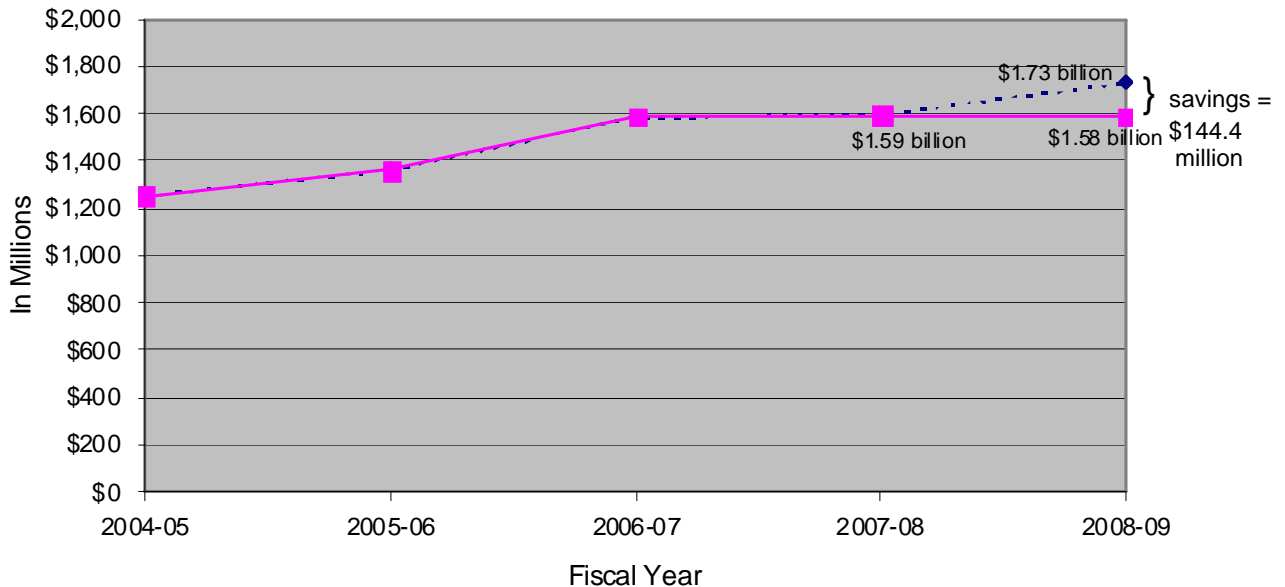
- The term “developmental disability” refers to a severe and chronic mental or physical impairment that starts before age 18 and continues indefinitely. These disabilities include mental retardation, cerebral palsy, epilepsy, autism, and related disabling conditions.
- California provides services and supports to individuals with developmental disabilities in two ways: the vast majority of people live in their families’ homes or other community settings and receive state-funded services that are coordinated by one of 21 non-profit

corporations known as Regional Centers. A small number with significant medical or social concerns live in one of seven state-run residential facilities.

- To receive state-funded services through a Regional Center, eligibility is assessed. A coordinator at the Regional Center helps plan, access, coordinate, monitor and pay for community services, including early intervention, respite family support, counseling, and many other therapeutic services.
- The number of consumers with developmental disabilities served by Regional Centers is expected to grow by more than 8,000 in the next fiscal year from 221,069 to 229,675. The number of Developmental Center consumers will drop in fiscal year 2008-09 from 2,620 to 2,404 due to the planned closure of the Agnews Developmental Center.
- The \$283.1 million savings is achieved primarily by:
 - Continuation of the Regional Centers' cost containment measures. These measures have been in place since 2003. They include freezes on rates for various service programs and increased caseload ratios - from 1:62 to 1:66 (\$235.1 million savings).
 - Reducing funding for Developmental Centers (\$21.2 million savings).
 - New freezes on negotiated rates for the remaining categories of services that had not previously been frozen. These include some specialized residential and therapeutic services (\$26.1 million savings).
 - Reducing State Administration by ten percent and eliminating 23 positions (\$2.7 million savings).
- Miscellaneous reductions and increases due to reductions in other departments (\$2 million costs).
- The entitlement to services under the Lanterman Act is preserved.
- Eligibility rules will not change.

CHILD WELFARE SERVICES

State General Fund Support

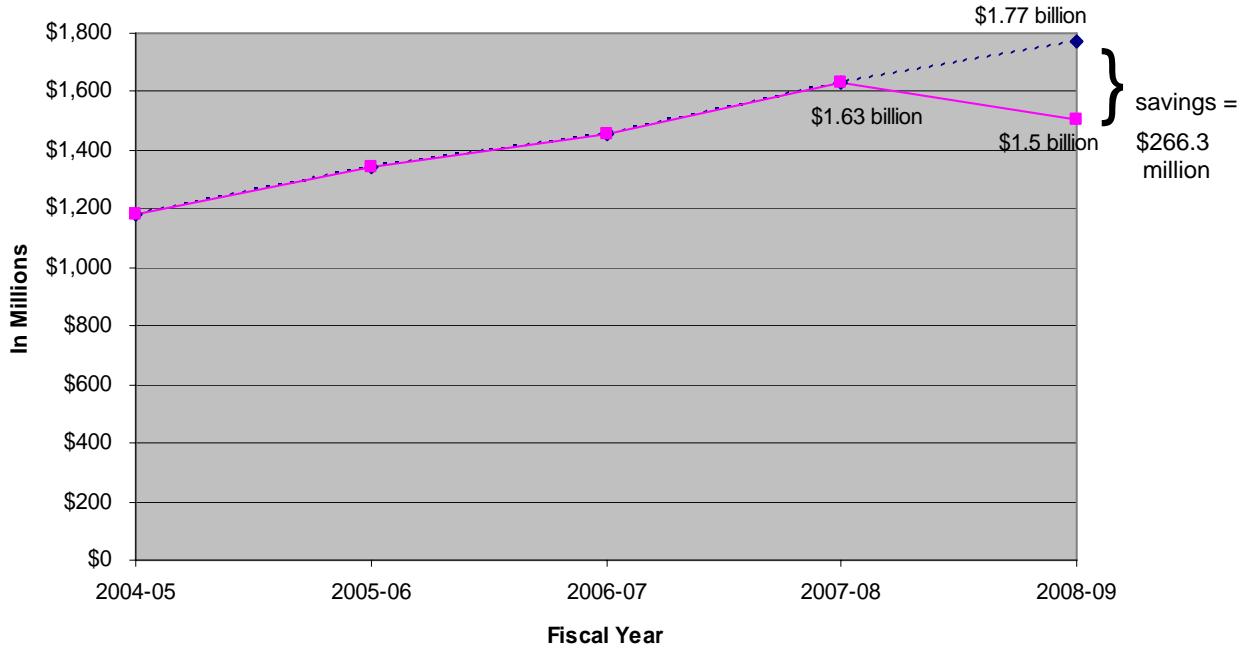


- California provides General Fund support for county-run child welfare programs and responds to approximately 482,000 referrals for child mistreatment each year. Child welfare specialists at the county level respond to reports of possible abuse or neglect, provide prevention and early intervention services, address safety issues, and facilitate access to a broad range of services for families including food, health care, cash assistance, and drug treatment.
- At any given time, approximately 85,000 children and youth are in foster care because they have been removed from their homes due to abuse, neglect or living in at-risk environments. Foster care includes placement with family members, foster family homes, foster family agencies, and foster group homes for those with behavioral or psychological challenges.
- The vast majority of foster care providers are family caregivers who, prior to the January 1, 2008 cost-of-living-adjustment increase, received an average of \$689 per child per month. The 5 percent foster care rate increase raised their monthly rate to \$723.
- Savings of \$144.4 million in fiscal year 2008-09 is achieved by:
 - Reducing foster care rates for most providers by 10 percent starting October 1, 2008. This will result in savings of \$58.9 million in 2008-09. The average foster care grant received by family caregivers will drop from \$723 per child per month to \$651 per child per month. Foster family agencies did not receive an increase on January 1, 2008 and therefore will see their grants reduced by 5 percent. Despite these reductions, California's foster care grants will remain above the national average.
 - Reducing local child welfare agency funding. This reduction maintains flexibility for counties to use state funds consistent with county-determined needs and priorities (\$83.7 million savings).

- Privatizing independent adoptions eliminating 36 state positions and reducing state-funded support for county-administered independent adoptions (\$1.1 million savings).
 - Repealing a newly enacted law requiring the state to provide confidential contact information for adopted youth to locate their siblings -- scheduled for 2008-09 (\$1.1 million savings).
 - Reducing county administrative costs and special programs for a savings of \$422,000.
- Despite the reduction, California's foster care grants will remain above the national average.

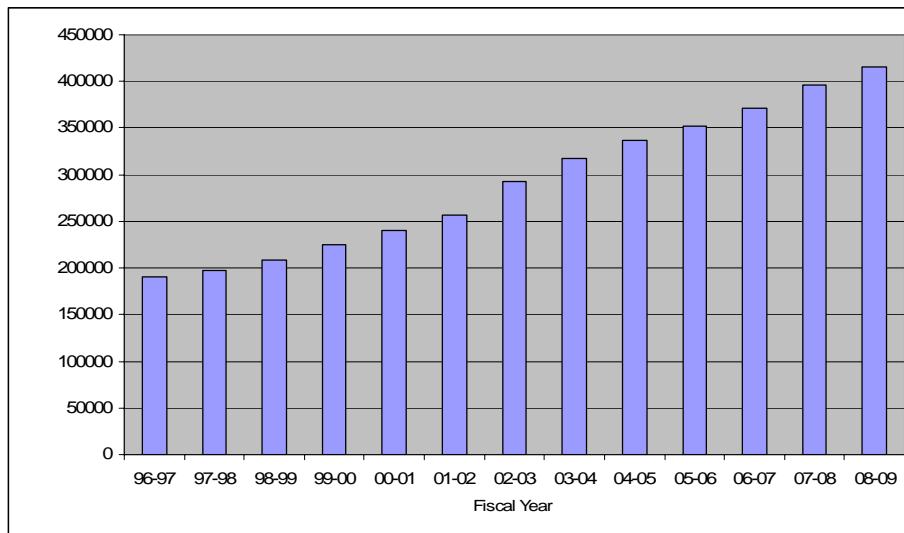
IN-HOME SUPPORTIVE SERVICES

State General Fund Support



- In-Home Supportive Services (IHSS) provides in-home assistance to low-income adults who are over 65 years of age, blind or disabled, and to children who are blind or disabled. IHSS providers perform household tasks, personal care services and paramedical services that enable recipients to live independently.

IHSS Caseload (1996/1997 – 2008/09)



- Approximately 397,000 individuals currently receive services under IHSS. In 2008-09, this figure is projected to grow to approximately 408,000. Over the past 10 years, caseload has increased nearly 100 percent.
- Nearly 60 percent of IHSS service providers are family members of recipients.
- IHSS helps people with tasks in two broad categories, “non-medical” supports and “domestic and related services.”
 - No reductions to “non-medical” IHSS services are proposed in the revised budget for 2008-09. “Non-medical” services include feeding, assisting with walking or moving in the home or to the car, bathing, getting in and out of the shower, hair care, shaving, grooming, bed baths, dressing, medication assistance, toileting, promoting circulation, assistance with oxygen and protective supervision to ensure recipients are not harming themselves.
- In January 2008, the Governor’s proposed budget reduced the number of hours of domestic and related services for all IHSS recipients. That proposal was replaced by this new proposal.
 - “Domestic and related services” include cleaning, dusting, changing linens, changing light bulbs, taking out garbage, doing laundry, grocery shopping, planning menus, preparing food, setting a table and washing and putting dishes away.
- The following new proposals included in the Governor’s revised Budget for 2008-09 include:

Freezing State Participation in Wages for IHSS Providers

- IHSS wages and benefits for providers: Wages are negotiated through a collective bargaining process between the Public Authority and/or county government and designated union representatives, with the state paying a share of those costs. Since 2000, state participation in the average hourly wage has increased 50 percent, from \$8.10 to \$12.10. This increase has been responsible for half of the total cost increase in the IHSS program over this period.
- The revised 2008-09 budget achieves \$186.6 million in savings by capping state participation in IHSS wages and benefits to the state minimum wage of \$8.00 per hour in effect on Oct. 1, 2008 plus \$0.60 an hour in health benefits. This proposal would reduce state wage and benefit participation from the current \$12.10 an hour to \$8.60 an hour.

Targeting Domestic and Related Services to Those Most in Need

- The revised 2008-09 budget achieves savings of \$52 million by focusing eligibility for domestic and related services on people with the most severe assessed needs. As a result, approximately 84,000 recipients, or 20% of IHSS recipients, would see their monthly hours of IHSS services reduced by 21.6 hours, from 73.8 hours to 52.2 hours.

Limiting Payment of Medi-Cal Share of Cost

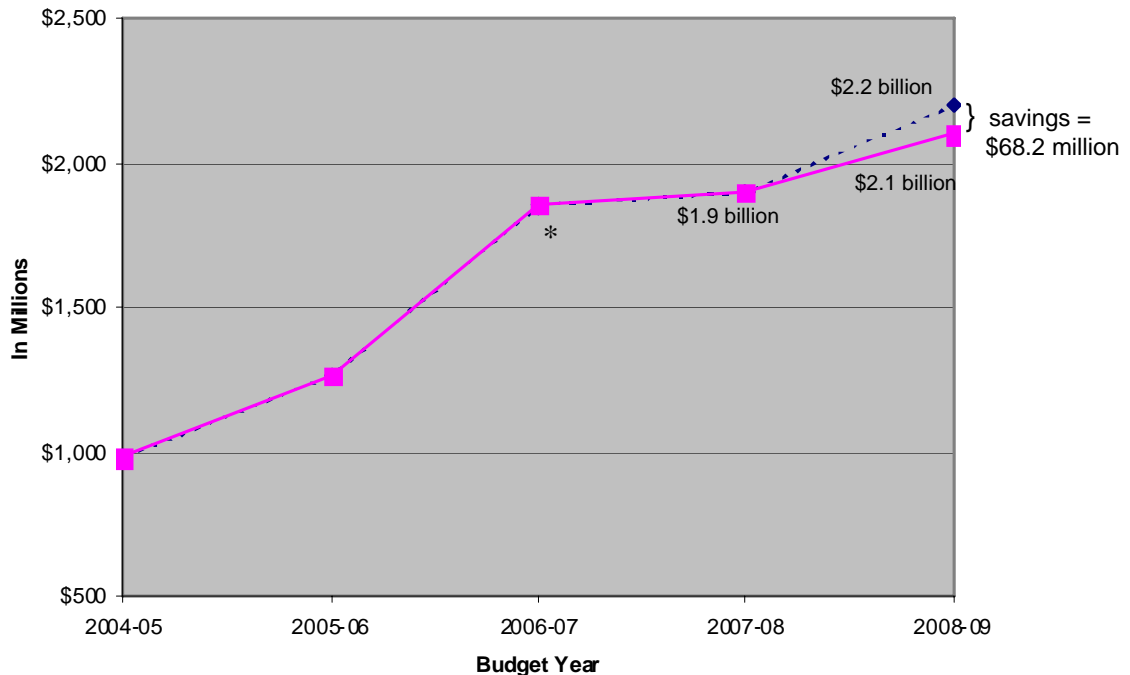
- California has obtained several federal approvals and waivers to allow most IHSS services to be paid through the Medi-Cal program. While most IHSS recipients receive Medi-Cal services at no personal cost because of their low income, some IHSS recipients with higher family income may be faced with paying a share of cost. In 2004, California elected to hold these individuals harmless and pay their share of cost.
- The revised 2008-09 budget achieves savings of \$27.7 million by requiring individuals with the lowest assessed functional needs to pay their own Medi-Cal share of cost, if they have one. Approximately 7,100 IHSS recipients would be required to pay an average of \$427 per month in 2008-09. Medi-Cal recipients who do not receive IHSS services are already responsible for paying their own share of cost in the program.

County Administrative Costs

- The revised budget continues the 10 percent reduction in county administration funding proposed in the January budget, for estimated savings of \$7.8 million in 2008-09. This reduction will be offset by a reduced workload because the requirement that counties reassess each recipient's need for service will be changed from every 12 months to every 18 months.
- Despite the reductions, the IHSS program will serve an additional 11,000 people in fiscal year 2008-09, bringing the total number of IHSS recipients to 408,000, an all-time high.

MENTAL HEALTH SERVICES

State General Fund Support



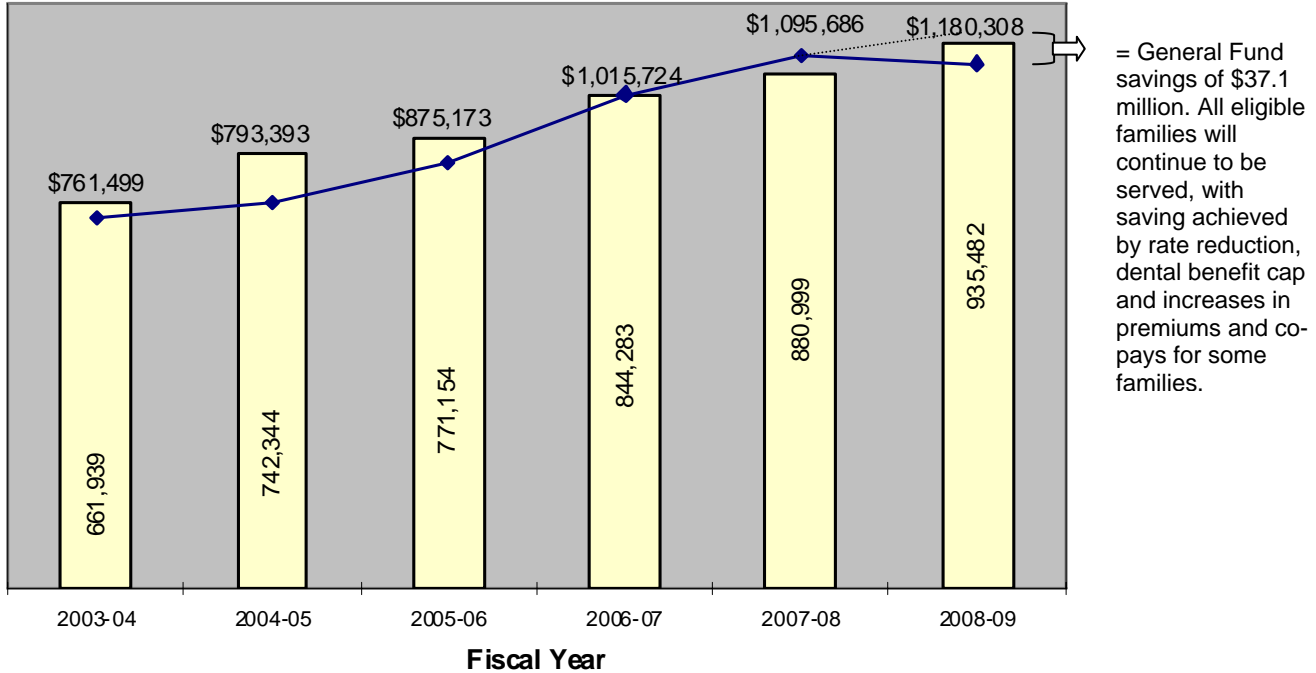
* Reflects one-time \$250 million augmentation to the EPSDT program in fiscal year 2006-07 to re-pay counties for prior year costs

- California provides mental health services in state-run mental hospitals and community mental health programs.
- General Fund resources are devoted primarily to state mental hospitals, which serve judicially committed individuals, including sexually violent predators (SVPs). The Department of Mental Health also oversees the Forensic Conditional Release Program (CONREP) which requires monitoring of individuals released by the courts to the community. Monitoring ensures individuals comply with all “court-ordered conditions of release.”
- California provides support for local mental health services through the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program, which aims to ameliorate diagnosed mental illnesses among low-income children up to age 21.
- California also supports local mental health services for low-income Californians through Medi-Cal managed care programs.
- General Fund savings of \$68.2 million in fiscal year 2008-09 is achieved by:
 - EPSDT (\$37.7 million savings) - requiring prior authorization by mental health providers for EPSDT day treatment that exceeds six months, eliminating the annual cost-of-living increase, reducing the non-inpatient State Maximum Allowance, and creating a Short-Doyle/Medi-Cal Unit that will monitor and improve the processes and procedures for claiming county/provider payment and provide technical assistance.

- Mental health managed care (\$23.8 million savings) – reducing the allocation to counties by 10 percent.
- Miscellaneous reductions (\$6.7 million) which include \$2 million reductions to DMH headquarters, and \$4.7 million for other community mental health programs.
- The May Revision continues the Governor’s January proposal to fund 28 positions to ensure compliance with the U.S. Department of Justice’s Civil Rights of Institutionalized Persons Act consent judgment related to patient treatment and care (\$5.1 million augmentation).
- The Governor’s Budget and the May Revision proposes additional funding in fiscal year 2008-09 to oversee judicially-committed individuals released into the community (including mentally-disordered offenders, individuals found not guilty by reason of insanity, mentally disordered sex offenders and SVPs) (\$2.4 million augmentation).
- Revenues from Prop. 63, the Mental Health Services Act (not shown above), are estimated to be \$1.5 billion in fiscal year 2008-09. These non-General Fund resources are not affected by the 10 percent budget-balancing reductions.

HEALTHY FAMILIES CHILDREN'S INSURANCE PROGRAM

Total State and Federal Funds and Caseload



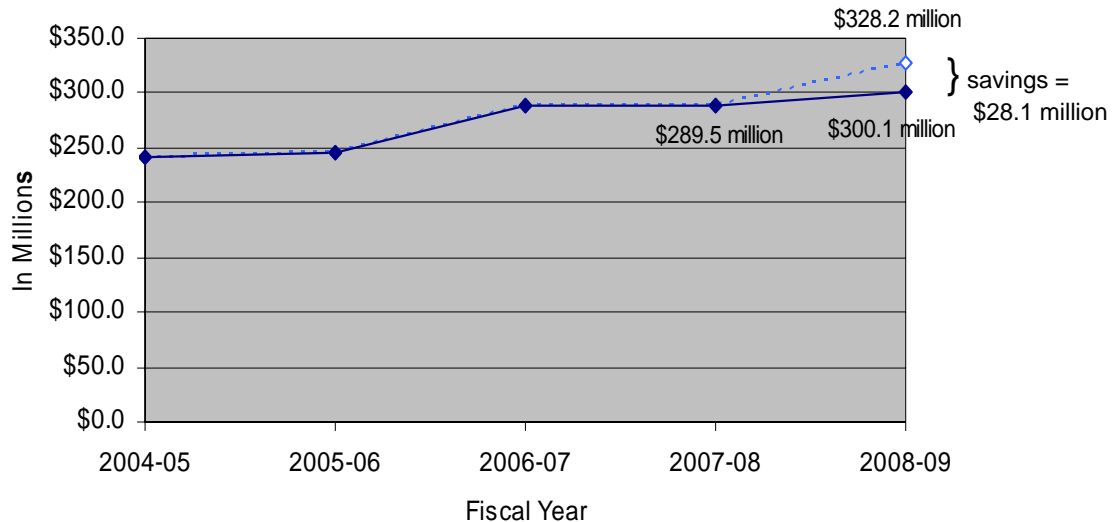
- Healthy Families is a federal/state subsidized health insurance program that provides health, dental and vision coverage for children and teens, funded (approximately two-thirds) by the federal State Children's Health Insurance Program (SCHIP) and by the state General Fund.
- As of March 31, 2008 Healthy Families served 857,920 children up to age 19 with family incomes between 100 percent and 250 percent of the federal poverty level (approximately \$17,616 to \$44,004 for a family of three).
- The \$37.1 General Fund savings proposed in fiscal year 2008-09 are achieved by:
 - Reducing health plan payment rates for 2008-09 by 5 percent from 2007-08 levels (\$14.6 million savings).
 - Limiting the annual benefit for dental coverage to \$1,000 (\$3.1 million savings).
 - Increasing co-pays for non-preventive services from \$5 to \$7.50 per visit for families with incomes over 150 percent of the federal poverty level (\$26,400 for a family of three) (\$1.9 million savings).
 - Increasing Healthy Families monthly premiums for a family of three with annual incomes above 150 percent of federal poverty level (approximately \$26,400) by an average of \$3 per month per child (\$18 million savings). Families above 150 percent of federal poverty level now paying premiums ranging from \$6 to \$15 per child per month will see their premiums increase to a range of \$9 to \$19 per child per month depending on

income. No family above 150 percent of federal poverty level would pay more than \$57 per month for all children enrolled.

- Healthy Families will continue to provide the full range of health and vision coverage for eligible children including preventive and emergency care, prescription drugs and hospitalization. Basic dental care will continue to be provided with a maximum benefit up to \$1,000 per year, similar to the level of dental benefits provided in employer-based coverage.
- Despite the modest increases in co-pays and premiums, coverage in Healthy Families will remain affordable for eligible working families.
- All families with incomes up to 250 percent of the federal poverty level will remain eligible for coverage in Healthy Families.
- Despite the reductions, more children are projected to be served in Healthy Families than ever before, reaching an all-time high of 935,482 enrollees by the end of next fiscal year.

DRUG TREATMENT SERVICES

State General Fund Support

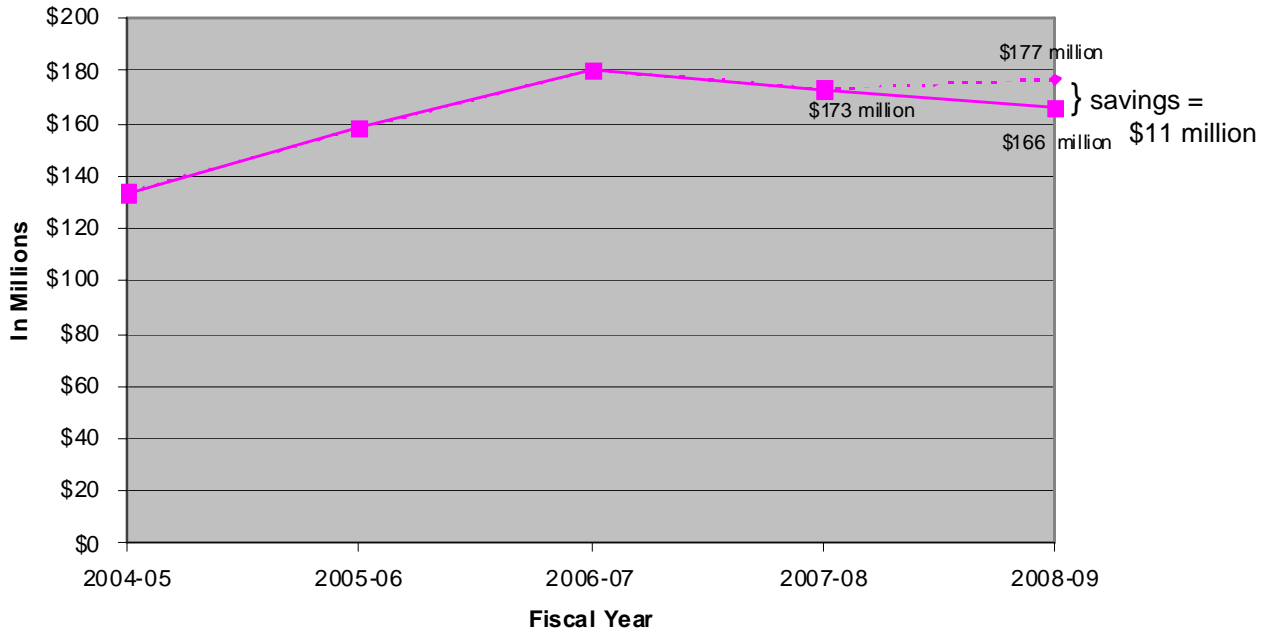


- The Department of Alcohol and Drug Programs (ADP) allocates federal and state substance abuse treatment funding to California's counties to provide direct treatment services.
- The State's General Fund provides support for the Substance Abuse and Crime Prevention Act of 2000 (SACPA) or Prop. 36, and the Substance Abuse Offender Treatment Program (OTP), Drug Court Programs, Drug Medi-Cal services, other drug treatment services as well as the California Methamphetamine Initiative.
- Prop. 36 was approved by voters on November 7, 2000, to provide drug treatment as an alternative to jail time for nonviolent drug offenders.
- Since the start of Prop. 36, approximately 175,000 individuals have entered treatment. Prop. 36 and the OTP serve approximately 48,000 clients a year.
- The state will continue to invest nearly \$110 million in county Prop. 36 and Offender Treatment Programs.
- The \$28.1 million savings will be achieved by reducing:
 - Rates for Drug and Non-drug Medi-Cal payments to counties and private providers for alcohol and drug treatment (\$11.9 million of \$88.5 million budget).
 - SACPA funding to counties by 10 percent (\$10 million of \$100.1 million budget).
 - Drug Court Program (\$3.1 million of \$30.9 million budget).
 - OTP funding to counties (\$2 million of \$20 million budget).
 - California Methamphetamine Initiative (\$1 million of a \$10 million budget).
 - State Administration (\$300,000 savings).

- The Budget was structured to maintain California's ability to meet its maintenance of effort requirement to receive federal funds from the federal Substance Abuse Prevention and Treatment Act.
- The May Revision reflects a \$13.3 million General Fund increase due to Drug Medi-Cal caseload changes.

HIV/AIDS PROGRAMS

State General Fund Support

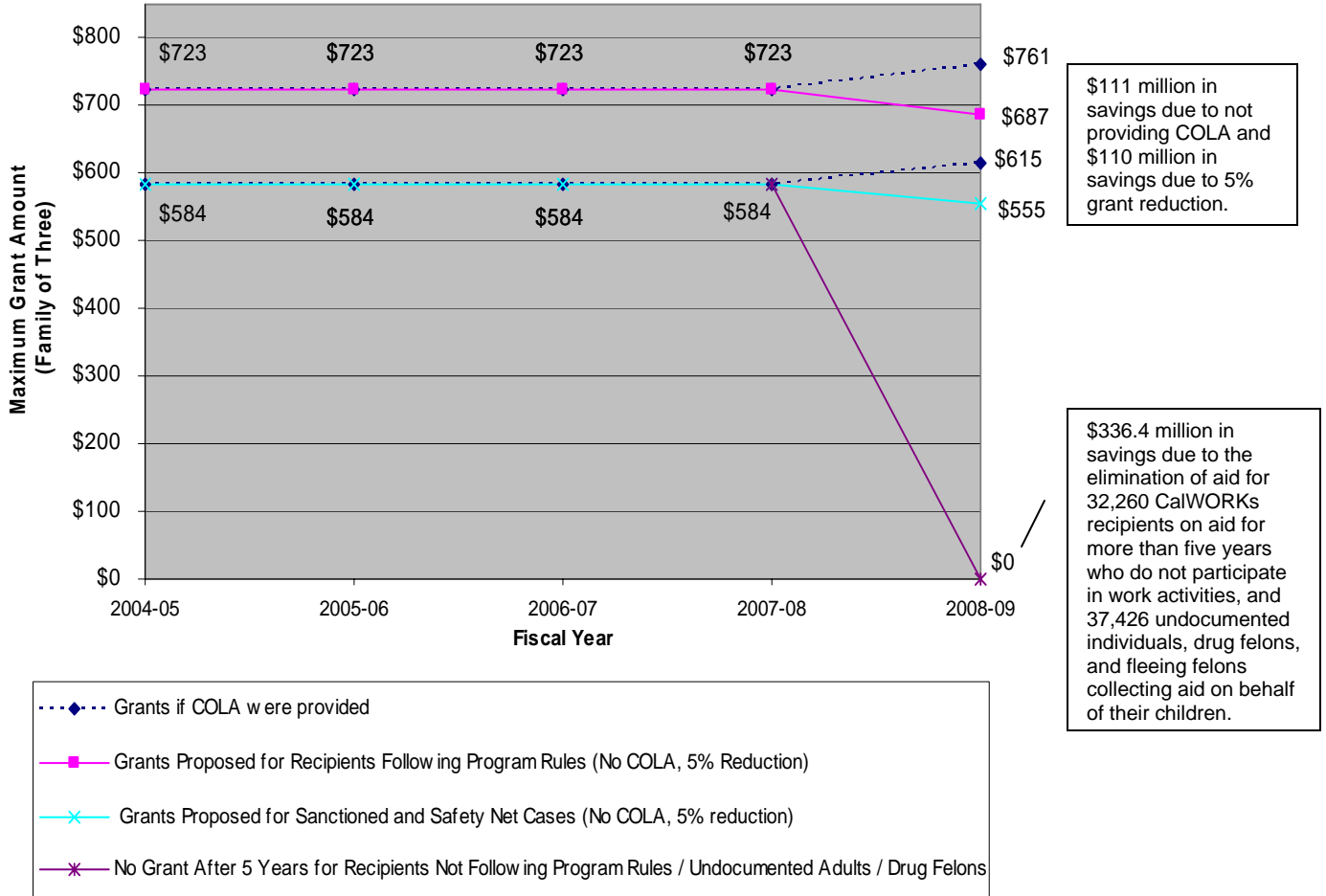


- California provides support to Californians living with and affected by HIV and AIDS through its education, prevention, care, treatment, support, surveillance and research programs.
- Income-eligible adults in California who are living with HIV/AIDS receive access to life-sustaining medications through the AIDS Drug Assistance Program (ADAP). ADAP provides timely drug treatments to increase the duration and quality of life for people with HIV/AIDS.
- ADAP currently serves approximately 34,256 Californians with a Federal Adjusted Gross Income of less than \$50,000, who lack prescription drug coverage, and are not eligible for Medi-Cal. A monthly co-payment is required of participants with gross incomes between \$41,600 (400 percent of federal poverty level) and \$50,000 (500 percent of federal poverty level). The monthly co-payment is based on the cost of the client's drugs and the client's annual state income tax liability.
- The \$11 million savings is achieved by:
 - Eliminating from the ADAP formulary several classes of drugs that are intended to manage side effects of other drugs, and/or treat co-morbid conditions, which may include wasting medications, hematological agents, anti-convulsants and anti-psychotics (\$7 million of \$107.6 million budget).
 - Reducing support for local programs providing HIV education and prevention, counseling and testing, early intervention, therapeutic monitoring, HIV housing, and home and community based care and epidemiological studies and surveillance (\$3.6 million of \$62.3 million budget).

- Reducing staff training, travel, and general expenses (\$400,000 savings).
- Despite the reductions, California will continue to provide all Food and Drug Administration-approved antiretroviral drugs, and drugs to prevent and treat HIV-associated opportunistic infections, to Californians eligible for ADAP. The program will continue to provide approximately 90 more drugs than recommended by the federal treatment guidelines.
- Co-pays for ADAP will not increase.
- ADAP eligibility will not change.
- Reductions to HIV/AIDS programs were limited to minimize the risk of jeopardizing California's compliance with the Maintenance of Effort requirement of the federal Ryan White HIV/AIDS Treatment Modernization Act.

CALIFORNIA WORK OPPORTUNITIES AND RESPONSIBILITY TO KIDS (CalWORKs)

Budget and Program Changes Proposed In 2008-09



The May Revision budget and statutory changes proposed for 2008-09 are aimed at: 1) setting California on a better course to meet federal work participation rates (WPRs) in the years ahead by engaging more of the CalWORKs population in work activities, thus avoiding potential costly federal sanctions; and 2) accomplishing this within the current challenging fiscal climate.

HOW THE PROGRAM WORKS NOW:

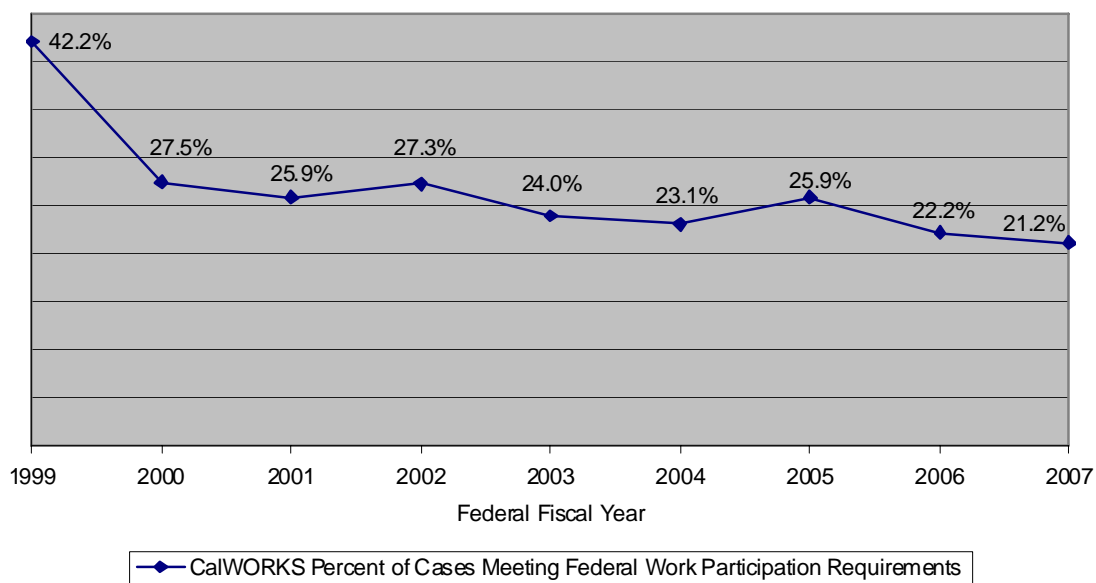
- CalWORKs, California’s version of the federal Temporary Assistance for Needy Families (TANF) program, provides cash aid and services to help people meet basic needs such as housing and food.
- CalWORKs is intended to provide temporary assistance to help families become self-sufficient. It encourages work for those on aid by providing education, employment training, child care, transportation, work expenses and counseling for families.

- “Work activities” include: unsubsidized and subsidized employment, community service, adult basic education, vocational educational training, and job search/job readiness assistance. All adults receiving aid in the CalWORKs program are guaranteed access to work activities.
- Single-parent families in CalWORKs are required to participate 32 hours per week. Two-parent families are required to participate in work activities 35 hours per week.
- CalWORKs currently serves approximately 1.14 million people (460,900 cases).
- Approximately 222,500 (48 percent) of CalWORKs cases receive full family grants. This group has been in the CalWORKs program fewer than five years and is following program rules. The maximum grant for a family of three in this group is \$723 per month, but will be reduced by five percent to \$687 next fiscal year.
- Approximately 39,000 or (8.5 percent) of CalWORKs cases have been on aid fewer than five years and have been sanctioned for failing to participate in work activities, meaning their grants may be reduced during their first five years on aid. For a family with two children, these cases receive a maximum grant of \$584 per month, the family grant less the adult’s portion.
- Approximately 45,200 cases (10 percent) of CalWORKs cases with a work-eligible adult receive a reduced level of assistance known as a “safety net” grant because they have been on aid longer than five years. The maximum safety net grant for a family with two children is \$584 per month.
- State law also provides a “child-only” grant to non-eligible adults (undocumented, certain felons, SSI/SSP recipients, non-needy caretakers). Approximately 165,000 cases – or 36 percent of CalWORKs cases – are “child-only” cases. Within this group 92,000 are undocumented or certain felons, or 20 percent of the total CalWORKs caseload. The maximum child-only grant for a family with two children is the same as the safety net grant--\$584 per month.
- Federal law subjects states to penalties if fewer than 50 percent of program recipients work. California’s work participation rate has ranged from a high of more than 40 percent in 1999 to the low 20’s currently.

CHANGES PROPOSED IN FISCAL YEAR 2008-09

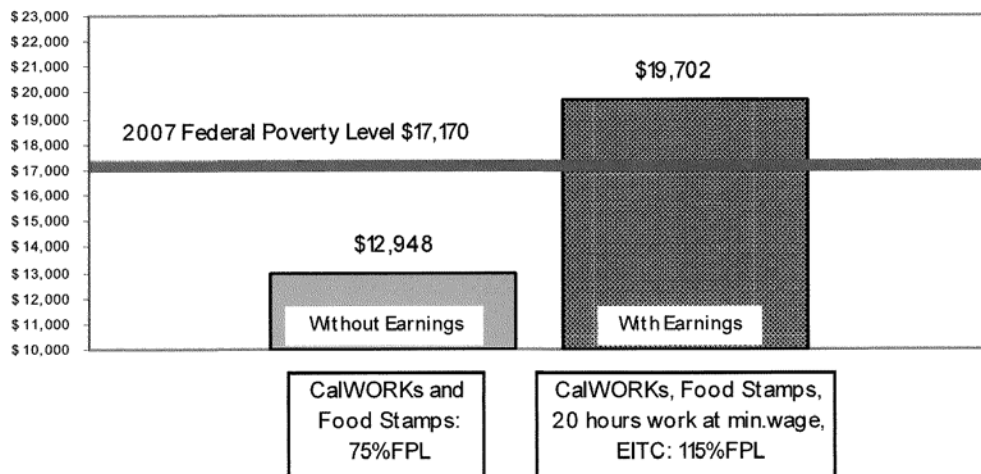
The May revised budget for fiscal year 2008-09 and accompanying legislation propose fundamental changes to the state’s CalWORKs program. The goal is to create a balanced approach in combining new incentives for those engaging in work while including new penalties for those who fail to comply. The proposal recognizes that families that work have higher earnings and are less likely to be dependent on welfare in the future. It also reflects concern about a continuing drop in work participation in California, which jeopardizes better outcomes for children and families and puts the state at risk of significant federal penalties. Since 1999, California’s work participation rate has been dropping steadily.

California's Work Participation Rate (1999 – 2007)



Families who combine welfare and work have better outcomes.

Welfare Alone vs. Earnings from Paid Employment Based on 2007 Minimum Wage



CDSS Goal: A route out of poverty for recipients.

THE MAY REVISION TO THE GOVERNOR'S BUDGET FOR 2008-09 CONTINUES THE FOLLOWING PROPOSALS FROM JANUARY:

CONTINUE COUNTY EFFORTS – Would continue to support and promote county efforts to increase work participation associated with prior reforms enacted in 2006 by AB 1808, including County Peer reviews, publication of performance outcomes and implementation of strategies to engage CalWORKs recipients early in the program, maintain full engagements, prevent recipients from going into sanction, and encourage sanctioned individuals to re-engage in the program. Counties share is 50 percent of any penalties incurred for failure to meet the work participation rate, which provides additional motivation to improve their work participation rate. The budget proposes to maintain the \$230 million included in the Budget Acts of 2006 and 2007 to support CalWORKs program improvement, including \$90 million for counties to implement program improvements and \$140 million to support county administration.

PAY FOR PERFORMANCE - The Governor's Budget eliminated \$40 million in Pay for Performance incentive funds in 2007-08. The May Revise also reflects the elimination of the funding for this program in FY 2008-09.

GRADUATED FULL FAMILY SANCTIONS – This proposal strengthens work requirements and recipient accountability by reducing grants by 50 percent when adults have been sanctioned for not participating and have remained in sanction status for an accumulated total of six months. Adults sanctioned for not participating for a second accumulated total of six months will receive a full family sanction. Adults could remedy their sanction at any time by complying with appropriate work activities. Prior to any graduated sanction, counties will contact the adult to ensure that he or she understands the participation requirements and to urge program compliance, as well as connect the adults to resources in order to remove barriers to participation. These contacts will consist of a combination of phone calls, letters and home visits. This graduated full family sanction policy will reduce prolonged noncompliance while providing a reasonable timeframe to achieve compliance during which time benefits are still available. For families that cure their sanction and reapply for aid *within* six months following discontinuance, recipient eligibility rules will apply and aid will be restored to the level of the full family grant for which the family is eligible. Families that cure their sanction and reapply for aid *after* the initial six months following discontinuance would need to meet applicant income and resource limits, and deprivation standards. (\$18.6 million costs in fiscal year 2008-09).

WORK INCENTIVE NUTRITIONAL SUPPLEMENT (WINS) – This proposal promotes self-sufficiency through work by providing supplemental food stamp benefits to certain working families. Working families who are receiving food stamps, but not also receiving CalWORKs assistance, would be eligible for this benefit if they work sufficient hours to meet federal TANF work participation requirements. This supplement provides a further bridge to self-sufficiency and better ensures that families who previously received CalWORKs assistance will not fall back into the program. This benefit would be set at a flat amount of \$40 per month and each food stamp household may be eligible for one supplemental work incentive benefit per month (\$8.4 million in automation costs in fiscal year 2008-09).

MODIFIED SAFETY NET PROGRAM – This will restrict "Safety Net" grant eligibility to families who have exceeded the 5-year time limit to those in which the adult is participating in Welfare-to-Work activities that meet federal work requirements. Non-compliant families will lose aid after a 60-month (5-year) period (\$183.3 million savings in fiscal year 2008-09).

CONSISTENT LIMIT ON CHILD-ONLY BENEFITS – This will restrict “child-only” grant eligibility to a 60-month (5-year) period for undocumented non-citizens, drug felons and fleeing felons who receive CalWORKs assistance on behalf of their children (\$176.9 million savings in fiscal year 2008-09).

THE MAY REVISION TO THE GOVERNOR’S BUDGET FOR 2008-09 PROPOSED THE FOLLOWING ADDITIONAL CHANGES. THESE CHANGES WERE PROPOSED TO BOTH ADDRESS CALIFORNIA’S WORK PARTICIPATION RATE AND LIVE WITHIN THE STATE’S MAINTENANCE-OF-EFFORT REQUIREMENT.

COST-OF-LIVING ADJUSTMENT (COLA) – This proposal suspends the 2008-09 October COLA. (This year’s annual COLA has already been suspended from July to October for \$66 million savings for FY 2008-09). This suspension will save the state \$111 million in FY 2008-09. Even with this suspension, California’s grant amounts are the third highest in the nation.

GRANT REDUCTION – This proposal reduces CalWORKs grants by five percent. This reduction will save California \$110 million in fiscal year 2008-09. Even with this reduction, California’s grant amounts are the fourth highest in the nation.

REDUCE THE REGIONAL MARKET RATE (RMR) CEILINGS FROM THE 85TH PERCENTILE TO THE 75TH PERCENTILE AND DELAY IMPLEMENTATION OF THE 2008 RMR SURVEY UNTIL JANUARY 2009 – This proposal would reduce the maximum amount child care providers could be reimbursed. The current ceilings are set at the 85th percentile which means 85 percent of providers have rates lower than the ceiling for the type of care within that region. This proposal would decrease the percentage of providers who have rate below the ceiling to 75 percent. Providers can charge families more than the ceiling. If the family chooses to use that provider, the family would have to pay out of pocket for the amount charged above the ceiling. This represents a savings of \$19.4 million in the CalWORKs Stage One child care program.

SELF-SUFFICIENCY REVIEWS (SSRs) – This proposal would require CalWORKs recipients to attend a face-to-face self-sufficiency interview 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. These interviews would occur every six months in conjunction with recipients’ quarterly reporting periods and their annual redetermination. Failure to attend the SSR without good cause would result in discontinuance from aid.

Recipients who are working full-time or meeting federal work participation requirements would not be required to attend the SSR. Additionally, families where there is no aided adult, with some exceptions, would also be required to meet the SSR requirement. This is because although these families do not have a work requirement, it is important to have a regular contact with them to assess their needs and identify services and resources that may help the families reduce their dependence on public assistance. (Savings of \$59.7 million)

PRE-ASSISTANCE EMPLOYMENT READINESS SERVICES (PAERS) PROGRAM - This proposal would require participation in the PAERS program prior to receiving CalWORKs cash assistance. Generally, CalWORKs applicants would be referred to PAERS to participate in four months of intensive job services and either obtain employment and not need public assistance, or be more able to meet work participation requirements once in CalWORKs. However, individuals who would not be required to participate in PAERS would include cases where there

is no aided adult, those cases with adults who do not have a right to work in the United States, or cases where the adult has a situation that prevents participation.

We anticipate that this approach will more quickly engage the individual in work activities prior to entering the CalWORKs program and will improve the state's work participation rate. During participation in PAERS the adults will not count for purposes of the federal work participation rate and the individual will have up to four months to obtain employment or become more capable of meeting work participation requirements. Any adult that obtains employment that would meet work requirements would be referred to CalWORKs. These families will be generally eligible for food stamps and Medi-Cal while participating in PAERS. Families that do not satisfactorily participate or sign a welfare-to-work plan will not be eligible for CalWORKs.

TANF TRANSFERS - TANF will be transferred to the organizations listed below. This will free up general fund to be applied to the program and will help ensure that California meets the Maintenance-of-Effort (MOE) spending match requirement of TANF.

- Boys and Girls Club (\$5 million TANF for \$88 million MOE)
- Juvenile Probation (\$151.8 million)
- California Student Aid Commission – CalGrants (\$223 million)
- Department of Developmental Services (\$22.2 million)
- Emergency Assistance Foster Care (\$50 million)

OTHER REDUCTIONS – \$107.6 million in savings is achieved through capturing the TANF reserve (\$87 million) and \$20.6 million remaining balance of unspent county allocations.

EFFECT OF THE PROGRAM CHANGES ON CalWORKs RECIPIENTS

In general, the new program rules would have the following effects:

Recipients Who Meet Work Participation Requirements:

- Will receive short-term benefits and the opportunity to prepare for work and obtain employment without affecting their federal assistance time limit.
- Will receive a “safety net” grant after five years.
- Will see added benefit once they leave CalWORKs in the form of additional food stamps amounting to \$40 per month, beginning in October 2009.
- Will receive additional support from employment case workers to achieve self-sufficiency goals.

Recipients Who Fail to Meet Work Participation Requirements:

- Will see their grants reduced and then eliminated if they ignore offers of assistance to comply with work requirements. This can be remedied immediately by complying with appropriate work activities.
- Will face a strict five-year time limit on aid.

Ineligible Adults Who Receive Aid on Behalf of Their Children:

- Undocumented immigrants, convicted drug felons and fleeing felons will no longer be eligible to receive CalWORKs on behalf of their children after a 60-month (five-year) period.

Families Who Receive Subsidized Child Care:

- Families continue to have a choice in the selection of the child care provider for their children. Families may have to pay out of pocket if their provider's rate is above the 75th percentile if they want their children to remain in that setting or may have to change providers if they cannot afford to do so.

CalWORKs (TANF) IN OTHER STATES

- Even with suspension of the COLA and the grant reduction proposed in fiscal year 2008-09, California's grant would still be the highest of the 10 largest states, and fourth highest nationwide.
- Fifteen states deny assistance to convicted drug felons; nine states provide cash aid and food stamps to drug felons and the remainder of the states have modified bans on assistance to drug felons, including bans for convicted drug traffickers only, or requiring drug treatment participation prior to receiving aid.
- 44 other states have a full family sanction in place. California's proposal is among the most supportive proposals when compared to other states.
- The experience of other states shows that the gradual full family sanction can promote compliance with work requirements.
- California is one of 11 states that continue to provide aid in a "safety net"-type program. New York is the only other large state that has a safety net program for families who have reached the 60-month lifetime limit on aid.

EFFECTS OF PROGRAM CHANGES ON CALIFORNIA'S WORK PARTICIPATION RATE

The proposals included in the May Revision, including the proposal to count excess MOE funds from Boys and Girls Club and CDE Child Care and After School Programs, are estimated to have a net increase in California's WPR of 18.75 to 20.96 percent, increasing the rate from 21.2 percent to a maximum of 42.15 percent in Federal Fiscal Year (FFY) 2009, and bringing the state into compliance in FFY 2010.

- Continued County Efforts are projected to increase work participation efforts by 10 percent annually.
- The Graduated Full Family Sanction is estimated to increase the work participation rate by 2.0 in FFY 2009 and 5.7 percent annually.
- WINS is projected to improve WPR by 11.94 percent in FFY 2010 and 9.54 percent annually (no impact is assumed in FFY 2009).
- The Modified Safety Net program is projected to increase the work participation rate by 5.1 percent annually.
- The PAERS program is projected to increase the WPR by .73 in FFY 2009 and 0.30 percent annually.

- Implementation of the Self Sufficiency Reviews are projected to increase the WPR by 1.07 percent in FFY 2009 and 1.18 percent annually.
- Implementation of a five percent MAP reduction will have an impact of reducing the WPR by 3.94 percent beginning in FFY 2009.
- The state may count other types of state spending outside the TANF program for non-assistance benefits and services. This allows a projected amount of \$312-\$412 million of state spending above the base MOE level to be counted as a credit toward the state's WPR starting in FFY 2009. These excess MOE expenditures will allow the state to achieve a caseload reduction credit of 3.79 to 6.00 percent annually.

The combination of CalWORKs reforms and state and county efforts will position the state and counties to increase work participation rates and come closer to meeting federal requirements to avoid penalties, and successfully move families from welfare to work.