BUDGET CONFERENCE COMMITTEE

MAJOR CONFERNCE ISSUES
2011-12 BUDGET

Part 1

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PUBLIC SAFETY REALIGNMENT

Senate and Assembly Action: Both houses took conceptual action to adopt the framework of the Governor's Public Safety Realignment proposal and sent the issue to conference. The Governor's proposal envisioned that the ballot measure adopted as part of the March budget package would include certain provisions to begin the process of realignment, but recognizes that many of the details would be worked out in an implementation process that would commence after the measure was placed on the ballot.

Comment: There are six key elements of the ballot initiative:

1. List of Public Safety Programs to be Realigned to Locals

The Administration has stated that the ballot measure should reference the state programs to be realigned to local governments. Below is the list of programs proposed in the January budget:

Program	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Fire and Emergency Response	$250.0	$250.0	$250.0	$250.0
Court Security	530.0	530.0	530.0	530.0
Vehicle License Fee Public Safety	506.4	506.4	506.4	506.4
Lower-level Offenders/Parole Violators	1,802.0	656.2	898.1	908.1
Realign Adult Parole	741.1	264.3	379.2	409.9
Realign Remaining Juvenile Justice	257.6	156.0	234.0	242.0
Mental Health Services				
EPSDT	0.0	579.0	579.0	579.0
Mental Health Managed Care	0.0	183.6	183.6	183.6
AB 3632 Services	0.0	104.0	104.0	104.0
Existing Community Mental Health	0.0	1,077.0	1,077.0	1,077.0
Substance Abuse Treatment	184.0	184.0	184.0	184.0
Foster Care and Child Welfare Services	1,604.9	1,604.9	1,604.9	1,604.9
Adult Protective Services	55.0	55.0	55.0	55.0
Growth*		352.6	307.8	621.1
Total	**$5,931.0**	**$6,503.0**	**$6,893.0**	**$7,255.0**

The Administration proposes a realignment of 100 percent of state costs for these programs or costs to counties.

2. Realignment of Revenues to Locals

The Governor's proposal realigns $5.9 billion in state revenues achieved by maintaining existing Sales and Use Tax and Vehicle License Fee tax rates for five years. The detail of these taxes is below:

Revenue Source	2011-12	2012-13	2013-14	2014-15
1% Sales Tax	4,549.0	4,913.0	5,254.0	5,567.0
0.5% VLF	1,382.0	1,590.0	1,639.0	1,688.0
Total Revenues	**$5,931.0**	**$6,503.0**	**$6,893.0**	**$7,255.0**

3. Guarantee of Ongoing Revenues

The Administration has committed to include language to guarantee the state will provide ongoing revenue beyond the five-year extension of tax rates provided for in the ballot measure.

4. Implementation/Next Steps

The ballot measure could include provisions that would structure the implementation timeline and process.

5. Other Issues

Below are some questions that have been raised that could be included in the ballot measure or left for a future implementation process:

- How will this realignment interact with our current mandate process?
- What happens if the State enacts legislation to increase costs in these areas?
- Who pays for costs generated by court or federal mandates/actions/sanctions?
- Will counties have any Maintenance of Effort for their current expenditures on these programs?
- What happens if revenue dramatically under-performs or costs unexpectedly increase?
- How much flexibility will counties have to move funding between programs and will funding be placed in separate accounts or funds?

REVENUES

Senate and Assembly Action: The Senate and the Assembly both adopted the Governor's revenue proposal.

Comment: The Governor's revenue proposal has four main revenue proposals that generate $13.8 billion in additional General Fund revenues, $11.8 billion after accounting for the additional Proposition 98 spending driven by the increase in revenues. The Governor has suggested that two of the proposals be put before the voters in a constitutional amendment at a special election in June. The four revenue proposals are as follows:

1. Maintain Current Tax Rates for Local Public Safety Realignment for Five Years

The Governor has proposed a constitutional amendment for the vote of the people that maintains the current Sales and Use Tax and Vehicle License Fee (VLF) tax rates for five additional years. The current tax rates were increased in April 2009 and the maintenance of this increase would be dedicated to local governments to fund $5.9 billion in public safety programs that would be realigned from the State to local governments. These revenues are outlined in the chart below:

Proposal (In Millions)	**2010-11**	**2011-12**	**2-Year Total**
Sales and Use Tax—1.0%	0	$4,549	$4,549
Vehicle License Fee—0.5%	0	1,382	1,382
Subtotal	*0*	*$5,931*	*$5,931*

The state Sales and Use Tax is currently approximately 8.25% and can be up to 2 percent higher depending on the local jurisdiction. Currently the Sales and Use Tax is made up of the following components:

- 6.0% to the General Fund;
- 0.5% to local governments;
- 0.5% to local public safety services;
- 1.0% is Bradley-Burns Local Sales and Use Tax (0.25% dedicated to county transportation and 0.75% dedicated to city and county operations); and,
- 0.25% to pay costs associated with the Economic Recovery Bond Act.

Under the Governor's proposal 1.0% of the 6.0% state Sales and Use Tax currently dedicated to the General fund would be dedicated to local governments to support the realigned public safety programs.

The VLF has historically been at 2.0 percent of the market price of a vehicle. It was 2.0 percent from 1948 until 2004. In 2005 it was reduced to 0.65% and in 2009 it was temporarily increased to 1.15%. The increase in 2009 was dedicated both to the General Fund (0.35%) and local law enforcement programs (0.15%).

The VLF has historically been a local revenue source and when the state lowered the rate in 2004 the State also backfilled local governments by shifting over $4 billion in property tax from schools. This backfill has grown to over $6 billion.

2. Maintain 2010 Tax Rates for Education for Five Years

The Governor has proposed a constitutional amendment for the vote of the people that maintains 2010 Personal Income Tax rates for five additional years. The income tax rates were increased in the 2009 tax year and the maintenance of this tax increase would be dedicated to education for the next five years. These revenues are outlined in the chart below:

Proposal (In Millions)	**2010-11**	**2011-12**	**2-Year Total**
Personal Income Tax—0.25% Surcharge	$1,187	$2,077	$3,264
Personal Income Tax—Dependent Credit at $99	725	1,248	1,973
Subtotal	*$1,912*	*$3,325*	*$5,237*

The Personal Income Tax rates for 2010 range from 1.25% to 9.55% for income below $1 million. There is an additional 1.0% rate for income over $1 million that is dedicated to mental health programs.

The dependent exemption credit is currently $99, which is consistent with the personal exemption credit. The dependent exemption credit was reduced from $309 in 2009. This credit was increased significantly from its historic level of under $100 in 1998 and 1999 and was annually indexed by the consumer price index starting in 2000.

3. Tax Policy Changes

The Governor has proposed statutory changes that would amend current law to make the single-sales factor multistate corporate income apportionment method mandatory instead of elective, require market sourcing of intangibles, and eliminate all state tax benefits in all four kinds of geographically targeted economic development areas (commonly referred to as enterprise zones). These revenues are outlined in the chart below:

Proposal (In Millions)	**2010-11**	**2011-12**	**2-Year Total**
Corporation Tax—Single Sales Factor and Market Sourcing of Intangibles	$468	$942	$1,410
Enterprise Zones—Repeal of Tax Preferences	343	581	924
Subtotal	*$811*	*$1,523*	*$2,334*

In 1993, California adopted a “double-weighted” apportionment formula. Under the double weighted formula income is apportioned 50% on sales in the state, 25% on payroll in the state, and 25% on property tax in the state. In 2009 the Legislature enacted a new policy that allowed firms, starting in 2011, to choose or “elect” to apportion income either by the “double-weighted” formula or by sales only.

The “cost of performance” rule allows firms to apportion no revenue from the sales of intangibles in California if a firm incurs a plurality of costs associated with developing intangibles in another state. Under the Governor’s proposal “cost of performance” would no longer be allowed and a market-based rule for sourcing intangibles would be mandated.

Enterprise Zones were originally formed to help draw economic investment into depressed rural and urban areas. The state’s current fiscal crisis has required the state to reevaluate whether it is a core responsibility of State government to move business investment from one part of the state to another. The LAO and others have found that enterprise zone tax benefits have little, if any, impact on the creation of economic activity or employment in California overall.

4. Tax Enforcement

The Governor has proposed two tax enforcement measures, including a targeted tax amnesty referred to as a Voluntary Compliance Initiative and the implementation of a Financial Institutions Records Match system. These revenues are outlined in the chart below:

Proposal (In Millions)	**2010-11**	**2011-12**	**2-Year Total**
Targeted Amnesty—Voluntary Compliance Initiative	$270	-$50	$220
Financial Institutions Records Match	10	30	40
Subtotal	*$280*	*-$20*	*$260*

The Voluntary Compliance Initiative would begin on August 1, 2011 and end on October 31, 2011. It would apply to taxable years before January 1, 2011. Specifically the proposal would create a narrow amnesty for certain taxpayers that have abusive tax avoidance transactions that are currently under audit, in protest, or are currently unknown to the Franchise Tax Board (FTB). This proposal would also apply to taxpayers with other unreported income from the use of an offshore financial arrangement.

The Financial Institutions Records Match (FIRM) system is an information technology project that would require financial institutions doing business in California to match FTB information on delinquent tax and non-tax debtors against their customer records on a quarterly basis. The FIRM is patterned after the FTB’s Financial Institutions Data Match system, which is a project implemented as a result of federal legislation to identify the assets of delinquent child support debtors.

In addition to the Governor’s tax enforcement proposals, the Senate and Assembly also adopted a “look-up” table to assist taxpayers in complying with current law related to the Use Tax. This is expected to generate $6.5 million General Fund in 2011-12.

REDEVELOPMENT

Senate and Assembly Action: The Senate and the Assembly took similar actions – both accepting the $1.7 billion savings number, but acknowledging that the detail would need to be worked out and that other alternatives would be considered.

Comment: The Governor proposes to eliminate redevelopment agencies (RDAs). This elimination would provide a State General Fund solution of $1.7 billion in 2011-12 by shifting a portion of RDA tax increment to offset General Fund costs for trial courts ($860 million) and Medi-Cal ($840 million).

In 2012-13 and thereafter, the non-obligated portion of RDA tax increment – that revenue not needed for outstanding debt and contractual obligations – would flow instead to K-14 schools ($1.0 billion), cities ($490 million), counties ($290 million), and non-enterprise special districts ($100 million). To facilitate replacement revenue for local economic development, the Governor proposes to lower the vote threshold to 55 percent for certain local taxes if the revenue is directed to infrastructure.

Proposition 22, approved by voters in November 2010, prohibits the Legislature from enacting statute that would redirect RDA funds to benefit the State. The Governor's plan would eliminate RDAs, and in doing so, the Administration believes the proposal is not in conflict with Proposition 22 or other constitutional provisions.

A counterproposal from large cities has been floated that could result in $1.7 billion for the State without eliminating RDAs. A constitutional amendment, which would go to voters, may be needed for this proposal. To obtain the revenue, the state would sell bonds to generate $1.7 billion. The bonds would be repaid over 25-years with about $200 million per year of RDA increment. Existing RDAs would receive 10-year "life" extensions. The proposal would provide additional pass-through revenue to schools and counties beginning in 2018-19.

Issue	Governor's Proposal	City Counter Proposal
Status of existing RDAs	Eliminated	Retained
General Fund relief	$1.7 billion	$1.7 billion*
New 2012-13 and ongoing funding for schools	About $1 billion	None**
New 2012-13 and ongoing funding for cities, counties and special districts	About $900 million	None**
New budgetary borrowing through bonds	No	Yes
Ongoing state subsidy for local redevelopment	No	Yes
10-year extension of some RDAs	Not applicable	Yes

* Proposal may or may not include a constitutional amendment that would go to voters.
** Some new revenue for schools and counties beginning in 2018-19.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Senate and Assembly Action: The Assembly and Senate took conforming actions on the majority of Natural Resources and Environmental Protection issues. There were, however, the following 6 issues where the two houses had differences, as detailed below:

1. **Gas Consumption Surcharge Fund Transfer (California Public Utilities Commission)**

   The Senate approved a transfer of roughly $162 million from the Gas Consumption Surcharge Fund. This reduction equals a transfer of all 2011-12 funds from the Gas Consumption Surcharge Fund, less any funding for the Energy Low Income Program (CARE) and low income energy efficiency programs (about $338 million of a $500 million annual budget). The cuts related to energy efficiency programs supported by the fund are modest in comparison to the energy efficiency programs (both gas and electricity) that will continue to be supported through the CPUC's ratemaking process (over $1 billion annually). Senate also approved Trailer Bill Language (TBL) to ensure that programs suspended in the budget year due to funding are not mandated to continue during that time period.

   The Assembly did not hear this issue.

2. **Fire Protection Permanent Funding (Department of Forestry and Fire Protection)**

   The Governor proposes $42.7 million for permanent General Fund and position authority following a legislative direction to shift Emergency-Fund (E-Fund) expenditures to the base budget, and to submit a zero-based budget. The CalFIRE E-Fund was originally intended to pay for large incident firefighting costs. Over time, the department expanded the use of the E-Fund to include the practice of charging day-to-day operating costs not related to large fire incidents.

   The Senate denied the entire proposal without prejudice so that it could be heard in the spring.

   The Assembly approved all proposed baseline fire protection funding for CalFIRE except funding for the Very Large Air Tanker Program which was denied without prejudice.

3. **Off Highway Vehicle Trust Fund (Department of Parks and Recreation)**

   The Senate did not hear the issue.

   The Assembly approved a reduction of $27 million from the Off Highway Vehicle Trust Fund for the Off Highway Vehicle support program. When approved, the agenda cited that this reduction was a 20 percent reduction to the program. However, because the reduction was calculated for the wrong fund amount, this cut represents a 40 percent reduction for the support program. This amount will be transferred to the General Fund (ongoing).

4. Water Rights Program – Shift GF Supported Program to Fees (State Water Resources Control Board)

Governor requested a $3.6 million shift from GF to the Water Rights Fund in the Water Rights Program. This proposal would result in an increase in Water Rights fees.

The Senate denied the proposal.

The Assembly approved this proposal.

5. Renewable Electricity Standards Activities (Air Resources Board)

The Senate reduced $2 million (Air Pollution Control Account) specifically for activities related to the 33-percent Renewable Electric Standard/ Renewable Portfolio Standard rulemakings and proceedings at the Air Resources Board

Assembly did not hear the issue.

6. FloodSAFE Program (Department of Water Resources)

The Governor proposed, as part of a larger proposal to fund California's FloodSAFE program, $2 million for Delta Knowledge Improvement Program (DKIP) and $575,000 and 3 positions for FloodSAFE Conservation Strategy (Proposition 1E).

Senate rejected funding for DKIP and the Conservation Strategy and additionally, reverted $2,000 approved in 2010 for DKIP.

Assembly approved all FloodSAFE proposals as budgeted.

Comment: The chart below summarizes the six issues discussed above:

	Proposal	Senate	Assembly	Difference
1	**Gas Consumption Surcharge:** Transfer $162 million Gas Consumption Surcharge to the GF.	-$162,000 (transfer to GF)	No proposal	$162,000
2	**Fire Protection Permanent Funding:** Permanent General Fund and position authority ($42,760) baseline appropriation.	-$42,760 (deny without prejudice)	-$3,500	$39,260
3	**Off Highway Vehicle Park Program Reduction and Fund Shift –** Transfer $27 million Off Highway Vehicle Fund to General Fund (ongoing).	No proposal	-$27,000 (transfer to GF)	$27,000
4	**Water Rights Program:** $3.6 million shift from Water Rights Fund to GF.	$3,570	0	$3,570
5	**Renewable Electricity Program:** Reduction to Air Resources Board Program.	$-2,000	No Proposal	$-2,000
6	**FloodSAFE:** Reduce funding for DKIP and Conservation Strategy.	$-2,575	No Proposal	$-2,575

CHILD CARE & DEVELOPMENT PROGRAMS

Senate and Assembly Action. Both houses achieved the Governor's level of savings in child care though different approaches.

Senate Action. The Senate action included $425 million in total reductions to the child care program and used other one-time and the ongoing reduction of the refundable child and dependent care credit to backfill the remaining program.

Assembly Action. The Assembly action included $272 million in total reductions to the child care program and used other one-time and ongoing solutions to backfill the remaining program.

The chart below details the differences between the houses:

Proposal	Assembly	Senate
34.6 Percent Subsidy Reduction. Governor proposed $577 million in savings from reducing child care subsidies by 35 percent across-the-board. Rejected the Governor's subsidy reduction.	✓	✓
Across-the-Board Reductions. Approved the reduction to all contractors by 13 percent (excluding CalWORKs Stage 1 and Stage 2, and Pre-School), for a savings of $165 million.		✓
Across-the-Board Reductions. Approved the reduction to all contractors by 10 percent (excluding CalWORKs Stage 1 and Stage 2), for a savings of $178 million.	✓	
Eliminate Eligibility for 11-12 Year-Olds. Approved Governor's proposal to eliminate state subsidized child care services for 11-12 year old children, but exempt children in non-traditional hours of care, for a savings of $41 million.		✓
Income Eligibility Ceiling Reduction. Adopted the Governor's Proposal to reduce the income eligibility ceiling for child care programs from 75 percent of SMI to 60 percent of SMI (Governor's proposal provided savings of $79 million). Senate extended the proposal to cover preschool, for a total savings of $150 million.		✓
Income Eligibility Ceiling Reduction. Adopted a reduction of the income eligibility ceiling for child care programs from 75 percent of SMI to 70 percent of SMI, for a savings of $40 million.	✓	
Reduced Administrative Costs. Approved to reduce the Alternative Payment Programs' administrative cap from 17.5 percent to 15 percent, for a savings of $15 million.		✓
Child Care Deferral. Approved $150 million in ongoing inter-year deferrals.	✓	
Child and Dependent Care Expense Credit. Approved elimination of the refundable portion of the Child and Dependent Care Expense Credit and allocated the savings from this proposal ($100 million) to Stage II child care. The Senate only proposes to eliminate the refundable portion of the credit and does not make any changes to the core tax credit program.		✓

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CalWORKs
March 3, 2011

Both houses previously took the following actions related to the CalWORKs program:

- **Lowered the lifetime time limit for adult recipients** from 60 to 48 months, effective June 1, 2011, and approved the Governor's proposals related to 2009 reforms.
- **Cut grants by five percent**, effective June 1, 2011.
- **Reduced funding for child care, welfare-to-work, and administration costs ("single allocation") by $477 million**, with corresponding statutory changes and exemptions as specified.
- **Simplified "earned income disregard" policies** to include disregard of 50 percent of all relevant earnings (rather than existing disregard of first $225 and 50 percent of all other relevant earnings), and expanded the state's participation in the subsidized employment program created by AB 98.
- **Made conforming reductions in Stage 1 child** care from reducing the reimbursement rates for license-exempt caregivers and changing eligibility rules for 11 and 12-year-olds.
- **Additionally reduced**: 1) $20 million in the **CalLearn Program** for teenage mothers, 2) $5 million for **substance abuse and mental health services** for CalWORKs recipients, and 3) $5 million across the **SAWS automation systems** (allocation to be determined as specified).

Recommended changes to the above package include:

- **A grant cut of 8 percent**, effective June 1, 2011.
- **A single allocation** reduction of $427 million, with the same kinds of statutory changes and exemptions as previously specified.
- **An earned income disregard policy** that disregards the first $100 of relevant income and then 50% of all other relevant earnings.
- **A reduction to the CalLearn Program** of $45 million.
- **Elimination of $20 million for Community Challenge grants** related to teen pregnancy prevention.
- **Additional grant cuts to cases without aided adults** after certain periods of time on aid, for savings of approximately $100 million.

Comment: The Governor's budget proposes $1.077 billion General Fund for child care in 2011-12. The Governor's budget proposes a combined General Fund reduction of $716 million associated with various policy changes and service reductions.

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

PROPOSITION 98

Senate and Assembly Action: Both the Senate and Assembly provide the same level of ongoing Proposition 98 funding as the Governor's budget: $49.3 billion. The following table shows the major differences in Proposition 98 funding between the Senate and Assembly. These issues should be considered as part of the total Proposition 98 package.

Item (dollars in thousands)	Issue	Title	Senate	Assembly	Difference
6110-128-0001	381	Restore Budget Year Funding for the Economic Impact Aid Program	0	56,000	56,000
6110-220-0001	276	Reduce Funding for the Charter School Facility Grant Program	-25,000	0	-25,000
6110-295-0001	384	Defer K-14 Mandates for 2011-12	0	-89,857	-89,857

Economic Impact Aid *(Issue 381).* The Economic Impact Aid (EIA) program is a state categorical program that provides funding for programs and services for English learners and educationally disadvantaged students in grades K-12.

- Governor: Provides a total funding level of $888.4 million for this program for 2011-12.
- Senate: Approved as budgeted.
- Assembly: Restored $56 million to the program based on updated workload estimates to provide a total funding level of $944.4 million.

Charter School Facility Grant Program *(Issue 276).* The Charter School Facility Grant Program provides assistance with facilities rent and lease expenditures for charter schools that meet specific eligibility criteria. The 2010-11 Budget Act transitioned funding for this program from reimbursement to grant funding.

- Governor: Provides a total funding level of $95.4 million for this program.
- Senate: Reduced funding by $25 million to reflect anticipated savings for the program in 2011-12. This provides $70.4 million for the program in 2011-12.
- Assembly: Approved as budgeted.

K-14 Mandates *(Issue 384).* Prior to the 2010-11 Budget Act, for nearly 10 years, the state has deferred the annual cost of education mandates but still required local education agencies to perform the mandated activity by providing a nominal amount of funding for each activity. The 2010-11 Budget Act implemented several mandate reforms and funded annual ongoing mandate costs at roughly $90 million.

- Governor: Provides $89.9 million to fund the 2011-12 ongoing cost of K-14 state mandated local programs.

- Senate: Approved as budgeted**.**

- Assembly: Provided a total of $43,000 ($1,000 per mandate) and defers the remaining ongoing cost.

PROPOSITION 10

Senate and Assembly Action: Both the Assembly and Senate approved of the $1 billion shift for 2011-12 and rejected the 50 percent on-going transfer from the Local Commissions. The Assembly also approved of eliminating the State Commission for additional savings of approximately $89 million per year on-going, which was not part of the Governor's proposal.

Comment: The Governor's Budget proposes to use $1 billion in Proposition 10 Fund reserves ($50 million from State reserves and $950 million from local reserves) to support Medi-Cal services for children (aged 5 and under) in lieu of General Fund in 2011-12, and to shift 50 percent of the local allocation to the state on an on-going basis. This proposal requires voter approval and a June 2011 ballot initiative is assumed.

The California Children and Families Program (also known as "First 5") was created in 1998 upon voter approval of Proposition 10, the California Children and Families First Act (Act), which increased tobacco taxes by 50 cents per pack of cigarettes. Approximately 80 percent of the Prop 10 revenue is allocated directly to 58 county First 5 commissions. The remaining 20 percent stays at the state level with the State Children and Families Commission (State Commission), which will be discussed below. County commissions implement programs in accordance with local plans to support and improve early childhood development in their counties. While programs vary from county to county, each county commission provides services in three main areas: 1) Family Functioning; 2) Child Development; and 3) Child Health.

Reserves: Unspent funds are carried over for use in subsequent fiscal years. According to the DOF, over time, both the State and local fund balances have grown, and as of June 30, 2009, county commissions held more than $2 billion in reserves. County commissions state that the amount of reserve assumed by the DOF is too high since some County commissions have maintained prudent reserves for their future obligations. They note that any redirection could create job loss and disruption, and eliminate vital services that are provided at the local level.

State Commission: Pursuant to the Act, the State Commission uses its funding allocation to support administration, public education and outreach, research and evaluation, and statewide programs. Specifically, the Act directs the Commission to: conduct independent research, including the evaluation of relevant programs; identify the best standards and practices for optimal early childhood development; and establish and monitor demonstration projects. The Commission oversees a public education campaign that includes advertising, public relations, and grassroots outreach. The Commission creates an educational "Kit for New Parents" which has been distributed to more than 3 million California residents. The Kit is available in six languages and independent evaluations have shown the Kit to have positive impacts on new parents.

IN HOME SUPPORTIVE SERVICES

Senate and Assembly Action: Both houses took actions that maintained the Governor's level of IHSS savings, as detailed below:

IHSS Actions Taken By Both Houses	Assembly	Senate
Health Care Certification. Approved a requirement for IHSS recipients to have certification that personal care services are necessary to prevent out-of-home care, with savings of $152 million GF (savings are estimated by DOF to be higher than in the Governor's budget because of interactions between proposals when taken together).	✓	✓
Caseload Adjustment. Reduced caseload estimates based on more recent, actual data, for savings of $83.2 million GF from the program in 2010-11 and 2011-12.	✓	✓
Community First Choice Option. Adopted $121.1 million GF savings due to expected approval of six percent increase in federal financial participation as a result of IHSS qualifying under the new federal Community First Choice Option.	✓	✓
Advisory Committees. Reduced GF spending by $1.4 million for IHSS Advisory Committees and eliminated the mandate, while retaining $3,000 for each of the 56 Public Authorities.	✓	✓
Additional IHSS Actions Taken By Senate		
Domestic & Related Services Reduction. Adopted a modified version of the Governor's proposal on domestic and related services that included additional exceptions. More specifically, excluded: i) households where the only occupants are all IHSS recipients; ii) individuals whose housemates are neither their family members nor their IHSS providers; iii) domestic and related tasks that require the use of universal precautions; and iv) individuals whose housemates are not both able and available to meet the recipient's specified needs.		✓
Across-the-Board Reduction As Needed. Adopted an across-the-board reduction to correspond to any remaining amount of savings needed to reach a total $486.1 million GF savings. Later estimates from DOF indicated that no across-the-board reduction was needed to reach the total savings adopted.		✓
Additional IHSS Actions Taken By Assembly		
Adopted an additional savings target of $160 million (which becomes $128.4 given the above-mentioned change to estimates for the health care certification action) to reach a total $486.1 million GF savings and placeholder trailer bill on proposals to be determined, which may include, but are not limited to, proposals regarding medication compliance, nursing home intervention and diversion, and expanded goals for the Community Transitions Program.	✓	

Comment: The IHSS program provides various services to eligible aged, blind, and disabled persons who are unable to remain safely in their own homes without such assistance. IHSS providers assist recipients with tasks such as bathing, housework, feeding, and dressing. Recipients are eligible to receive up to 283 hours of IHSS per month. When a potential IHSS recipient applies for the program through a county office, the determination of their eligibility includes a process that takes into account the applicant's income and need for IHSS services. About 99 percent of IHSS recipients receive IHSS services as a Medicaid benefit.

The Governor's budget proposes a combined General Fund savings of $486.1 million from the following proposals:

1) Elimination of domestic and related services (e.g., meal preparation and clean-up; laundry, shopping and errands) to recipients who live in shared housing and who do not receive an exception based on their own or their housemate's specified conditions ($236.6 million);

2) An across-the-board reduction of 8.4 percent in the hours of service provided to individuals who do not apply for and receive supplemental care (which would result in a reduction of 12 percent when combined with an existing reduction in the budget year of 3.6 percent) ($127.5 million); and

3) A new requirement that individuals receive certification from a health professional of their need for IHSS services ($120.4 million).

The Governor's budget does not include any increase in nursing home costs as a result of these proposals.

LONG TERM CARE PROGRAMS

Senate and Assembly Action: Both house adopted alternatives to the Governor's proposal to eliminate the Multi-Purpose Senior Services Program (MSSP) and Adult Day Health Care (ADHC) programs.

MSSP

Senate Action. a $5 million reduction to MSSP and rejected the remainder of the proposed reduction. The Senate also adopted budget bill language directing the Departments of Aging and Health Care Services to consult with the federal government about how to achieve the savings operationally and to minimize any impacts on the number of clients served.

Assembly Action. The Assembly rejected the Governor's proposal and fully restored the funding for MSSP.

ADHC

Senate Action. In lieu of maintaining the ADHC Benefit, Senate recast services and took the following actions:

- $25 million (GF) Appropriation. Appropriates $25 million (GF), with potential federal fund match, to assist with transitioning individuals to other Medi-Cal health services and social service and respite programs.
- Budget Bill Language for Appropriation. Budget Bill Language states: "Of the amount appropriated in this Item, $25 million (GF) shall be allocated to grants to provide social activities and respite assistance for individuals who otherwise may have been receiving Adult Day Health Care Services. The purpose of this funding is to facilitate, as applicable and needed, transitions from ADHC services.
- Placeholder Trailer Bill Language. Placeholder trailer bill language was adopted for the DHCS to provide assistance with transitioning individuals from ADHC services to other Medi-Cal provided health and medical services as offered under the Medi-Cal Program.
- Reduces General Fund. This action reduces Medi-Cal by a net $151.6 million (GF).

Assembly Action. Assembly maintained ADHC benefit and reduced by $28.2 million (GF). The reduction is to be achieved as follows:

Description of Reduction Proposal	Estimated General Fund Savings
1. Stakeholder Process. Create stakeholder process with DHCS to identify chronically non-compliant ADHC facilities and implement a new ADHC Medical Necessity and Documentation Self-Audit tool for a 10 percent reduction in beneficiaries based on tighter eligibility criteria. Some field testing has already been completed.	-$21.2 million
2. Streamline Administration. Move ADHC unit from Department of Aging to DHCS and streamline administration.	-$1.7 million
3. Consolidate Licensing & Certification. Consolidate licensing and certification at DHCS and replace GF with federal funds.	-$1.2 million
4. Carry-Over Days. Eliminate reimbursement for “carry-over” days. This eliminates the ability for beneficiaries to make-up absences during the last week of one month into the first week of the next month.	-$400,000
5. Non-Billable Holidays. Mandate 10 non-billable “holidays” for all ADHC entities.	-$3.7 million
Total Reduction	**$28.2 million**

Comment:

Multi-Purpose Senior Services Program (MSSP): The Governor’s budget proposes to eliminate MSSP, for 2011-12 savings of $19.9 million GF. This would also result in the state losing $19.9 million in federal funds. The Governor’s budget does not include any increase in nursing home costs as a result of this proposal.

MSSP assists elderly Medi-Cal recipients to remain in their homes. Clients must be at least 65 years old and must be certified as eligible to enter a nursing home. MSSP provides mostly care management services, connecting individuals to necessary services. The program can also purchase specified services if the client’s informal support and other sources of private and public services are exhausted. MSSP-funded services may include adult day care, housing assistance, personal care assistance, protective supervision, care management, respite, transportation, meal services, and other services. MSSP operates under a federal Medicaid waiver and has 41 sites statewide. The program serves approximately 11,789 clients per month.

Adult Day Health Care (ADHC). ADHC services are considered an "Optional" Benefit under Medi-Cal. AHDC services are a "bundled" service and provide health, therapeutic, and social services designed to serve those "at-risk" of being in a nursing home. California is one of few States that currently offers this service. Total funding for ADHC is $369.8 million ($176.6 million GF). There are 325 active ADHC providers in Medi-Cal who serve about 27,000 average monthly users. The DHCS estimated cost per ADHC beneficiary is $1,128 per month, or $13,538 annually.

The Medi-Cal Error Report has raised issues regarding ADHC eligibility for services based on medical acuity, as well as billing errors. Additional DHCS audit staff has been provided in past years to address some of these concerns.

Prior ADHC Cost Containment. Previous cost-containment efforts have included the following:

- Moratorium. In 2004, a statutory moratorium was placed on the expansion of new ADHC providers. This remains today.
- Treatment Authorization Reviews. In 2009, on-site treatment authorization reviews were implemented and are anticipated to reduce expenditures by $824,000 (GF) in 2011-12.
- Medical Acuity Eligibility Criteria—Enjoined by Court. In 2009, the Legislature enacted medical acuity eligibility criteria to focus ADHC services on most medically acute individuals. This was to reduce program costs by 20 percent but was enjoined by the courts.
- Limit AHDC Benefit to Three Days. In 2009, the Legislature enacted statute to limit services for an individual to three days per week. However this was enjoined.

The budget eliminates the MSSP and ADHC Benefits effective June 1, 2011. The Administration states other Medi-Cal services are available in lieu of MSSP and ADHC services. These services other medical services include:

- Home Health Services;
- In-Home Supportive Services;
- Physical and Occupational Therapy;
- Clinic services that include dietitian, physician, social worker, and nursing services; and,
- Physician Services through the individual's Medi-Cal health care provider.