Children's Regional Integrated Service System (CRISS)
Governor's Draft State Budget for FY 2013-2014
Summary – January 2013

Overview of the Budget

Governor Jerry Brown released his proposed Fiscal Year 2013-14 budget on January 10, 2013, proposing total expenditures of $138.6 billion, with $97.65 billion in General Fund and $40.9 billion in special fund expenditures. For the first time in years, the Governor's budget proposes a 5% increase in state funding, while creating a $1 billion reserve and paying down over $4 billion in budget-related debt. Instead of the billions of dollars in budget cuts over the past decade, the draft budget proposes to increase spending on K-12 education and higher education and also proposes to expand Medi-Cal, primarily to low-income single adults, as part of the state's implementation of the federal Affordable Care Act.

The budget includes new revenue from voter approval of two propositions, Prop 30 and Prop 39, in the November 2012 election. Without passage of the two propositions, particularly 30, we would be looking at implementation of $6 billion in drastic budget "trigger cuts" (mostly to K-12 education) in the current fiscal year (i.e. right now) and a reduction of $6 billion in Fiscal Year 2013-14 as well.

There are several examples of good news in the draft budget:

- As noted above, we will not see billions of dollars in mid-year trigger cuts implemented this month, with catastrophic impact on education.
- The budget includes $2.7 billion in funding increases to K-12 schools and a 5.3% increase in funding for community colleges and the California State University and University of California systems.
- There are no proposed cuts to health and human services programs, as we've seen over the last few years.
- The budget projects "modest to steady growth over the next five years".

On the other hand, this year's budget evidently will initiate an era of "baseline budgets", in which the funding levels established in the current fiscal year for most state-funded programs (except education) will continue as is for the coming FY 2013-2014 and probably for FY 2014-2015 as well. This means that programs that took large hits over the past several years—adult Medi-Cal, child care and CalWORKS, for example—will not be restored to their earlier funding levels any time soon.

Major Budget Items Affecting Children and Families

The following is a summary of major items in the budget concerning health and health-related services for children.

- **Medi-Cal Expansion:** The Governor is committed to adopting the optional Medicaid expansion authorized under the Affordable Care Act and in his draft budget proposes two different approaches to the expansion—a state-based expansion and a county-based expansion. The draft budget doesn't indicate which option the Governor prefers and doesn't include budget estimates for either approach. This expansion would affect primarily adults but also would apply to some youth in the 19-21-year-old range.

- **Managed Care Efficiencies:** The budget includes a reduction of $135 million in General Fund as a result of implementing additional efficiencies in Medi-Cal managed care, defined as "new ways to improve the quality and efficiency of the health care delivery system and develop payment systems that promote quality, not quantity, of care, and improve health outcomes".

- **Annual Open Enrollment:** The budget proposes a decrease of $1 million in General Fund for next year and ongoing as a result of requiring Medi-Cal enrollees to commit to a single Medi-Cal managed care plan each year for the entire year ("annual open enrollment").

- **Medi-Cal Provider Rate Reductions:** The budget assumes that the state's 10% provider rate reductions passed in 2011 will be implemented, saving over $488 million. These reductions—which do not apply to pediatrician rates but do apply to other pediatric services such as pharmacy—have been delayed by litigation.

- **Provider Fee Extension:** The budget would extend a current fee on hospitals that utilizes federal Medicaid match to supplement hospital payments and provide funding for children's health coverage. The fee extension would save $310 million in General Fund.

- **Managed Care Tax:** The budget would permanently extend a tax on managed care plans that expired last July. This tax also draws down federal match; revenues would be used to support Medi-Cal health coverage for children, seniors, and persons with disabilities as well as repaying the health plans. Reinstatement of the tax would save the state over $217 million in FY 2013-14.

- **In-Home Supportive Services:** The draft budget proposes a 6.5% increase to IHSS next fiscal year, reflecting in part the expiration of 2011's 3.6% across-the-board reduction in service hours. However, the budget also assumes a reduction of $113 million by implementing 20% across-the-board cuts in recipient service hours. This cut was supposed to be implemented a year ago but has been stayed by the courts; the Governor assumes that the stay will be lifted and implemented by November 2013. The proposed budget also assumes a $30 million reduction reflecting the earlier elimination of IHSS services for people who do not obtain a certificate of need signed by a licensed health care professional.

- **Department of Developmental Services/Regional Centers:** The draft budget offers some good news for Regional Center services:
  - It would allow the existing 1.25% reduction in Regional Center operations and vendor reimbursement to sunset at the end of FY 2012-13 (June 30, 2013).
  - It includes an increase for next fiscal year to cover caseload increases.
  - It includes General Fund monies to backfill for last year's one-time $40 million transfer from the State First 5 California Children and Families Commission.

  The draft budget also would make the existing annual family program fee permanent, assessing families with incomes at or above 400% of the Federal Poverty Level a fee of $150 or $200 based on family size.

  Last year's budget trailer bill for DDS included protective language clarifying that the use of private health insurance by families of children in Early Start for early intervention services could not count toward the insurance's annual or lifetime coverage cap or result in loss of benefits due to an annual or lifetime cap; could not negatively affect the availability of health coverage for the Early Start client, the parents or any other family members covered by that plan or insurance; and could not be the basis for increasing the insurance or plan premium for the child or family members enrolled in that plan or insurance. As a result of these assurances, Regional Centers are now requiring families to access private or public (i.e. Medi-Cal) insurance for certain therapies before tapping Regional Center services.

- **Child Care:** Child care services have taken huge budget hits over the past few years, with state funding for child care reduced by $1 billion between 2008 and 2013, resulting in the elimination of 110,000 child care and development slots, or approximately one quarter of the total slots available in FY 2008-2009. Last year's budget also froze the income eligibility limit for child care and preschool at 70% of the 2005 state median income, or $3,518 per month for a family of three, in FY 2012-13 and made other reductions as well. This year's draft budget maintains this current level of funding, so no new cuts, but no restoration of child care slots either.

- **CalWORKS:** This program also had major cuts over the past few years, including reducing the maximum time limit for parents to use CalWORKS from 60 to 48 months; lowering maximum grant levels by 12% (a reduction of $85 per month for a family of three from 2008 levels); and cutting funding for counties to provide welfare-to-work services and child care. As with child care, the Governor's draft budget generally maintains the current situation without making further cuts. The budget does propose an increase of $143 million to support counties enhancing CalWORKS employment services; funding for this item had been reduced by over $375 million between 2009 and 2012.

Other Systems Changes Affecting Children's Services in FY 2013-14

- **Transfer of Healthy Families Enrollees to Medi-Cal:** Under this major policy change made as part of last year's budget, 875,000 children statewide who are enrolled in the Healthy Families Program will transition this year to the Medi-Cal program. As of January 1, 2013, 197,000 children in eight counties began the transition from Healthy Families to Medi-Cal. More than 200,000 children in two more groups will begin their transition to Medi-Cal in the second two parts of Phase 1, beginning March 1 and April 1 this year. The three sections of Phase 1 include children who are enrolled in a Healthy Families Program health plan that is a Medi-Cal managed care health plan. Subsequent phases of the transition—which have not yet been approved by the federal government—will address children enrolled in a Healthy Families Program health plan that is a subcontractor of a Medi-Cal managed health care plan (Phase 2); children who are enrolled in a Healthy Families Program plan that is not a Medi-Cal managed care plan and does not contract or subcontract with a Medi-Cal managed care plan (Phase 3); and children who reside in a county that is not a Medi-Cal managed care county (Phase 4). Phase 4 children will be served under the Medi-Cal fee-for-service delivery system until managed care plans are available in their counties.

- **Medi-Cal Managed Care Expansion:** Last year's budget approved the expansion of Medi-Cal managed care into the 28 rural counties that now are fee-for-service Medi-Cal. The state is now recruiting plans to operate in these counties, with applications due in January and final selection in February. The state recently issued a notice announcing that it expects mandatory enrollment in managed care plans to begin in the 28 counties on June 1, 2013. Approximately 386,000 Medi-Cal enrollees reside in these rural counties.

- **Implementation of the Affordable Care Act (ACA):** The Governor reiterated his commitment to implementing the ACA through Covered California, our state health exchange, including the expansion of Medi-Cal to cover childless adults with incomes up to 138% of the Federal Poverty Level. Many questions still remain about how the new program will address children's health care, particularly health care for children with special health care needs.

Next Steps

In his State of the State speech on January 24, the Governor called for continued fiscal prudence to pay down the state's debt and add to the budget reserve, noted his increased funding for education, and announced the start of a special legislative session to address implementation of the Affordable Care Act. Shortly afterwards the State Department of Finance and Legislative Analyst's Office agreed that the state will collect an estimated $5 billion more revenue in January than predicted. It is unclear whether this is truly new additional revenue or is a result of early tax filing or bonuses and other income taken in December 2012 instead of in 2013 to avoid federal tax changes. We may have to wait till the May Revise—the mid-May revised draft budget with updated income and expenditures projections—to know for sure.

For more information:

- CA Department of Finance: www.dof.ca.gov
- Legislative Analyst's Office: www.lao.ca.gov
- California Budget Project: www.cbp.org
- California Health Benefit Exchange (Covered California): www.healthexchange.ca.gov

---

L.A. Soman, CRISS, Lsoman6708@aol.com, 1/20/13; rev. 2/1/13