

HEALTH AND HUMAN SERVICES

The May Revision maintains a strong and responsible safety net for California's most vulnerable residents, continues the reform proposals and initiatives included in the Governor's Budget, and increases investments in targeted areas to improve the health and safety of Californians. In doing so, the May Revision strikes a reasonable and responsible balance between the need to provide essential services while managing and controlling program growth and costs.

MAY REVISION ADJUSTMENTS-HIGHLIGHTS

NEW RATE METHODOLOGY FOR MEDI-CAL MANAGED HEALTH CARE PLANS

After an extensive effort, recommendations have been made by an independent consultant to improve the Department of Health Services' (DHS') rate-setting methodology for Medi-Cal managed health care plans. These plans play a crucial role in providing access to health care for vulnerable Californians, serving approximately 3.2 million Medi-Cal beneficiaries each year. The May Revision includes \$214.3 million (\$107.1 million General Fund) to provide rate adjustments to the plans as determined by the new rate methodology, which will be implemented at the beginning of each plan's new rate year. This funding will provide a transition period to plans that otherwise would have received rate reductions under the new methodology. This is consistent with the state's prior practice of phasing in rate adjustments. Supporting a stable Medi-Cal managed care network is important to ensure adequate access to care and to support the successful implementation of Health Care Reform.

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SALARY INCREASES FOR CLASSIFICATIONS AFFECTED BY THE COLEMAN AND PEREZ COURT CASES

The May Revision includes total funding of \$1.6 million (\$914,000 General Fund) for the Department of Developmental Services and \$7.5 million (\$7.4 million General Fund) for the Department of Mental Health to provide salary increases to employees in job classifications affected by these court cases. These increases are necessary to properly protect and serve the clients of these departments by retaining existing staff and enhancing the recruitment of additional mental health and dental professionals. This funding will enable the departments to increase salaries for psychiatrists and senior psychologists by between 66 and 74 percent, and raise salaries for all other impacted mental health classifications by between 10 and 40 percent. This funding also will increase salaries for both departments' dental staff by between 36 and 58 percent.

EARLY AND PERIODIC SCREENING, DIAGNOSIS AND TREATMENT PROGRAM

The Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT) program provides physical and mental health services to full-scope Medi-Cal beneficiaries under the age of 21. The May Revision proposes a decrease of \$24.3 million (\$12.2 million General Fund and \$12.1 million in federal fund reimbursements) due to a lower estimate of EPSDT claims than included in the Governor's Budget. The May Revision includes an increase of \$39.9 million (\$17.2 million General Fund and \$22.7 million in federal fund reimbursements) to pay for the settlement of audits from the 2004-05 fiscal year, consistent with historical practice.

Responding to program and fiscal concerns, including a 2006-07 deficiency request for \$243 million to pay prior year obligations owed to counties, the Department of Finance's Office of State Audits and Evaluations (OSAE) recommended the elimination of the cost settlement adjustment, historically used to discount claims estimates. The OSAE found that continuing to use the discount factor could result in under-funding and contribute to future deficiency requests. The May Revision reflects an increase of \$61.6 million (\$30.8 million General Fund and \$30.8 million in federal fund reimbursements) for 2007-08, and will minimize the future accumulation of obligations for each fiscal year going forward.

EMERGENCY FUNDING FOR FOOD BANKS

The May Revision continues the Administration's unprecedented commitment to provide state funding, in response to last winter's freeze disaster, to local food banks and the California Emergency Foodlink, a private organization that stores and delivers food during emergencies. A total of \$4.7 million General Fund already has been allocated pursuant to Government Code

Section 8690.6, and the May Revision proposes an additional \$4.45 million General Fund for food banks and the Foodlink.

Federal aid recently was made available to provide disaster unemployment insurance and commodities for individuals affected by the freeze. The federal commodities began arriving in April 2007. The emergency funding provided by the state has been used for the purchase and distribution of food to affected individuals, and to replenish and increase the state's reserve to prepare for future emergency distributions. In addition, the funding included in the May Revision will enable the food banks to store and distribute food from the more than 1,500 expected truckloads of federal commodities.

**COST OF DOING BUSINESS ADJUSTMENTS FOR COUNTIES
ADMINISTERING STATE SOCIAL SERVICES PROGRAMS**

The May Revision proposes a new methodology for adjusting county administrative costs for human services programs. Chapter 75, Statutes of 2006 (AB 1808) required the Department of Social Services (DSS) to estimate the costs for county administration of human services programs using county-specific cost factors, examine factors contributing to those costs, and include the estimated county administration costs in budget documents beginning with the 2007-08 May Revision. AB 1808 also required the DSS to submit a plan to the Legislature for developing a new method of budgeting child welfare services. The Administration proposes a budgeting methodology that would provide predictable, stable funding for county administration costs in the CalWORKs, Food Stamp, Child Welfare Services, Foster Care, Adoptions, In-Home Supportive Services (IHSS), and Adult Protective Services programs, coupled with reforms designed to improve performance and accountability. Specifically, beginning in 2008-09, an annual adjustment to county administration funding would be provided equivalent to the salary and benefit increases provided to state employees, subject to appropriation. Annual adjustments would be coupled with an increased focus on accountability and incentives for improved services for children, families and low-income aged, blind or disabled Californians. The proposed methodology will build on the CalWORKs Pay-for-Performance program, existing state and county sharing in federal penalties for failure to meet performance measures in the CalWORKs and Food Stamp programs, and on the Child Welfare Services Outcomes and Accountability System. Further, the Administration proposes to establish a county share in federal Child Welfare Services penalties and to establish performance and accountability measures for the IHSS program. These reforms will provide a stable funding base for county administration and services that will grow commensurate with personnel costs, as well as introduce fiscal incentives to meet program goals and ensure the efficient use of state funds.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

- 2006-07 \$2.3 million
- 2007-08 \$8.6 million

CURRENT YEAR

The May Revision includes an increase of \$4.4 million (\$2.3 million General Fund), or 0.6 percent, above the \$674.3 million provided in the Governor's Budget. This increase is due to revised estimates for caseload and units of service and is added to the pending request for a supplemental appropriation.

- Regular Drug Medi-Cal—Expenditures are expected to be \$2.1 million General Fund higher than projected in the Governor's Budget. Caseload is estimated to be 8,370 clients, or 4.7 percent, higher than previously projected.
- Perinatal Drug Medi-Cal—Expenditures are expected to be \$283,000 General Fund higher than projected in the Governor's Budget. Caseload is estimated to be 316 clients, or 3.5 percent, higher than previously projected.

BUDGET YEAR

The May Revision includes an increase of \$17.2 million (\$8.6 million General Fund), or 2.6 percent, above the \$662.8 million provided in the Governor's Budget, reflecting the following major adjustments:

- Regular Drug Medi-Cal—Expenditures are projected to increase by a total of \$8.0 million General Fund. Caseload is projected to increase by 11,876, or 6.3 percent, and the May Revision includes a total of \$7.4 million General Fund for provider rate increases (an increase of \$5.3 million above the \$2.1 million in rate increases proposed in the Governor's Budget).
- Perinatal Drug Medi-Cal—Expenditures are projected to increase by \$620,000 General Fund. Caseload is projected to increase by 535, or 5.6 percent, and the May Revision includes \$603,000 General Fund for provider rate increases (an increase of \$30,000 above the \$573,000 in rate increases proposed in the Governor's Budget).
- Proposition 36—The 2006 Budget Act reauthorized \$120 million in funding for Proposition 36 and included reforms sought by the Administration to improve the program. Implementation of these reforms has been suspended by judicial injunction. The Budget Act also authorized \$25 million for the Substance Abuse Offender Treatment Program (OTP), intended to enhance treatment services.

In response to suspended reforms, the 2007-08 Governor's Budget proposed to reduce Proposition 36 funding by \$60 million, and utilize this funding in the OTP. The Governor's Budget also indicated that the Administration would revise the budget proposal at the May Revision to transfer all funding from Proposition 36 to the OTP if the reforms were not implemented. In light of the recent legislation regarding prison rehabilitation programs, the Administration will not propose to transfer all Proposition 36 funding to the OTP. However, the Administration continues to support its proposal to transfer \$60 million from Proposition 36 to the OTP, which includes many of the necessary reforms.

DEPARTMENT OF HEALTH CARE SERVICES

- 2006-07 -\$31.0 million
- 2007-08 \$87.2 million

MEDI-CAL

CURRENT YEAR

The May Revision reflects total Medi-Cal expenditures of \$35.4 billion (\$13.6 billion General Fund), a decrease of \$85.8 million (\$20.7 million General Fund) from the Governor's Budget. General Fund expenditures for Medi-Cal have increased by \$797.5 million, or 6.2 percent over the 2005-06 level.

The average monthly Medi-Cal caseload is expected to decrease by 59,500 beneficiaries, to 6,534,600 eligibles, which is a decrease of 0.9 percent from the level projected in the Governor's Budget. The revised caseload is 0.6 percent lower than the 2005-06 caseload.

The net General Fund decrease from the Governor's Budget level includes the following significant adjustments:

- \$92 million increase to repay the federal government for non-institutional provider over-payments discovered when recording paid claims that had been audited and identified as erroneous due to miscoding of services, claiming errors, or provider errors.
- \$30.5 million increase resulting from a continued delay in federal approval of the State Plan Amendment (SPA) allowing the separation of physician and non-physician costs from certified eligible expenditures under the Hospital Financing Waiver. Approval of the SPA was anticipated in 2006. This would have shifted funding for designated public

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hospitals to 100 percent federal funding and provided a corresponding recoupment of state funds in the current year. Recoupment is now anticipated in 2007-08.

- \$63.5 million decrease resulting from the Medi-Cal dental fiscal intermediary's repayment of premium costs that exceeded audited expenditures, which were much lower than anticipated due to statutory restrictions on covered benefits and more stringent authorization requirements.
- \$51.9 million decrease in anticipated capitation payments to County Organized Health Systems due to identification of persons dually eligible for Medi-Cal and Medicare and the impact of federal Medicare Part D Pharmacy benefits. When persons are dually eligible, Medi-Cal pays only for services not covered under Medicare.
- \$27.1 million decrease in the amount previously estimated to be repaid to the federal government for the federal share of non-emergency services provided to qualified aliens who have been in the country for less than five years, based upon revised data.
- \$21.7 million decrease in county and other administration costs due to lower caseload growth, the final reconciliation of county administrative costs for 2004-05, and a delay in county billing for outreach costs.

BUDGET YEAR

The May Revision includes total Medi-Cal expenditures of \$37.7 billion (\$14.7 billion General Fund), a net total funds increase of \$330.3 million (\$39.4 million General Fund) from the Governor's Budget. General Fund expenditures are expected to increase by \$1.1 billion, or 7.6 percent over the revised 2006-07 level.

The average monthly Medi-Cal caseload is expected to decrease from the Governor's Budget by 98,600 beneficiaries, or 1.5 percent, to 6,602,900 eligibles.

The net General Fund increase from the Governor's Budget level includes the following significant adjustments:

- \$107.1 million increase for implementation of new rates for all Medi-Cal managed care plans based on the plan-specific, experience-based rate methodology developed as a result of a recent study.
- \$39.4 million increase in county and other administration costs due to an update of base costs and funding for the one-time and ongoing costs for implementation of federal Deficit Reduction Act (DRA) citizenship verification requirements.

- \$20.0 million increase in the Medi-Cal Minor Consent program due to loss of federal financial participation for a portion of the program. To protect the ability of minors to access pregnancy services, the state will not enforce DRA citizenship and identification requirements for minors independently seeking services.
- \$34.2 million decrease in the amount previously budgeted to be repaid to the federal government for the federal share of non-emergency services provided to qualified aliens who have been in the country for less than five years, based upon revised data.
- \$30.5 million decrease for anticipated repayments from designated public hospitals that were expected in 2006-07 but are now delayed until early 2007-08 when the State Plan Amendment is expected to be approved.
- \$26.1 million decrease in anticipated capitation payments to County Organized Health Systems mainly due to identification of persons dually eligible for Medi-Cal and Medicare and the impact of federal Medicare Part D Pharmacy benefits. When persons are dually eligible, Medi-Cal pays only for services not covered under Medicare.
- \$10.6 million decrease in the Medically Indigent Adult Long-Term Care program resulting from a \$10.6 million increase in federal funds through the Safety Net Care Pool portion of the hospital financing waiver. This fund shift will allow the state to maximize available federal funding for public hospitals as authorized under the hospital financing waiver.

FAMILY HEALTH ESTIMATES

CURRENT YEAR

The Family Health May Revision Estimates include a net decrease of \$7.8 million (\$2.8 million General Fund) from the \$262.6 million provided in the Governor's Budget due to minor caseload adjustments in the California Children's Services (CCS) and Child Health and Disability Prevention (CHDP) programs, and the collection of \$3.5 million in blood factor rebates in the Genetically Handicapped Persons Program (GHPP).

BUDGET YEAR

The May Revision includes a net decrease of \$3.0 million (an increase of \$50.4 million General Fund and a decrease of \$53.4 million other funds), from the \$290.0 million provided in the Governor's Budget, due to adjustments in caseload and health care costs in the CCS, CHDP, and GHPP programs. General Fund expenditures will increase in the CCS and GHPP programs by \$46.8 million to reflect a proposed redirection in federal Safety Net Care Pool funding. However, the Medi-Cal budget reflects a corresponding General Fund offset

that will allow the state to maximize available federal funding for public hospitals as authorized under the hospital financing waiver.

DEPARTMENT OF PUBLIC HEALTH

- 2007-08 -\$9.3 million

Pursuant to Chapter 241, Statutes of 2006 (SB 162), the new Department of Public Health will become operational on July 1, 2007. Funding adjustments for 2006-07 included in the May Revision are reflected in the Department of Health Care Services' totals.

AIDS DRUG ASSISTANCE PROGRAM

The May Revision includes \$288.9 million to fully fund the AIDS Drug Assistance Program (ADAP), which is 3.5 percent below the \$299.4 million identified in the Governor's Budget. The ADAP will serve nearly 32,905 clients in 2007-08, approximately 1,400 clients above prior fiscal year caseload estimates. These savings are a result of ongoing efforts to realize program efficiencies including benefits coordination with other third party payers, an efficient rebate collection system, and savings related to Medicare Part D, while maintaining existing program caseload and services.

As a result of additional drug rebate revenues, the May Revision reflects one-time General Fund savings of \$9.3 million and a one-time redirection of \$7.8 million General Fund to other HIV care and treatment programs. The one-time redirection of General Fund will better meet the needs of persons living with HIV and ensure the state maintains compliance with federal maintenance-of-effort requirements and continues to receive federal Ryan White Care Act funds totaling approximately \$122.0 million in 2007-08. The May Revision includes redirected funding for the following programs:

- \$4.0 million for the Therapeutic Monitoring Program to provide more than 33,000 viral load and resistance tests to approximately 17,000 clients.
- Up to \$1.8 million to backfill the expected loss of federal funds to six Eligible Metropolitan Areas.
- \$1.5 million for the AIDS Regional Information and Evaluation System, a web-based case management system that supports client access to care and treatment.
- \$500,000 to support the development and delivery of capacity building activities.

CIGARETTE AND TOBACCO PRODUCTS SURTAX FUND-PROPOSITION 99

The May Revision projects decreased Proposition 99 revenue of \$6.0 million in 2006-07, and \$6.0 million in 2007-08, for revised total revenues of \$333.0 million and \$337.0 million in the current year and budget year, respectively. The projected decrease in Proposition 99 revenue is attributable to the General Fund portion of tobacco tax cash receipts being slightly below earlier forecasts, lower-than-expected taxable sales of cigarettes during 2005-06, and a modest downward adjustment to the 18 to 64 age-group population data.

The May Revision continues to maintain the Proposition 99 expenditures proposed in the Governor's Budget for all programs within the Department of Health Care Services and the Department of Public Health. However, due to the decline in projected revenues, the May Revision backfills \$8.3 million Proposition 99 for the Access for Infants and Mothers (AIM) program within the Managed Risk Medical Insurance Board with General Fund.

MANAGED RISK MEDICAL INSURANCE BOARD

- 2006-07 \$2.5 million
- 2007-08 \$16.5 million

HEALTHY FAMILIES PROGRAM

CURRENT YEAR

The Healthy Families Program (HFP) is expected to serve a total of 844,283 children by June 30, 2007, an increase of 73,128, or 9.5 percent, from June 30, 2006. The May Revision projects an overall expenditure increase of \$1.3 million (\$2.5 million General Fund, -\$1.2 million other funds), to \$1.0 billion (\$362.2 million General Fund), from the level anticipated in the Governor's Budget. This primarily is due to an additional caseload of 2,600 children. Other funds are down by \$1.2 million due largely to a delay in starting the web-based Health-e-App project. The design and development phase of this project is anticipated to be completed in late 2007, with the roll-out occurring in the spring of 2008. These costs are therefore shifted to 2007-08.

The state has been notified by the federal government that the HFP to Medi-Cal Bridge (Bridge) program will no longer qualify for federal financial participation. The Bridge provides children with two additional months of HFP coverage when HFP has determined that a child's household income is below HFP eligibility requirements at annual eligibility review. Approximately 2,000 new children per month receive coverage through the Bridge.

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The May Revision proposes to continue the Bridge as a state-only program at a cost of \$1.5 million General Fund in the current year.

BUDGET YEAR

The May Revision projects an overall expenditure increase of \$23.8 million (\$8.2 million General Fund), to \$1.1 billion (\$400.4 million General Fund), from the level anticipated in the Governor's Budget. The increase in General Fund is primarily due to a 3.1-percent increase in the average monthly capitation payment for health, dental and vision services.

Between June 2007 and June 2008, enrollment in HFP is projected to grow from 844,283 children to 919,516 children, an 8.9 percent increase. Projected caseload as of the May Revision reflects updates to the impact of various proposals included in the Governor's Budget that promote and maximize enrollment in HFP, improve the retention of children already enrolled, and support county-based efforts to enroll eligible children.

The May Revision proposes to convert the Bridge Program to a Medi-Cal presumptive eligibility program starting on July 1, 2007. The state will receive 50 percent federal participation by converting to presumptive eligibility rather than 100 percent General Fund costs as a state-only program.

ACCESS FOR INFANTS AND MOTHERS PROGRAM

CURRENT YEAR

The May Revision projects an overall expenditure decrease of \$3.1 million in federal funds from the level anticipated in the Governor's Budget, to \$124.4 million. This 2.4-percent decrease in total funds primarily is due to federal fund changes resulting from corrections to the way that subscriber contributions are budgeted. Average monthly enrollment in the Access for Infants and Mothers (AIM) program is expected to be 1,606 women and infants, slightly higher than the 1,601 originally estimated in the Governor's Budget.

BUDGET YEAR

The May Revision projects an overall expenditure decrease of \$5.5 million from the level anticipated in the Governor's Budget. This decrease of 4 percent in total funds is largely due to federal fund changes resulting from corrections to the way subscriber contributions are budgeted. Based on the revised revenue projection for Proposition 99 funds, there is insufficient funding in 2007-08 for the AIM program. As a result, the May Revision proposes that Proposition 99 transfer authority be reduced by \$8.3 million and that General Fund be used to backfill this need.

There is no change in the projected average monthly caseload of 1,159 women reflected in the Governor's Budget. To control program costs, the Managed Risk Medical Insurance Board will maintain capitation rates at their current level. However, the average monthly capitation rate did increase slightly due to the distribution of enrollment among available health plans.

COUNTY HEALTH INITIATIVE MATCHING FUND PROGRAM

The County Health Initiative Matching Fund Program allows county or local public agency funds to be used to match unused federal State Children's Health Insurance Program funds to provide health care for uninsured children in families with incomes up to 300 percent of the federal poverty level. These county programs are frequently referred to as Healthy Kids Programs. Expenditures are expected to decrease by \$309,000 (\$108,000 county funds and \$201,000 federal funds) in 2006-07 and by \$357,000 (\$125,000 county funds and \$232,000 federal funds) in 2007-08 due to updated county caseload and expenditure information.

DEPARTMENT OF DEVELOPMENTAL SERVICES

- 2006-07 -\$23.1 million
- 2007-08 \$35.9 million

DEVELOPMENTAL CENTERS

CURRENT YEAR

At 2,877 residents, the average Developmental Center (DC) population is projected to be 43 residents higher than projected in the Governor's Budget. This change is primarily a result of fewer Agnews Developmental Center consumers transitioning into the community due to delays in development of specialized housing. The May Revision includes an increase of \$4.4 million (\$3.2 million General Fund and \$1.2 million reimbursements) and 66 positions due to this increase in population. The General Fund increase is offset by a transfer from the regional center budget.

BUDGET YEAR

The average DC population is projected to increase by 21 residents over the Governor's Budget projection, to 2,610 residents. The May Revision includes a decrease of \$89,000 General Fund and an increase of \$2.2 million reimbursements, reflecting the following major changes:

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- Population—The May Revision includes a decrease of \$1.1 million (\$804,000 General Fund) and 38.5 positions, including an increase of 27.0 Level-of-Care positions due to the increase in estimated DC population, primarily at Agnews Developmental Center, and a decrease of 65.5 non-Level-of-Care positions related to an overall decrease in population at the other state developmental centers.
- Salary Enhancements for Dental Professionals (Perez Case)—The May Revision includes an increase of \$1.3 million (\$747,000 General Fund) in order to provide salary increases to all budgeted Department of Developmental Services dental staff to retain existing staff and enhance the recruitment of additional staff. This funding will increase salaries for dental staff by between 36 to 58 percent.
- Salary Enhancements for Mental Health Professionals (Coleman Case)—The May Revision includes an increase of \$286,000 (\$167,000 General Fund and \$119,000 reimbursements) to fund salary increases ranging from 66 to 74 percent for psychiatrists and senior psychologists and salary increases ranging from 10 to 40 percent for all other impacted mental health classifications. Budget Bill language also is proposed to allow increased funding if recruitment efforts exceed the proposed staffing plan.
- Intermediate Care Facility/Developmental Disabled Quality Assurance Fee—The May Revision includes a decrease of \$774,000 (\$452,000 General Fund) to reflect current population and expenditure projections related to the Quality Assurance Fee (QAF) assessment for Intermediate Care Facility/Developmental Disabled (ICF/DD) facilities. The federal government will reduce the current 6 percent QAF on ICF/DDs to 5.5 percent effective January 1, 2008.
- Agnews Developmental Center Closure—State Employees in the Community—The May Revision includes an increase of \$242,000 (\$129,000 General Fund) and six positions to provide administrative support for state employees in the community effective January 1, 2008. As part of the Agnews closure process, up to 200 state employees are authorized to provide services and support to Agnews consumers in the community. These six administrative support positions are included as part of that authority.

REGIONAL CENTERS

CURRENT YEAR

Compared to the Governor's Budget, Regional Center community caseload is projected to decrease by 975 consumers, to 211,180 consumers. The May Revision includes a net

decrease of \$13.5 million (\$23.1 million General Fund) for Regional Centers to recognize lower actual expenditures for Operations and Purchase of Services.

BUDGET YEAR

Compared to the Governor's Budget, Regional Center community caseload is projected to decrease by 1,370 consumers, to 219,230 consumers. The May Revision includes a net increase of \$31.1 million (an increase of \$33.3 million General Fund and a decrease of \$2 million other funds), reflecting the following changes:

- Purchase of Services—The May Revision reflects a net increase of \$39.4 million (increase of \$46.9 million General Fund and a decrease of \$7.5 million other funds) for residential and other services driven by required caseload ratios and entitlements. These services include Community Care Facilities, Health Care, Health Facilities, In-Home Respite, and Day Programs. Clients are decreasing by 1,370, while utilization and costs for services are estimated to increase by one percent over the Governor's Budget. This is due to an increase in the number of consumers dually diagnosed with mental health conditions, an increase in persons diagnosed with autistic disorders, and increased demand for support services.
- Staffing—The May Revision reflects a decrease of \$3.3 million (a decrease of \$10.5 million General Fund and an increase of \$7.2 million other funds) to reflect reductions in population estimates since the Governor's Budget and delays in implementation of community placement plans.
- Self-Directed Home and Community-Based Services Waiver—The May Revision reflects an increase of \$1.1 million (\$574,000 General Fund) and 32 phased-in positions for the implementation of the Self-Directed Services (SDS) program. This revised assumption reduces the Department of Developmental Services funding request by \$405,000 (\$203,000 General Fund), delays the implementation date associated with the SDS program until March 2008 and reduces the anticipated number of enrollees during 2007-08 from 600 to 400. Implementation of the SDS program is contingent on the federal Centers for Medicare and Medicaid Services' approval of the Community Based Services Waiver, which is expected in March 2008. The California Developmental Disabilities Information System (CADDIS) has been discontinued, so a new SDS information system will need to be developed to support the requirements related to the SDS program.
- Transportation—The May Revision includes a reduction of \$15.2 million in Public Transportation Account funds as a technical adjustment that will not impact services. This adjustment is necessary to account for reduced transportation costs and for the

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non-medical transportation funding that is included in the Intermediate Care Facility/ Developmental Disabled Bundled Rate Proposal in the Governor's Budget.

DEPARTMENT OF MENTAL HEALTH

- 2006-07 -\$25.9 million
- 2007-08 \$18.6 million

LONG-TERM CARE / STATE HOSPITALS

CURRENT YEAR

The May Revision reflects decreased funding for long-term care and state hospitals of \$25.9 million General Fund due to the following major adjustments:

- State Hospital Population—A decrease of \$24.9 million General Fund to reflect a reduction in the Judicially Committed/Penal Code population of 487 patients, including a decrease of:
 - 71 Incompetent to Stand Trial (IST) patients
 - 68 Not Guilty by Reason of Insanity (NGI) patients
 - 106 Mentally Disordered Offenders (MDOs)
 - 242 Sexually Violent Predators (SVPs)
- The decrease across commitment categories is primarily due to staffing shortages within the state hospitals and a re-estimation of the impact of Chapter 337, Statutes of 2006 (SB 1128) and Jessica's Law, resulting in a reduction of 50 percent in the number of SVP commitments estimated in the Governor's Budget.
- SVP Evaluations and Court Testimony—An increase of \$366,000 General Fund for SVP evaluation services, based on actual data from implementation of SB 1128 and Jessica's Law, and a decrease of \$527,000 General Fund for headquarters positions and consultant services in the Sex Offender Commitment Program.

BUDGET YEAR

Funding for long-term care and state hospitals is anticipated to decrease by a net \$12.4 million (a decrease of \$12.6 million General Fund and an increase of

\$176,000 Realignment reimbursement) in 2007-08. The change is comprised of the following adjustments:

- State Hospital Population—A net decrease of \$10.4 million (a decrease of \$10.6 million General Fund and an increase of \$176,000 in Realignment reimbursement):
 - An increase of \$4.4 million General Fund to reflect an anticipated increase in the Judicially Committed/Penal Code population of 38 patients, including an increase of 158 IST patients, 46 NGI patients, 54 MDOs, and a decrease of 220 SVPs. The increase in IST, NGI, and MDO patients is based on an anticipated increase in staffing resulting from recent salary increases. The decrease in the SVP population reflects the revised estimated impact of SB 1128 and Jessica’s Law.
 - A decrease of \$28.2 million General Fund to reflect full-year impact of the current year reduction in the state hospital population of 487 patients. This decrease is in addition to the \$21.7 million General Fund reduction previously requested in an April Finance Letter.
 - An increase of \$5.9 million (\$5.8 million General Fund and \$144,000 in Realignment reimbursement) to provide funding for salary increases. This request funds salary increases ranging from 66 to 74 percent for psychiatrists and senior psychologists and salary increases ranging from 10 to 40 percent for all other impacted mental health classifications. Budget Bill language also is proposed to allow for increased funding for these salaries if more vacancies than anticipated are filled, or for contract costs for registry funding, if necessary.
 - An increase of \$1.6 million (\$1.6 million General Fund and \$32,000 in Realignment reimbursement) to provide all budgeted Department of Mental Health dental staff with salary increases ranging from 36 to 58 percent.
 - An increase of \$4.3 million General Fund to contract for competency restoration services. Contracting for local beds will expedite services, reduce the average length of stay, and address state hospital capacity issues. Additionally, the May Revision includes \$696,000 General Fund for four Level-of-Care positions and associated costs to run an 18 bed unit at the Salinas Valley Psychiatric Program for IST patients too dangerous to reside within state hospitals.
- Forensic Conditional Release Program (CONREP)—The May Revision includes an increase of \$929,000 General Fund, to increase CONREP capacity by 30 beds. This will free up 30 additional state hospital beds by addressing the current backlog of patients

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waiting to enter CONREP and fund a projected increase in the number of hospital liaison visits.

- SVP Evaluations and Court Testimony—The May Revision includes a net decrease of \$2.9 million General Fund, primarily for SVP evaluation services based on actual data from implementation of SB 1128 and Jessica’s Law.

COMMUNITY MENTAL HEALTH SERVICES

The May Revision includes a net increase of \$65.6 million (\$31.1 million General Fund and \$34.5 million in federal fund reimbursement) for community mental health services relative to the Governor’s Budget. The major adjustments include the following:

- Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program—
The May Revision includes an increase of \$67.4 million (\$32.1 million General Fund and \$35.3 million in federal fund reimbursement) in 2007-08. This includes the following adjustments:
 - A decrease of \$24.3 million (\$12.2 million General Fund and \$12.1 in federal fund reimbursement) due to lower than projected EPSDT claims.
 - An increase of \$61.6 million (\$30.8 million General Fund and \$30.8 million in federal fund reimbursement) to remove the cost settlement adjustment factor. Upon its review of the EPSDT estimation methodology this spring, the Office of State Audits and Evaluations (OSAE) recommended eliminating the cost settlement adjustment historically used to discount claims estimates.
 - An increase of \$39.9 million (\$17.2 million General Fund and \$22.7 million in federal fund reimbursement) for the 2004-05 cost settlement.
 - OSAE will conduct a review of EPSDT local assistance programs and an internal control review of the DMH’s accounting and administrative controls. The reviews are expected to be completed by September 2007 and January 2008, respectively, with a DMH action plan issued in March 2008.
- Mental Health Managed Care Program—The May Revision includes a decrease of \$1.9 million (\$926,000 General Fund and \$926,000 in federal fund reimbursement from the Department of Health Services), primarily due to a decrease in the number of Medi-Cal eligibles receiving psychiatric inpatient hospital services and specialty mental health professional services.

DEPARTMENT OF SOCIAL SERVICES

- 2006-07 \$9 million
- 2007-08 -\$141.2 million

CALWORKS

The 2006-07 average monthly CalWORKs caseload of 461,200 represents a decrease of 3.1 percent from 2005-06, and a reduction of 1.3 percent from the Governor's Budget estimate. For 2007-08, the caseload is now expected to be 404,300, a decrease of 12.3 percent from the revised 2006-07 caseload reflected in the Governor's Budget. Combined federal Temporary Assistance for Needy Families Block Grant and state and county maintenance-of-effort expenditures in 2006-07 and 2007-08 are anticipated to be \$7 billion.

The May Revision continues to reflect the Administration's proposals for major CalWORKs reform measures that emphasize work participation and personal responsibility, improve the state's ability to meet federal requirements, and make the program more efficient. The May Revision incorporates methodology changes and updated caseload projections to more accurately reflect the estimated impact of CalWORKs reform, including implementing full family sanctions for long-term non-compliance, modifying the safety net program to increase work participation, and establishing time limits for families with drug felons and other ineligible adults. Although this has resulted in a savings erosion of \$9.9 million since the Governor's Budget, the reform measures are projected to improve the state's work participation rate by more than 6 percent in 2007-08 and over 11 percent annually thereafter.

The May Revision includes one-time costs of \$17.2 million (\$3.7 million General Fund) in 2007-08 for automation changes necessary to implement a semi-annual reporting system for CalWORKs and food stamp recipients in 2008-09. The semi-annual reporting system is expected to simplify reporting requirements for families and make it easier for counties to administer the program. This proposal will generate savings compared to the current quarterly reporting requirements and have a positive impact on work participation.

SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTARY PAYMENT PROGRAM

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program are \$3.5 billion in 2006-07, representing a decrease of \$11.4 million compared to the Governor's Budget. The SSI/SSP General Fund expenditures

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for 2007-08 are \$3.6 billion, a decrease of \$262.3 million from the Governor’s Budget, primarily resulting from suspension of the January 2008 cost-of-living adjustment (COLA). Caseload for the SSI/SSP program is projected at 1,228,000 recipients in 2006-07 and 1,250,400 recipients in 2007-08, a year-to-year caseload growth of 1.8 percent.

The May Revision proposes to suspend the January 2008 state COLA in the SSI/SSP program. This will result in a savings of \$184.7 million in 2007-08 and ongoing savings of \$369.5 million in future years. Due to pass-through of the federal COLA on January 1, 2008, monthly grant payment levels will increase from \$856 for aged or disabled individuals and from \$1,502 for aged or disabled couples to \$863 and \$1,514 respectively. California’s SSI/SSP payment levels for individuals and couples are projected to maintain rankings of second and first in the nation, respectively (Figure HHS-01).

**Figure HHS-01
Comparison of Five Highest SSI/SSP Maximum Payments**

**Monthly Grants for Independent Living Arrangement
as of January 1, 2006**

State	Aged and Disabled	
	Individuals	Couples
Alaska	\$965	\$1,432
California ¹	836	1,472
Connecticut	771	1,144
Massachusetts	732	1,106
New York	690	1,008

Average maximum combined payment level of remaining states that provide a supplemental payment:	\$637	\$974
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Maximum combined payment level of remaining states that only provide an SSI payment: ²	\$603	\$904
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¹ Reflects payment levels in effect April 1, 2006. On January 1, 2007, California's SSI/SSP payments increased to \$856 for individuals and \$1,502 for couples. Effective January 1, 2008, payments will increase to \$863 and \$1,514 for individuals and couples, respectively.

² As of January 2006, 28 states did not provide a supplemental payment.

IN-HOME SUPPORTIVE SERVICES

Total General Fund expenditures for the In-Home Supportive Services (IHSS) program are \$1.5 billion in 2006-07 and \$1.6 billion in 2007-08, including an increase of \$30.4 million in 2006-07 and \$85.6 million in 2007-08 compared to the Governor's Budget. Caseload is projected to be 370,300 recipients in 2006-07 and 389,100 in 2007-08. Although this represents a year-to-year caseload growth of 5.1 percent, the caseload estimates in 2006-07 and 2007-08 are slightly less than projected in the Governor's Budget. The May Revision retains the proposal to limit state participation in the cost of IHSS wages and health benefits at the levels in effect in the current year. Significant General Fund adjustments include:

- An increase of \$8.2 million in 2006-07 and \$35.7 million in 2007-08 to fund IHSS provider wage and/or health benefit increases provided in 19 counties since the Governor's Budget, partially offset by lower-than-projected caseload growth.
- An increase of \$33.2 million in 2006-07 and \$48.5 million in 2007-08 to reflect a lower level of savings resulting from the IHSS Quality Assurance program. The program was implemented to ensure that individuals receive necessary services consistently across the state and to help control costs. Less savings are assumed based on actual implementation data.
- A decrease of \$11 million in 2006-07 due to a delay in implementation of the Case Management Information and Payrolling System II.

CHILD WELFARE SERVICES

The child welfare services system in California provides a continuum of services through various programs, including Child Welfare Services, Child Abuse Prevention, Foster Care, Adoption Assistance, and Adoptions to children who are either at risk of or have suffered abuse and neglect. The May Revision includes \$4 billion (\$1.6 billion General Fund) to provide assistance payments and services to children and families under these programs. This is a \$16.5 million (\$17.8 million General Fund) increase from the Governor's Budget.

The May Revision includes a proposal to establish statewide consistency and avoid double payment in rates for children who receive adoption or foster care payments from the Department of Social Services as well as services from the Department of Developmental Services. The Administration proposes to establish a standard monthly rate of \$2,006 for adoption and foster care payments to create statewide consistency in rates. The new rate will be effective on July 1, 2007. Families currently receiving a payment below

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the standard will receive an increase. Families with higher rates will continue to receive the higher rate. Children will continue to receive all necessary services related to their developmental disability through the regional center system. Establishment of a standard rate will result in anticipated savings of \$7.1 million General Fund in 2007-08. This proposal includes trailer bill language to ensure that each child's Individual Program Plan takes into account the flat rate received for board and care with the goal of preventing the state paying twice for the same service.