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California State Association of Counties

MEMORANDUM

TO: Senator Gary Hart
Bill Whiteneck

FROM: Karen M. Coker,
CSAC Legislative Representative

DATE: May 19, 1992

RE: State Budget Issues -- COUNTY IMPACT

1. <u>State/Local Program Realignment</u>

Among the most significant of the reform measures was the shift of responsibility from the state to counties for health, mental health and various social services programs, accompanied by two revenue sources estimated to produce over $2 billion annually to pay for the funding changes. The outcome of intense negotiations on realignment achieved a landmark package of bills that affects 19 state/county programs. The transfer of these programs was aimed at reversing a pattern of cutbacks in state funding for health, mental health, juvenile justice, and social services programs. The new revenues allocated to counties to fund these programs are 1/2 cent sales tax **(estimated in June of 1991 to produce $1,443 million in 91/92)** and increases in the Vehicle License Fee **(estimated in June of 1991 to produce $769 million in 91/92)** -- for a total of $2,212 billion.

When realignment was negotiated, the Legislature intended and the counties expected that the revenues provided in the base year would be at least as great as the state's expenditures for the programs transferred and cover both direct and indirect costs. However, these revenues have been negatively affected by the recession. **Realignment revenues are short over $190 million to date in the current fiscal year -- and will probably fall short well over $200 million (over 8.6%) from the original estimates.** Under current law, specific entitlement and maintenance of effort requirements prohibit counties from reducing expenditures in line with the revenue shortfall -- and counties are unable to make up the difference from scarce local General Purpose revenues.

<u>Solution</u>

CSAC continues to support realignment, despite the obvious shortfall in revenues and difficulties in implementation. The short-term and long-term success of realignment and the continued support of CSAC is directly tied to the ability of the Legislature to respond to problems and concerns with much-needed changes in statutes and constitutional provisions key in our legislative priorities this year. It is critical for the laws to be changed so that counties can adjust expenditures to available revenues.

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Assembly Member Bronzan and Senator Mc Corquodale have just announced that the 1991 Realignment Task Force will be reconvened next week in order to review proposals to clean-up realignment laws and provide counties with additional local flexibility to manage programs.

On balance, there are few "realignment" issues before the Budget Conference Committee. However, your decisions regarding Medi-Cal, welfare funding, trigger reductions, and further cuts in local assistance items will impact counties. Therefore, at the appropriate time, counties will strongly advocate changes to provide greater management of the diminished revenues otherwise available for all county programs.

2. Medi-Cal

County hospitals, with 11% of the hospital beds in California, provide approximately 30% of all Medi-Cal services. Therefore, **any cut in Medi-Cal disproportionately impact counties.** The counties are strongly opposed to the Governor's proposals to eliminate specific optional Medi-Cal benefits and the 60-day limit on reimbursement for inpatient days. Most people speculate additional cuts in Medi-Cal in excess of $1 billion -- however, there are no formal proposal from the Administration at this time.

Solution

We believe that a special conference committee should be formed to develop proposals for Medi-Cal funding and to review ideas that have been informally suggested to provide for further reductions in Medi-Cal. The Medi-Cal revenues are a critical funding source to keep county hospital facilities open. There are very complicated issues regarding the SB 855 funding program. California's disproportionate share hospitals, including county hospitals, will soon receive Medi-Cal payment augmentations under state legislation enacted last year (SB 855 and SB 146 by Senator Robbins). The SB 855 financing program is accomplished by intergovernmental transfers made to the state and then matched by federal Medicaid funds. This concept behind this funding strategy was masterminded by Los Angeles County and co-sponsored by CSAC.

The 60-limit on inpatient reimbursement may jeopardize receipt of critically needed SB 855 revenues. **WE STRONGLY OPPOSE CHANGES IN THE SB 855 FORMULA TO SHIFT THESE FUNDS AWAY FROM COUNTY HOSPITALS.**

3. Welfare Administration Funding

Both versions of the budget before the Budget Conference Committee are very damaging to counties. The Assembly budget proposes a cut of $100.5 million in county administration (25% reduction) -- the Senate version proposes a cut of $162 million (40% reduction). Under the "best case" (Assembly version), the impacts include:

- Staff reductions of up to 25%
- Recipients waiting longer for needed services
- Loss of federal funds due to failure to meet federal processing timelines
- Most cost shifts to counties as recipients wait for aid and receive General

Assistance.

Solution

We believe that a special conference committee should be formed to develop proposals on welfare reform. Cuts of this magnitude would require that the Legislature adopt statutory language to accomplish the following:

- hold counties harmless from all federal audits and sanctions;
- waive statutory deadlines for reports and data that counties would no longer be able to provide to the State and federal government in a timely fashion;
- repeal collective bargaining agreements that constrain the ability of counties to renegotiate salaries and lay-off county employees;
- amendments to Section 17000 to prevent cost shifts from AFDC and SSI/SSP into county-funded General Assistance programs.

4. Trigger Reductions (Health & Welfare)

We are still analyzing the various impacts that counties will have to deal with if the Legislature decides to adopt trigger reductions. There are a broad spectrum of programs that may be impacted by trigger reductions with specific program requirements and mandates where the counties would have substantial compliance problems. Two specific examples are as follows:

- In-Home Supportive Services

  Under realignment, counties have a 35% share of In-Home Supportive Services with a "capped entitlement". If there are insufficient funds available to fully fund the entitlement nature of the program, counties are required under current law to provide a case-by-case review of all clients before reductions could be made. This is an extremely expensive administrative burden for the counties -- which will inevitably lead to lawsuits about the adequacy of the reviews. Any trigger reduction will reduce state funding for the 65% state General Fund share, thus exposing counties to additional liability and local pressures. There is little question that clients will suffer with cuts in this program.

  There is a great deal of work taking shape at this time to obtain additional federal dollars (linked to adding Personal Care as an IHSS option -- funded by the federal government). It is essential to swiftly move ahead in passing legislation and amending the State Medicaid Plan in order to obtain these federal funds. Consistent pressure needs to be applied at every opportunity in order to expedite state action.

- Alcohol and Drug Funds

  Unless some special provision is developed for the Department of Mental Health and the Department of Alcohol and Drug Programs, the trigger mechanism will result in a total loss of the ADAMH block grant. The federal

funds make up over 75 percent of the alcohol and drug programs in California. The ADAMH block grant conditions receipt of federal funds to a two-year rolling maintenance of effort by the state. Data from the State Department of Alcohol and Drug Program indicates that any trigger reduction in excess of 13 percent (approximately $12 million) will result in the loss of the federal funds. The state's calculations for MOE do not take into consideration the transfer authority of 10 percent that counties have for mental health under realignment. Hence, the actual dollar amount that can be reduced from the State General Fund for DMH and DADP may be very small.

5. <u>Mental Health Funding</u>

We strongly urge your support of the Senate (compromise) version of the budget which contains language which patches together various (non-General Fund) sources to make up the $40 million that counties are slated to lose beginning 92/93. The Senate version of the budget contains control language developed by CSAC and the California Mental Health Directors Association (CMHDA) that would require the Department of Mental Health to fund the $40 million in local mental health funds that were deleted from county programs beginning in fiscal year 1992/93. The budget action relies on three separate funding sources that make up the $40 million allocation to counties:

1. Redirection of funding from third-party revenues that have not been passed through to the counties under realignment. This is commonly referred to as "double-billing" for state hospital beds (approximately $13 to $15 million);
2. Extension for two fiscal year of the General Fund loan contained in realignment which would be paid back by decreasing the costs for state hospital services (approximately $15 to $18 million);
3. Enhanced Vehicle License Fee revenues resulting from greater collection activities by the Department of Motor Vehicles.

Without the $40 million -- the equity language in realignment is pretty screwed up and may break down the overall consensus on realignment allocations that has been developed between all counties.

6. <u>Other local flexibility ideas</u>

- Pass AB 3139 to obtain additional federal dollars for outpatient Medi-Cal services.
- Provide counties from relief under Section 17000 (WIC)
- Hold counties harmless from all federal audits and sanctions that may result from cuts in State General Fund support.
- Repeal the sanction authority granted to the California Youth Authority which penalizes counties from cutting probation services to juveniles.
- Obtain passage of Personal Care option under IHSS -- or grant counties authority to make across-the-board cuts to all IHSS recipients.
- Suspend all Beilenson requirements on county health programs;
- Provide relief from all maintenance of effort requirements.
- Prohibit any fiscal sanctions for delays on late submission of county-required

reports and data.

- Establish clear liability for the state any federal maintenance of effort requirements (e.g. federal Alcohol and Drug funds)

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