January 11, 2013

To: CMHDA Members

From: Patricia Ryan, Executive Director
Kirsten Barlow, Associate Director, Legislation and Public Policy

SUBJECT: **Governor's FY 2013-14 January Budget**

Yesterday morning, Governor Jerry Brown released his January State Budget proposal for fiscal year 2013-14. This memo provides a description of the provisions that impact community mental health programs and the communities they serve. All of the Governor's proposals will be discussed by the legislature's budget committees over the coming months, leading up to the Governor's May Revise Budget, which may contain changes to some of his January proposals. For your reference, the Governor's budget is available online at http://www.ebudget.ca.gov. You may also find it useful to review the additional information provided in the California State Association of Counties (CSAC) Budget Action Bulletin, available online at: http://www.csac.counties.org. As always, if you have any questions about the budget, please feel free to contact me (kbarlow@cmhda.org, 916-556-3477, ext. 112) or Patricia Ryan (pryan@cmhda.org, 916-556-3477, ext. 108).

Overall Budget Picture

Governor Brown has declared an end to the past few years of large, multi-billion dollar deficits, but is urging the restraint of the Legislature since Prop. 30 revenues from sales taxes and income taxes expire at the end of 2016 and 2018, respectively, and the impact of the federal government's fiscal challenges could have unknown impacts on California's finances. The Governor's January Budget proposal is a multiyear plan to maintain a balanced budget, while maintaining a $1 billion General Fund (GF) reserve and paying down the "wall of debt" that has accumulated over the past number of years. Overall, General Fund spending would increase by 5% over 2012-13, due to mostly to proposals to augment the state's funding for education and health care.

In order to achieve budget savings, the Governor proposes to:

- Suspend four newly identified mandates ($104 million)
- Use the 2012-13 funds appropriated above the Proposition 98 minimum guarantee to prepay obligations to schools ($172 million);
- Continue using miscellaneous state highway account revenues to pay for transportation bond debt service ($67 million);
- Extend the hospital quality assurance fee ($310 million); and
- Extend the gross premiums tax on Medi-Cal managed care plans ($364 million)

One cornerstone of the Governor's proposal is to increase the state's investment in education, reform the way schools are financed, and increase funding in schools with large numbers of English learners and free/reduced meals. The budget would provide a $1.3 billion increase in state funds for higher education, and twice that amount ($2.7 billion) in increased funds for K-12 education. The budget makes clear that the changes proposed for special education finance will not affect funding set aside for the realignment of mental health services for special education students implemented last year, for which $357 million in Proposition 98 General Funds and $69 million in federal funds are proposed for schools' federal Individuals with Disabilities Education Act (IDEA) mental health service obligations.

Health Reform Implementation

The Governor's budget makes it clear that California intends to continue toward implementation of federal health reform, and distinguishes between the "mandatory" expansions of Medicaid and the "optional" expansions of Medicaid. As you will read below, significant discussion is intended to occur between the state and counties in order to determine California's course on the optional areas, and CMHDA will discuss the implications of these options with our members and the California State Association of counties (CSAC) over the coming months. Additionally, legislative budget committees will hold hearings on the budget proposals and the Governor has yet to set a date for the "Special Session" on Health Reform, which is assumed to occur sometime this month. For additional updates on health reform issues of interest to CMHDA, please visit CMHDA's Public Policy - Health Reform Resources web page, or contact Molly Brassil of CMHDA staff (mbrassil@cmhda.org, 916-556-3477, ext. 152).

Estimated State Fiscal Impact of Mandatory Medicaid Expansion to Currently Eligible Populations

Under the Affordable Care Act (ACA), states must make changes to eligibility and enrollment for individuals who are currently Medicaid (Medi-Cal) eligible, which the Governor estimates as a "placeholder" to cost the state $350 million in 2013-14. This number must be updated when additional federal guidance and interactions between various policies are known. The elements of the ACA that California must implement through new state laws this year include establishing a new standard for determining income eligibility [based on Modified Adjusted Gross Income (MAGI)]; eliminating asset tests for individuals whose eligibility determination is based on the new income standard; and conducting "ex parte" reviews when making eligibility determinations. According to CSAC's Budget Action Bulletin, redeterminations must be based on available information with a primary reliance on electronic data, allowing county welfare departments to prepopulate the redetermination form. This change will likely allow more people to remain on the program for a longer period of time.

State vs. County: Two Alternatives for Administering Optional Medicaid Expansion

For the state's optional expansion of Medicaid to adults with incomes under 138% of federal poverty level (FPL), the Governor presents the choice between either the state or counties administering the expansion. These are intended to be two exclusive choices – whichever is selected would be the way the program would be administered in all counties throughout the state. The Governor intends to engage in significant discussion with counties to identify which approach is best. The budget indicates that both choices have pros and cons, risks and benefits – however, either choice would have a major impact on both state and county finances.

Under the **state-based** approach, the Governor's budget indicates the state would:

- Build on the existing state-administered Medi-Cal program and managed care delivery system;
- Offer a standardized, statewide benefit package comparable to what is available today, excluding long-term care coverage; and
- Fund the expansion with 1991 realignment funds. Counties would assume new programmatic and fiscal responsibility for various human services programs, including subsidized child care, which would be funded with savings from indigent adults who become covered by Medi-Cal.

Under the **county-based** approach, which would require federal approval and waivers, the Governor's budget indicates counties would:

- Be built on the Low Income Health Programs (LIHPs);
- Maintain current indigent health care responsibilities;
- Be required to meet statewide eligibility requirements and a statewide minimum health benefit, consistent with that which is offered through the Exchange (Covered California);
- Be permitted, but not required, to offer additional benefits, except for long-term care;
- Act as the fiscal and operational entity responsible for developing provider networks, setting rates, and processing claims.

Proposed New "Medicaid Bridge Program"

The Governor and Covered California are proposing to establish a new "Medicaid Bridge Program" for individuals whose health coverage eligibility alternates between Medi-Cal and the Exchange due to fluctuations in their incomes. These individuals would remain in the same insurance plan and provider network. Covered California would negotiate contracts with Medi-Cal Managed Care Plans that have "robust local safety net provider networks" to offer a plan option with a very low or zero premium for those earning between 138% and 200% of FPL.

Delay Proposed in Coordinated Care Initiative for Dual Eligibles

The Governor's budget proposes to delay the implementation date for the 8 initial participating counties to September 2013, with Los Angeles County recipients phasing in over 18 months and San Mateo County phasing in all recipients at once. In Orange, San Diego, San Bernardino, Riverside, Alameda and Santa Clara, beneficiaries would phase in over 12 months. Additionally, the budget provides revised General Fund savings of $170.7 million in 2013-14, and state savings are projected to grow to $523.3 million General Fund annually for the CCI. Finally, the budget mentions that DHCS is working to reach agreement with the federal government on a shared savings methodology to achieve the budgeted savings, and changes to state law will be needed to reflect the changes and the agreement with the federal government.

Updated Prop. 63 Revenue Estimates

The budget estimates $1.2 billion in Prop. 63 revenues for the 2011-12 fiscal year, and projects annual revenues of $1.3 billion for 2012-13, and $1.2 billion for 2013-14.

Continued Implementation of 2011 Realignment

The Governor's budget proposal maintains his commitment to implementation of 2011 Realignment, and provides estimates of allocations of base and growth amounts through 2014-15. These estimates are listed in the chart below. According to CSAC, of particular note is the state's estimate of $77.3 million in growth attributable to the community corrections subaccount (AB 109) in 2012-13. Actual 2012-13 growth amounts will be known by early Fall 2013.

2011 Realignment Estimate

(Dollars in Millions)

	2012-13	2012-13 Growth	2013-14	2013-14 Growth	2014-15	2014-15 Growth
Law Enforcement Services	**$1,942.6**		**$2,121.7**		**$2,079.6**	
Trial Court Security Subaccount	496.4	10.3	506.7	12.0	518.7	22.6
Enhancing Law Enforcement Activities Subaccount[1]	489.9	-	489.9	-	489.9	-
Community Corrections Subaccount[2]	842.9	77.3	998.9	89.7	934.1	169.1
District Attorney and Public Defender Subaccount[2]	14.6	5.2	17.1	6.0	15.8	11.3
Juvenile Justice Subaccount	98.8	10.3	109.1	12.0	121.1	22.6
Youthful Offender Block Grant Special Account	*(93.4)*	*(9.7)*	*(103.1)*	*(11.3)*	*(114.4)*	*(21.4)*
Juvenile Reentry Grant Special Account	*(5.4)*	*(0.6)*	*(6.0)*	*(0.7)*	*(6.7)*	*(1.2)*
Growth, Law Enforcement Services	**103.1**	**103.1**	**119.7**	**119.7**	**225.6**	**225.6**
Mental Health[3]	**1,120.6**	9.6	**1,120.6**	11.1	**1,120.6**	21.0
Support Services	**2,604.9**		**2,807.2**		**3,033.7**	
Protective Services Subaccount[4]	1,640.4	157.1	1,817.9	137.4	1,970.6	197.9
Behavioral Health Subaccount[5]	964.5	24.8	989.3	73.8	1,063.1	200.1
Women and Children's Residential Treatment Services	*(5.1)*	-	*(5.1)*	-	*(5.1)*	-
Growth, Support Services	**191.5**	**191.5**	**222.3**	**222.3**	**419.0**	**419.0**
Account Total and Growth	**$5,962.7**		**$6,391.5**		**$6,878.5**	
Revenue						
1.0625% Sales Tax	5,508.1		5,924.2		6,404.4	
Motor Vehicle License Fee	454.6		467.3		474.1	
Revenue Total	**$5,962.7**		**$6,391.5**		**$6,878.5**	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

[1] Allocation is capped at $489.9 million.

[2] 2012-13 and 2013-14 growth is not added to subsequent fiscal year's subaccount base allocations.

[3] Growth does not add to base.

[4] Rolling base includes a $200 million Child Welfare Services Restoration and incremental funding for Chapter 559, Statutes of 2010 (AB 12). AB 12 funding increments consist of: $18.2m in 2012-13, $20.4m in 2013-14, and $15.3m in 2014-15.

[5] The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.

Department of State Hospitals

The state's five hospitals are projected to house 6,560 patients in 2013-14. Additionally, the budget states that the state is experiencing an increase in its wait lists for Incompetent to Stand Trial (IST) offenders and Mentally Disordered Offender (MDO) commitments. If necessary, the department will work to develop options to address growing wait lists, some of which presumably could have local implications. The state hospital budget projects an increase of approx. $2.5 million in reimbursements in

FY 2013-14 over FY 2012-13, the bulk of which are reimbursements from the counties for Lanterman Petris-Short (LPS) beds under the provisions of 1991 realignment.

State's Mental Health Licensing Functions Shifting to DHCS

The Governor proposes to transfer mental health licensing and quality improvement functions from the Department of Social Services to DHCS to "further consolidate and streamline licensing and certification functions for these programs within a single department." As you may recall, this was CMHDA and other mental health advocacy organizations' preference when the Department of Mental Health reorganization proposals were first made by the Governor last year.

Nearly All Department of Alcohol and Drug Programs (ADP) Functions Shifting to DHCS

With the exception of the Office of Problem Gambling (which would transition to Department of Public Health), all programs currently administered by ADP are proposed to be shifted to DHCS. As you know, the Drug Medi-Cal program has already transitioned to DHCS.

In-Home Support Services (IHSS) Increases

The Budget includes $1.8 billion General Fund for the IHSS program in 2013-14, representing a 4.9% increase over the revised 2012-13 budget and 6.5% increase from the final 2012 Budget Act. This includes an increase of $59.1 million to restore the 3.6% across-the-board reduction to IHSS recipient hours, which is scheduled to sunset on June 30, 2013.

Additionally, the proposed budget increase for IHSS includes $47.1 million related to the recently enacted county maintenance of effort (MOE) requirement. Effective July 1, 2012, counties' share of the non-federal portion of IHSS costs is based on actual expenditures by counties in fiscal year 2011-12. The counties' MOE requirement will increase by 3.5% annually, beginning in 2014-15, except for years in which 1991-92 realignment revenues decrease from the immediate prior year.

Increased Funding for Social Security Income/State Supplemental Program (SSI/SSP)

The budget proposes providing $2.8 billion General Fund – a 1.9% increase over last year – for SSI/SSP. The current caseload of individuals receiving SSI/SSP in California is 1.3 million recipients, and consists largely of disabled individuals (71%), aged individuals (27%), and blind individuals (2%).