Pasco, Debi DBH

Subject: FW: Budget Update

From: Patricia Ryan [mailto:PRyan@cmhda.org]
Sent: Tuesday, June 28, 2011 5:38 PM
Subject: Budget Update

As you know, Governor Jerry Brown reached an agreement late Monday afternoon with the Legislature's two Democratic leaders, Senate President Pro Tem Darrell Steinberg (Democrat - Sacramento) and Assembly Speaker John Perez (Democrat - Los Angeles) with a budget plan that will not contain his proposals to extend for five years the 2009 temporary tax increases scheduled to expire June 30, 2011, but rather counts on $4 billion more in revenues that he hopes California will bring in next year.

The agreement would mean that there will be no special election in 2011, and that any voter initiative to increase taxes would be placed on the November 2012 general election ballot by petition rather than by a 2/3rds vote of the Legislature.

The budget agreement does not contain any new additional spending cuts to health and human services beyond what was passed by the Legislature and approved by the Governor in March, and beyond what the Legislature passed on June 15th (those budget trailer bills have not been sent to the Governor yet). However, it does contain two "triggers" that would be pulled if the State determines in January 2012 whether the higher projected level of $4 billion in new revenues are actually coming into the State as budgeted. If the funding falls short, one or two "triggers" would be pulled that would automatically implement mid-year cuts of more than $2.5 billion in State general fund spending (including $200 million of unspecified reductions in health and human services programs). The bulk - $1.9 billion -- would come from K-12 education.

The agreement will need only a simple majority vote of at least 41 votes in the Assembly and 21 votes in the State Senate to pass. That vote could happen as early as this afternoon (June 28th) or Wednesday (June 29th. The budget agreement also relies on the over $6 billion in reductions to health and human services and billions in fund shifts and other cuts that the Legislature passed and the Governor approved in March, and much of the provisions of the budget that the Legislature passed on June 15th that the Governor vetoed the next day because he believed it wasn't balanced and contained "legally questionable maneuvers." It does not contain additional new cuts to health and human services beyond what the Legislature passed in March and on June 15th.

- To replace the lost revenues that would have come from the extensions of the temporary tax increases, the budget would instead include a higher estimate or projection totaling $4 billion of revenues that they hope the State will bring in during the 2011-2012 budget year that begins July 1st, and makes additional reductions to the California State University and University of California systems.
- As mentioned above, the agreement does contain a "trigger" that would be pulled sometime in January if the Department of Finance director determines that revenues are not coming in as projected. That would include automatic (as yet unspecified) additional cuts of hundreds of millions of dollars to mostly education, but also $200 million to health and human services.
- The agreement also includes most of the budget trailer bills that the Legislature passed on a majority vote on June 15th, (including SB 85 that includes the repeal of AB 3632), but that have not yet been

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sent to the Governor because of his veto of the main budget bills on June 16th. This includes the reduction to redevelopment agencies.

Of most importance and relevance to counties, the budget agreement includes the entire "public safety realignment" of programs to counties that was included in the Governor's May Revise budget (excluding Juvenile Justice). CMHDA, CSAC, CAADPAC and CWDA representatives met this afternoon with Diane Cummins from the Department of Finance to be briefed on more details related to the realignment proposal, and here is essentially what we learned:

- The majority-vote budget contains funding for essentially all aspects of the Governor's realignment plan – both the public safety and health and human services components. As we understand it, the budget will dedicate 1.06% of the state sales tax rate into a special fund to support the transfer of services to counties. The package also funds both AB 109 and the local public safety subventions now supported through a dedicated 0.15% of the Vehicle License Fee.
- ***Among the realigned programs are EPSDT, Medi-Cal Specialty Mental Health Managed Care, Mental Health 1991 Realignment revenue, Substance Abuse Treatment, Child Welfare Services, etc. The proposed realignment of the mental health EPSDT and Managed Care Programs would occur in FY 12/13, with the new sales tax revenue permanently dedicated and continuously appropriated for these purposes. The new funding amounts specified for the mental health realigned programs in FY 12/13 are:***
    - ***EPSDT: $629 Million***
    - ***Medi-Cal Mental Health Managed Care: $183.7 Million***
- ***The EPSDT FY 12/13 realignment allocation includes an estimate of the increased EPSDT mental health costs for the settlement of the Katie A lawsuit, and the transfer of the Healthy Families program to Medi-Cal.***
- ***The existing community mental health 1991 Realignment revenue swap will occur in FY 11/12, and the allocation amount specified for FY 11/12 is $1,083.6 million, growing to $1,119.4 million in FY 12/13.***
- ***The dedicated revenues for these realigned programs will all be deposited into specified local revenue accounts for each program at the state level, and continuously appropriated on a permanent basis for the purposes specified in realignment trailer bill language..***
- ***The agreement does not include constitutional amendments that protect the state and counties under the new realignment structure. However, the Governor says that he intends to push forward, by petition, gathering sufficient signatures to qualify ballot initiatives to raise taxes for voter approval for the November 2012 Statewide general election. He did not specify what taxes he would propose to be increased by going the initiative route - but the Governor has underscored that he feels new revenues are needed to solve the ongoing budget shortfall.***
- ***The Governor's office also indicated that they expect to be working very closely with counties over the next few months to work out the technical details about how the realignment will work.***

As always, we will share more information as it becomes available. Please feel free to contact us if you have questions.

Pat

- The agreement ***deletes*** proposals that Democrats included in their June 15th budget plan, including shifting or cutting $1 billion from the First 5 Commission (under Proposition 10) and a plan to raise $1.2 billion from selling state buildings.

2011-12
State Budget

Edmund G. Brown Jr. Governor, State of California

Introduction

The 2011 Budget Act closes a $26.6 billion budget gap and makes substantial progress in addressing the state's long-term structural budget deficit. It also returns authority to local governments and makes state government more efficient.

As shown in Figure INT-01, the Budget relies on deep spending reductions. In total, the Budget reduces expenditures by $15.0 billion. Targeted revenue increases of $0.9 billion and other solutions of $2.9 billion were also adopted. The remaining $8.3 billion in changes are from the improvement in the state's revenue outlook. The total of $27.2 billion in changes balances the Budget and leaves the state with a reserve of $543 million. General Fund spending totals $85.9 billion, a 6.1-percent reduction from 2010-11.

Figure INT-01
Closing the Budget Gap
(Dollars in Millions)

	Two-year total	%
Expenditure Reductions	$15,043	55.3
Revenues	947	3.5
Other	2,920	10.7
Natural Changes	8,287	30.5
Total Solutions and Changes	$27,197	

REALIGNING SERVICES TO LOCAL GOVERNMENTS

The Budget includes a major realignment of public safety programs from the state to local governments. The realignment moves program and fiscal responsibility to the level of government that can best provide the service, eliminating duplication of effort, generating savings, and increasing flexibility. The implementation of the Community Corrections Grant Program authorized by AB 109 will end the costly revolving door of lower-level offenders and parole violators through the state's prisons. Other realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services.

The Budget funds the $5.6 billion realignment using two fund sources: (1) the dedication of 1.0625 cents of the existing sales tax rate ($5.1 billion) and (2) the redirection of vehicle license fee revenues ($453.4 million).

See Figure INT-02 for a summary of Realignment Funding.

Figure INT-02
Realignment Funding
(Dollars in Millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	$496.4	$496.4	$496.4	$496 4
Local Public Safety Programs	489.9	489 9	489.9	489 9
Local Jurisdiction for Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759 0	762.2
Reimbursement of State Costs	956.7	-	-	-
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	-	-	-
Mental Health Services				
EPSDT	-	629 0	629.0	629.0
Mental Health Managed Care	-	183 7	183.7	183 7
Existing Community Mental Health Programs	1,083.6	1,119.4	1,119.4	1,119.4
Substance Abuse Treatment	183.6	183 6	183.6	183.6
Foster Care and Child Welfare Services	1,567.2	1,567 2	1,567 2	1,567.2
Adult Protective Services	55.0	55 0	55.0	55.0
Existing Juvenile Justice Realignment	97.1	104.1	103.2	103.3
Program Cost Growth*	-	339 0	624.5	1,063.9
Total	**$5,559.1**	**$6,024.8**	**$6,467.9**	**$6,841.3**
VLF Funds	453.4	453 4	453.4	453.4
1 0625% Sales Tax	5,105.7	5,571.4	6,014.5	6,387.9
Total Revenues	**$5,559.1**	**$6,024.8**	**$6,467.9**	**$6,841.3**

*This amount will be subject to discussion and is intended to cover county costs and reimburse reasonable state costs.

REDUCING STATE GOVERNMENT

To reduce spending to match available resources, the Budget makes substantial cuts to state programs. General Fund spending as a share of the economy is now at its lowest level since 1972-73. Figure INT-03 summarizes the $15 billion in spending reductions included in the Budget. These include the following:

Figure INT-03

Adopted Solutions Reduce Spending

(Dollars in Millions)

	2-Year Total
EXPENDITURE REDUCTIONS	
Health and Human Services Programs	
Medi-Cal	$2,036.3
Proposition 63 Community Mental Health Services	861.2
CalWORKs	837.0
Developmental Services	567.2
In-Home Supportive Services (IHSS)	413.0
Supplemental Security Income/State Supplementary Payment Grants	178.4
Other Health and Human Services Programs	106.8
Realignment Savings	2,583.2
Education	
Proposition 98	2,082.9
UC and CSU	1,375.0
Cal Grant Program	153.0
Other Education	16.7
All Other Reductions	
Transportation Debt Service	1,130.2
Courts	743.6
Employee Compensation and State Operations Efficiencies	471.1
Corrections and Rehabilitation	366.0
State Mandates	327.5
Other Reductions	793.5
Total Expenditure Reductions	**$15,042.6**

- Maintaining K-12 education funding at a similar level as 2010-11.
- Reducing State Supplementary Payment grants to below the level in effect in 1983.
- Reducing CalWORKs grants to below the 1987 level.
- Reducing California Department of Corrections and Rehabilitation's inmate population by 25 percent once realignment is fully implemented.

- Requiring recipients of Medi-Cal health benefits to pay a share of the cost for doctor visits and other services.
- Shrinking the state's support for the University of California and California State University by 22 and 25 percent, respectively.
- Requiring community college students to pay $10 more per class unit.
- Pausing the court system's construction program for one year.
- Eliminating the Adult Day Health Care program, Williamson Act subventions, and the refundable child care and dependent tax credit.
- Reducing the state's workforce by about 5,500 positions.
- Eliminating 20 boards, commissions, task forces, offices, and departments, including the California Medical Assistance Commission and the Office of Insurance Advisor.

Improving Revenue Outlook

The May Revision reflected the state's continuing recovery from the Great Recession with $6.6 billion in higher tax receipts compared to the January Budget. Since the May Revision, tax receipts have continued to come in higher than expected by an estimated $1.2 billion in May and June. With the improved revenue receipts, the Budget projects an additional $4 billion in estimated 2011-12 revenues.

The Budget recognizes the potential risk to the state's fiscal condition if the higher revenues do not materialize. Under the budget package, if revenues are projected to fall short of expectations by more than $1 billion, an additional $600 million in cuts to higher education, health and human services, and public safety would be implemented beginning in January 2012. If revenues are projected to fall short by more than $2 billion, an additional $1.9 billion in education reductions would be implemented—shortening the school year by 7 days, eliminating the home-to-school transportation program, and reducing community college apportionments. These potential cuts are summarized in Figure INT-04.

Addressing the State's Long-Term Challenges

In January, California's long-term fiscal problems were immense, with the budget forecast projecting an annual structural deficit of up to $21.5 billion into the future.

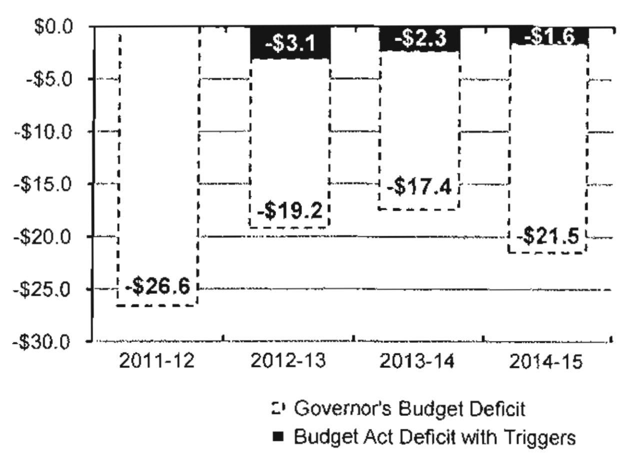
Figure INT-04
Trigger Reductions
(Dollar in millions)

	2011-12
TIER 1 (If Revenues Fall Short of Budget Act Estimate By More Than $1 billion)	
Unallocated Reduction to the University of California	$100.0
Unallocated Reduction to California State University	100.0
Eliminate State Grants for Local Libraries	15.9
Additional Reduction to the Department of Developmental Services	100.0
In Home Supportive Services (IHSS)—20 percent Reduction in Service Hours	100.0
IHSS—Eliminate Funding for Local Anti-Fraud Efforts	10.0
Medi-Cal—Extend Provider Cuts and Copayments to all Managed Care Plans	15.0
Unallocated Reduction to the Department of Corrections and Rehabilitation (CDCR)	20.0
Juvenile Justice—Increase County Charge for Youthful Offenders Sent to CDCR	72.1
Eliminate Vertical Prosecution Grants	15.0
Proposition 98—Community College $10 per unit fee increase	30.0
Child Care—4 percent Across-the-Board Reduction	23.0
Subtotal	**$601.0**
TIER 2 (If Revenues Fall Short of Budget Act Estimate By More Than $2 billion)	
Proposition 98—Reduce 7 Days of School	$1,540.0
Proposition 98—Reduce Community College Apportionments	72.0
Proposition 98—Eliminate Home-To-School Transportation	248.0
Subtotal	**$1,860.0**
Total Trigger Reductions	**$2,461.0**

As shown in Figure INT-05, the 2011 Budget Act makes substantial progress in reducing this deficit through the combination of ongoing spending reductions and an improved revenue outlook. Under current projections, the structural deficit has been reduced to less than $5 billion annually.

Despite eliminating most of the structural deficit, the state continues to face major long-term challenges and must address the remaining structural problem. California remains

Figure INT-05
State's Budget Gaps Have Been Nearly Eliminated
(Dollars in Billions)



burdened by $35 billion in debt from a decade of unprecedented budgetary deferrals and borrowing. Education funding is more than $6 billion below the level provided in 2007-08.

The Administration plans to seek voter approval of a ballot measure by November 2012 to better position California for the future by constitutionally protecting public safety realignment, supplementing the state's revenues to restore education funding, paying down the state's wall of debt, and balancing the Budget into the future. A structurally balanced Budget that preserves critical levels of government services will lay the groundwork for a strong economic recovery and employment growth. The resulting stability will give businesses the certainty and reassurance they need to expand investments in California.

Realignment Funding - Final Budget
($'s in Millions)

Program	2011-12	2012-13	2013-14	2014-15
Court Security	$496.4	$496.4	$496.4	$496.4
Public Safety Programs	489.9	489.9	489.9	489.9
Local Jurisdiction of Lower-level Offenders and Parole Violators				
Local Costs	239.9	581.1	759.0	762.2
Reimbursement of State Costs	956.7	0.0	0.0	0.0
Realign Adult Parole				
Local Costs	127.1	276.4	257.0	187.7
Reimbursement of State Costs	262.6	0.0	0.0	0.0
Mental Health Services				
EPSDT	0.0	629.0	629.0	629.0
Mental Health Managed Care	0.0	183.7	183.7	183.7
Existing Community Mental Health Programs	1,083.6	1,119.4	1,119.4	1,119.4
Substance Abuse Treatment	183.6	183.6	183.6	183.6
Foster Care and Child Welfare Services	1,567.2	1,567.2	1,567.2	1,567.2
Adult Protective Services	55.0	55.0	55.0	55.0
Existing Juvenile Justice Realignment	97.1	104.1	103.2	103.3
Program Cost Growth*	0.0	339.0	624.5	1,063.9
Total	**$5,559.1**	**$6,024.8**	**$6,467.9**	**$6,841.3**
VLF Funds	**$453.4**	**$453.4**	**$453.4**	**$453.4**
1.0625% Sales Tax	**$5,105.7**	**$5,571.4**	**$6,014.5**	**$6,387.9**

* - This amount will be subject to discussion and is intended to cover county costs and reimburse reasonable state costs.

Health and Human Services

The Health and Human Services Agency oversees 12 departments and other state entities such as boards, commissions, councils, and offices that provide health and social services to California's most vulnerable and at-risk residents.

The 2011 Budget Act includes total funding of $88.2 billion ($28.6 billion General Fund and $59.6 billion other funds) for all programs overseen by this Agency.

Department of Health Care Services

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals. The federal government dictates a mandatory set of basic services including, but not limited to, physician services, nursing facility services, hospital inpatient and outpatient services, laboratory and radiology services, and family planning. In addition to these mandatory services, the state provides optional benefits such as outpatient drugs, home and community based waiver services, and medical equipment, which avoid more costly services.

Medi-Cal costs historically have grown between 6 and 8 percent annually because of health care inflation and caseload growth. Over the current year, spending is projected to decline by approximately 4.7 percent due to enacted program savings (after adjusting for the end of federal stimulus funding). Absent these savings, costs would have grown by approximately 4.9 percent.

Adopted Solutions

- Limit Utilization of Services—Established utilization controls at a level that ensures that 90 percent of the beneficiaries who utilize a particular service remain unaffected. Specifically, the controls set a maximum annual benefit dollar cap on hearing aids ($1,510) and limits the number of doctor visits to seven per year prior to physician authorization. The limits on hearing aids save an estimated $229,000 in 2011-12. The limit on physician visits saves an estimated $41 million in 2011-12. These changes take effect October 1, 2011.

- Require Beneficiaries to Share in the Cost of Services—Beginning November 1, 2011, a $5 copayment on physician, clinic, and dental services is required, resulting in savings of $157.3 million in 2011-12. There will also be a $50 copayment on emergency room services (saves $96.8 million in 2011-12), a $100/day and $200 maximum copayment for hospital stays (saves $128.7 million in 2011-12), and $3/$5 copayments for pharmacy based on the drug status (saves $128.4 million in 2011-12).

- Eliminate Adult Day Health Care and Other Benefits—Eliminated the optional Adult Day Health Care program for savings of $169.6 million in 2011-12. Approximately 35,000 beneficiaries use Adult Day Health Care services each month in about 330 centers statewide. Other benefit changes include restrictions to supplemental nutrition products ($13.8 million) and ending coverage of over-the-counter cough and cold medications ($2.1 million).

- Provider Payment Reductions—Reduced provider payments by 10 percent for physicians, pharmacy, clinics, medical transportation, home health, family health programs, certain hospitals, and nursing facilities. Consistent with the 10-percent reductions proposed for other providers, this proposal would also reduce rates for long-term care nursing facilities by 10 percent. This action will require federal approval and save an estimated $623.4 million in 2011-12.

- Extend the Existing Hospital Fee—Extended the existing hospital fee through June 30, 2011. Fee revenue is used to leverage federal funding to provide supplemental payments to hospitals for the provision of Medi-Cal services and to offset General Fund. This is estimated to save $210 million General Fund in 2010-11.

- Collect Managed Care Drug Rebates—Implemented an option provided by federal Health Care Reform to begin collecting drug rebates for drugs dispensed in managed care plans. The Medi-Cal program already collects significant rebates for drugs dispensed in the fee-for-service component of the program. This is estimated to save $64 million General Fund in 2011-12.

- Medi-Cal Waiver—The recently approved Medi-Cal waiver provides for up to $400 million in savings annually that can be claimed with expenditures in state-only programs (federal waiver funds can only be claimed if qualifying health care expenses are incurred). Current projections are that the state will fall short of that level in 2010-11. The state will petition the federal government to make additional waiver funds available that will be claimed with expenditures by public hospitals. The state will split the funds with public hospitals until the state achieves the full $400 million savings target. This is estimated to save up to $95.2 million General Fund in 2010-11 depending on the final expenditures for state-only programs.

- State Share of Inter-Governmental Transfers—Local governments that operate Medi-Cal managed care plans have the option of submitting an Inter-Governmental Transfer (IGT) to fund the non-federal share of rate increases, and this implements a fee equal to 20 percent of the IGT. Fee revenue will be used to offset General Fund costs in the Medi-Cal program. There are currently 17 counties that operate Medi-Cal managed care plans and they will be subject to the fee if they choose to participate in this voluntary program. This is estimated to save $34.2 million General Fund in 2011-12.

Other Changes

The Budget includes the following significant changes:

- Federal Drug Rebate Costs—An increase of $70 million in 2011-12 for drug rebate costs to be reimbursed to the federal government as a one-time reconciliation payment resulting from changes made by Health Care Reform.

- Adult Day Health Care (ADHC) Transition—An increase of $85 million in 2011-12 to provide funding for ADHC transition assistance and other long-term care services.

Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board administers five programs that provide health coverage through commercial health plans, local initiatives and county-organized health systems to certain persons who do not have health insurance.

Adopted Solutions

- Increase Premiums—Increased Healthy Families Program premiums for families with incomes at or above 150 percent of poverty for General Fund savings of $22.8 million. Upon federal approval, premiums would increase for the income group from 150 to 200 percent of poverty by $14 per child (from $16 to $30) and increase the maximum limit for a family with three or more children by $42 for a family maximum of $90. For families with incomes from 200 to 250 percent of poverty, premiums would increase by $18 per child (from $24 to $42) and the maximum limit for a family with three or more children would increase by $54 to $126.
- Increase Co-Payments—Increased Healthy Families Program co-payments for emergency room visits from $15 to $50 and inpatient stays from $0 to $100 per day ($200 maximum per admission) to conform to a similar Medi-Cal cost-containment proposal. This would result in savings of $4.9 million.
- Vision Benefit Cost Containment—Adopted cost containment measures for vision services to achieve $3.3 million in General Fund savings in 2011-12.

Department of Developmental Services

The Department of Developmental Services serves approximately 243,000 individuals with developmental disabilities in the community and 1,970 individuals in state-operated facilities. The Budget includes $4.6 billion ($2.6 billion General Fund). Services are provided through the developmental centers and one community facility and the regional center system.

Adopted Solutions

- Developmental Services System Wide Reductions—A net decrease of $582.2 million over the two-year period from 2010-11 to 2011-12. Legislation authorized various cost containment measures to achieve ongoing savings of $389.3 million.

DEPARTMENT OF MENTAL HEALTH

The Department of Mental Health provides oversight of community mental health programs and direct services through state hospitals. The Budget includes $4.5 billion ($1.3 billion General Fund) in 2011-12.

ADOPTED SOLUTIONS

- Fund Community Services Programs with the Mental Health Services Fund (MHSF) —A decrease of $861.2 million in 2011-12. Legislation authorizes the one-time use of the MHSF for the Early and Periodic Screening, Diagnosis and Treatment program, the Mental Health Managed Care program, and mental health services to special education students.
  - The Budget provides $98.6 million MHSF to county mental health agencies on a one-time basis for mental health services to special education students. Ongoing responsibility for these services is realigned to school districts. Shifting the responsibility for providing mental health services, including out-of-home residential services, is expected to contain costs and ensure that services provided are related to educational outcomes.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

ADOPTED SOLUTIONS

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS (CALWORKS)

- Reduce the Time Limit on Aid for Adults—A decrease of $102.6 million in 2011-12 from reducing the cumulative total number of months aided adults can receive a monthly cash benefit from 60 months to 48 months. This reduction will result in approximately 22,500 adults being removed from aid.

- Reduce Monthly Grants by 8 Percent—A decrease of $314.3 million in 2011-12 from reducing the maximum monthly CalWORKs aid payment levels by 8 percent. This reduction will reduce the maximum monthly grant for a family of three from $694 to $638.

- Reduce Earned Income Disregard—A decrease of $83.3 million in 2011-12 from reducing the amount of income that is not counted for purposes of calculating a family's monthly grant. The income disregard will be modified to not count the first $112 of monthly earned income and 50 percent of each dollar earned beyond $112.

- Extend Short-Term Reforms—A net decrease of $369.4 million in 2011-12 from extending, for one year, the reduction in the county single allocation for employment services and Stage 1 child care that has been in place since 2009-10.

- Suspend Cal-Learn Program—A decrease of $43.6 million in 2011-12 from a one-year suspension of the Cal-Learn program, which provides intensive case management, supportive services, and fiscal incentives and disincentives to encourage teen parents to earn a high school diploma or equivalent degree. This reduction would maintain fiscal incentives during this period for pregnant or parenting teenagers who continue to make satisfactory progress on their education.

In-Home Supportive Services (IHSS)

- Eliminate Services for Recipients without Medical Certification—A net decrease of $67.4 million in 2011-12 from requiring the provision of IHSS to be contingent upon a written certification from a licensed health care professional that personal care services are necessary to prevent out-of-home care.

- Implement Community First Choice Option—A decrease of $128 million in 2011-12 from the assumption that the state will receive a 6-percent increase in federal matching funds by exercising a federal option for home and community-based attendant services benefiting all IHSS federally eligible recipients.

- Implement Pilot Project for Medication Dispensing Machines—A decrease of $140 million in 2011-12 from implementing a pilot project that would utilize automated medication dispensing machines with associated telephonic reporting services for monitoring and assisting Medi-Cal recipients with taking prescribed medications.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

- Reduce SSI/SSP Grants for Individuals to the Federal Minimum—A net decrease of $178.4 million in 2011-12 from reducing monthly SSP grants for individuals to the federal minimum payment standard. With this reduction, the maximum monthly SSI/SSP cash grant for individuals will be reduced by $15 per month (from $845 to $830). SSP grants for couples are already to the federal minimum.

Information Technology Projects

- Delay Development of the LEADER Replacement Project—A decrease of $14.1 million in 2010-11 and $13 million in 2011-12 from delaying development of the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting Replacement (LEADER Replacement) system. This project will replace Los Angeles County's existing automated system for eligibility and benefit determination for CalWORKs, CalFresh, Medi-Cal, and various social services programs.

Other Changes

The Budget includes the following significant changes:

- Foster Care Rate Increase—An increase of $17.4 million in 2011-12 to increase payment rates and grant a cost-of-living adjustment for foster family homes as well as prospective Adoption Assistance Payment, Kinship Guardianship Assistance Payment, and Non-Related Legal Guardian payment rates required by judicial decisions.

- Funding for Residential Care for Seriously Emotionally Disturbed Pupils—A decrease of $68 million in 2011-12 to reflect a shift in responsibility of funding for Seriously Emotionally Disturbed placements from the DSS to schools and a decrease in county administrative costs for this program. Of the total amount, $66.6 million will now be included in Proposition 98 General Fund for this program.

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2011-12 STATE BUDGET UPDATE

California Mental Health Directors Association – All Directors Meeting

June 9, 2011

The Big Picture

June 15 Constitutional Deadline

- Ongoing negotiations with Republicans to obtain two votes in each house to put Realignment 2.0 and tax extensions on summer or fall ballot.
  - Republican demands: Pension reform, spending cap, business regulatory reform.
- Current pressure points:
  - Under Prop. 25, lawmakers lose salaries and per diem if no budget is passed by June 15.
  - Supreme Court ruled that CA must reduce its prison population by 30,000 within 2 years.
  - Sen. Steinberg authoring a budget trailer bill (majority vote) to give local governments the ability to ask voters to increase local taxes.
  - Citizens Redistricting Commission draft maps will be released on June 10, finalized by August 15.

Update on Realignment 2.0

Realignment 2.0: To Be or Not to Be?

- Public safety realignment (AB 109) likely -- with or without full realignment proposal.
- State Constitutional Amendment needs some amendments, particularly to timeframes.
- Concerns continue that baseline figures for child welfare services and mental health are significantly insufficient.
- CSAC workgroup beginning to develop preliminary drafts on how to structure funding accounts.

Potential Account Structures

Option #3

HEALTH & HUMAN SERVICES Account	PUBLIC SAFETY Account
Social Services Subaccount	**Juveniles Subaccount**
Adoptions / CWS	Youthful Offender Block Grant
Foster Care / CAPIT	Juvenile Reentry Fund
APS	Division of Juvenile Justice
Behavioral Health Subaccount	**Adults Subaccount**
EPSDT	Low Level Offenders
Community Mental Health (1991)*	Parole/Parole Violators
Mental Health Managed Care (M/Cal	
Drug Medi-Cal	
Drug Courts	
Perinatal Drug Programs	

↑ Ability to transfer 10% between subaccounts ↓ (Health & Human Services Account)

↑ Ability to transfer 10% between subaccounts ↓ (Public Safety Account)

Ability to transfer 10% between two accounts (above) ←→

Direct Subvention Account
Court Security
Local Safety & Protection Account

*[illegible]

Mental Health May Revise Proposals

Proposal to Transfer State-Level Medi-Cal Functions to DHCS

- Administration released lengthy draft trailer bill language and convened stakeholders.
- Much simpler trailer bill will likely require a transition plan, with stakeholder input, by October 1 to the Legislature.
- Some DMH and ADP Medi-Cal staff may be transferred to DHCS.
- *<u>CMHDA Action</u>: Need to monitor trailer bill language to protect against major policy changes to counties' current roles, responsibilities.*

Proposal to Eliminate DMH and ADP

- Detailed proposal for remaining non-Medi-Cal functions to be released with Governor's January 2012-13 State Budget.
- Administration will convene a stakeholder process to gather input during the summer months.
- Trailer bill will likely require a transition plan, with stakeholder input, by February 1 to the Legislature.
- *<u>CMHDA Action</u>: Need to develop concrete recommendations and rationale for state-level role in administration of community mental health programs.*

Proposal to Transfer Healthy Families to Medi-Cal: EPSDT Impacts

- Amounts counties were spending on formerly HFP enrollees would continue to be counties' responsibilities.
- Counties' baseline of funding would be established in consultation with CMHDA, adjusted for caseload and price increases.
- Baseline would be the basis for determining the counties' continuing responsibility for funding the non-federal share of costs.
- *<u>CMHDA Action</u>: Need to monitor trailer bill and provide suggestions to ensure EPSDT fiscal impacts are shared with the state.*

May Revise Proposal to Repeal AB 3632 Mandate on Counties

- Senate adopted proposal, Assembly adopted delayed (January 1, 2012) transition. Appears to be likely to be passed by Legislature as proposed by Governor (July 1, 2011).
- Trailer bill likely to require SELPAs to perform transition activities, and require counties and schools to contract in FY 2011-12 for the use of $98.6 million in diverted MHSA funds.
- *CMHDA Action: Monitor trailer bill to protect against unfunded mandates on counties.*

AB 3632 Questions for Consideration

- What if a county does not expend its full FY 2011-12 appropriation of the $98.6 million in MHSA funds?
- What if a local SELPA does not want to contract with the county for mental health services in FY 2011-12, even though the county has MHSA funds to do so?

Update on AB 100 MHSA Diversion

CMHDA Distribution Workgroup
Recommendations for Consideration

AB 100 MHSA Distribution Approach

- One-year only.
- Do no harm.
- Proposed CMHDA distribution methodologies must be approved by Department of Finance.
- Reminder: If Realignment 2.0 and accompanying revenues do not materialize, the AB 100 diversion of MHSA funds was unlawful and is subject to legal challenge.

Managed Care: $183.6 Million

- Use same approach for increase in FY 11/12 managed care allocations as was used for decreasing prior year managed care allocations (as funds were reduced, so go increases in funds).
- Each county receives a proportionate increase of approximately 40.7% over their FY 10/11 managed care allocation.
  - Note that FY 10/11 managed care allocations do not equal the amount of cash for managed care each county received in FY 10/11 due to the redistribution of $8M to correct for DMH not reimbursing withhold to 16 counties in FY 09/10)

EPSDT: $579 Million
New *Proposed* Methodology for Discussion

- State acknowledges that EPSDT program is an entitlement, and the State will have to contribute State General Funds if $579 million is insufficient to fund the EPSDT program in FY 11/12 ***on a statewide basis.***
- The total appropriation for FY 11/12 for EPSDT specified in the state budget is $1.42 billion (redirected MHSA, FFP, and local match)
- The distributions to counties will occur on a quarterly basis, based on Department of Finance (DOF) approval, and State Controller's (SCO) release of the funds.

EPSDT: $579 Million (Cont'd.)

- Proposed distribution approach would require:
  - Establishing a county baseline/MOE, which would be uniformly applied to all counties at 9.2%, consistent with DMH's budget.
  - If the total FY 11/12 actual EPSDT program costs are less than the $1.42 billion budget, the required county share will be less than 9.2%, which will be adjusted in the final quarterly distribution.
- Distributions would occur on a quarterly basis:
  - At least the 1st and 2nd quarters would be based on FY 11/12 county EPSDT total budgeted expenditures.
  - Subsequent quarters would be adjusted based on county submission of FY 11/12 EPSDT claims data (as reported in counties' quarterly EPSDT Short Doyle II "837" submissions).

EPSDT: $579 Million (Cont'd)

- It is recommended that all counties participate in the *CMHDA Financial Services Committee* meetings in order to develop recommended procedures and timeframes for data submission and claims schedule development for quarterly submission to DOF/SCO.
- The workgroup recommends that each county be required to participate and submit the required EPSDT claims data within the timeframes agreed upon in order to receive a distribution during the applicable quarter.

FY 11-12

Educationally-Related Mental Health Services: Proposed for Discussion

Non-Medi-Cal Expenditures

SB-90 Claim

- Identify total annual expenditures, by county, for AB 3632 students from the most recent cost reports.
- Deduct FY 08/09 Medi-Cal revenue from that amount.
- Calculate the net percentage of the total that each county spent, and apply that percentage to the $98.6 million to derive a distribution formula.
- The funds should be used for non-Medi-Cal costs only, except for the 9.2% county share of match.

MHSA Distribution Update

Current MHS Fund Distribution

- In a letter to CMDHA dated May 26, 2011, DMH expressed its intent to distribute <u>ALL</u> MHSA funds for current and prior year Component Allocations.
- Counties should have or will be receiving a confirmation letter/fax that summarizes the funds that will be released.
- Counties do not need to submit a funding request in order to receive payment.
- CMHDA urges counties to review these figures to ensure the amount reported by DMH reflects the county's accounting.
- Track information on MHSA modifications online at: http://www.dmh.ca.gov/Prop_63/MHSA/MHSA_Fiscal_References.asp

MHSA Unknowns ... Next Steps

- What will be the remaining role, if any, of DMH in administering the MHSA? If DMH is eliminated, then who?
- How do we create a smooth transition to local plan approval, without being linked to ongoing payments?

  (achieving this may require technical clean-up legislative language)
- How do we ensure that counties are aware of and have access to the right tools to manage the change?
  - Counties need to monitor MHSA revenues by reviewing DOF monthly Finance Bulletins: http://www.dof.ca.gov/finance_bulletins