



January 11, 2011

To: CMHDA Members

From: Patricia Ryan, Executive Director
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SUBJECT: Governor's FY 2011-12 State Budget Proposal

Yesterday, Governor Jerry Brown released his January State Budget proposal for fiscal year 2011-12. Described below is our preliminary description of provisions that will impact community mental health programs and the communities they serve. We still have significant questions regarding parts of the budget proposal, and will provide you with additional details as they become available. As always, if you have any questions about the budget as it relates to mental health or other related programs, please feel free to contact us at pryan@cmhda.org or kbarlow@cmhda.org.

Overall Budget Picture

The Governor's January Budget projects that California's state budget gap for 2011-12 is \$25.4 billion, comprised of a current-year shortfall of \$8.2 billion and a budget-year shortfall of \$17.2 billion. The Governor proposes to close the gap with a combination of significant reforms to state and local programs, substantial reductions to state operations, and spending cuts across all service areas.

The budget reduces spending by \$12.5 billion, and proposes substantial cuts to most major programs, including Medi-Cal, CalWORKs, the University of California and California State University, Department of Developmental Services, and state operations and employee compensation. However, the budget asserts that since school funding has been disproportionately reduced since 2007-08, Proposition 98 funding levels for 2011-12 should remain the same as last year.

The budget proposes to generate \$12 billion by maintaining current tax rates for another five years (subject to voter approval in a special election in June), uniformly applying single sales factor income allocation rules to certain corporate taxpayers, and eliminating an existing tax expenditure program.

One-time proposals include \$1.8 billion in borrowing from special funds, \$1.7 billion in property tax shifts, \$1 billion from Proposition 10 reserves to fund children's programs, and \$0.9 billion from Proposition 63 monies to fund community mental health services.

New Realignment to Local Government is a Central Proposal

The Governor proposes a “far-reaching” realignment of numerous government functions, stating that “decisions are best made closer to the people, not in Sacramento.” The proposals would return power to cities, counties, special districts and school boards, “allowing decisions to be made by those who have the direct knowledge and interest to ensure that local needs are met in the most sensible way.”

While full implementation may take a number of years, the Governor proposes two phases that are described below, as well as an aggressive timeframe for adoption of the proposal. The proposal assumes the Legislature will approve which programs to realign and the underlying funding structure by March, followed by a June special election and the Legislature’s adoption of all necessary statutory changes by June.

Realignment Goals

The Governor’s goals of the reorganization include:

- Find the level of government where a service can best and most cost-effectively be delivered and then provide dedicated revenues to fund the programs;
- Make government more efficient and save scarce tax dollars by consolidating or eliminating functions;
- Allow governments at all levels to focus on becoming more efficient and effective, facilitating services to be delivered to the public for less money;
- Reduce duplication and minimize overhead costs, including staffing at the state level;
- Focus the state’s role on appropriate oversight, technical assistance, and monitoring of outcomes;
- Address the fact that many of the transfers to and from state and local governments over the past three decades have created confusion, duplication of services, and inefficiencies;
- Protect California’s essential public services;
- Have interconnected services provided at a single level of government;
- Free up existing local funds not currently used for core services so they can be used as an enhancement for the realigned programs or for other core local priorities; and
- Provide as much flexibility as possible to the level of government providing the service.

Phase One of Realignment for 2011-12 through 2014-15: “Public Safety Programs”

The proposed first phase of new realignments would include “public safety” programs, which, according to the Governor, include supportive services that people need (including mental health and substance use treatment services) to successfully change their lives. The Governor contends that the state should focus on courts and the most serious and violent felony offenders, while local governments should serve low-level offenders and parolees where community support systems exist.

In phase one, the Governor proposes to give counties full responsibility for administration and funding of two mental health entitlement programs – the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) program and Medi-Cal mental health managed care. He also proposes to realign to counties the AB 3632 special education mental health services

program, which is a federal education entitlement program. The state would save \$861 million General Fund by using, on a one-time basis, \$861 million in unspecified Mental Health Services Act (MHSA) funds for the costs of these three programs. However, it is still unclear whether the mental health realignment is intended to occur in 2011-12 or 2012-13. CMHDA is seeking clarification on this important issue.

In 2012-13, the three programs identified, as well as existing community mental health

services funded with 1991 realignment funds, would be funded through the proposed revenue source, if approved by voters in June (described below under “Funding”). Following is a table presenting estimated funding support for the proposed realigned mental health programs by 2014-15:

EPSDT	\$579 million
Managed Care	\$183.6 million
AB 3632	\$104 million
Existing community mental health services	\$1.077 billion

In addition to the Governor’s mental health realignment proposal, the following services of most relevance to mental health directors are proposed to be included in phase one of realignment:

- Juvenile Justice Crime Prevention program;
- Jail and probation services for offenders without any current or prior serious or violent or sex convictions;
- Probation services for all adult parolees upon their release from state prison;
- All services for juvenile offenders, and correspondingly eliminate the California Division of Juvenile Justice by June 30, 2014;
- Substance use disorder treatment funds and services, including the ability for counties to implement creative models of integrated services for the new probation population and for those who suffer from the dual diagnosis of mental health and substance abuse problems, as well as for other low-income persons currently receiving treatment services;
- Foster care and child welfare services; and
- Adult Protective Services.

Phase Two of Realignment: Implementation of National Health Reform in 2014

The proposal links phase two with implementation of national health reform in California. As additional low-income individuals now served primarily in the county indigent health system become eligible for Medi-Cal, there will be a “natural shift of costs from counties to the state.” This, the Governor states, will necessitate examining the existing Local Revenue Fund Indigent Health Care Account (1991 realignment), identifying which level of government is best suited to provide health-related programs. The Governor assumes the state will become responsible for costs associated with health care programs, including California Children’s Services and In-Home Supportive Services (IHSS), while the counties assume responsibility for CalWORKs, food stamp administration, and child support. On a

related matter, the Governor proposes a 2011-12 increase of \$2.1 million for 17 two-year, limited-term positions to help the state implement provisions of federal health care reform.

Funding

Funding for realigned programs in phase one relies on voters to approve five-year extensions to existing Vehicle License Fee (VLF) rates and the 1 percent sales tax rate, which would generate an estimated \$5.6 billion per year. The other major source of funding for the mental health programs included in phase one of the realignment is a one-time supplantation of \$861 million in MHSA funds for state General Funds. The Administration proposes to amend the MHSA maintenance-of-effort and non-supplantation requirements of the MHSA with two-thirds vote of the Legislature, since it contends the amendments are consistent with and further the intent of the Initiative.

State Operations

The Governor has directed agency secretaries and department directors to immediately review their operational costs and identify options to generate savings. The Governor indicates that proposals will be developed to reorganize, consolidate, and/or eliminate state-level departments, programs and functions. Over time, the realignment proposal is expected to achieve administrative savings by reducing duplication and eliminating unnecessary administrative costs.

In the Health and Human Services area, the state will continue to act as the single state agency for federal Medicaid purposes, maintain data collection for oversight, serve as the fiscal and program reporting entity to the federal government, retain licensing and certification responsibility, and maintain minimum federal audit requirements. These are important program components to retain. However, it is the Administration's goal to eventually reduce state operations for those affected programs by at least 25%, which will translate into hundreds of state positions being eliminated.

** CMHDA's Preliminary Questions and Concerns **

While CMHDA supports the Governor's goals of bringing services "closer to the people," achieving savings by reducing unnecessary duplication, and providing flexibility at the local level, we have identified the following preliminary questions and concerns about this realignment proposal. We will be further refining and describing our position on the proposal in subsequent correspondence.

- Can the Legislature change the state's MHSA maintenance-of-effort and non-supplantation requirements through 2/3 vote of the Legislature rather than via ballot measure with the electorate?
Note: When CMHDA asked representatives of the Department of Finance this question, their response was that it is not necessary to obtain voter approval because the MHSA maintenance-of-effort requirements would be met with the new revenue source, and the proposal would further the service integration goals contained in the Act.
- What obligations would counties continue to have for the previously realigned mental health programs (institutional care and SMI/SED)?

- What is intended for the existing mental health realignment funding, which is currently about \$1 billion annually and comprises nearly one-quarter of the funds provided to the community mental health system?
- What would be the process to ensure a dedicated revenue stream is provided for the new realigned responsibilities once the proposed new revenues cease in five years?
- Will competition be created for the new revenues, creating compliance problems for the programs proposed to be realigned? Will there be competition for the limited revenues between:
 - The three federal entitlement programs proposed to be realigned (AB 3632, EPSDT, Medi-Cal Managed Care)?
 - The two federal entitlement programs that serve children (AB 3632, EPSDT) and the one that serves adults (Medi-Cal Managed Care)?
 - The full dozen or so programs and services proposed to be realigned in phase one?
- Does it make good policy sense to realign AB 3632 to county mental health departments given that it is a federal education entitlement program?
- Since the proposal could impact the current mental health waiver and state plans, will CMS need to be notified and approve of these changes in state and county obligations?
- Is it possible to prevent the one-time use of MHSA funds in 2011-12 from having a negative impact on current and future MHSA service commitments?
- How will the second proposed realignment phase impact the community mental health system?
- How will the Administration and Legislature ensure county mental health departments and CMHDA are engaged in the crafting of required legislative language?

AB 3632

In addition to including AB 3632 in the realignment proposal, the budget includes \$98.6 million for *prior year* AB 3632 costs incurred by counties. However, it appears that these funds would come from MHSA funds, in which case it seems odd, at best, that county funds would be used to repay county costs for this state mandate. It is our understanding that \$69 million in federal IDEA funds continue to be included in the budget for AB 3632. CMHDA is seeking clarification with the Administration on all funding issues regarding this program.

Additional Reductions to Medi-Cal

The Governor proposes a number of reductions to Medi-Cal, and assumes enacting state legislation by March 1 in most cases. There are some proposals, however, that require federal approval.

- Limit prescriptions – except life-saving drugs – to six per month, and limit doctor visits to ten per year, starting October 2011;
- A new \$5 co-payment for physician, clinic, dental, and pharmacy services, with a \$3 co-payment for lower-cost preferred drugs, starting May 2011;*
- A \$50 co-payment for emergency room services and \$100 a day copayment for hospital stays, with a \$200 maximum on the latter;*
- Cap annual benefit levels for certain services and equipment, such as hearing aids and durable medical equipment;
- Eliminate reimbursement for over-the-counter drugs;
- Eliminate the Adult Day Health Care program; and
- Reduce provider payments by 10 percent.*

- **Note: The provider payment reduction and the copayment requirements apply to Medi-Cal health care coverage and pharmacy, but not to the Medi-Cal specialty mental health program managed by county mental health plans.*

Additionally, the Governor proposes shifting \$1 billion in Proposition 10 revenues to fund Medi-Cal services for children up to age five. It is not clear for how long the shift would be in place, but any such move requires voter approval. If enacted by the voters in June, it would be implemented on July 1, 2011.

Reductions to Healthy Families

The Governor proposes to increase Healthy Families premiums, effective June 1, 2011. For families under 150% of federal poverty, there would be no change. However, for families at 150-200% of federal poverty, premiums would increase by \$14 per child (from \$16 currently to \$30), and the maximum limit for a family with three or more children would increase by \$42, for a family maximum of \$90. For families at 201-250% of federal poverty, premiums would increase by \$18 per child (from \$24 currently to \$42), and the maximum limit for a family with three or more children would increase by \$54, for a family maximum of \$126.

The Governor also proposes increasing co-payments for emergency room visits from \$15 to \$50, and instituting inpatient co-pays of \$100 a day, with a \$200 maximum, effective October 1, 2011. Finally, the Governor proposes eliminating vision benefits in Healthy Families.

SSI/SSP Grant Reductions

The Governor proposes to reduce monthly SSP grants for individuals to the federally required minimum payments standard. Grants would be reduced for individuals by \$15 per month (from \$845 to \$830) beginning June 1, 2011. SSP grants for couples were reduced to the federal minimum in November 2009.

CalWORKs Reductions

The budget includes a number of proposals to reduce General Fund spending on CalWORKs by \$1.5 billion, including establishing a time limit of 48 months (instead of the current 60 months), reducing the maximum monthly grant by 13%, and reducing the age eligibility for subsidized child care services so that eleven- and twelve-year-old children are no longer eligible.

IHSS Reductions

The budget proposes a number of reductions to In-Home Supportive Services (IHSS), effective July 1, 2011, including: an 8.4% reduction to assessed hours; eliminating domestic and related services for consumers living with their provider, and those under 18 years of age who live with a parent who is able and available to provide these services; eliminating services for recipients without physician certification; and eliminating state funding for the IHSS Advisory Committee.

Child Welfare Services Reduction

In addition to the realignment proposals, the budget includes a reduction of \$19 million in the Transitional Housing Program-Plus, which is the cost of providing services to 18- and 19-year olds. The reduction is proposed in light of the passage of AB 12 (Chapter 559, Statutes of 2010)

that expands foster care to age 19 in 2011-12 and allows for the placement of non-minor foster youth in a similar transitional housing program.

County Veterans Services Offices Reduction

The Governor proposes eliminating General Fund support for County Veterans Service Offices, representing a decrease of \$9.9 million (\$7.6 million local assistance and \$2.3 million state operations).