January 5, 2012

To: CMHDA Members

From: Kirsten Barlow, Associate Director, Legislation and Public Policy

SUBJECT: Governor's FY 2012-13 State Budget Proposal

This afternoon, Governor Jerry Brown released his January State Budget proposal for fiscal year 2012-13 – five days earlier than the planned January 10 release date (the budget had mistakenly been posted on the internet today, compelling it to be formally released this afternoon).

This memo provides a preliminary description of the provisions that will impact community mental health programs and the communities they serve. We will provide you with additional details and our analyses regarding these proposals as they become available. It is our understanding that the Administration plans to make additional details and draft trailer bill language available over the coming week. For your reference, the budget proposal is available in its entirety online at http://www.ebudget.ca.gov. As always, if you have any questions about the budget, please feel free to contact me at kbarlow@cmhda.org.

Overall Budget Picture

The Governor's January Budget projects California's structural budget deficit to be $9.2 billion in 2012-13, comprised of a current year shortfall of $4.1 billion and budget year shortfall of $5.1 billion. To address the budget gap, the Governor's budget proposes a total of $10.3 billion in cuts and revenues to balance the budget and rebuild a $1.1 billion reserve. Specifically, the Governor's proposed expenditure reductions total $4.2 billion, total revenues total $4.6 billion, and other solutions total $1.4 billion.

The Governor is seeking additional tax revenues to mitigate the need for the "deepest of cuts," and the budget *assumes the passage* of the Governor's proposed initiative in the November election. As you may know, the Governor's ballot measure would temporarily increase personal income tax on the wealthiest taxpayers and temporarily increase the sales tax by one-half percent – estimated to generate $6.9 billion through 2012-13. If the November tax increases are rejected by voters, a number of ballot "trigger cuts" would go into effect on January 1, 2013, including a $4.8 billion reduction to schools and community colleges (equal to 3 weeks of the school year), $200 million in reductions to each UC and CSU systems, $125 million in court reductions, as well as a number of additional parks, recreation, fish and game, and other reductions.

Continued Commitment to 2011 Realignment Implementation and Dedicated Funding

The Governor's budget proposal maintains his commitment to implementation of 2011 Realignment, provides a permanent funding structure, and implies that additional realignment proposals could be developed and discussed with counties over the comings months.

❖ ***Permanent Funding Structure Proposed***

The Governor's proposal includes a proposed permanent funding structure for the 2011 Realignment base and growth funding, beginning in FY 2012-13. The budget states that the following concepts were important in determining the components of the funding framework:

Base Funding – Providing Stable Funding

- *The base in each Subaccount should not experience a year-over-year decrease. A statutory mechanism should be in place to deal with the possibility of a year's base being short due to significantly reduced revenues.*
- *The timing of the program's inclusion in 2011 Realignment and the implementation schedule should affect base funding for each program.*
- *The base should be a rolling base for each Subaccount; i.e., the base plus growth equals the subsequent year's base.*
- *The 1991 Mental Health program should continue to receive revenue based on its 1991 formula.*

Growth Funding

- *Funding for program growth should be distributed on a roughly proportional basis, first among Accounts, and then by Subaccounts.*
- *Within each Subaccount, federally required programs should receive priority for funding if warranted by caseload and costs.*
- *Growth funding for the Child Welfare Services (CWS) program is a priority once base programs have been established. Over time, CWS should receive an additional $200 million.*

Transferability

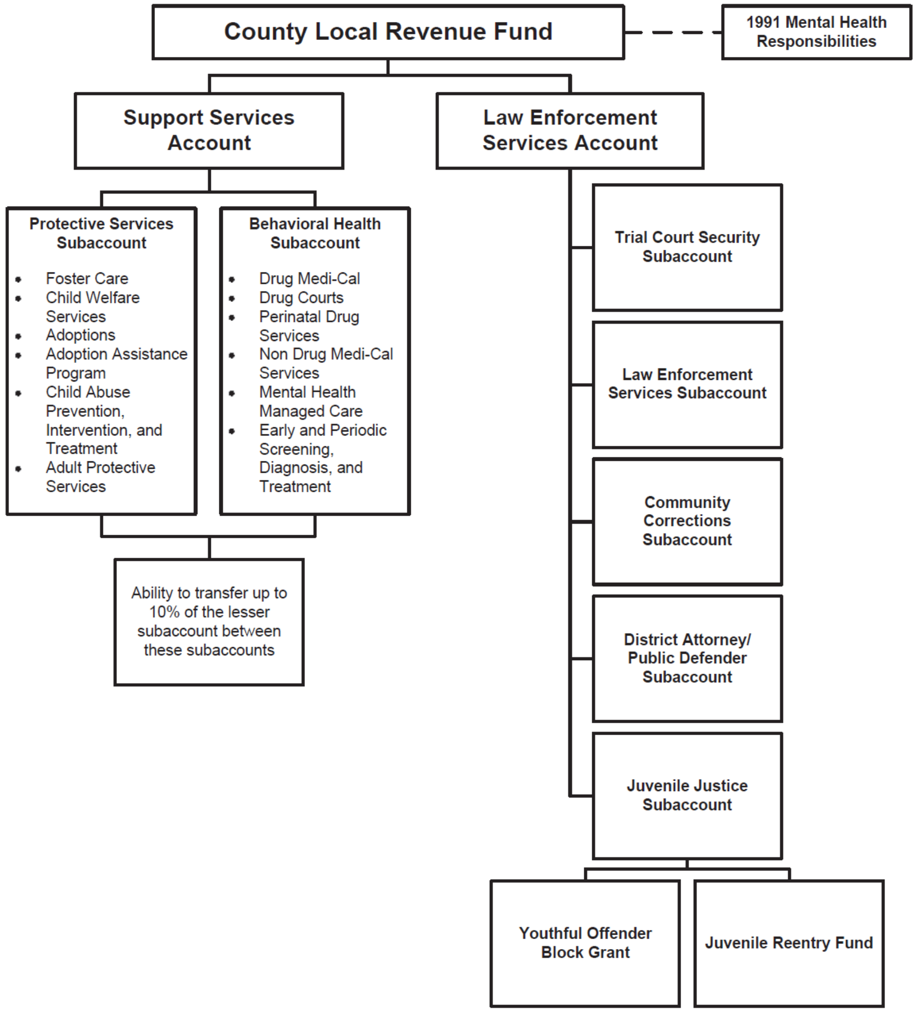
- *To provide flexibility, counties should have the ability to transfer a maximum of 10% of the lesser subaccount between the Subaccounts within the Support Services Account.*
- *Beginning in 2015-16, there should be a local option to transfer a portion of the growth among Subaccounts within the Law Enforcement Services Account.*
- *Transfers should be for one year only and not increase the base of any program.*

Reserve Account

- *To provide some cushion for fluctuations in future revenue, a Reserve Account should be established when Sales and Use Tax revenues exceed a specified threshold.*

The Governor's proposed funding structure for 2011 Realignment is illustrated below:

2011 Realignment Funding Structure



Additionally, the amounts of Realignment 2011 funding to be dedicated to realigned mental health programs differ in the Governor's 2012-13 budget proposal from the Administration's original figures when the 2011-12 budget was enacted last summer, as illustrated below (in millions). CMHDA will seek clarification about the rationale for these changes.

	2011 12		2012 13		2013 14		2014 15	
	Original Figures	**New Figures**	Original Figures	**New Figures**	Original Figures	**New Figures**	Original Figures	**New Figures**
Mental Health Managed Care	-	-	$183.7	**$188.8**	$183.7	**$188.8**	$183.7	**$188.8**
EPSDT	-	-	$629	**$544**	$629	**$544**	$629	**$544**
1991 MH Responsibilities	$1,083.6	**$1,104.8**	$1,119.4	**$1,164.4**	$1,119.4	**$1,164.4**	$1,119.4	**$1,164.4**

- ***Juvenile Justice Reform***

  The Governor proposes to stop the intake of new juvenile offenders to the Division of Juvenile Justice (DJJ) effective January 1, 2013. The budget proposes $10 million General Fund (GF) in 2011-12 for counties to begin planning for the population, recognizing that many need mental health and substance abuse treatment. Additionally, the state would help with transition by delaying collection of recently imposed additional feeds for those wards housed in DJJ.

- ***Governor Seeks to "Do More Realignment"***

  Speaking at today's CSAC Board Meeting, Governor Brown said he will move forward with his plans to shift control of programs to local government, and wants to do more. "We want to do more realignment...We want to look at taking over the health, the In-Home Supportive Service, the Medi-Cal, and maybe switching on some of the welfare. So, we're working on that for something we might do next year. We really want to clean up the relationship between state and local government....We want to talk about taking the Medi-Cal, moving that more to the state...With social services, more authority at the local level. These are complicated. We're going to work it out over the next 12 months."

  Additionally, the Governor's budget proposal states that ongoing discussions with counties and others are needed for "Phase 2" of realignment to determine the appropriate relationships between the state and counties in funding and delivering health care as California implements federal health reform. The discussion "will involve what additional programs the counties should be responsible for when the state assumes the majority of costs of healthcare."

State Reorganization of Mental Health and Substance Use Disorder Administration

The Governor continues his proposal from last year to eliminate the Department of Mental Health (DMH) and the Department of Alcohol and Drug Programs, and proposes to transfer the vast majority of remaining non-Medi-Cal, community-based program functions to **Department of Health Care Services (DHCS).** Specifically, DHCS would be responsible for:

- Administration of various Mental Health Services Act (MHSA) programs (CMHDA will seek clarification)
- Financial oversight of MHSA funds (CMHDA will seek clarification)
- Administration of federal Substance Abuse and Mental Health Services Administration discretionary and block grants
- Projects for Assistance in Transition from Homelessness grants
- Substance Abuse Prevention and Treatment block grants
- Parolee Services Network
- Veterans mental health programs
- The mental health components of the California Health Interview Survey

The Governor proposes to transfer to the Department of Public Health (DPH) the current duties of the DMH Office of Multicultural Services (OMS), the administration of counselor certification, narcotic treatment, driving under the influence, and problem gambling functions. Additionally, as part of transferring the OMS to DPH, the Governor proposes to consolidate five specialty health functions into a **newly created DPH "Office of Health Equity**" to enable the state to "better identify and ameliorate health disparities for disadvantaged and underserved communities by examining these issues through a more integrated approach to public health, behavioral health, and health care issues. California's demographics and a variety of socio-economic trends call for a different and more comprehensive approach to addressing the issues of health disparities across the entire health care continuum within the state." In addition to OMS, the four other functions that would be transferred to the new Office of Health Equity are: DHCS' Office of Women's Health, and DPH's Office of Multicultural Health, Health in All Policies Task Force, and Health Places Team.

The following **additional transfers of responsibility** are proposed:
- Licensing and quality improvement functions to Department of Social Services (CMHDA will seek clarification)
- Early Mental Health Initiative grants to Department of Education
- Mental Health Workforce Education and Training program to the Office of Statewide Health Planning and Development
- MHSA training, technical assistance, and program evaluation to the Mental Health Services Oversight and Accountability Commission (MHSOAC)

The budget also continues the Governor's proposal to create a new **Department of State Hospitals** that would "create an efficient system of care focusing on effective treatment and increased worker and patient safety." The budget includes $1.3 billion GF in 2012-13 for support of the new department, whose patient population is projected to reach a total of 6,439 in 2012-13. The budget summarizes some of the major findings from a December 2011 evaluation of the state hospitals and their administration, and states that the budget reflects ongoing savings of $193.1 million and 620 positions through staffing ratio changes, program flexibilities, and other efficiencies. Of note, the budget makes a "county bed rate adjustment" that reflects a $20 million GF decrease in 2012-13 as a result of increased bed rates charged to counties for civil commitments to more accurately reflect actual patient cost of care.

Healthy Families and Managed Risk Medical Insurance Board (MRMIB)

The budget proposes to reduce Healthy Families managed care rates by 25.7% (effective October 1, 2012) to achieve GF savings of approximately $64.4 million in 2012-13 and $91.5 million in 2013-14. Additionally, the budget proposes transferring approximately 875,000 Healthy Families Program beneficiaries to Medi-Cal over a 9-month period, beginning October 2012. As we noted last session when this proposal was made by Governor Brown, this transition of Healthy Families enrollees to the Medi-Cal program will presumably impact the EPSDT program; CMHDA will be analyzing the impacts of this proposal.

The budget estimates that the state's Medi-Cal caseload will increase approximately 7.9% from 2011-12 to 2012-13 (from 7.7 million to 8.3 million), due primarily to shifting children in Healthy Families to Medi-Cal. Caseload growth would be 1.9%, absent the proposal to shift children in Healthy Families to Medi-Cal.

The Governor proposes to eliminate MRMIB and transfer its programs and responsibilities to DHCS in October 2012 in preparation for California's implementation of federal health care reform. Remaining MRMIB programs, including the County Children's Health Initiative Program, Access for Infants and Mothers, Major Risk Medical Insurance Program (MRMIP), and Pre-Existing Conditions Insurance Plan (PCIP) would transfer to DHCS effective July 1, 2013. The two stand-alone programs that provide insurance to individuals with pre-existing conditions, MRMIP and PCIP, will be eliminated in January 2014 because these individuals will be able to purchase health insurance through the California Health Benefits Exchange as part of federal health care reform implementation.

In-Home Support Services (IHSS) Reductions

The budget proposes $1.4 billion GF for the IHSS program in 2012-13, a decrease of $292.3 million GF from the revised 2011-12 IHSS budget. General Fund costs are significantly higher in the revised current year projection than in the 2011 Budget Act primarily because of erosions to savings previously assumed. Reductions to IHSS include eliminating domestic and related services for certain recipients and a 20% across-the-board reduction in IHSS hours (presuming success in the pending court injunction).

Coordinated Care for Dual Eligible Beneficiaries

The Administration proposes to improve care coordination for seniors and persons with disabilities, including "dual eligibles" who are eligible for both Medi-Cal and Medicare. Current law authorizes a dual eligible beneficiary pilot in four counties to begin January 1, 2013. The budget proposes a three-year phase-in of the pilots and an expansion of the number of pilots to 10 counties. In the first year, dual eligible beneficiaries will transition to managed care for Medi-Cal benefits. The benefits will become a more integrated plan responsibility over the subsequent two years.

Under a separate proposal, the Administration is also proposing to expand Medi-Cal managed care statewide starting in June 2013. Currently, 30 counties have Medi-Cal managed care plans. The pilots will provide managed care plans with a blended payment consisting of federal, state and county funds and responsibility for the full array of health and social services to dual eligible beneficiaries. Making long-term care services a managed care benefit is intended to increase access to home and community-based medical and social services. The larger goal is to allow beneficiaries to remain in their homes and out of 19 institutions. Behavioral health services will generally be provided by counties.

In year one, IHSS, other home and community-based services and nursing home care funded by Medi-Cal will become managed care benefits. The IHSS program will essentially operate as it does today, except all authorized IHSS benefits will be included in the managed care plan rates. Over time, managed care plans would take on more responsibility for home and community-based services, including IHSS.

The Governor's budget document acknowledges a number of issues that will need to be worked on, including consumer protections, development of a uniform assessment tool, and consumer choice and protection. The Administration views the dual eligible beneficiary pilots as part of its effort to implement health reform and establish the state as the level of government primarily responsible for delivering health care services. The Administration identifies the state-county relationship in financing and delivering services – including collective bargaining structure for IHSS providers and the long-term county financial responsibility and other health programs. The Administration will be working with counties, consumers and other stakeholders to address these outstanding issues through development of legislation necessary to implement the proposal. The Administration is projecting savings from the pilots related to a reduction in hospital and nursing home costs. To accelerate savings into 2012-13, the Administration is proposing a payment deferral (one payment for all providers) and alignment of payment policies for all managed care counties. This proposal will save $678.8 million in 2012-13 and $1 billion in 2013-14.

<u>Expansion of Managed Care</u>

The Governor proposes expanding Medi-Cal Managed Care into all counties statewide and enrolling all current Medi-Cal beneficiaries, including IHSS recipients and those in the Institutional Long-Term Care program, in the managed care model. The state would begin this transition in the 28 fee-for-service counties in June of this year, and estimates savings of $2.7 million in 2012-13 and $8.8 million in 2013-14. The Governor also proposes an annual open enrollment period for Medi-Cal beneficiaries to save up to $3.6 million in 2012-13 and $6 million in 2013-14. Currently, beneficiaries may change plans up to 12 times a year.

<u>California Work Opportunity and Responsibility to Kids (CalWORKs) Redesign</u>

The Governor proposes sweeping changes to CalWORKs that would redesign the program, and result in nearly $1 billion in GF savings. The proposal would create two subprograms within CalWORKs, each with differing grant structures, services arrays, and time limits, briefly described below:

- <u>CalWORKs Basic Program:</u> Serve families for up to 2 years, including services such as job search, employment training, child care, and barrier removal services (e.g., substance abuse, mental health, and domestic violence recovery assistance). Effective October 2012, clients not participating in sufficient hours of unsubsidized employment after an initial job search will be placed in the CalWORKs Basic program and will be required to participate in welfare-to-work activities.
- <u>CalWORKs Plus Program:</u> Serve clients working sufficient hours in unsubsidized employment to meet federal work participation requirements for up to 4 years. Effective April 2013, this program will reward clients who meet federal work participation requirements with a higher grant level. Clients also have full access to supportive services and child care. After 4 years, the adult will no longer be aided, but the higher earned income disregard will remain available if the employment continues.

Additionally, the Budget provides continued support to children from low-income families. Beginning in October 2012, the state will create a new “Child Maintenance” program to provide basic support to children whose parents are not eligible for aid under the restructured CalWORKs program. Income and resource eligibility criteria for the Child Maintenance program will be the same as for CalWORKs families, but the Child Maintenance program grant will be less than the current amounts available for child-only cases. Because Child Maintenance cases are outside of the state’s welfare-to-work program, they will have minimal case management and an annual reporting requirement. The cost of this program partially offsets the savings in CalWORKs, resulting in a net savings of $946.2 million.