May 14, 2012

TO**:** CMHDA Members

FROM: Patricia Ryan, Executive Director
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SUBJECT: Governor's FY 2012-13 May Revise

This morning, Governor Jerry Brown released his May Revise State Budget proposal for fiscal year 2012-13. This memo provides a preliminary description of the provisions that will impact community mental health programs and the communities they serve. As of this writing, only the Governor's May Revise "Summary" has been made available to the public. Once additional details and anticipated trailer bill language related to the fiscal structure of 2011 realignment are made available, we will provide you with additional details. For your reference, the Governor's state budget proposals are available online at http://www.ebudget.ca.gov. As always, if you have any questions about the budget, please feel free to contact us at (916) 556-3477, pryan@cmhda.org or kbarlow@cmhda.org.

Overall Budget Picture

The Governor's May Revise presents a significantly larger 2012-13 state budget deficit of $15.7 billion, compared to the $9.2 billion deficit estimated in the January Budget. The deficit grew since January due to three primary factors: (1) the January revenue forecast for tax revenues was $4.3 billion too optimistic; (2) year-over-year state revenue increases now obligate the state to spend $1.2 billion in additional General Funds toward the Prop. 98 guarantee for education; and (3) the federal government and courts have blocked $1.7 billion in earlier proposed budget reductions that would have imposed Medi-Cal co-pays, reduced Medi-Cal provider rates, and imposed In Home Supportive Services (IHSS) provider fees.

Altogether, the Governor proposes to balance the 2012-13 state budget through cuts (representing half the solution), over a third (35%) through the November initiative's temporary taxes and other revenues, and 15% through other mechanisms (loan repayment extensions, transfers and loans from special funds, etc.). The proposal continues to rely significantly on passage of the Governor's November ballot measure, which is estimated to generate $8.5 billion through temporary personal income tax increases on the wealthiest taxpayers (for 7 years), and by temporarily increasing the Sales and Use tax rate by 0.25 percent (for 4 years). These revenues will benefit the General Fund by $5.6 billion by providing funds for schools, enabling the state to meet its current Prop. 98 obligations and increase by $2.9 billion the funding available for schools and community colleges.

The Governor proposes $4.1 billion in spending reductions that are *in addition to* those proposed in January to address the widening budget deficit. These include using local reserves to offset state costs for local trial courts on a one-time basis, a 5% reduction to the costs of the state employee payroll to be achieved through furloughs, and additional reductions to health and welfare, described later in this document.

The Governor's May Revise would reduce the University of California budget by $38 million more (which would likely result in higher tuition for students), and make additional cuts to Cal Grants for low-income students. Additionally, the May Revise maintains the Governor's January proposals for additional "trigger cuts" to schools and higher education on January 1, 2013 if voters reject the November ballot initiative. If the initiative fails, funding for schools and community colleges would be reduced by $5.5 billion, funding for UC and CSU would each be reduced by $250 million, and a variety of public safety programs in the areas of forestry, fire protection, fish and game, and parks would be reduced.

2011 Realignment Baseline Allocations

As you may recall, the Governor's January Budget included a proposed permanent funding structure for the 2011 Realignment base and growth funding, as well a conceptual framework for realignment growth funding and a reserve account. It is our understanding that the Administration plans to issue additional details and a budget trailer bill later today. CMHDA will provide members with this information as it becomes available. Below is information that was included in the Governor's May Revise Summary, which provides updated figures from the Governor's January Budget baseline allocations for each of the realigned programs.

Note that the funding base for each of the programs included in 2011 Realignment will ultimately become a "rolling base" in which the prior year's allocation level – plus growth – will become the new base allocation level for the following year. The base for all programs realigned in 2011-12 was established that fiscal year, while the base for Medi-Cal Specialty Mental Health and EPSDT will be established in the budget year, since these programs are not realigned to counties until 2012-13.

The May Revise provides updated amounts of Realignment 2011 funding to be allocated to realigned programs, including Medi-Cal Specialty Mental Health, EPSDT, and 1991 Mental Health Realignment. In Fiscal Year 2012-13, the May Revise provides $4.3 million more than the January Budget in net additional funding for the three realigned mental health programs. As illustrated in the table on the following page, the May Revise figures compared to the January figures for 2012-13 provide $7.9 million more for Mental Health Managed Care, $40.2 million more for EPSDT, and $43.8 million less for existing 1991 mental health responsibilities. While the allocation for 1991 mental health is less than the January budget provided, dedicated growth is proposed to be provided as well.

In addition to modifying the baseline allocation levels for mental health realignment, the May Revise increased the allocation for Substance Use Treatment programs by $3.9 million (from $179.9 million to $183.6 million), and increased the allocation to Foster Care, Child Welfare Services, and Adult Protective Services by $5.5 million (from $1.616 million to $1.622 million). The May Revise notes that the allocations for Foster Care and Child Welfare in 2012-13 through 2014-15 reflect the costs for counties to expand foster care eligibility (phased in over the three year period) up to age 21, as authorized by AB 12 signed into law in 2010. The May Revise indicates that these funding levels for 2012-13 are higher than estimated costs, but that this will better position counties to adapt to future caseload changes in these federal entitlement programs.

Funding for Mental Health Realignment: Comparison of Governor's January and May State Budget Proposals *(Dollars in millions)*

	Fiscal Year 2011-12		**2012-13 and Subsequent Fiscal Years**	
	Jan. Budget	**May Revise**	Jan. Budget	**May Revise**
Mental Health Managed Care	-	-	$188.8	**$196.7**
EPSDT	-	-	$544.0	**$584.2**
1991 Mental Health	$1,104.8	**$1,083.6**	$1,164.4	**$1,120.6**
TOTAL	$1,104.8	**$1,083.6**	$1,897.2	**$1,901.5**

<u>State Reorganization of Mental Health Administration</u>

The Governor's May Revise Summary continues his proposal to eliminate the Department of Mental Health (DMH) and establish the Department of State Hospitals. The May Revise Summary does not include new or additional details about the state reorganization of mental health or substance use disorder administration, and notes that the state hospital population is projected to reach 6,439 in 2012-13.

<u>Mental Health Services Act (MHSA) Projects</u>

The Governor's May Revise Summary provides an increase of $15 million in Mental Health Services Act (MHSA) funds for the Department of Public Health (DPH) in 2012-13 for the California Reducing Disparities Project, along with the following statement: *"…with the intent of providing a total of $60 million toward the project. This funding continues statewide efforts to improve access to mental health services and quality of care, and increased positive outcomes for underserved communities."* While additional details about this proposal were not released with the Governor's May Revise Summary as of this writing, CMHDA was contacted by the Administration and provided with the additional explanation of the Governor's May Revise proposal:

- The Governor's January Budget proposed to amend the Mental Health Services Act to appropriate $60 million in county MHSA funds to the Department of Public Health's proposed and newly created Office of Health Equity for the California Reducing Disparities Project (CRDP), as well as to provide MHSA funds to the Office of Statewide Health Planning and Development (OSHPD) for Workforce Education and Training (WET) projects.
- CMHDA and others expressed concern about the precedent of amending the Act in this manner.
- The Governor's May Revise proposes to appropriate $60 million over four years ($15 million per year) in MHSA *state administrative funds* to DPH. This appropriation of MHSA funds will keep the state's support of the project under the statutory limit of 3.5% of MHSA funds that can be expended by state agencies for implementation of MHSA.

The authority for DPH to appropriate these funds will be provided through budget bill language, and will not result in amending the MHSA statutes.

- Similarly, the Governor proposes to provide OSHPD with appropriation authority through budget bill language, rather than amending the MHSA statutes. According to the Administration, the Department of Mental Health (DMH) recently conducted a reconciliation of MHSA-WET funds, which concluded that a total of $444 million in MHSA revenues were available over four years to be expended on WET. The California Mental Health Planning Council's five-year WET plan apparently identified investments that were $6 million short of this figure. The Governor proposes to ensure OSHPD will comply with the MHSA statutes and devise a plan for expending these $6 million in available MHSA-WET funds. Additionally, the recent DMH MHSA-WET reconciliation identified $9 million in available MHSA-WET revenues, which will be expended to support regional partnerships in FY 2014-15.

CMHDA will provide further information to members, as any additional details about the Administration's proposals related to MHSA become available.

Healthy Families and Managed Risk Medical Insurance Board (MRMIB)

In January, the Governor proposed to reduce Healthy Families managed care rates by 25.7% (effective October 1, 2012), transfer approximately 875,000 Healthy Families Program beneficiaries to Medi-Cal over a 9-month period, beginning October 2012, and to eliminate MRMIB. As we noted in January, this transition of Healthy Families enrollees to the Medi-Cal program will presumably impact the EPSDT program.

The May Revise maintains this proposal, but reflects a lower General Fund savings estimate of $48.6 million (compared to $64.4 million), primarily due to revising the per-member, per-month average cost of a Medi-Cal beneficiary from $76.86 to $83.91. According to the May Revise Summary, this new rate "includes additional administrative costs and accounts for mental health benefits that are carved out of the Medi-Cal managed care rate." CMHDA will seek additional information about this proposal and the extent to which the May Revise has provided sufficient funding for EPSDT to account for this population shift in the Governor's proposed Realignment 2011 allocations.

In-Home Support Services (IHSS) Reductions

The January budget proposed $1.4 billion for the IHSS program in 2012-13, which included a reduction of $292.3 million from 2011-12 to be achieved by 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). The May Revise provides a much lower decrease to IHSS, but would still decrease General Fund spending on IHSS by $99.2 million through a 7% across-the-board reduction in service hours, effective August 1, 2012. Additionally, the May Revise reflects saving $125.3 million General Fund from eliminated domestic and related services for beneficiaries in a shared living arrangement.

Coordinated Care Initiative for Dual Eligible Beneficiaries

The January budget proposed a Coordinated Care Initiative (CCI) to improve care coordination for seniors and persons with disabilities, including "dual eligibles" who are eligible for both Medi-Cal and Medicare. The January budget proposed to have the same health plan responsible for all of a dual eligible person's services over three years, with long-term care benefits integrated into the single benefit package during the first year. All counties would implement managed care. Additionally, the January budget proposed to expand the existing dual eligible beneficiary pilot from four to ten counties, over a three-year period.

The May Revise continues to propose a CCI for dual eligible beneficiaries, but with some changes. Specifically, the long-term care benefits would be phased in as each county transitions to managed care, and the dual eligible pilot would be expanded to eight (not ten) counties. The start date would be delayed from January 1, 2013 to March 1, 2013, and counties would continue their role in assessing and authorizing IHHS hours. In addition, consumers would continue to select and direct their providers. County-specific maintenance of effort levels would hold county expenditures at the estimated level, absent the CCI. The modified proposal would save the state $663.3 million in 2012-13, and $887 million once fully implemented.

Medi-Cal Savings Associated with Hospitals and Nursing Homes

The May Revise includes several new 2012-13 General Fund Medi-Cal savings proposals that would impact hospitals and nursing homes, including:

- Reduce supplemental payments to private hospitals, eliminate public hospital grants, and eliminate increases to managed care plans for supplemental payments to designated public hospitals ($150 million);
- Split equally between the state and designated public hospitals (rather than provide the funds exclusively to the hospitals) all unexpended prior year 1115 “Bridge to Reform” Waiver funds ($100 million);
- Align non-designated hospital Medi-Cal funding with the designated public hospital funding methodology for inpatient Medi-Cal fee-for-service ($75 million); and
- Rescind the 2% rate increase authorized in current law for nursing homes, while continuing the maximum amount of fee revenue collection ($47.6 million). CMHDA members should note that this does not address the requirement that counties provide skilled nursing facilities licensed as Institutions for Mental Disease (IMDs) with a 4.7% rate increase in FY 2012-13. As you may recall, CMHDA successfully sponsored a bill that froze IMD rates for two years (from July 1, 2010, to June 30, 2012). However, current law will reinstate the mandatory IMD rate increase on July 1, 2012.

Also of note in the Medi-Cal area is a proposal to provide $40 million in First 5 California Children & Families Commission funds to support the Department of Developmental Services Early State Program for children ages birth through five.

California Work Opportunity and Responsibility to Kids (CalWORKs) Redesign

The January budget proposed sweeping changes to redesign the CalWORKs program, resulting in nearly $1 billion in GF savings. The Governor’s May Revise did scale back on some of his original January proposals for CalWORKs, but General Fund savings in 2012-13 are still estimated at $879.9 million. CalWORKs policy changes in the May Revise include:

- Allowing work participation to be met through any combination of state-allowable work activities in the first 2 years and federally-allowable activities for up to 4 years (rather than solely through paid employment);
- Eliminating the retroactive county of previously exempt and sanctioned months toward the 4-year time limit; and
- Starting Oct. 2012, implementing a phased in approach to reengage cases previously exempted.

Corrections and Rehabilitation

The May Revise provides a comprehensive description of the Governor's proposals for Department of Corrections and Rehabilitation (CDCR) funding. Given the significant interaction between state prisons, local jails, and local health and social services due to 2011 Realignment, a few highlights from the May Revise Summary that may be of interest to county mental health departments are provided below:

- The Administration released a comprehensive plan in April 2012 to save billions of dollars, end federal court oversight, and improve the prison system. [This plan is available online at: http://www.cdcr.ca.gov/2012plan/index.html]. As part of this plan:
    - CDCR will establish reentry hubs with concentrated programming resources at existing prisons to better prepare inmates as they near release. Within the first year of release, approximately 70% of parolees who need substance-abuse treatment, employment services, or education will have access to these programs.
    - The plan includes trailer bill language that requires the Department of Finance - Office of State Audits and Evaluations to monitor CDCR's implementation of this plan and provide annual reports to the Governor and Legislature.
- As a result of public safety realignment, the active adult parolee population is projected to decline to approximately 30,000 offenders by 2015-16.
- In May 2012, the state filed a report to terminate the Receivership that, in 2006 under the *Plata v. Brown* case, appointed a Receiver with full authority over prison medical care.
- The May Revise retains the CDCR-Division of Juvenile Justice (DJJ) for the housing and treatment of the most serious and violent juvenile offenders. In order to balance the state budget, the May Revise proposes the following efficiencies:
    - Reduce administrative staff at headquarters and DJJ facilities;
    - End juvenile parole on January 1, 2013 (instead of July 1, 2014);
    - Reduce DJJ's age of jurisdiction from 25 to 23 years old; and
    - Implement a new fee structure to charge counties $24,000 per year for each offender committed by a juvenile court to the DJJ.
- Under the 2011 Budget Act, the Board of State and Community Corrections was established, effective July 1, 2012. The Board will assume previous functions of the Corrections Standards Authority, as well as other public safety programs. The Board will be *"coordinating with and assisting local governments as they implement the realignment of many adult offenders to local government…"*