



January 11, 2010

TO: CMHDA Members

FROM: Patricia Ryan
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SUBJECT: Governor's 2010-11 January State Budget

On Friday, Governor Schwarzenegger released his January State Budget proposal for fiscal year (FY) 2010 -11. Described below is our preliminary analysis of provisions that will impact community mental health programs. ***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 programs, please feel free to contact us at pryan@cmhda.org, or kbarlow@cmhda.org.

Overall Budget Picture

The budget addresses a \$19.9 billion shortfall through July 1, 2011 (\$6.6 billion in 2009-10 and \$13.3 in 2010-11), and establishes a \$1 billion reserve. The budget proposes to address this gap through \$8.5 billion in reductions, \$4.5 billion in fund shifts or new revenues, and \$6.9 billion in additional federal funding. The budget excludes tax increases, and "fully" funds education. The budget indicates an increase of \$175.3 million in the State-Local Revenue Fund attributable to revenue increases in Realignment. The Governor's budget envisions that the Legislature would adopt both a Special Session package that would be enacted by March 1, 2010, and an annual budget package that would need to be enacted before July 30, 2010. The Legislature is required to take action to address the problem within 45 days of the special session being called (by Monday February 22nd), and may not take action on any other legislation during that time period.

The budget estimates that, absent corrective action, the state will face substantial cash flow problems beginning in July, 2010. In addition to budget solutions, the state will need to obtain external financing early in the fiscal year. Additionally, the budget states that it is likely that payment deferrals will still be required to align receipts and disbursements and to reduce the need for external borrowing. The Governor has directed the Department of Finance to work with the State Controller's Office and the State Treasurer's Office to develop additional cash solutions to be submitted to the Legislature in the Special Session.

Federal Funds Trigger

The budget includes a federal funds “trigger” mechanism: unless California receives at least \$6.9 billion in new federal funds to offset state General Fund (SGF) expenditures, \$4.6 billion in additional, **permanent** budget cuts will go into effect, including but not limited to:

- **Diverting \$847 million in MHSAs funds to other existing mental health services;**
- Eliminating the CalWORKs Program (\$1.044 billion);
- Reducing Medi-Cal eligibility to the minimum allowed under current federal law and eliminating most remaining optional benefits (\$532 million);
- Eliminating the IHHS Program (\$495 million);
- Eliminating non-court required inmate rehabilitation programs, implementing banked parole for low-risk serious and violent offenders, expanding crimes where convicted felons will serve time in local jails, and increasing the number of parolees each agent will supervise (\$280 million);
- Eliminating the Healthy Families Program (\$126 million); and
- Eliminating funding for the Transitional Housing Placement for Foster Youth-Plus Program (\$36 million).

The precise timeline for when the federal funds would need to be received, and when the budget cuts would go into effect, is not yet clear to us. ***We are pursuing clarification.***

Prop. 63 and Prop. 10 Funding Diversions Back on the Ballot

The budget anticipates at least two initiatives requiring voter approval to be included in the state’s June, 2010 election. First, voters will be asked to shift MHSAs funds into EPSDT (\$391.1 million) and Mental Health Medi-Cal Managed Care (\$61.2 million). The budget does not describe which MHSAs funds would be diverted, or the timeframe for when this would happen. However, Department of Mental Health (DMH) has indicated verbally that the initiative would only divert the funds over a two-year period (FYs 2010-11 and 2011-12). ***CMHDA will seek clarification of this issue from DMH in writing.*** The budget indicates that the initiative would amend the non-supplantation and maintenance-of-effort provisions of Proposition 63.

Second, the budget proposes shifting (for five years) approximately 50 percent of the Proposition 10 revenues currently directed to state and local accounts within the Commission’s budget (\$242 million in 2010-11), and a one-time sweep of state and local reserves (\$308 million). The redirected funds will be used to support children enrolled in programs administered by the Department of Social Services and the Department of Developmental Services.

Medi-Cal Mental Health Managed Care

In addition to the ballot initiative described above, the budget provides \$89.197 million SGF for Medi-Cal Mental Health Managed Care, another significant decrease from the \$113 million SGF provided in 2009-10. However, the budget also states that it provides an increase of \$11.7 million to the program “resulting from an increase in the number of Medi-Cal eligible beneficiaries in the program.” CMHDA will seek clarification from DMH about what rationale led to this proposed decrease.

EPSDT

The budget provides \$1.04 billion for EPSDT (no SGF, \$653.8 million in federal reimbursements, and \$391.2 million in MHSAs funds). This represents a \$42.2 million overall

increase due to increased service costs and the payment of 2006-07 cost settlement claims that were deferred in the 2009 Budget Act. DMH has indicated that the share of SGF and federal funds could change over time as the Administration incorporates new estimates that take into account California's FMAP rate.

AB 3632

It is our understanding that the DMH budget provides \$52 million for AB 3632. According to DMH, the same provisional language as last year would apply: the funds would be used first to satisfy outstanding FY 2006-07 claims and then following years if there are any remaining funds. It is also our assumption that the California Department of Education budget continues to include \$69 million of federal IDEA funds to reimburse counties for their costs in complying with the requirements of this mandate, but are seeking confirmation on this item.

Extends Enhanced FMAP and Increases the FMAP Base

The budget assumes extending the enhanced FMAP through 2010-11, generating \$86.53 million in SGF savings in the mental health budget. It also assumes the federal government will provide a permanent increase to California's base FMAP rate, from 50% to 57%. If the base rate were increased, the budget assumes statewide SGF savings of \$1.8 billion in 2010-11.

Early Childhood Mental Health Initiative

The budget provides \$15 million for this school-based (Prop. 98) mental health program, which is allocated to schools, not counties. This is a decrease from the \$27.25 million provided in 2009-10. DMH has indicated that it will achieve the savings through attrition as existing programs expire.

MHSA

The budget estimates MHSA revenue of \$1 billion in FY 2010-11, an increase from \$872.89 million projected in FY 2009-10. The budget estimates MHSA expenditures in FY 2010-11 to total \$1.58 billion (\$1.55 billion in local assistance; \$30.73 million for state DMH operations; \$10.46 million in state administration funds provided to other state departments; and \$4.1 million for operation of the MHSOAC). Additionally, DMH has indicated that the annual adjustment amount for FYs 2009-10 and 2010-11 is \$172 million. The budget also indicates an MHSA Local Assistance reduction of \$405.9 million to reflect a "technical adjustment for updated county resource plans". It is unclear to us what this means, and this is another item on which we are seeking clarification from the department. The budget estimates MHSA "reserves for economic uncertainties" in the amount of \$1.1 billion in 2010-11.

Healthy Families – SED Benefit

The budget provides \$39.29 million, an increase from \$34.18 provided in 2009-10.

Eliminates the Substance Abuse Offender Treatment Program

The budget eliminates the Substance Abuse Offender Treatment Program, for state budget savings of \$18 million.

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

The budget reduces SSI/SSP grants for individuals to the federal minimum (from \$845 to \$830 per month), for state budget savings of \$13.7 million in FY 2009-10 and \$177.9 million in FY 2010-11. This change affects approximately 1 million individuals.

Saves SGF by Improving Coordination and Controlling Long-Term Medi-Cal Costs

In reference to the new Medicaid Section 1115 Demonstration Waiver being developed, the budget assumes \$800 million (\$400 million SGF) in annual savings by 2012-13. The budget assumes savings would be generated under the waiver by improving health care coordination and controlling long-term Medi-Cal costs, particularly by providing “earlier and appropriate care” and avoiding “unnecessary emergency room visits.”

Eliminates Human Assistance Programs for Some Immigrants

- **Full-Scope Medi-Cal** for immigrants who have been in the United States less than five years (except pregnant women, Permanent Residence Under Color of Law status, and Amnesty Immigrants), for budget savings of \$118 million.
- **Cash Assistance Program for Immigrants (CAPI)**, which provides state-only benefits to 10,800 legal immigrants ineligible for federal benefits, resulting in budget savings of \$8.1 million in FY 2009-10 and \$107.3 million in FY 2010-11.
- **California Food Assistance Program (CFAP)**, which provides food assistance to 37,000 legal immigrants ineligible for federal food stamps, resulting in budget savings of \$56.2 million in FY 2009-10 and \$56.2 million in FY 2010-11.

Reduces Healthy Families Eligibility and Benefits, Increase Premiums

The budget reduces Healthy Families Program eligibility from 250% to 200% percent of federal poverty, for savings of \$10.5 million in FY 2009-10 and \$63.9 million in FY 2010-11. The budget also assumes corresponding savings of \$3.9 million in the California Children's Services (CCS) program due to decreased enrollment via Healthy Families eligibility. Additionally, the budget eliminates vision coverage and increases monthly premiums for families with incomes 151-200% percent of federal poverty, from \$16 to \$30 per child, and from \$48 to \$90 maximum per family, for savings of \$21.7 million.

CalWORKs

The proposed budget includes SGF savings of \$146.1 million as a result of the following CalWORKs changes that would become effective June 1, 2010. (These savings would increase to \$700 million if the federal government does not extend Emergency Contingency Funds (ECF) for CalWORKs).

- Reducing monthly grant payments by 15.7 percent (on top of the 4 percent grant cut already enacted in 2009-10)
- Reducing the level at which the State reimburses child care providers.
- Eliminating grants for Recent Legal Noncitizen Entrants.

Nursing Homes

The budget expresses intent to achieve reauthorization of the Quality Assurance Fee assessed on nursing homes, which currently sunsets on July 31, 2011.

Corrections Reductions

The budget includes a number of budget reductions in the area of corrections and rehabilitation, including but not limited to:

- Reducing \$811 million of support for the Receiver's Medical Services Program to reduce per-inmate medical costs to a level comparable to other states' correctional health care programs;
- Reduces \$879.7 million by assuming California will be successful in obtaining full reimbursement from the federal government for the cost of incarcerating undocumented immigrants who commit crimes;
- Reduces \$291.6 million by proposing statutory changes to modify sentences for specific non-serious, non-violent, non-sex offenses (including drug possession) to be punishable by one year imprisonment in local jails; and
- Reduces \$41.3 million and \$6.7 million Proposition 98 General Fund due to proposed statutory changes to reduce the juvenile offender population by restricting the age of jurisdiction to 21, transferring offenders to adult institutions, and limiting time-adds.

Legislative Democratic Leadership Response

Shortly after the Governor concluded his budget presentation, Senate Pro Tem Darrell Steinberg, Assembly Speaker Karen Bass, Senate Budget Chair Denise Ducheny and Assembly Budget Chair Noreen Evans held a press conference to respond to Governor Schwarzenegger's FY 2010-11 budget. Both Senator Steinberg and Speaker Bass praised the Governor's intention to seek increased federal funding, but Senator Steinberg stated that his first response was "*You've got to be kidding.*" Legislative Democrats were extremely critical of the Governor's significant cuts to the safety net.

Senator Steinberg also remarked that the Governor's 2010-11 budget proposal showed a "*lack of creativity*" -- particularly his proposal to again ask the voters to sweep the Proposition 63 and Proposition 10 accounts. He further remarked that the voters had resoundingly rejected proposals to solve the state's budget dilemma via ballot initiatives, and that it was the responsibility of the Governor and the Legislature to solve these problems. Legislative Democrats also made clear that they were under less pressure to quickly resolve the budget gap since the state was in a much better cash situation than last year at this time. Both Senator Steinberg and Speaker Bass said that they intend to sit down at the negotiating table with the Governor, but they would be "*taking a different approach*" this year.