



July 27, 2009

**TO:** CMHDA Members

**FROM:** Patricia Ryan, Executive Director  
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**SUBJECT: Update on Revisions to the Fiscal Year 2009-10 State Budget**

On July 24, the Legislature approved a 27-bill budget package that revises the 2009–10 spending plan enacted in February. However, the \$24 billion budget package being sent to the Governor excludes two measures rejected by the Assembly. These two measures would have provided about \$1.1 billion in the deficit-reduction package by shifting transportation funding from local governments and permitting offshore oil drilling in California for the first time in 40 years. The Governor is expected to sign the bill package Tuesday, and plans to use his line-item veto authority to replace the funding lost through the Assembly's rejection of the two bills and close the \$26.3 billion budget gap.

The Legislature is now in recess until August 17, but anticipated legislative activity during the month includes the development of legislation to achieve \$1.2 billion in unallocated cuts to the California Department of Corrections and Rehabilitation (CDCR), as well as additional work on the Proposition 1A suspension and securitization to ensure local entities have solid protections that enable them to borrow.

Since some of the trailer bill language is not yet available, the summary of actions detailed below reflects our current understanding of what was enacted. Once all trailer bill language is available, we will issue an update to this summary if any major items have changed.

Overall Picture
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The budget does not suspend Proposition 98 (K-14 education), and guarantees \$11.2 billion of its repayment in future years. Additionally, programs such as CalWORKs, Healthy Families and In-Home Supportive Services (IHSS) were not altogether eliminated as originally proposed by the Governor, but were significantly reduced.

Table 1. Summary of Funding Reductions in 2009-10 State Budget

<b>Major program area</b>	<b>Amount</b>
<b>Proposition 98 funds</b>	\$6.1 billion
<b>Higher education</b>	\$2 billion
<b>Local redevelopment agencies</b>	\$1.7 billion
<b>State worker furloughs</b>	\$1.3 billion
<b>Corrections</b>	\$1.2 billion
<b>Medi-Cal</b>	\$1.3 billion
<b>CalWORKs</b>	\$528 million
<b>Developmental services</b>	\$334 million
<b>In-Home Support Services (IHSS)</b>	\$226 million
<b>Healthy Families</b>	\$124 million

State worker furloughs have been expanded from two to three days every month through June 2010. The furloughs amount to an effective pay cut of 15% for state employees.

The budget borrows \$2 billion by suspending Proposition 1A of 2004. Specifically, 8% of property tax revenues from cities, counties, and special districts will be diverted to schools. The state must repay the \$2 billion (with interest) within three years. There is a hardship clause intended for cities in bankruptcy or similar distress, and local entities may mutually agree to shift the reduction across entities within the county. For more information about the suspension and payback of Proposition 1A, see both [AB 14 x4](#), and [AB 15 x4](#).

Early and Periodic Screening, Diagnosis and Treatment (EPDST)

- The February state budget provided \$824.5 million for EPSDT. This budget increases the total EPSDT amount to a little over \$1 billion. However, it states that an additional \$34.89 million (\$15.79 GF) in EPSDT expenditures are deferred until the 2010-11 fiscal year. This deferral includes funding for the 2006-07 cost settlement payment due to counties, which reflects action taken by the Legislature’s Budget Conference Committee.

Medi-Cal Specialty Mental Health Managed Care

- The February state budget provided \$226.65 million for Medi-Cal Specialty Mental Health Managed Care. This budget reduces that amount by half, providing only \$113.27 million.
- As you may recall, when the Budget Conference Committee adopted this budget reduction, they agreed that counties need only provide “federally required” in-patient hospitalization and medication services. However, no budget language appears to exist that reflects a change in counties’ obligations under Medi-Cal Specialty Mental Health Managed Care.
- The budget reduction assumes counties will continue to have the same responsibilities under the current state plan with the U.S. Centers for Medicare and Medicaid Services (CMS).

## AB 3632

- The February budget provided \$104 million for AB 3632 services. This budget reduces that amount by half, providing to Department of Mental Health (DMH) only \$52 million. The budget states that these funds shall be used to “offset the mandate reimbursement claims for the 2006-07 fiscal year. Remaining funds may be used to offset the mandate reimbursement claims for the 2006-07, 2007-08, 2008-09, and 2009-10 fiscal years.”
- As you may recall, when the Budget Conference Committee adopted this budget reduction, they ignored testimony from the Legislative Analyst Office (LAO) that the Legislature must either abide by Proposition 1A, which requires the state to fully fund local mandates (including this program, which would require \$160 million this fiscal year), or suspend the mandate on counties. The LAO also pointed out that counties are already owed approximately half a billion dollars from prior years for services they have already provided under this program. The state’s failure to fully fund this mandate is a violation of the State Constitution.
- CMHDA had hoped that trailer bill language would have been included in the budget to authorize the State Controller to reimburse counties for out-of-state, for-profit placements under Individualized Education Plans (IEPs), pursuant to CMHDA-sponsored AB 421 (Beall) which was held under suspense in the Assembly Appropriations Committee this session. Unfortunately, this item did not make it into the final budget package.

## SSI/SSP

- In the February budget, SSI/SSP grants were reduced by 2.3% (\$20 for individuals and \$35 for couples per month), effective July 1, 2009.
- This budget further reduces the maximum grants for individuals from \$850 to \$845 per month and for couples from \$1,489 to \$1,407 per month, for GF savings of \$115.9 million.

## CalWORKs

- The budget makes \$200 million in additional reductions to the CalWORKs single allocation, “to recognize that employment services are not needed during these recessionary times.” The Governor had proposed to eliminate the program.
  - *CMHDA recommends county mental health departments discuss this issue with local social services departments. It is our understanding that county social services will have flexibility to utilize CalWORKs behavioral health allocations to provide other types of services, if they so choose.*
- Reduces CalWORKs funding by \$528 million for two years and institutes various reforms, starting in two years. Reforms include additional face-to-face contacts with recipients and social workers (twice a year, instead of current once a year), ion of penalties for families by as much as 50% when adults do not comply with work requirements, and reduces the time families can be in the program to 48 cumulative months, with recipients maintaining a final 12 months of eligibility following a year out of the program. Also, certain families (e.g., those with very young children) are temporarily exempted from work requirements, reverting funds, and adjusting caseload estimates.

## Healthy Families

- The Healthy Families program has been reduced by \$124 million, but with no changes in the eligibility threshold. The Governor had proposed a larger reduction to this program and proposed to limit access to families at 200% of poverty (rather than 250% of poverty).
- Establishes a waiting list for enrollment unless, as hoped by the Legislature, philanthropic organizations (e.g., State First 5 Commission) make contributions to the program.

## \*NEW Centralized Eligibility Determination Project

- The budget requires Department of Health Care Services (DHCS) and Department of Social Services (DSS) to develop a plan for a centralized statewide eligibility and enrollment process for Medi-Cal, CalWORKs, and the Supplemental Nutrition Assistance Program (SNAP).
- The departments are required to convene a stakeholder steering committee, including representatives of county human services agencies and the California State Association of Counties (CSAC).
- The budget requires Legislative approval of the plan and availability of federal financial participation funding prior to implementation.
- The County Welfare Directors Association (CWDA) and CSAC lobbied actively against this proposal. To read CWDA's background document (7 pgs.), see: <http://www.cwda.org/downloads/priorities/budget2009/BudgetMemo071409.pdf>
- CMHDA will actively seek county mental health director participation in this new initiative. As additional details become available, we will share them with members.
- For more information about this item, see [AB 7 x4](#).

## \*NEW Restructuring of Medi-Cal Managed Care through Federal Waiver

- The budget requires DHCS to submit a Medi-Cal Waiver or Demonstration Project to the federal government in order to “strengthen California’s health care safety net,” reduce the number of uninsured residents, increase federal financial participation, improve health care quality and outcomes, promote home and community based care, slow growth of the Medi-Cal program, improve coordination between Medi-Cal and Medicare, and improve integration of physical and behavioral health care.
- The waiver must be submitted in time to be approved by the federal government no later than September 1, 2010, or the conclusion of the current Medi-Cal Hospital (1115) waiver.
- The waiver would seek authority to require enrollment of “our most vulnerable beneficiaries” into specified organized delivery systems such as managed care, enhanced primary care case management, or a medical home model.
- Of particular concern to counties, the budget authorizes DHCS to “maximize federal claiming” by claiming federal reimbursement for:
  - Expenditures in programs funded by realignment funds;
  - Expenditures in programs funded by the county Mental Health Services Act;

- Other public expenditures; and
  - State-only funded programs.
- Requires DHCS to convene and consult with a stakeholder advisory group in developing the waiver and implementation plan, including, but not limited to persons with disabilities and county government.
- CMHDA is preparing a separate document that analyzes this particular project in greater detail.
- CMHDA will actively seek county mental health director participation in the development of this initiative.
- For background documents about Medicaid Waiver recommendations, see the CMHDA Medi-Cal Policy Committee handout page: <http://cmhda.org/go/Committees/MediCalPolicyCommittee/MCPHandouts.aspx>
- For more information about this item, see [AB 6 x4](#).

Foster Care
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- Reduces foster care programs by \$36.7 million, including state budget savings of \$26.6 million from a 10% reduction to rates for Group Homes, Foster Family Agencies, and placements for Seriously Emotionally Disturbed children.

Mental Health Services Act (MHSA)
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- Provides \$40.1 million in MHSA for support of DMH.
- Reflects \$1.271 billion in MHSA funding available to counties.
- Require DMH to annually provide the Department of Finance a Funding Condition Statement of the Housing Support Account, to be annually published in the Governor's January 10 budget. The Legislature's intent is to "track the fiscal allocations made for the MHSA Housing Initiative Program."
- Provides MHSA state administration funding to various state departments and agencies, including:
  - Military Department: \$451,000
  - Veterans Affairs: \$214,000
  - Judicial Council: \$998,000
  - Board of Behavioral Sciences: \$306,000
  - Office of Statewide Health Planning & Development (OSHPD)
    - For support of OSHPD: \$3,086,000
    - For OSHPD local assistance: \$500,000
  - Department of Aging: \$246,000
  - Managed Risk Medical Insurance Board: \$181,000
  - Department of Developmental Services (DDS)
    - For support of DDS: \$381,000
    - For Regional Centers: \$740,000
  - Department of Alcohol and Drug Programs: \$288 million
  - DHCS: \$992 million
  - Department of Rehabilitation: \$220,000
  - California Department of Education (CDE): \$664,000
- Permits expenditure of prior year balances until June 30, 2010, including the ability for CDE to "contract with mental health/educational professionals to support the involvement of local educational agencies in local mental health

planning and implementation efforts” pursuant to MHSA (see page 350 of [AB 1 x4](#)).

#### Safety Net and Food Programs for Poor Immigrants

- Decreases Cash Assistance Program for Immigrants (CAPI) grants of approximately 12,000 aged, blind, and disabled legal immigrants (who would be eligible for SSI/SSP but for their immigration status), consistent with the reductions adopted in the SSI/SSP program. The Governor had originally proposed eliminating CAPI and the California Food Assistance Program (CFAP).

#### Medi-Cal

- Reduction of about \$2.8 billion to reflect receipt of enhanced federal American Recovery & Reinvestment Act (ARRA) funds.
- Assumes receipt of \$1 billion in federal funds for repayment to California for expenditures made within the Medi-Cal Program which should have been funded by the federal government.
- Adopts the Governor’s unallocated reduction of \$323.3 million.
- Increases fees paid by skilled nursing facilities (SNFs) by expanding the amount of revenue upon which the AB 1629 fee is based, to include Medicare revenue, generating \$18 million in increased revenue to the state.
- Suspends cost-of-living increases effective August 1, 2009, for SNFs and other long-term care for state budget savings of \$75.8 million in 2009-10. However, this suspension *does not* apply to Institutions for Mental Disease (IMDs).
- Saves the state budget \$14 million by eliminating the state-only payment for ancillary health services provided in IMDs. The state assumes that counties will pick up the costs of these medical ancillary services. CMHDA staff intends to further analyze this issue, as it appears to conflict with current statute.<sup>1</sup>
- Saves the state budget \$22.5 million by requiring pharmacies to bill Medi-Cal at a rate that is comparable to private third-party payers.
- Saves the state budget \$37 million by making changes in the Medi-Cal reimbursement to pharmacies related to the estimated acquisition cost of drugs.
- Reduces payments to hospitals by sweeping the Distressed Hospital Fund for state budget savings of \$23 million.
- Reduces payments to private hospitals by \$23.9 million to reflect a 10% reduction in disproportionate share hospital funding.
- Saves the state budget \$26.8 million by reducing Adult Day Health Care coverage to three days per week.

#### Alcohol and Drug Programs

- Reduces Drug Medi-Cal provider rates by 10%, for GF savings of \$8.8 million.
- Eliminates \$90 million in funding for Proposition 36 programs.

<sup>1</sup> Per Welfare & Institutions Code Section 14053.1: “Notwithstanding Section 14053, ancillary outpatient services, pursuant to Section 14132, for any eligible individual who is 21 years of age or over, and has not attained 65 years of age and who is a patient in an institution for mental diseases shall be covered regardless of the availability of federal financial participation.”

- Continues funding for treatment under the Offender Treatment Program (OTP) and provides federal Byrne funds of approximately \$45 million to supplement OTP services. For more information about Byrne funds, see pages 46-50 of [AB 1 x4](#).

#### Community Clinics

- Rural Health Services are reduced by \$2.2 million, Seasonal Migratory Worker services are reduced by \$1.9 million, and Expanded Access to Primary Care Clinics funding is reduced by \$8.4 million. The Governor had originally proposed complete elimination of these programs.

#### Corrections and Judiciary

- The budget provides \$2.17 billion for support of the California Department of Corrections and Rehabilitation (CDCR), but achieves \$1.2 billion in unallocated reductions to corrections. This amount includes \$341.58 million for adult mental health services, and \$52.4 million for adult dental and mental health services administration.
- Under CDCR capital outlay, provides \$6.43 million to construct a 20-bed psychiatric services unit within the California Institution for Men.
- Reduces \$168.6 million in judiciary funding by reducing GF support to the courts by 10%. This reduction will be achieved through various measures, including one-day per month court closures, transfer of reserves in various funds, and an increase in fees.

#### Education and Special Education

- The budget makes \$426,000 available for programs for homeless youth and adults pursuant to the federal McKinney-Vento Homeless Assistance Act, and requires SDE to consult with other departments, including DMH, in operating the program.
- The budget makes \$443,000 in federal IDEA funds available for 3 positions within CDE for “increased monitoring associated with the mental health services required by an individualized education plan” pursuant to Chapter 493, Statutes of 2004” (Special education mental health services, originally established through SB 1895 by Senator Burton). CMHDA will seek additional information about how this will be implemented.
- The budget continues to provide \$31 million to Local Education Agencies to “provide mental health services required by an IEP” pursuant to the federal IDEA and pursuant to Chapter 493, Statutes of 2004.
- In the area of IDEA State Level Activities, the budget provides \$70.72 million. Of this amount, \$69 million must be used “exclusively to support mental health services that are provided during the 2009-10 fiscal year by county mental health agencies” that are included in an IEP pursuant to the federal IDEA. The budget specifies that this allocation reflects the county’s share of \$69 million in federal special education funds provided beginning in fiscal year 2004-05 for mental health services. For more information about this item, see page 311 of [AB 1 x4](#).

## Mental Health Professional Recruitment

- The budget makes \$350,000 available to Department of Personnel Administration to contract with one or more recruitment contractors to locate and develop a pool of prospective health care professionals for various state departments that employ medical, mental health, or dental professionals. The Director of Finance is authorized to augment this item by up to \$1.5 million if the Legislature determines it would be in the interests of the state to expand the project.