2011-12 STATE BUDGET UPDATE
Overview of the budget process
Timeline and Flow

1. Governor released January budget proposal, including realignment proposal. (Jan. 10, 2011)
2. Budget Committees in both houses hear the proposal, take some actions.
3. Budget Conference Committee to reconcile differences between the houses.
4. Governor releases proposed Constitutional amendment for realignment. (Feb. 28, 2011)
5. Governor releases revised Realignment proposal. (Feb. 25, 2011)
7. Governor releases revised Constitutional amendment language. (March 9, 2011)
What’s Next

VOTES NEEDED
• **Budget**: Majority vote
• **TBL**: Majority vote
• **Realignment/constitutional language to ballot**: 2/3 vote

- State Budget & Constitutional Amendment language voted on by the full Assembly & Senate.
- Governor signs Constitutional Amendment language to Secretary of State for June 7 special election.
- June 7 special election.
  - Extension of taxes for five years
  - Constitutional amendment for realignment

Development of implementing state statutes for Realignment.
What if June Ballot Measure Doesn’t Pass?

- Realignment proposal does not occur.
- Approximately **$6 billion** in additional state budget reductions to balance the state budget.
- Budget reductions to K-12 education likely.
- Additional reductions to health and human services likely.
- $861 million MHSA diversion likely occurs anyway, but loses the Realignment “cover” that a new revenue source will bring added funds to the community mental health system.
2011-12 Budget Vote Imminent

- State Budget deficit is estimated at $26.6 billion.
- Half of the Democrat’s budget contains $12.5 billion in cuts (mostly health, social services, and higher education programs).
- The other half is linked to Governor’s proposal to ask voters to extend about $11 billion in temporary tax increases due to expire this year.
- Protects K-12 education.
- $1.1 billion State General Fund reserve.
2011-12 Health & Human Services
Budget Reductions

- SSI/SSP
- CalWORKs
- Child Care
- ADHC
- Healthy Families
- Child Welfare Services
- Medi-Cal
- IHSS
- Prop. 10 (First 5)
- County Veterans Service Officers
GOVERNOR’S REALIGNMENT PROPOSAL

THE PROGRAMS AND CONSTITUTIONAL AMENDMENT LANGUAGE
Governor’s Realignment Proposal
(Reflects February 25, 2011 Revisions)

- CALFIRE
- Court security provided by county sheriffs
- Training funds for local custody and law enforcement
- Variety of public safety state mandated activities
- Adult Protective Services
- Adult parole

- Lower-level offenders, parole violators
- Juvenile justice programs
- Mental health services
- Substance abuse treatment
- Foster care and child welfare services

Total FY 2011-12: $5.9 B
Total FY 2014-15: $7.2 B
Governor’s Proposed Ballot Language (Constitutional Amendment)

- Revenues for years 1-5 guaranteed.
- Year 6+ funded with state General Fund.
- Intent to provide counties with maximum flexibility in running programs.
- County role in decision making with federal govt.
- Realigned programs are not mandates (no SB 90 process).

- New programs/higher levels of service imposed by the following are operative only to the extent the state provides funding:
  - State laws, state regulations, executive orders, directives
  - State plans negotiated with federal govt.
  - State settlements of federal litigation.
Governor’s Proposed Ballot Language (Constitutional Amendment), cont.

- For realigned programs, costs for subsequent changes in **federal** law that alter the conditions under which federal matching funds are obtained will be shared 50/50 between the state and counties.

- For **federal** judicial or administrative proceedings, or a settlement or judicial or administrative order that imposes a cost of monetary penalty, costs will be shared 50/50 between the state and counties (unless the result is a consequence of county error).
Governor’s Proposed Ballot Language (Constitutional Amendment), cont.

- No funding protection for:
  - State judicial decisions
  - Voter initiatives
  - State legislative designation of new crimes

- No provisions to require separate funding sub-accounts or firewalls among each realigned program (at either the state or local level).
CSAC’s 2011 Realignment Considerations

- Board of Supervisors must retain expenditure and program authority.
- Local taxing authority not an appropriate means for providing resources.
- Counties need broad flexibility to manage realigned programs.
- Counties support a new role for state agencies.
- Counties must maintain independent authority to hire employees of their preference.
- Concerned the Administration’s revenue projections are optimistic.
- Base shortfalls in 2011 package totaling $779 M.
Other CSAC 2011 Realignment Considerations, cont.

- Provide means to restore base funding to mental health and social services programs and base restoration to 1991 realigned programs.
- Address long-standing mandate date (pre 2004 and Suspended Mandates)
  - Include in repayment amounts owed for AB 3632.
- Counties do not want to reopen the 1991 realignment.
- Concerned about the Phase Two Realignment proposal.
Low-Level Offenders, Parole Violators, and Adult Parole Realignment Proposal

- **Low-Level Offenders**
  - Convicted of non-serious, non-violent, non-sex offenses.
  - No prior convictions of above offenses.
  - Permits contracting with the state for the full cost of housing offenders in a state facility.

- **All Parole Violators**

- **Adult Parolees**
  - Non-serious, non-violent, regardless of prior convictions.
  - Excludes 3rd strike, current convictions of serious or violent crime, or high risk sex offender parolees.
Juvenile Justice Realignment Proposal

- All remaining wards housed in state juvenile facilities.
- Allows counties to contract with state Division of Juvenile Justices to house offenders, but counties must contract with state for all of their violent youth or serve through a county program.
- In future, state needs to reassess role in juvenile justice.
Mental Health
Realignment Proposal

- Permanently realign AB 3632, EPSDT, Medi-Cal Specialty Mental Health to counties.
- Pay for the first year (FY 2011-12) by diverting $861 million from the MHSA to save state GF (2/3 vote of the Legislature to amend MHSA).
- Pay for subsequent four years with new revenue source, per June ballot initiative.
- Include 1991 mental health realignment by swapping its original revenue source with the new revenue source, per June ballot initiative.
Governor’s Mental Health Realignment Proposal

Estimated Annual Revenues: FY 2012-13 to FY 2014-15
(Per Governor’s Feb. 25, 2010 proposal)

<table>
<thead>
<tr>
<th>PROGRAM</th>
<th>Estimated Revenue</th>
<th>Estimated Need</th>
<th>(Difference)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPSDT</td>
<td>$636.9 M</td>
<td>$709.9 M</td>
<td>($73 M)</td>
</tr>
<tr>
<td>Medi-Cal Managed Care</td>
<td>$190.7 M</td>
<td>$255.3 M</td>
<td>($64.6 M)</td>
</tr>
<tr>
<td>Educationally Related Mental Health Services</td>
<td>$150.9 M</td>
<td>$200 M</td>
<td>($50 M)</td>
</tr>
<tr>
<td>‘91 Mental Health Realignment Services</td>
<td>$1.077 B</td>
<td>$1.077 B</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>(starts FY 11/12)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$2 B</strong></td>
<td><strong>$2.1 B</strong></td>
<td><strong>($187.6 M)</strong></td>
</tr>
</tbody>
</table>

**NOTE:** No firewalls, separate accounts, or allocation amounts for any of the realigned programs have been specified to date.
MHSA Redirection of $861 Million

- CMHDA Advocated for “Least Harm” Approach
  - Loan to the State General Fund.
  - Sequential steps for taking funds from the MHS Fund and distributing to counties for the realigned programs and MHSA component allocations for FY 2011-12.
  - Consult with counties on a formula for distribution.
  - Exclude AB 3632.
  - Flexibility on prudent reserve policies.
Update on Trailer Bill to Implement $861 M MHSA Redirection

July 1, 2011
$183.6 M
for Specialty MH Medi-Cal Managed Care

$98.5 M
for Educationally-Related Mental Health Services

Approximately half of FY 11-12 CSS, PEI, INN

Quarterly distributions totaling $579 M
for EPSDT

July 1, 2012
MHS Fund distributions will be “pay as you go” accrual approach, rather than cash basis.
**EPSDT:**

**2011 Realignment Issues**

<table>
<thead>
<tr>
<th>Issues</th>
<th>Protections/Mitigations</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Federal entitlement</td>
<td>□ Base restoration.</td>
</tr>
<tr>
<td>□ DMH’s EPSDT funding estimates include questionable offsets.</td>
<td>□ GF backstop.</td>
</tr>
<tr>
<td>□ The state budget allocation for this program has been typically insufficient.</td>
<td>□ 100% state share of cost for lawsuit settlement.</td>
</tr>
<tr>
<td>□ Proposed base is underfunded.</td>
<td>□ State share of growth costs from changes in law, court actions, penalties.</td>
</tr>
<tr>
<td>□ Significant litigation.</td>
<td>□ County role in state decision making, including negotiations with federal CMS.</td>
</tr>
</tbody>
</table>
Specialty Mental Health Managed Care: 2011 Realignment Issues

Issues
- Federal entitlement
- Proposed base is underfunded.

Protections/Mitigations
- Same as EPSDT.
- Additional flexibility by eliminating state-only rules (CMHDA bill AB 1297).
- Clarify responsibilities for health care ancillary services delivered to residents of IMDs.
AB 3632:
2011 Realignment Issues

**Issues**

- Federal entitlement, schools determine AB 3632 referrals.
- Base underfunded (Administration anticipates that cost controls can be implemented to reduce costs).
- Counties would lose access to the SB 90 mandate reimbursement.
- Long history of underfunding and litigation. Counties owed approximately $400 million in past mandate claims.
- Schools have no “skin in the game” financially.

**Protections/Mitigations**

- The Administration anticipates that cost controls can be implemented to reduce costs.
- Remove mandate from counties.
- Re-name to “Educationally related mental health services”
- Rewrite state statute and regs. to specify counties are responsible to the extent resources are available.
- MOUs between county mental health departments and LEAs.
- Preserve use of IDEA funds.
- One-year transition period.

- Existing ‘91 realignment funds will be funded with new revenue source. Freed up resources will be used to fund increased county sharing ratio for CalWORKs grants (from 2.5% to 40%).

- How will moving community mental health programs out of the 1991 realignment funding source affect funding for these programs? Will the 1991 formulas apply to the 2011 fund sources?

- Will the original ‘91 financial provisions remain in place to require these funds to be used for state hospital and community based involuntary treatment alternatives, including IMDs?

- 1991 Realignment fiscal year starts July 15 for VLF and August 15 for Sales Tax. How will differing fiscal years between 2011 and 1991 proposals affect the transaction?
REDUCTION TO MHSA STATE ADMINISTRATIVE EXPENDITURES

ADDITIONAL ACTION ADOPTED BY BUDGET COMMITTEES
MHSA State Administration
Expenditures Reduced to 3.5%

- Budget Committees’ Action
  - Trailer bill to reduce from 5% to 3.5%, hold OAC harmless.

- Administration’s proposal
  - Reduce budget by $30 million, reduce personnel by 143
  - Eliminate most MOUs with other state agencies
  - Eliminate county plan approval and clarify state’s role

- Budget Conference Committee compromise
  - Eliminate DMH and OAC county plan review and approval
  - OAC will take the lead on evaluation efforts
  - State admin funding: $22 M ($10 M for local MHSA services)
  - 67 state personnel remain
  - Few MOUs with other state agencies remain
  - Elimination or reduction of some contracts
Next steps for CMHDA
Next Steps for CMHDA

- Identify a process for developing principles for distribution of MHSA, EPSDT, Medi-Cal, and Educationally-Related Mental Health funds.
- Continue to advocate for firewalls or other protections to ensure adequate funds for 2011 realigned mental health services.
- Identify recommendations on the realignment implementation statute; identify state laws and regulations that should be changed or eliminated.
- Discuss the practical implications of the MHSA redirection for FYs 2011-12 and 2012-13.
- Continue efforts to gain state-level administrative efficiencies.