



May 16, 2011

TO: CMHDA Members

FROM: Patricia Ryan, Executive Director
Kirsten Barlow, Associate Director, Legislation and Public Policy

SUBJECT: **Governor's FY 2011-12 May Revise**

SUMMARY

Today, Governor Jerry Brown released his May Revise for Fiscal Year 2011-12. As you know, the Legislature adopted \$13 billion in budget deficit solutions in March to address the \$26 billion 2011-12 state budget shortfall. Due to the state's economic recovery since January, the May Revise reports \$6.6 billion in increased revenues. However, these revenue gains are offset in the May Revise by additional Prop. 98 expenditures, restoring underfunded costs at the California Department of Corrections and Rehabilitation (CDCR) and the Department of Mental Health (DMH), lower savings due to the adoption of March solutions one month later than anticipated, and (due to ongoing litigation) loss of the \$1 billion proposed shift of funds from Proposition 10 (First Five). To balance the 2011-12 budget, \$10.8 billion in solutions are needed to eliminate the deficit and rebuild a \$1.2 billion reserve. Looking forward, the Governor indicates that the Department of Finance projects that the state will face at least a \$10 billion budget gap through 2014-15 unless long-term solutions are adopted.

The May Revise reflects proposals that build on the Governor's January budget, which are designed to reduce state government, pay off the state's debts, create incentives for businesses, and protect education and public safety by extending current taxes and funding a historic realignment of responsibility to local governments.

Absent the Governor's "balanced approach," he warns the state's only other options are an "all cuts" budget or a combination of "gimmicks and cuts." In an all cuts scenario, additional reductions to K-14 education would be needed, which could eliminate weeks from the school year, eliminate community college courses, increase teacher lay-offs, result in higher community college and university fees, and raise class sizes. Additionally, the Governor states that reductions would need to be made in the state's supervision of non-serious, non-violent parolees. In the area of health and human services, additional reductions would be needed to CalWORKs grants, IHSS, AIDS drugs, Medi-Cal coverage for prescriptions and supplies, Adult Protective Services, and deeper cuts in developmental services.

EDUCATIONALLY RELATED MENTAL HEALTH SERVICES (AB 3632)

The May Revise proposes a significant change, compared to the Governor's January budget proposal, with regard to the "AB 3632" (educationally related mental health services) program. Specifically, it would permanently repeal the "AB 3632" mandate on counties, and realign the program (both mental health and residential services) to school districts (rather than to counties) in FY 2012-13. In other words, this program is no longer proposed to be realigned to counties as part of the Governor's public safety realignment proposal. The May Revise proposes to re-bench the Proposition 98 guarantee in order to provide \$221.8 million to schools for these services. The May Revise continues to provide \$98.5 million in diverted Mental Health Services Act (MHSA) funds to county mental health agencies on a one-time basis in FY 2011-12, and specifies that school districts may contract with counties to provide services using these funds. The proposal states that "schools would be responsible for any costs exceeding this amount." Additionally, the May Revise decreases \$68 million from the Department of Social Services budget that would have paid for residential placements for special education students. Instead, \$66.6 million of this amount will now be included in the Prop. 98 General Fund that schools may use for this purpose. In total, the May Revise proposes \$389.4 million from all fund sources, including \$69 million in federal IDEA funds, for special education mental health services, all to be managed by local education agencies.

Reading between the lines, this proposal would appear to continue to "suspend" the AB 3632 mandate on counties in FY 2011-12, since schools rather than counties would be responsible for ensuring that students receive their IDEA-related mental health services -- either directly, through contracts with counties, or a combination of the two.

STATE GOVERNMENT CHANGES

The Governor proposes to eliminate 43 boards, commissions, task forces, offices and departments. Of most interest to community mental health, proposed for elimination are:

- Department of Mental Health (DMH): The May Revise proposes to establish a new Department of State Hospitals, and to eliminate DMH. The Governor proposes to transfer all state-level responsibilities for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) and Medi-Cal mental health managed care programs to DHCS during 2011-12, and to include a proposal for all remaining DMH community mental health functions in the Governor's January 2012-13 Budget.
- Department of Alcohol and Drug Programs (ADP): The May Revise proposes to eliminate ADP, move all Drug-Medi-Cal functions to DHCS, and shift all remaining functions to another department (to be identified in the Governor's January FY 2012-13 budget).
- Managed Risk Medical Insurance Board (MRMIB): The May Revise proposes to eliminate MRMIB, as well as merge the Healthy Families Program into the Medi-Cal Program to "reduce costs and create a single health care program for low-income families." This proposal is estimated to save \$31.2 million General Fund in FY 2011-12. Of concern to CMHDA in this proposal is the potential impact to counties, due to the lower county match (35% county, 65% federal) for the Healthy Families SED program, as opposed the 50/50% match for EPSDT.

REALIGNMENT PROPOSAL MAINTAINED, WITH SOME CHANGES

The May Revise maintains the Governor's realignment proposal, with some changes. In terms of process, the May Revise proposes that the Legislature "implement" and the voters "ratify" a plan (including a Constitutional Amendment with the protections counties require) that extends current sales tax, VLF rates, and the dependent credit exemption level for five years to fund realignment of public safety programs. The May Revise maintains the proposal to realign EPSDT and Medi-Cal Specialty Mental Health Managed Care (but not AB 3632, as described above).

Additionally, the proposal adds \$44.6 million to the amount to be allocated to counties under realignment to pay for additional resources for District Attorneys and Public Defenders in dealing with parole revocation hearings, as well as provide additional program dollars for offenders being served either in the community or serving a revocation term.

SSI/SSP GRANTS FOR INDIVIDUALS

The May Revise reduces SSI/SSP grants for individuals to the federal minimum. With this reduction, the maximum monthly SSI/SSP grant for individuals would be reduced from \$845 to \$830. SSI/SSP grants for couples were already reduced to the federal minimum last November.

MEDI-CAL 1115 DEMONSTRATION WAIVER

The May Revise decreases \$95.2 million in FY 2010-11 funding through "identifying additional options" to claim waiver funds. The recently approved waiver provides for up to \$400 million in General Fund savings annually that can be claimed with expenditures in state-only programs. However, current projections are that the state will fall short of that level in the current year. The May Revise states that to achieve the maximum General Fund savings, the state would use a combination of additional state-only costs and surplus CPEs that public hospitals would volunteer to use in the current year. CMHDA will seek additional information about this item to determine whether counties' unmatched MHSA expenditures are included in the reference to "surplus CPEs."

This memo presents our preliminary summary of the Governor's May Revise. We will share additional information as it becomes available. Please do not hesitate to contact us at pryan@cmhda.org, kbarlow@cmhda.org, or (916) 556-3477 with any questions you may have.