LAO POLICY BRIEF

The 2010-11 Budget:

How the Special Session Actions Would Affect Health Programs

MAC TAYLOR • LEGISLATIVE ANALYST • JANUARY 22, 2010

The Governor declared a fiscal emergency on January 8, 2010, calling the Legislature into a special session to begin taking action on the $19.9 billion in solutions he proposes to address the budget problem and create a $1 billion reserve. Around 40 percent of the Governor's budget solution relies on funding or flexibility to be provided by actions of the federal government. Another 40 percent consists of reductions to state spending. The remainder of the Governor's proposals consist of various fund shifts. These include a proposal that the Legislature put measures before voters in June 2010 to allow use of a combined $1 billion of Proposition 10 early childhood development funds and Proposition 63 mental health services funds to help balance the budget.

The Governor's various proposed actions to obtain savings in the current and budget years through actions in the special session have significant implications for the state's health services programs. In this report, we (1) discuss some of the key overriding issues relating to the Governor's plan, (2) summarize the Governor's health budget proposals, and (3) provide our initial comments on a number of the major proposals in each specific program area. We note that we are still receiving information about these proposals from the administration that may prompt us to modify our recommendations.

Governor Seeks Increased Federal Share for Support of Health Programs

Obtaining additional federal funds is at the core of the Governor's budget proposals. The Governor's plan assumes an additional $3 billion for health programs alone in the ways described below.

The Federal Medical Assistance Percentages (FMAP) is the amount of federal matching funds received by states for expenditures for certain health and social services programs. The Governor's budget plan assumes that the *base* FMAP will increase from its current rate of 50 percent to 57 percent for savings of $1.8 billion in the budget year. The Governor's budget plan also assumes that the enhanced FMAP rate provided under the American Recovery and Reinvestment Act (ARRA) will continue through the budget year instead of expiring on December 31, 2010, for savings of $1.2 billion.

As we discussed in *The 2010-11 Budget: Overview of the Governor's Budget,* in our view, it is not realistic to expect the state will receive all of the federal relief that is assumed in the Governor's budget plan. We recommend that the Legislature operate on the assumption that federal government relief will total billions of dollars less than the Governor wants. This means that the Legislature faces some very difficult choices in regard to increasing revenues and reducing programs, including health programs, in order to balance the state budget.

Special Session Proposals

During the special session, the Governor proposes that the Legislature adopt almost $1.9 billion in budget solutions in health programs in the current year and budget year combined and put measures on the June 2010 ballot to facilitate General Fund budget relief of a combined $1 billion from Proposition 10 and Proposition 63 funds. In some cases, the approval of solutions prior to March 1 is necessary to achieve the savings estimated in the Governor's budget.

Governor Proposes Expenditure Reductions and Fund Shifts

The Governor proposes to reduce General Fund expenditures for health programs through a combination of reductions and fund shifts. These savings are estimated to amount to $108 million in the current year and $1.8 billion in the budget year. In Figure 1, we summarize the Governor's special session proposals.

As displayed here, the savings estimates reflect our adjustments to include the effect of extending ARRA but exclude the Governor's proposal for a 7 percent increase in the FMAP base. That is because, while we believe that it is reasonable to assume that the state will receive an extension of the enhanced FMAP provided under ARRA, we believe it is unlikely that the state will be given a 7 percent increase in its base FMAP.

PROGRAM EXPENDITURE REDUCTIONS

In the cases of a number of the reductions proposed for health programs, early action is needed to achieve budget solutions due to the lead-time necessary to implement some of them. Delays would result in an erosion of the savings that could be achieved. Therefore, we recommend that the Legislature consider any potential erosion that would occur as a result of delaying action as it deliberates over the Governor's proposals or any alternative proposals that it wishes to consider. We discuss a number of the specific proposals below.

Medi-Cal

In California, the federal Medicaid program is administered by the Department of Health Care Services (DHCS) as the California Medical Assistance Program (Medi-Cal). The Medi-Cal Program provides health care services to qualified low-income persons, primarily consisting of families with children and the aged or disabled. Federal law establishes minimum requirements for state Medicaid programs regarding the types of services offered and who is eligible to receive them. Required services include hospital inpatient and outpatient care, skilled nursing care, and doctor visits. In addition, California offers an array of services considered optional under federal law, such as physical therapy and durable medical equipment. California has also expanded eligibility beyond the levels required under federal law.

Budget Assumes Savings From Unspecified Cost Containment Strategies

Governor's Proposal. The administration proposes to implement a variety of cost-containment strategies in the budget year for General Fund savings of $917 million. The administration has not provided a specific proposal to achieve these savings at the time this analysis was prepared. However, according to DHCS, savings would in concept be achieved through a combination of utilization controls such as benefit caps for inpatient services, increasing co-pays and premiums, and other programmatic changes similar to changes that have been implemented in some other states. In order to guarantee full savings in the budget year, early action by the Legislature would be required due to payment lags and beneficiary notification requirements.

LAO Recommendation. We believe the administration's proposed approach to cost contain-

Figure 1

Governor's Proposed Special Session Solutions

(In Millions)

Program/Description	General Fund Savings 2009-10	General Fund Savings 2010-11	Federal Funds Loss
Program Expenditure Reductions			
Medi-Cal			
Implement a variety of cost-containment strategies	—	$917.1	$1,470.7
Eliminate Adult Day Health Care	$1.9	134.7	218.5
Eliminate full-scope Medi-Cal benefits for certain immigrants	1.2	118.0	—
Expand antifraud activities	—	21.7	Unknown
Roll back rate increases for family planning services	0.1	15.4	73.4
Defer institutional provider payments	94.3	-38.5	NA
California Children's Services			
Reduce eligibility	—	$4.1	$21.6
Healthy Families Program			
Reduce eligibility from 250 percent FPL to 200 percent FPL	$10.5	$63.9	$191.3
Increase premiums and eliminate vision benefit	—	21.7	42.8
Regional Centers Program			
Extend 3 percent provider payment reduction	—	$60.9	Unknown
Funding Shifts			
Proposition 63			
Ballot initiative to amend the Mental Health Services Act	—	$452.0	Unknown
Regional Centers			
Title XX block grant	—	$42.7	—
Budget impact of program reductions in other areas	—	-50.0	Unknown
Totals	**$108.0**	**$1,763.7**	**$2,018.3**

Note: Federal funds loss includes the impact of extending the enhanced Federal Medical Assistance Percentages (FMAP) provided under the American Recovery and Reinvestment Act but excludes the Governor's proposed 7 percent increase in the FMAP base.

FPL = federal poverty level.

ment has merit and that the level of savings estimated by the administration may be achievable. However, we withhold recommendation until the administration provides a detailed proposal for implementing these cost-containment measures.

Eliminate Adult Day Health Care

Adult Day Health Care (ADHC) provides social, therapeutic, and health services such as medication management, rehabilitation, and meals that are intended to delay or prevent the institutionalization of individuals who could remain in the community. About 37,000 Medi-Cal beneficiaries currently receive ADHC services at an estimated General Fund cost of $170 million (about $444 million total funds) in 2009-10. The ADHC benefit is considered optional by the federal government and states are therefore not required to provide such care as part of their Medicaid programs.

Governor's Proposal. The Governor proposes to eliminate Medi-Cal ADHC services starting June 1, 2010. This proposal would take effect March 1, 2010 but, due to beneficiary notification requirements, would not begin to generate savings until June 2010. The budget assumes General Fund savings of $1.5 million in 2009-10 and $134.7 million in 2010-11 (assuming ARRA is extended). These savings would be in addition to savings already assumed in the budget from prior-year reforms and cost-reduction measures, including the tightening of medical necessity standards, new requirements for on-site treatment authorization requests, and provider rate freezes.

LAO Comments. The administration's budget does not adequately account for General Fund cost shifts that could result from the proposed elimination of this benefit. The administration proposes to add $50 million to the budget of the Department of Developmental Services (DDS) budget to account for such cost shifts due to the elimination of ADHC (as well as cuts to other programs). This amount may be insufficient to account for the additional costs of providing DDS services for developmentally disabled clients, who would continue to receive services required under the state Lanterman Act. Moreover, the administration's budget plan does not account for some possible cost shifts to other services such as institutional care or the In-Home Supportive Services (IHSS) program.

On the other hand, the administration budget plan does not reflect savings from eliminating administration costs of the program. At the time of this analysis, the DHCS had not yet estimated the number of state ADHC administrative staff and associated costs that could be eliminated along with the program. We are working with the department to obtain this information.

LAO Recommendation. Due to the state's continuing poor fiscal situation and the need for immediate savings, we recommend that the Legislature adopt the Governor's proposal to eliminate the ADHC benefit. We note that other similar services such as IHSS and physical therapy benefits provided by Medi-Cal, are available for some of these beneficiaries. We further recommend that the Legislature direct the administration to develop a savings estimate that incorporates DHCS' administrative savings and fully identifies the cost shifts that would result from the elimination of ADHC.

As an alternative to the Governor's proposal, the Legislature may wish to direct DHCS to seek a federal waiver for the ADHC benefit to allow for certain limits on the benefit and targeting of services to the most needy and vulnerable individuals. The eventual savings from this approach would depend upon the specific policy approved in a waiver, but could potentially amount to the low tens of millions of dollars. However, pursuit of a waiver would likely mean that no savings would be achieved in the budget year because obtaining federal approval is usually a lengthy process.

Eliminate Full-Scope Medi-Cal Benefits For Certain Immigrants

Governor's Proposal. The Governor's budget proposes to eliminate full-scope Medi-Cal benefits for adult newly qualified immigrants (legal immigrants that have been residing in the United States for less than five years) and those with Permanent Residence Under Color of Law (PRUCOL). The department estimates this would impact nearly 49,000 newly qualified immigrants and about 17,000 PRUCOLs. The state pays all the costs for providing full-scope benefits to these beneficiaries except for certain services for which federal matching funds are available. Some benefits would not be eliminated under the Governor's proposal:

- Full-scope benefits for pregnant women and children who are newly qualified immigrants.
- Emergency services.
- Prenatal services (includes 60 days of postpartum care).
- State-only tuberculosis services.
- State-only time-limited Breast and Cervical Cancer Treatment Program benefits.
- State-only long-term care.

The proposal would take effect March 1, 2010 and, because of beneficiary notification requirements, savings would not be realized until June 2010. The budget assumes General Fund savings of $1.2 million in 2009-10 and $118 million in 2010-11 from these changes.

LAO Recommendation. We recommend the Legislature adopt the Governor's proposal to eliminate full-scope benefits for adult newly qualified immigrants and PRUCOLs and continue to provide emergency and other services such as long-term care to this population.

As an alternative to adopting the Governor's proposal, eligibility for full-scope Medi-Cal benefits could be retained for immigrants that are currently enrolled and the benefits could be eliminated prospectively. While this approach would protect current beneficiaries from the possible interruption of their health coverage, it would greatly diminish the level of savings that could be achieved in the budget year.

Expand Antifraud Activities

Governor's Proposal. The Governor's budget proposes to achieve General Fund savings of $21.7 million ($56.6 million from all funds) in 2010-11, by implementing antifraud activities that focus on physicians and pharmacies. In order to avoid an erosion of these potential savings, the Legislature would need to take action on this proposal by March 1.

The DHCS requests 38 new positions at a General Fund cost of $1.9 million ($5.1 million all funds) to implement this proposal. The antifraud initiative is summarized in Figure 2 (see next page).

LAO Comments. Fraud continues to be a problem in the Medi-Cal Program as demonstrated by the annual Medi-Cal Payment Error Study produced by DHCS. For this reason, the state has a significant level of staff resources committed to ensuring the fiscal integrity, efficiency, and quality of the Medi-Cal Program. Currently, the DHCS' Audits and Investigations (A&I) Branch has 712.5 approved positions. (We note that DHCS has 373 positions that it identifies as fraud and abuse prevention resources. Some of these staff are in addition to the 712.5 in A&I and others are included in the 712.5.) In addition, the Department of Justice's Attorney General's Bureau of Medi-Cal Fraud and Abuse has 218 positions responsible for handling matters related to Medi-Cal fraud and patient abuse and neglect.

The DHCS A&I staff currently uses research to identify the areas where the most significant fraud is occurring and then staff conduct compliance-based sweeps of suspicious providers. The department's practice is to redirect staff from other activities when it is in the program's best interest to do so. This practice has been effective for the department and we believe that it should continue to use this approach in the future.

LAO Recommendation. We recommend that the Legislature adopt the proposed savings associated with the antifraud activities focused on physicians and pharmacies. We do not recommend the approval of any additional staff to conduct these activities, however, because of the significant level of fraud resources at the department's disposal and DHCS' ability to redirect staff to high-priority activities.

Roll Back Rate Increases for Family Planning Services

Governor's Proposal. The administration proposes to roll back a rate increase that began January 1, 2008 and brought rates for eight specified types of office visits for certain family planning services closer to the Medicare reimbursement rates for similar services. The proposal would take effect March 1, 2010, but savings would not be realized until June 2010 because of provider and beneficiary notification requirements and the timing of payments. The budget assumes General Fund savings of about $100,000 in 2009-10 and about $15 million in 2010-11. We note that the state receives an enhanced federal participation rate of nine federal dollars for every dollar the state spends for some participants on these services. However, the state pays all the costs for other participants, so on average the FMAP is somewhat less than 90 percent.

LAO Recommendation. We recommend the Legislature adopt this proposal to reduce General Fund expenditures, given the state's fiscal difficulties.

Defer Institutional Provider Payments

Governor's Proposal. The Governor proposes to defer payments to institutional providers, such as nursing homes and hospitals, on a one-time basis for a net General Fund fiscal effect of $55.8 million in the current and budget years combined. This net amount includes a current year General Fund cost deferral of $94.3 million and a budget year cost of $38.5 million General

Figure 2

Medi-Cal Antifraud Initiative

Estimated Savings
(Dollars in Millions)

Antifraud Focus	Proposed Activities	Total Funds	General Fund	Staff Request
Physicians	Training to reduce potential noncompliance	$2.8	$1.1	7.0
Physicians	Rapid response sweeps to detect fraud	38.6	14.8	14.0
Pharmacy	Beneficiary lock-in to a single provider	3.0	1.2	10.5
Pharmacy	Re-enrollment of incontinence suppliers	1.5	0.6	2.5
Pharmacy	Focused reviews of durable medical equipment providers	10.6	4.1	2.0
General	Supervisory	—	—	2.0
Totals		**$56.5**	**$21.7**	**38.0**

Fund for payment of a federal penalty for violation of ARRA. The "prompt pay" provision of ARRA requires the state to pay a certain percentage of providers within specific time limits.

LAO Comments. The administration asserts that this violation of the prompt pay requirement will not put at risk the enhanced FMAP associated with other payments to providers. We are still attempting to verify the accuracy of this administration claim. Furthermore, due to the federal penalty, this cost deferral is akin to a loan with a usurious interest rate.

LAO Recommendation. We recommend against the adoption of the Governor's proposal to defer institutional provider payments in the current year because the implicit cost of this deferral is too high due to the prompt pay penalty. The Legislature may wish to consider this option at a later time in the budget year when it is unlikely that the state would face such a penalty.

Caseload Likely Overstated In Current Year

Governor's Proposal. The budget estimates that the average monthly caseload of individuals enrolled in Medi-Cal will be 91,700 individuals, or 1.3 percent greater in the current year than the department's May 2009 projection for 2009-10. Most of the current-year increase is attributed to growth in the number of individuals in families who, while enrolled in Medi-Cal, are eligible for but not enrolled in the California Work Opportunity and Responsibility to Kids (CalWORKs) cash assistance program. The Governor's budget assumes that an additional 164,200 eligibles in the non-welfare families category will enroll in Medi-Cal, nearly 13 percent more than was anticipated last May. A portion of the current-year increase in the non-welfare families caseload is offset by the anticipation that fewer families receiving CalWORKs will enroll in Medi-Cal.

LAO Comments. Our review of the most recent Medi-Cal caseload data indicates that the Governor's current-year estimate of the non-welfare families caseload could be overestimated by as many as 100,000 eligibles. Due to considerable uncertainty in the recovery of the economy it is difficult to estimate caseload growth. However, more modest growth would be consistent with the trend during the recent recession as well as with historical trends in the caseload growth of non-welfare families. It would also be consistent with the caseload growth trend projected for welfare families.

LAO Recommendation. We recommend that the Legislature reduce current-year General Fund expenditures in Medi-Cal by $35 million to reflect the likely overstatement of the current-year caseload. The proposed reduction assumes the non-welfare caseload grows by 5.7 percent from 2008-09 and that the 2009-10 caseload is overstated by 50,000 eligibles, or less than 1 percent of the estimated total caseload.

Healthy Families Program

The Healthy Families Program (HFP) is California's implementation of the federal Children's Health Insurance Program, which provides health insurance for low-income children. California receives roughly two federal dollars for each state dollar used to provide health care coverage to about 900,000 children.

Reduce Eligibility, Increase Premiums, And Scale Back Benefits

Governor's Proposal. The *2010-11 Governor's Budget* proposes several changes to HFP in order to reduce General Fund costs for the program by $96 million in the current and budget years combined. The most significant change would reduce eligibility for HFP from 250 percent of the federal poverty level (FPL) to 200 percent of FPL (about $37,000 for a family of three), effective May 1, 2010, for a savings of $10 million in the current year and $64 million in the budget year. This proposal would affect an estimated 206,000 children. The Governor's budget also proposes to increase premiums from $16 to $30 per child per month, for children in families earning 150 percent of the FPL to 200 percent of the FPL (up to a family maximum of $90 per month) and to eliminate vision coverage from the package of covered benefits. Premium and vision changes would be effective July 1, 2010, for savings of $22 million in the budget year.

LAO Comments. The proposed changes generally require two months lead time to implement. The Legislature may have until March 1, 2010, to achieve the full savings associated with limiting eligibility, and May 1, 2010 to achieve the full savings associated with eliminating the vision benefit and raising premiums. However, it would be advantageous to enact a full package of changes at once in order to reduce administrative costs and to avoid the confusion caused by multiple notifications to families whose children are enrolled in HFP.

Federal Health Care Reform May Limit Choices. The pending proposals in Congress for health care reform legislation would likely require states to maintain their current eligibility levels for their children's insurance programs. Thus, it is not clear whether the Legislature will ultimately be able to achieve the savings associated with eligibility changes if a federal health care reform bill is signed. If it wishes to try to achieve the savings proposed by the Governor, the Legislature may have to act quickly to reduce eligibility.

LAO Recommendation. We recommend the Legislature adopt the Governor's premium and vision coverage proposals. The Legislature should also consider the Governor's eligibility proposal. If the Legislature wishes to reduce eligibility as proposed, we suggest adopting this proposal as soon as possible along with trailer bill language that would trigger whatever changes in eligibility levels would be necessary to conform with changes in federal law. This approach would help ensure that the state does not run afoul of requirements that may be included in federal health care reform legislation that states maintain their current eligibility levels for their children's health care programs.

Alternatively, if the Legislature wishes to maintain current eligibility levels, we would recommend the Legislature also increase premiums for children in families earning from 200 percent to 250 percent of the FPL, in order to achieve a portion of the proposed savings. A premium increase for children in this eligibility category from $24 to around $40 per child per month would be commensurate with the premium increase proposed for the 150 percent to 200 percent of the FPL category. We intend to work with the department to refine an alternative proposal and provide estimated cost savings. We believe these higher premium levels may also reduce incentives for families who have private sources of coverage to enroll in HFP, thereby targeting the program to those families most in need.

California Children's Services

Align Eligibility Reduction With The Healthy Families Program

Governor's Proposal. The Governor's budget proposes to change the eligibility criteria for HFP so that clients whose income is between 200 percent and 250 percent of the FPL would no longer be eligible. Conforming changes in eligibility in the California Children's Services

(CCS) would impact 5,560 children. An estimated 556 of these children would be eligible for a component of the CCS Program supported with only state funds. The Governor's proposal would result in a net decrease in General Fund spending of $4.1 million in 2010-11.

LAO Recommendation. We recommend the Legislature conform changes in CCS eligibility with whatever changes it chooses to make to eligibility in HFP.

Department of Developmental Services

The DDS provides community-based services to about 240,000 developmentally disabled persons through 21 nonprofit corporations known as regional centers (RCs) that are located throughout the state. The RCs are responsible for eligibility determinations and consumer assessment, the development of an individual program plan for each consumer, case management, and purchasing services. The DDS also operates five developmental centers and one smaller leased facility, which provide 24-hour care and supervision to approximately 2,150 developmentally disabled persons.

Extend the 3 Percent Provider Payment Reduction

Governor's Proposal. The administration proposes to extend the 3 percent provider payment reduction enacted as part of the 2009-10 budget to reduce General Fund expenditures by $60.9 million in 2010-11.

LAO Recommendation. We recommend the Legislature approve an extension of the 3 percent provider payment rate reduction. Given the state's fiscal condition, we think this is a reasonable proposal.

Department of Mental Health

The Department of Mental Health (DMH) directs and coordinates statewide efforts for treatment of mental disabilities. The department's primary responsibilities are to (1) provide for the delivery of mental health services through a state-county partnership, (2) operate five state hospitals, (3) manage state prison treatment services at the California Medical Facility and at Salinas Valley State Prison, and (4) administer various community-based mental health programs directed at specific populations. The state hospitals provide inpatient treatment services for mentally disabled county clients, judicially and civilly committed clients—including sexually violent predators (SVPs), mentally disordered offenders (MDOs), and persons found not guilty by reason of insanity (NGIs), incompetent to stand trial (ISTs), and mentally disabled clients transferred from the California Department of Corrections and Rehabilitation.

Adjust for Overbudgeting of State Hospital Caseload in Current Year

Governor's Proposal. The Governor's budget assumes a state hospital population of 6,202 in the current year, the same level funded in the *2009-10 Budget Act*.

LAO Comment. Our analysis of hospital census data through mid-January 2010 indicates that caseload will be below DMH's estimate for the current year. In particular, our caseload estimate includes 40 fewer ISTs, 52 fewer MDOs, and 7 fewer of the other types of forensic patients. Under a methodology agreed to by the Legislature and the administration in 2002, current-year caseload adjustments are generally made for each major category (IST, MDO, NGI, SVP, and "other forensic") if they vary by 2.5 percent from the budgeted amount. The variations are shown in Figure 3 (see next page).

LAO Recommendation. On this basis, we believe that the Governor's budget plan overestimates the General Fund support needed in the current year by about $6.3 million and we recommend the Legislature reduce funding accordingly. This budget adjustment assumes that the average half-year funding per bed is $64,000.

Figure 3

State Mental Hospital Census Lower Than Expected

(2002 Methodology)

	Budgeted Census for 1/13/2010	Actual Census on 1/13/2010	Difference	Percentage Difference
IST	1,150	1,110	-40	-3.5%
NGI	1,235	1,220	-15	-1.2
MDO	1,230	1,178	-52	-4.2
SVP	829	808	-21	-2.5
Other forensic	141	134	-7	-5.1
Totals[a]	**4,584**	**4,450**	**-134**	**-2.9%**

[a]Excludes (1) County Lanterman-Petris-Short patients and (2) California Department of Corrections and Rehabilitation inmates and wards at state hospitals and Department of Mental Health psychiatric programs at Salinas Valley Prison and California Medical Facility.

IST = Incompetent to Stand Trial; NGI = Not Guilty by Reason of Insanity; MDO = Mentally Disordered Offender; SVP = Sexually Violent Predator.

FUNDING SHIFTS

Proposition 63 Mental Health Services Act

Proposition 63 was enacted by the voters in the November 2004 election. The initiative imposes a state personal income tax surcharge of 1 percent that applies to taxpayers with annual taxable incomes of more than $1 million. The proceeds of the tax surcharge are earmarked to be used to create new community mental health programs and to expand some existing programs. The State Controller transfers the proceeds of the tax surcharge into a state special fund, named the Mental Health Services Fund (MHSF) that, in turn, is used to support these programs.

Ballot Initiative to Amend the Mental Health Services Act (Proposition 63)

Governor's Proposal. The administration proposes to place before the voters in the June 2010 election a ballot measure that would authorize the use of the MHSF to temporarily support mental health program costs that have been paid by the state General Fund. Voters rejected a similar measure, Proposition 1E, in May 2009. Specifically, the new ballot measure would amend existing provisions of Proposition 63 that would otherwise prohibit these funds from being used to offset the costs of existing state community mental health programs. The administration proposes to authorize the expenditure of $452 million from the MHSF—in 2010-11 and again in 2011-12—to backfill General Fund reductions of the same amount in the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) and Mental Health Managed Care programs. In addition, under the administration's proposal, the state's failure to obtain a $6.9 billion increase in federal funds would trigger an additional transfer of $847 million from the MHSF to support various mental health programs, including the state hospitals.

LAO Comment. Our initial review indicates that there are sufficient funds available in the

MHSF at this time to allow the redirection of $452 million to support the EPSDT and Mental Health Managed Care programs as well as provide $847 million required under the trigger provision. However, there would be less money available to support Proposition 63 programs, especially in the years beyond 2010-11.

LAO Recommendation. At the time this analysis was prepared, the Legislature had not received the specific language of the administration's proposed ballot measure. Therefore, a number of key details of the administration's proposal are not yet known. However, we believe that the Legislature should consider options such as this one to increase its flexibility in responding to the state's fiscal crisis. There is a significant fund balance in the MHSF that could be used on a one-time basis.

Department of Developmental Services

Title XX Block Grant

Governor's Proposal. The administration proposes to swap $42.7 million General from the DDS budget for the same amount of Title XX block grant funds from DDS. Title XX block grant funds are available for RC expenditures for children under age 18 whose family income is less than 200 percent of FPL.

LAO Recommendation. This is a conforming technical budget issue for DDS, since the Title XX block grant is budgeted in the Department of Social Services. There would be no impact from this funding shift on DDS programs and services.

Budget Impact of Program Reductions In Other Areas

Governor's Budget. The Governor's proposed reductions to IHSS, Supplemental Security Income/State Supplementary Program (SSI/SSP), and Medi-Cal would increase demand for RC services. This is because, under the Lanterman Act, individuals with developmental disabilities must generally be provided the services included in their individual program plan via the RCs if they are not available through other programs. As noted earlier, the proposed DDS budget includes $50 million to offset these types of costs. The administration, however, indicates that this is a placeholder amount that is to be adjusted later in the budget process.

LAO Recommendation. Our analysis indicates that the cost of maintaining services for DDS consumers could be greater than $50 million. As a result, the net savings from reductions in IHSS, SSI/SSP, and Medi-Cal are likely overstated. In any event, the actual backfill amount that should be budgeted by the Legislature should conform to legislative actions on other related budget issues.

LAO Publications

This report was prepared by Greg Jolivette, Meredith Wurden, Farra Bracht, and Lisa Murawski, and reviewed by Shawn Martin. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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