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Alcohol and Drug Program Realignment

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Budget Subcommittee No. 1

On Health and Human Services

Hon. Holly J. Mitchell, Chair





Overview

- Programs Administered by the Department.** The Department of Alcohol and Drug Programs (DADP) directs and coordinates the state's efforts to prevent or minimize the effects of alcohol-related problems, narcotic addiction, drug abuse, and gambling. The DADP administers programs in the following areas: (1) substance use prevention services, (2) substance use treatment and recovery services, (3) licensing of treatment facilities and programs, (4) criminal justice, and (5) problem gambling.
- Federal Funding.** In addition to state funds, the DADP administers federal funds, grants, and other funds that support a variety of programs, including nearly \$260 million in federal Substance Abuse Prevention and Treatment (SAPT) block grant funds.
- Realignment Proposal.** The Governor's budget proposal would realign all state-funded substance use treatment programs to the counties in 2011-12. The Governor's budget identifies \$184 million in tax revenues for counties in lieu of General Fund for these programs.
- Substance Abuse Program Realignment May Be Workable.** A realignment of these programs has merit, but the Legislature will have to address some significant fiscal and policy issues to develop a workable realignment plan.
- Organization.** This handout provides information on:

 - State-supported substance abuse treatment programs, including federal, state, and county administrative roles and funding.
 - The Governor's realignment proposal.
 - General principles of realignment program design.
 - LAO comments and concerns regarding the Governor's proposal.



State-Supported Substance Use Treatment Programs

- ☑ ***Drug Medi-Cal Program.*** The Drug Medi-Cal Program provides five different modes of treatment services. Most Drug Medi-Cal services are delivered through county treatment systems, which often contract with community-based providers for the delivery of treatment services directly to clients. Generally, the state and federal government share costs evenly for this benefit.

- ☑ ***Perinatal and Other State-Funded Programs.*** The state provides funds for a variety of programs that include treatment services for pregnant women and mothers.

- ☑ ***County-Administered Drug Court Programs.*** Drug court programs combine judicial monitoring with intensive treatment services over a period of about 18 months typically for nonviolent drug offenders. In general, these are county-administered programs through which the state provides funding and oversight. There are two main programs:
 - The Drug Court Partnership Act program created in 1998, that supports adult drug courts in 32 counties.
 - The Comprehensive Drug Court Implementation Act program created in 1999, that supports adult, juvenile, family, and some Dependency Drug Courts (DDCs) in 53 counties.In addition, state funds support DDCs in 29 counties.



Governor Proposes Realigning State-Supported Drug and Alcohol Programs

Programs Proposed for Realignment	
<i>General Fund (In Millions)</i>	
Program	Amount
Drug Medi-Cal Program	\$130.7
Perinatal and other state-funded programs	25.7
Comprehensive Drug Court Implementation Act	15.7
Drug Court Partnership Act	6.8
Dependency Drug Courts	4.3
State Support	0.8
Total	\$184.0

- Funding Responsibility Would Shift to Counties.** In the budget year, the Governor proposes to shift full fiscal responsibility to the counties for the programs listed above, which are currently supported with state General Fund.
- State Would Retain Certain Functions.** Under the administration's proposal, DADP would continue to retain certain state functions—including licensing and certifying alcohol abuse treatment facilities as well as being the single state agency for administering certain federal funds.



General Principles of Realignment Program Design



Link Program Funding Responsibility and Program Policy Control

- Realignment works best when the same level of government has program policy authority and fiscal responsibility.
- Let the level of government that pays a program's bills set its rules.



Build in Accountability

- Promote accountability by quantifying results regarding governmental performance and broadly disseminating information to the public.
- Minimize reliance on detailed reports to state agencies.



Address Cost Impacts of Changes in Program Responsibility

- Provide sufficient revenues to maintain an appropriate level of program services over the long term.
- Roughly match the rate of growth for the portfolio of realigned programs with the rate of growth for the portfolio of realignment revenues.
- Avoid creating state-reimbursable mandates.



Allow Realignment Funds to Be Used Flexibly

- Limit earmarking of realignment revenues or segregating revenues into multiple pots.
- Allow funds to be used to meet diverse and changing local objectives.
- Promote accountability through performance measures, not fiscal controls.



General Principles of Realignment Program Design

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Develop a Simple Revenue Allocation Methodology

- Design a revenue allocation methodology that works over the long term.
- Minimize long-term reliance on formulas that reflect prior-year revenue allocations or program costs.
- Distribute revenues based on each local government's population or another broad based indicator of overarching need.



Rely on Financial Incentives to Promote Intergovernmental Coordination

- Create fiscal incentives that encourage the efficient achievement of programmatic goals by multiple levels of government.
- Identify and address counterproductive fiscal incentives between state and local government.



Are Drug and Alcohol Programs a Good Fit for Realignment?

- Governor's Proposal Has Merit.*** We believe the Governor's realignment proposal in this area has merit.
 - Most of these direct services are already provided at the local level through county systems.
 - The proposed changes could give counties greater flexibility to spend these funds and better coordinate with other county-run programs such as mental health and criminal justice.

- Drug Court and Categorical Programs Appear to Fit Many LAO Realignment Principles.*** We believe that many drug courts and categorical programs are well-suited for realignment because these programs are already county-administered. Program funding and flexibility could be provided at the local level with limited state involvement.



Drug Medi-Cal Realignment May Be Workable, But Significant Issues Must Be Addressed



Ensure Federal Medicaid Requirements Continue to Be Met.

In order to receive federal matching Medicaid funds, the state must meet certain federal requirements in the Medicaid program. For instance:

- ***Statewideness and Comparability of Services.*** In general, a state must provide services in all areas of the state and the same services must be provided to any eligible individual. To meet these requirements, the state currently has “direct contracts” with providers for Drug Medi-Cal services, including methadone, in areas where these services are not provided through the county.
- ***Entitlement to Services.*** Generally, Drug Medi-Cal is an optional benefit except for certain children’s services. To the extent the state chooses to provide these services, Medi-Cal beneficiaries are entitled to them. Counties would likely not have the option of controlling costs by limiting enrollment into the program.



Realignment Could Intersect With Federal Health Care Reform.

The Affordable Care Act (ACA), also known as federal health care reform, will significantly expand health care coverage and the number of persons eligible to receive Medi-Cal services, including substance use services.

- The ACA prohibits states from increasing the local share of state Medicaid match but allows for voluntary contributions.
- The ACA also will require Medicaid programs to provide yet-unspecified “benchmark” benefits potentially including substance use treatment.



Drug Medi-Cal Realignment May Be Workable, But Significant Issues Must Be Addressed

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Potential Interaction With Federal Medi-Cal Demonstration Waiver. The proposed realignment could interact with a recently approved federal Medi-Cal waiver that will provide additional federal funds. For example, as a condition of continuing a federal Medi-Cal waiver, the state must meet two federal reporting requirements in 2012. (Waivers generally provide states with certain flexibilities in meeting federal requirements to further the purposes of the program with significant federal funding.) Specifically, the state is required to submit (1) a needs assessment and (2) a plan to meet federal benchmark benefit requirements.



Continued Receipt of SAPT Federal Funds A Major Concern

- Spending on Certain Populations and Services Required.***
The SAPT block grant requires spending on certain services including primary prevention and HIV early intervention services. In addition, an amount is set aside for pregnant women and women with dependent children.

- Federal Funds Could Be at Risk Due to Maintenance of Effort (MOE) Requirements.*** As a condition of receiving SAPT funds, the department must maintain a certain level of state spending for alcohol and drug services. If the state realigns the proposed programs with the proposed funds, they may not count towards the state's SAPT MOE requirement. The MOE requirement is \$207 million for the current year and \$241 million in the budget year. States that violate the MOE requirement are at risk of losing one federal dollar of SAPT block grant funding in the future for every state dollar they spend below the required level.



Key Questions for the Legislature to Consider

- We believe the administration's proposal lacks important funding and programmatic detail and raises significant questions. Some key questions the Legislature may wish to consider in discussing the merits of realigning drug and alcohol treatment programs include:
- What degree of flexibilities will counties gain and what responsibilities will the state retain?
 - How will counties be able to manage the Drug Medi-Cal Program? Would counties have the ability to determine eligibility for services, provider payment levels, and benefits?
 - How will potential federal funds losses be minimized?
 - What implications do the federal health reform and parity laws have for the Governor's proposal?
 - What is the potential interaction with the state's implementation of the Medi-Cal waiver?
 - How will funding methodologies and allocations be determined for these programs?
 - Who is ultimately at risk for increases in program costs if the available funding is insufficient?