

**AGENDA
SUBCOMMITTEE No. 1
ON HEALTH AND HUMAN SERVICES**

ASSEMBLYMEMBER PATTY BERG, CHAIR

**WEDNESDAY, APRIL 30, 2008
STATE CAPITOL, ROOM 444
1:30 P.M.**

ITEM	DESCRIPTION	PAGE
VOTE-ONLY ITEMS		
5180	DEPARTMENT OF SOCIAL SERVICES	3
Issue 1	BCP – Stop Disclosure of Sibling Contact Information (AB 2488)	3
Issue 2	BCP – Resources for Title IV-E and Higgins Reviews	4
Issue 3	BCP – Payments for For-Profit Foster Care Facilities (AB 1462)	5
Issue 4	BCP – Foster Care Residentially-Based Services (AB 1453)	6
Issue 5	BCP – Staff Required for Implementation of State Law Supporting Recent Mandated Changes to Federal Child Welfare Laws (SB 703)	7
Issue 6	Spring Finance Letter – Title IV-E Child Welfare Demonstration Capped Allocation Project	8
4440	DEPARTMENT OF MENTAL HEALTH	9
Issue 1	BCP – Implementation of Foster Care Children Specialty Mental Health	9
Issue 2	BBR – Healthy Families Reduction	10
ITEMS TO BE HEARD		
5180	DEPARTMENT OF SOCIAL SERVICES	11
Issue 1	BBR – Governor’s Proposal to Reduce Rates by 10 Percent Across Foster Care Programs	11
Issue 2	BBR – Governor’s Proposed Reduction in Counties’ Child Welfare Services Allocation	15
Issue 3	BBR – Governor’s Proposal to Cease State Support for Independent Adoptions	19

Issue 4	BBR – Governor’s Proposed Reduction to Foster Family Home and Small Family Home Insurance Fund Reduction	21
Issue 5	BCP – Self-Sufficiency for Disabled Emancipating Foster Youth (AB 1331)	22
Issue 6	BCP – Child Welfare Services: Resources Family Pilot Program (AB 340)	23
4440	DEPARTMENT OF MENTAL HEALTH	24
Issue 1	Departmental Background and Special Session Action	24
Issue 2	BBR – Governor's Proposed Reduction to Community Treatment Facilities	27
Issue 3	BBR – Governor's Proposed Reduction to the Early Mental Health Initiative	28
Issue 4	BBR – Governor's Proposed Reduction to Mental Health Managed Care	29
Issue 5	State Administration – Internal Control Review	31
Issue 6	Early and Periodic Screening, Diagnosis and Treatment Program (EPSDT) – Status Update	34
Issue 7	BBR – EPSDT Reductions	37
Issue 8	State Hospitals and Patient Population	40
Issue 9	County Purchase of State Hospital Beds	42
Issue 10	Ancillary Health Services for Patients in Institutes for Mental Disease	43
Issue 11	Spring Finance Letter - Proposition 63 Mental Health Services Act	45

VOTE-ONLY ITEMS

5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 1: BCP – STOP DISCLOSURE OF SIBLING CONTACT INFORMATION (AB 2488)

The Governor's Budget proposes to repeal Assembly Bill (AB) 2488 (Chapter 386, Statutes of 2006) for a savings of \$2.1 million (\$1.2 million General Fund) and elimination of three positions. Of this, \$289,000 (\$195,000 General Fund) is for state operations and \$1.8 million (\$1.1 million) is for local assistance.

AB 2488 reduces the age from 21 years to 18 years that the Department of Social Services (DSS) or an adoption agency may release the names and addresses of siblings to one another. It also permits an adoptee or sibling under 18 years of age, with permission from his or her adoptive parent or legal parent or guardian, to waive confidentiality of contact information for release to a sibling. In cases where there is no waiver on file, AB 2488 authorizes the court to appoint a confidential intermediary, which could be the DSS, to search for one sibling on behalf of the other.

Although funding was requested by the Administration and provided by the Legislature to implement AB 2488 in 2007-08, the Governor vetoed the funds and delayed implementation for one year. Notwithstanding the veto in funding, DSS has already issued an all-county letter, revised the waiver forms, and updated their web site to assist counties in implementing AB 2488. There are also some counties (but not all) that are already implementing AB 2488 at the local level.

STAFF COMMENT

Staff recommends adoption of the reduction of \$2.1 million (\$1.2 million General Fund) and three positions, but delaying of implementation for two years, rather than repeal AB 2488, by adopting the following trailer bill language:

"The effective date of the provisions of Chapter 386, Statutes of 2006 shall be delayed until July 1, 2010. It is the intent of the Legislature that counties that are already implementing some or all of the provisions of Chapter 386, Statutes of 2006 continue to do so to the extent possible."

Trailer bill language to delay implementation of the bill avoids an unfunded state mandate on counties, but is not intended to interfere with county efforts already taking place as noted to implement the policy change. Notwithstanding the merits of AB 2488, this overall action is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible. This conforms to action taken in the Senate.

ISSUE 2: BCP – RESOURCES FOR TITLE IV-E AND HIGGINS REVIEWS

The Governor's Budget requests \$570,000 (\$285,000 General Fund) and continuation of six limited-term positions for two additional years to complete the 2004 relative placement and Title IV-E reviews required by the stipulated settlement agreement in the *Higgins v. Saenz* lawsuit.

DSS is required by a corrective compliance plan with the federal Department of Health and Human Services (DHHS) Region IX to complete a review of 2004 Title IV-E relative placement cases to verify the accuracy of the county's claiming. Concurrently, the *Higgins v. Saenz* settlement requires DSS to review a statistically valid sample of each county's 2004 relative and non-relative extended family member's placements to determine compliance with safety rules and regulations. DSS received nine, two-year limited-term positions in 2006-07 to conduct the reviews.

The reviews began in 2006 and were to be completed by June 30, 2008. However, DSS indicates that the reviews have been much more labor intensive than they anticipated. As a result, only 19 counties' reviews are being finalized, 19 counties' are still in process, and the reviews in 20 counties have not begun yet. DSS indicates that they will have completed all remaining reviews within the two-year period. Federal funds were disallowed in 2002 and 2003 for the State's failure to demonstrate compliance with safety standards. Although the federal Administration for Children and Families did not cite this as an issue in our latest Title IV-E review and Child and Family Services Review, they know the State is working toward compliance through the *Higgins v. Saenz* settlement.

STAFF COMMENT

Staff recommends approval of the requested funding and positions. This conforms to action taken in the Senate.

ISSUE 3: BCP – PAYMENTS FOR FOR-PROFIT FOSTER CARE FACILITIES (AB 1462)

The Governor's Budget requests \$99,000 (\$63,000 General Fund) and one, two-year limited-term position to implement Assembly Bill (AB) 1462 (Chapter 65, Statutes of 2007). There is no local assistance funding estimated to be needed to implement this bill.

AB 1462 permits counties to use federal foster care funds to pay for the board and care costs in for-profit group home foster care facilities for the care and supervision of children receiving services from both county welfare departments and regional centers. It limits each county to no more than five placements in any one county. Prior to AB 1462, only non-profit foster care group homes were eligible to receive federal funds. The requested position would develop programmatic, fiscal, and audit policies and procedures to implement the bill.

STAFF COMMENT

Staff recommends rejection of the requested funding and position and adoption of the following trailer bill language to delay implementation for two years:

"The effective date of the provisions of Chapter 65, Statutes of 2007 shall be delayed until July 1, 2010."

Notwithstanding the merits of AB 1462, this is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible. This would conform to action taken in the Senate.

ISSUE 4: BCP – FOSTER CARE RESIDENTIALLY-BASED SERVICES (AB 1453)

The Governor's Budget requests \$308,000 (\$195,000 General Fund) and three, two-year limited-term positions to implement Assembly Bill (AB) 1453 (Chapter 466, Statutes of 2007). There is no local assistance needed to implement this bill. AB 1453 requires that a plan for restructuring the current group home foster care system to a residentially based services system be submitted to the Legislature by January 1, 2011. The Casey Family Foundation is contributing \$1.9 million and three staff annually for the next three years to support implementation efforts at the state and local levels and to obtain national consultation and evaluation. DSS is requesting three staff to oversee the Casey staff, convene stakeholder workgroups, develop and implement policies and procedures, provide statewide oversight and technical assistance, update the State's Title IV-E plan, and provide status reports to the Legislature.

STAFF COMMENT

Staff recommends rejection of the requested funding and positions. Notwithstanding the merits of AB 1453, this action is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible. Funding from the Casey Family Foundation is expected to continue and DSS will have to work within current resources to support those efforts.

This would conform to action taken in the Senate.

ISSUE 5: BCP – STAFF REQUIRED FOR IMPLEMENTATION OF STATE LAW SUPPORTING RECENT MANDATED CHANGES TO FEDERAL CHILD WELFARE LAWS (SB 703)

The Governor's Budget requests \$2.0 million (\$1.3 million General Fund) and 20 permanent positions to implement Senate Bill (SB) 703 (Chapter 583, Statutes of 2007). There is also an estimated \$1.4 million (\$666,000 General Fund) in local assistance funding needed to implement this bill. SB 703, an Administration-sponsored bill, conforms state law to recent changes in federal law to enable the State to fully implement the federal Safe and Timely Interstate Placement of Foster Children Act of 2006, the Adam Walsh Child Protection and Safety Act of 2006, the Child and Family Services Improvement Act of 2006, and the Hague Convention on the Protection of Children and Cooperation in Respect of Intercountry Adoptions.

During the discussions on SB 703 as the bill moved through both the policy and appropriations committees in both houses through the summer of 2007, DSS estimated the state operations costs of the bill to be about one-half of the request eventually submitted in the 2008-09 budget. The Administration never released a formal bill analysis of SB 703, although they state that the budget request is consistent with the enrolled bill analysis. While it is clear that there is additional workload associated with implementing SB 703 and the many recent changes in federal law, it is unclear what changed in DSS' workload estimation between August 2007, when the bill was passed by the Legislature, and September 2007, when the bill was signed by the Governor. The Legislature voted on SB 703 with an understanding that there would be a certain fiscal impact to doing so.

STAFF COMMENT

Staff recommends approval of \$657,000 General Fund and associated federal funding, and 10 permanent positions. This would conform to action taken in the Senate, where the BCP was funded in congruence with estimates that the Legislature had and used when it passed the measure last summer. The Senate additionally required DSS to report in writing by May 5, 2008 on which positions they will establish and for which activities and this Subcommittee may wish to request the same information if it chooses to take this action.

This approval is recommended consistent with other actions taken by the Subcommittee to attempt to provide resources to the administration to assure federal compliance and funding, albeit in a revenue- and General Fund-scarce environment. The Subcommittee reserves the ability to return to any of these items and to change actions at a future date if the fiscal situation dictates decisions between core services and funding of these BCPs, in line with the Legislature's overall approach to prioritization and choices on what to fund.

ISSUE 6: SPRING FINANCE LETTER – TITLE IV-E CHILD WELFARE DEMONSTRATION CAPPED ALLOCATION PROJECT

The administration is requesting an extension of position authority for two of four limited-term positions currently approved for the Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project. DSS will redirect two positions internally to maintain the same level of state administrative oversight for this project. DSS proposes to transfer funds from the Title IV-E local assistance budget to fund these four positions and the necessary contract funds to conduct the federally mandated independent, third-party evaluation of the waiver demonstration.

The CAP provides the two participating counties (Los Angeles and Alameda) flexibility in the use of Child Welfare Services/Foster Care Title IV-E funds to provide direct services to children and families without removing the child from the home, focus dependency interventions on children most at risk, reunify families more expeditiously, and decrease foster care caseloads. The CAP will directly support the department and participating counties' efforts to achieve improved outcomes for children and families.

STAFF COMMENT

With this proposed transfer there is no new General Fund required to fund this proposal, however counties raise serious objections to the transfer and the state's decision in this area to opt away from use of its own resources, however scarce, for funding here.

There is a strong desire to support the work and evaluation of the waiver, so staff recommends that the Subcommittee approve the authority for two positions on a two-year, limited-term basis and deny the requested transfer amount and fund source as budgeted, directing the department to seek resources internally that may be available to fund critical activities here.

4440 DEPARTMENT OF MENTAL HEALTH

ISSUE 1: BCP – IMPLEMENTATION OF FOSTER CARE CHILDREN SPECIALTY MENTAL HEALTH

The DMH is requesting an increase of \$188,000 (\$94,000 General Fund and \$94,000 Reimbursements) to establish two positions (one for 18-months) to implement SB 785 (Steinberg), Statutes of 2007. The two positions include a Staff Mental Health Specialist and an Associate Mental Health Specialist.

The DMH is requesting these two positions to implement provisions of the legislation, including (1) development of informational program materials; (2) identifying training needs; (3) developing standardized contracts; (4) modifying various documents; and (5) working with the federal Center for Medicare and Medicaid Services (CMS) on certain federal requirements.

STAFF COMMENT

No issues were raised regarding this request. However, it is recommended to eliminate the General Fund component and instead, utilize \$94,000 from the Mental Health Services Account which is provided to the Department of Mental Health for administrative purposes. The functions of these staff positions would further the provision of mental health services and are not supplanting existing General Fund support. In addition, it is recommended to make both of these positions limited-term (18-months each).

This conforms to action taken in the Senate.

ISSUE 2: BBR – HEALTHY FAMILIES REDUCTION

The Governor is proposing a 10 percent reduction of \$71,000 (General Fund) for 2008-09 for supplemental mental health services provided to legal immigrant children. This proposed 10 percent reduction would result in a total reduction of \$203,000 due to the 65 percent federal match received under this program (i.e., the federal State- Children's Health Insurance Program).

The Governor is targeting legal immigrant children for this reduction because this is the component of the program that receives General Fund support. Based on federal law, services provided to legal immigrant children under the HFP are not eligible for federal reimbursement. As such, the state provides a 35 percent General Fund match to County Mental Health Plans who provide a 65 percent match using their County Realignment Funds.

The Healthy Families Program provides health insurance coverage, dental and vision services to children between the ages of birth to 19 years with family incomes at or below 250 percent of poverty (with income deductions) who are not eligible for no-cost Medi-Cal.

The enabling Healthy Families Program statute linked the insurance plan benefits with a supplemental program to refer children who have been diagnosed as being seriously emotionally disturbed (SED). The supplemental services provided to Healthy Families children who are SED can be billed by County Mental Health Plans to the state for a federal Title XXI match. Counties pay the non-federal share from their County Realignment funds (Mental Health Sub account) to the extent resources are available. With respect to legal immigrant children, the state provides 65 percent General Fund financing and the counties provide a 35 percent match.

Under this arrangement, the Healthy Families Program health plans are required to sign Memoranda of Understanding (MOU) with each applicable county. These MOUs outline the procedures for referral. It should be noted that the health plans are compelled, as part of the required Healthy Families benefit package and capitation rate, to provide certain specified mental health treatment benefits *prior* to referral to the counties.

STAFF COMMENT

Staff recommends rejection of the BBR and the proposed reduction to the program. The 10 percent reduction would directly affect access to services for children with serious emotional disorders and it is important to maintain a comprehensive program.

This conforms to action taken in the Senate.

ITEMS TO BE HEARD

5180 DEPARTMENT OF SOCIAL SERVICES

ISSUE 1: BBR – GOVERNOR’S PROPOSAL TO REDUCE RATES BY 10 PERCENT ACROSS FOSTER CARE PROGRAMS

BACKGROUND

The Governor’s budget proposes to reduce most Foster Care, Adoption Assistance, and Kinship Guardianship Assistance Payment rates by 10 percent, effective June 1, 2008. This proposed reduction generates an estimated \$15.9 million in total funds (\$6.8 million General Fund) in the current year and \$190.3 million in total funds (\$81.5 million General Fund) in 2008–09.

Foster Care Placement Types. If there is reason to believe that an allegation of child abuse or neglect is true, county welfare departments can place a child in one of the following: (1) a foster family home (FFH), (2) a foster family agency (FFA) home, or (3) a group home (GH). The FFAs are nonprofit agencies licensed to recruit, certify, train, and support foster parents for hard-to-place children who would otherwise require GH care. The FFA rates are based on the FFH rate, plus a set increment for the special needs of the child and an increment for the support services offered by the FFA.

Children who are identified by the CDE as SED are usually placed in GHs with psychiatric peer group settings. However, some SED children are placed in FFHs and FFA homes.

Permanent Placement Types. The Kin–GAP program provides monthly cash grants for children who are permanently placed with a relative who assumes guardianship. The Adoption Assistance program (AAP) provides monthly cash grants to parents who adopt foster children. Both Kin–GAP and AAP grants are tied to the foster care payment the child would have received if the child remained in a foster care placement.

Existing Rates. Foster care basic grant rates for FFH, FFA, and GH (including SED children) were designed to fund the basic costs of raising a child. For some foster care payment recipients, as a supplement to the basic grant, a specialized care increment (SCI) may be paid for the additional care and supervision needs of a child with health and/or behavioral issues. This could include, for example, a wheelchair ramp for a disabled child. A clothing allowance may also be paid in addition to the basic grant.

For 2007–08, the Legislature approved a 5 percent increase to the basic and SCI rates for FFHs and Kin–GAP recipients, effective January 1, 2008. The 5 percent increase also applies to GHs, excluding the rates for SED children, and new AAP cases entering the program after January 1, 2008. The Legislature did not approve a rate increase for FFA recipients as the average FFA grant is currently significantly higher than the average FFH grant. In addition, there is some evidence that rather than becoming the lower–cost alternatives to GHs, FFA homes have instead become higher–cost alternatives to FFHs. The last foster care rate increase was provided in 2001–02.

Governor's Proposal. The Governor's budget proposes to reduce the basic care, SCI, clothing allowance, and SED rates for children in FFHs and GHs by 10 percent. The proposal also reflects a corresponding 10 percent decrease for Kin-GAP and AAP recipients. In addition, the budget proposes to reduce FFA rates by 5 percent rather than 10 percent, as FFA recipients did not receive the recent 5 percent rate increase.

Foster Care and Related Programs Average Monthly Payments by Placement				
	Prior Law (2007)	Current Law ^a (January 2008)	Governor's Proposal (June 2008)	
			Amount	Percent Reduction
Foster Family Home	\$693	\$728	\$655	-9.9%
Foster Family Agency	1,850	1,850	1,758	-5.0
Group Home	5,058	5,311	4,780	-10.0
Seriously Emotionally Disturbed	5,614	5,614	5,053	-10.0
Adoption Assistance	785	824	706	-14.4
Kin-GAP	552	580	522	-10.0

^a Reflects 5 percent rate increase except for rates for foster family agency and seriously emotionally disturbed children which received no adjustment.

Potential Impacts of Rate Reductions. While the impact of the proposed reduction on existing and potential care providers is difficult to measure, one possible program impact is a decrease in the supply of care providers for both foster care and permanent placements. This change in the supply of care providers could ultimately lead to increased foster care expenditures depending on which types of placements experience the most significant supply effects. On the one hand, reduced foster care rates could result in a decrease in the number of FFH providers, which could then lead to increased placements in the more expensive FFA homes and GHs. On the other hand, a decrease in the number of GH providers could lead to increased placements in the less expensive FFHs and FFA homes.

In addition, reduced grants for Kin-GAP and AAP recipients could decrease the number of permanent placement providers, which could also lead to longer stays in foster care. This could raise Child Welfare Services costs as these cases remain open with social worker intervention. This could also increase Medi-Cal costs and utilization because recipients are eligible for these health services by virtue of their foster care status.

**RELATED REDUCTION
PROPOSALS****• 6110 Department of Education – BBR for Foster Youth Programs**

The Governor proposes to eliminate the 4.94 percent COLA and change per pupil rates from an average of \$431.64 to \$402 in this program. The impact of the proposed reductions depends on local choices, but may include less intensive counseling, tutoring, vocational training, emancipation services, or training for independent living.

The Foster Youth program provide services to foster children who reside in a licensed foster family home, certified foster family agency home, court-specified home, county-operated juvenile detention facility, licensed children's institution or group home. The program will serve approximately 44,000 pupils during 2007-08.

• 6870 California Community Colleges – BBR for Foster Care Education Programs

The Governor proposes to reduce existing grant levels. The Chancellor would have the authority to adjust funding rates and minimum and maximum grant levels as necessary to prorate the remaining funding to grant recipients.

The Foster Care Education Program is an ongoing statewide network of educational programs, courses, and workshops available to foster parents, potential foster parents, and social service personnel.

PANELISTS

- California Department of Social Services
- Department of Finance
- Legislative Analyst's Office

Invited Testimony From:

- County Welfare Directors Association
- California Alliance for Child and Family Services
- Western Center on Law and Poverty
- California Youth Connection

STAFF COMMENT

The cumulative effect of proposed cuts on vulnerable children and families is particularly emphasized here, given the web of social services on which foster children and their families rely. These considerations hold particular attention for the Legislature, as it had made strong efforts in the past few years to invest in this system to create better outcomes, shorter durations in foster placement, increased reunification with family members, and eased adoption processes. This proposed reduction undermines those efforts and should be weighed in view of the potential, negating costs elsewhere in human services if cutbacks go into effect.

Questions for the Administration:

DSS, can you please explain the number of children who are placed out of state currently? What are the reasons around this and has there been a recent increase? Please describe how this might be viewed differently depending on the care setting.

What consequences to the state's compliance with the Child and Family System Review can we expect as a result of this reduction?

What federal penalties might be associated with future negative performance in child welfare?

ISSUE 2: BBR – GOVERNOR’S PROPOSED REDUCTION IN COUNTIES’ CHILD WELFARE SERVICES ALLOCATION**BACKGROUND**

The Governor’s Budget proposes to reduce the Child Welfare Services (CWS) allocation by \$129.6 million (\$83.7 million General Fund). This is an 11.4 percent reduction to the General Fund portion of the CWS allocation, excluding funds for the Child Welfare Services Case Management System, the Adoptions Program, and the Child Abuse Prevention Program. The Administration states that counties will have the flexibility to choose how to apportion the reduction to various CWS program expenditures. According to DSS, they will work with the County Welfare Directors Association (CWDA) to develop an allocation process for apportioning the proposed reduction.

The CWS program provides a variety of services designed to protect children from abuse, neglect, and exploitation. Services include Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement. Through the services, the CWS program provides: 1) immediate social worker response to allegations of child abuse and neglect; 2) ongoing services to children and their families who have been identified as victims, or potential victims, of abuse and neglect; and 3) services to children in foster care who have been temporarily or permanently removed from their family because of abuse or neglect. The CWS program is overseen by the Department of Social Services (DSS), but administered by the counties, which provide the CWS services.

There has been an ongoing effort in the CWS program to determine how many cases a social worker can carry and still effectively do his or her job. In 1984, DSS and the CWDA established an agreed-upon level of cases for each program component of CWS. These 1984 workload standards are still used by DSS to calculate the base level of funding for each county.

In 1998, however, SB 2030 (Chapter 785, Statutes of 1998) required DSS to commission a study of counties’ caseloads. At the time, the AB 2030 study concluded that for most categories the caseloads per-worker were twice the recommended levels. According to the study, it was difficult for social workers to provide services or maintain meaningful contact with children and their families because of the number of cases they were expected to carry. The report also found that the 1984 standards used by the state were based on outdated workload factors, and did not reflect any additional responsibilities that had been placed on social workers by the state and federal governments. These findings, and the minimal and optimal social worker standards proposed by the report, have been included in budget discussions regarding staffing standards since the report’s release.

More recently, DSS consulted with the Center for Public Policy Research at the University of California, Davis, to conduct an independent review of research including other states’ caseload standards. The research showed that California’s caseloads are higher than most other states, and it found that the SB 2030 study to be the most extensive and highly regarded effort to date to measure appropriate workload in child welfare.

Concerned about large social worker caseloads, over the years the Legislature has added additional funds, known as the “augmentation” and the Outcome Improvement Project (OIP).

The Governor's workload budget proposes \$187.7 million (\$110.5 million General Fund) for these funding streams in 2008-09. These monies, in combination with the "hold harmless" budgeting methodology, whereby a county's funding is maintained at its prior year level when caseload declines, have enabled counties to hire more caseworkers and move toward standards established by the SB 2030 study.

Impact of the Proposed Reduction. As the Legislative Analyst's Office (LAO) points out in their Analysis, social workers and their support costs represent the majority of the CWS budget, which means that the proposed CWS reduction is likely to result in counties substantially reducing the number of social workers. The proposed reduction represents about 87 percent of the CWS augmentation and OIP monies. Therefore, a reversal of some of the progress made by counties to meet the SB 2030 standards may occur. From a statewide perspective, the LAO estimates that the proposed reduction would result in an overall decrease of 522 full-time equivalent (FTE) social workers. As a result, while the total number of FTE social workers in the State is approximately 79 percent of meeting the minimum standards for 2007-08, that figure declines to 73 percent for 2008-09. The LAO is continuing to work with DSS and counties to refine their estimates of the impact of this reduction. Other estimates of the number of social workers that will be lost indicate it is as high as 1,000 workers statewide.

The practical effect of cutting the number of social workers is that child safety and wellbeing will be jeopardized and systemic improvement efforts will be hampered. Some examples of the services impacts that would result from the loss of 1,000 social workers include the following:

- In the Emergency Response program, the loss of 1,000 social workers will result in 15,880 reports of abuse and neglect per month, or 190,760 annually, going uninvestigated. This will leave children in potentially life-threatening situations.
- In the Family Maintenance program, the loss of 1,000 social workers will result in 75,350 fewer families per year receiving services to prevent foster care placement and help children remain safely at home with their own families.
- In the Family Reunification program, the loss of 1,000 social workers would result in counties being unable to reunify 27,135 children with their families.
- In the Permanent Placement program, the loss of 1,000 social workers will lead to 54,270 children remaining in long-term foster care. Fewer foster children will find permanency through adoption or legal guardianship, and services for emancipating foster youth will be reduced or eliminated. County CWS agencies are also monitored and held accountable to state and federally mandated outcome measures. California, like most other states, did not meet all required outcomes under the federal Child and Family Service Review in 2002, but has been able to achieve significant improvement since that time. Still, California is facing an \$8.9 million federal fiscal penalty, which DSS is appealing. The State is now undergoing its second federal review and will again be expected to make improvements or face fiscal penalties of approximately \$80 million. There are significant concerns that the proposed CWS reduction will make it impossible for counties to meet required outcomes and achieve systemic reforms to avoid federal fiscal penalties.

Finally, there have been no adjustments to county allocations to account for inflation in any DSS programs since 2001-02. By the Administration's own estimates, the shortfall in the amount of administrative funding needed by the counties and actually provided is over \$800

million (over \$450 million General Fund) annually. In the CWS program alone, CWDA estimates the under funding to be \$228 million (\$93.6 million General Fund) between 2001-02 and 2006-07. Counties have partially covered the shortfall by overmatching the State's contribution with local dollars by more than \$150 million annually. The proposed CWS reduction will further exacerbate this historic funding shortfall.

LAO Recommendations. In their 2008-09 Analysis, the LAO presents three options for the Legislature's consideration in lieu of the 11.4 percent across-the-board reduction: Suspend the hold harmless budgeting methodology for 2008-09 for savings of \$17.6 million (\$6 million General Fund). This would reduce the funding to the 29 counties with declining caseloads.

- Cap social worker costs at \$155,000 per worker in counties with higher than average fully loaded costs for a savings of \$5.1 million. The LAO derived the cap by applying the annual California Consumer Price Index to the statewide average fully loaded social work cost of \$129,074, which has been frozen since 2001-02. This would reduce the funding to seven counties with social worker costs above the proposed cap.
- Combine the above two approaches with a smaller across-the-board reduction. A three percent reduction to the CWS allocation, combined with suspending the hold harmless and capping social worker costs, would result in General Fund savings of \$33.1 million. The LAO included the suspension of the hold harmless and the capping of the social worker costs in their alternative budget.

PANELISTS

- California Department of Social Services
- Department of Finance
- Legislative Analyst's Office

Invited Testimony From:

- County Welfare Directors Association
- Service Employees International Union
- California State Association of Counties

STAFF COMMENT

It is also unclear how the proposed CWS reduction will be implemented. The DSS indicates that statutory changes are not necessary to implement the reduction and that counties have the "flexibility" to choose how to apportion the reduction to various CWS program expenditures. However, the services provided through the CWS program are mandated by state and federal law and regulation, so it not clear what counties could avoid doing without potentially running afoul of program requirements. Furthermore, CWS program funds are allocated to the counties for specific services and functions.

Counties do not have the statutory authority to move monies from one function to another to align with local decisions about where to make the CWS cuts. Staff seeks clarification from the department on how the CWS budgeting currently works given this "flexibility" with commingled funds.

Questions for the Administration:

DSS, describe the proposed reduction and how it will be implemented. Why did the Administration not propose which activities should be reduced or eliminated to achieve the savings?

DSS, do counties have the authority to move funding among CWS programs at their discretion? If so, what statute provides that authority?

LAO, describe your recommendations and what you included in your alternative budget. Why didn't you include an across-the-board reduction in your alternative budget?

DSS, what kinds of effects can be expect at the county level – cuts in Emergency Response, Family Maintenance, Family Reunification, Permanent Placement services?

DSS, how does this cut affect progress toward achieving the AB 2030 workload standards?

ISSUE 3: BBR – GOVERNOR’S PROPOSAL TO CEASE STATE SUPPORT FOR INDEPENDENT ADOPTIONS**BACKGROUND**

The Governor’s Budget proposes to privatize the Independent Adoptions Program (IAP) by transferring the direct services provision from DSS and three counties to licensed private adoption agencies. This proposal would result in net savings of \$1.2 million General Fund and elimination of 18 positions in 2008-09, increasing to \$2.5 million and 36 positions in 2009-10 and annually thereafter.

An independent adoption is one in which the birth parent places his or her child directly with the prospective adoptive family. Independent adoptions are investigated on behalf of the court by the Department of Social Services’ (DSS’) seven district offices (covering 55 counties) and three county adoption agencies (Alameda, Los Angeles, and San Diego). The investigations are required by law to assess the adoptive home and determine whether the child is a proper subject for adoption. The investigation must be completed within 180 days of the filing of the adoption petition and the findings are reported to the court with a recommendation for or against the adoption petition. Current law authorizes the charging of a \$2,950 fee, which helps offset the cost of the IAP. Current law also permits DSS and the three counties to defer, reduce, or waive the fee completely for low income prospective adoptive parents. There are approximately 1,000 independent adoptions finalized each year, with approximately 1,500 cases pending each month.

The total annual costs of the IAP are \$4.2 million General Fund. These costs are offset by \$1.7 million in fees collected annually, leaving net annual costs of \$2.5 million General Fund. According to DSS, the district offices collect 60 percent of their total fees and counties collect 52 percent of their total fees. It is not known why there is a discrepancy in the fee collections by the State and counties or why fee collections are not higher.

Impact of the Proposed Reduction. The DSS indicates that an impact of this proposal will be that licensed private adoption agencies could significantly increase the adoption fees charged to prospective adoptive parents currently served by the IAP. The DSS estimates that, on average, the costs of an independent adoption would range from \$10,000 to \$20,000 under a private adoption agency. This would make adoptions less affordable and reduce the number of independent adoptions that take place. A reduction in the number of independent adoptions could lead to more children being placed in the foster care system, which is significantly more expensive.

PANELISTS

- California Department of Social Services
- Department of Finance
- Legislative Analyst’s Office

Invited Testimony From:

- Academy of California Adoption Lawyers

STAFF COMMENT

Although the Administration indicated that they did not consider increasing the IAP fees at the time the Governor's Budget was released, when asked what the fee would need to be to fully cover the costs of the IAP, DSS estimated that the fee would have to increase to \$5,233. Alternatively, DSS estimated that the fee could remain unchanged if the statutory deferrals, reductions, and eliminations of the fees were eliminated.

Since the release of the Governor's Budget, however, the Administration has held discussions with advocates on options for raising fees enough to cover the costs of the program, without eliminating the ability of low income, prospective adoptive parents to adopt, particularly for relative adoptions. The Subcommittee may wish to ask for an update on these conversations.

Questions for the Administration:

DSS, describe the proposed reduction.

DSS, what is the status of discussions with advocates on alternatives to eliminating the IAP?

What effect will this cut have on the rate of adoptions and subsequent, exacerbated needs on the child welfare system?

ISSUE 4: BBR – GOVERNOR’S PROPOSED REDUCTION TO FOSTER FAMILY HOME AND SMALL FAMILY HOME INSURANCE FUND REDUCTION**BACKGROUND**

The Governor’s Budget proposes a \$127,000 General Fund reduction to the Foster Family Home and Small Family Home Insurance Fund. This represents a 10 percent cut to the annual appropriation to the fund.

The Foster Family Home and Small Family Home Insurance Fund is a depository for all funds appropriated for the purpose of paying, on behalf of foster family homes and small family homes, claims resulting from occurrences peculiar to the foster care relationship and the provision of foster care services. The fund currently contains a balance of \$5.8 million in addition to the amount that is appropriated each fiscal year.

The Administration contends that there will be minimal impacts resulting from this reduction to foster family homes and small family homes, as claims paid on an annual basis have not exceeded the amount appropriated each year and the fund currently has an adequate balance to cover potential increases.

PANELISTS

- California Department of Social Services
- Department of Finance
- Legislative Analyst’s Office

Invited Testimony From:

- County Welfare Directors Association
- California Alliance for Child and Family Services

Questions for the Administration:

DSS, describe the purpose of the Foster Family Home and Small Family Home Insurance Fund.

DSS, how many claims are paid annually on average? How much funding is carried over each year on average?

DSS, do you anticipate any increase in claims over the next couple of fiscal years? Why or why not?

DSS, are there areas where loans would be compromised as a result of this cut?

ISSUE 5: BCP – SELF-SUFFICIENCY FOR DISABLED EMANCIPATING FOSTER YOUTH (AB 1331)

The Governor's Budget requests \$99,000 (\$63,000 General Fund) and one, two-year limited-term position to implement Assembly Bill (AB) 1331 (Chapter 465, Statutes of 2007). There is also \$1.5 million (\$1.1 million General Fund) in local assistance funding estimated to be needed to implement this bill.

AB 1331 requires counties to screen foster youth between the ages of 16.5 and 17.5 years for potential eligibility for Supplemental Security Income (SSI) upon emancipation, and, if the youth is found potentially eligible, to apply to the federal Social Security Administration (SSA) on the youth's behalf. Counties are required to shift the potentially eligible foster youth to state-only foster care during the period of application to SSA, as current federal requirements do not permit foster youth to apply for federal SSI benefits at the same time as they are receiving federal foster care funding. The DSS is requesting a position to provide state leadership to counties to ensure successful implementation of the bill and to continue to work with the federal government toward allowing foster youth to apply for SSI benefits even while receiving federal foster care benefits. The local assistance funding reflects the costs of the counties in performing the screenings and making the applications to SSA, as well as the state-only grant costs for the foster youth while their application is in process.

STAFF COMMENT

The Senate has acted to reject the requested funding and positions for DSS, but to approve the local assistance funding of \$1.1 million General Fund. By ensuring that disabled foster youth are able to obtain SSI benefits as soon as they emancipate from the foster care system, the Senate states that this bill ensures that they are able to live self-sufficiently, which will result in forgone costs in other areas of the budget.

Questions for the Administration:

DSS, please describe the consequence of the Senate action.

ISSUE 6: BCP – CHILD WELFARE SERVICES: RESOURCES FAMILY PILOT PROGRAM (AB 340)

The Governor's Budget requests \$440,000 (\$278,000 General Fund) and four, two-year limited-term positions to implement Assembly Bill (AB) 340 (Chapter 464, Statutes of 2007). The estimated local assistance funding needed to implement this bill is \$870,000 (\$377,000 General Fund).

AB 340 establishes a three-year pilot project in up to five counties to test implementation of a strategy developed by DSS and the County Welfare Directors Association (CWDA) over the past three years to consolidate the existing separate and duplicative processes for licensing foster family homes, approving relatives and non-related extended family members, and approving adoptive families. California currently has three separate processes for licensing foster parents, approving relative caregivers, and approving families to adopt children in foster care. These processes are governed by three different statutory codes, sets of regulations, funding streams, and, in some cases, different government entities. As part of the Program Improvement Plan resulting from the 2002 Child and Family Services Review (CFSR), DSS agreed to develop a legislative proposal for a caregiver assessment process that would combine foster care licensing, including relative approvals, and adoption home studies into a single process. AB 340 is the result of that effort.

STAFF COMMENT

The Senate has acted to reject the requested state operation funding and positions and local assistance funding. Notwithstanding the merits of AB 340 and the potential need to do these efforts that could result from our next CSFR, the Senate states that this action is consistent with the goal of delaying funding of new programs in an effort to preserve current direct service levels in other areas of the budget to the extent possible. No trailer bill language is needed to delay implementation of this bill because it already contains a provision that would delay the three-year period of the pilot project from commencing until funding is provided. DSS agrees that, based on this provision, without funding being provided, the implementation of the bill is delayed.

Questions for the Administration:

DSS, please describe the effects of a delay here.

4440 DEPARTMENT OF MENTAL HEALTH

ISSUE 1: DEPARTMENTAL BACKGROUND AND SPECIAL SESSION ACTION

The Department of Mental Health (DMH) administers state and federal statutes pertaining to mental health treatment programs. The department directly administers the operation of five State Hospitals—Atascadero, Coalinga, Metropolitan, Napa and Patton, and acute psychiatric programs at the California Medical Facility in Vacaville and the Salinas Valley State Prison.

The department provides hospital services to civilly committed patients under contract with County Mental Health Plans (County MHPs) while judicially committed patients are treated solely using state funds.

Purpose and Description of County Mental Health Plans. Though the department oversees policy for the delivery of mental health services, counties (i.e., County Mental Health Plans) have the primary funding and programmatic responsibility for the majority of local mental health programs as prescribed by State-Local Realignment statutes enacted in 1991 and 1992.

Specifically, County Mental Health Plans are responsible for: (1) all mental health treatment services provided to low-income, uninsured individuals with severe mental illness, within the resources made available; (2) the Medi-Cal Mental Health Managed Care Program; (3) the Early Periodic Screening Diagnosis and Testing (EPSDT) Program for children and adolescents; (4) mental health treatment services for individuals enrolled in other programs, including special education, CalWORKs, and Healthy Families; and (5) programs associated with the Mental Health Services Act (Proposition 63 of 2004).

Key Aspects of Mental Health Services Act (Proposition 63 of 2004). The Mental Health Services Act (Act) addresses a broad spectrum of prevention, early intervention and service needs and the necessary infrastructure, technology and training elements that will effectively support the local mental health system. It is intended to expand mental health services to children and youth, adults and older adults who have severe mental illnesses or severe mental health disorders and whose service needs are not being met through other funding sources (i.e., funds are to supplement and not supplant existing resources).

Most of the Act's funding will be provided to County Mental Health programs to fund programs consistent with their approved local plans. The Act provides for a *continuous appropriation* of the funds to a special fund designated for this purpose. The Act requires that each County Mental Health program prepare and submit a three-year plan which shall be updated at least annually and approved by the Department of Mental Health (DMH) after review and comment by the Mental Health Services Oversight and Accountability Commission (OAC).

A key provision of the act is that the state is to provide for a General Fund "maintenance of effort" (MOE) based on expenditures for 2004-05. In addition, Mental Health Services Act funds are to be used to supplement and not supplant existing efforts.

Overall Governor's Budget. The budget proposes expenditures of almost \$5.2 billion (\$2.2 billion General Fund) for mental health services, including capital outlay for the State Hospitals. This is an increase of \$267 million (\$206 million General Fund) from the revised current-year

budget. Of the total amount, \$1.312 billion is proposed to operate the State Hospital system. The remaining \$3.8 billion is for community-based mental health programs.

Governor's Proposed Reductions for Department of Mental Health. The Governor declared a fiscal emergency on January 10th, utilizing the authority provided within the State Constitution as provided for under Proposition 58 of 2004. Under this authority, the Governor can call the Legislature into Special Session to deal with substantial revenue declines or expenditure increases, and to address the fiscal emergency. Other than utilizing remaining bond financing, the Governor has generally proposed a 10 percent across-the-board reduction approach to the fiscal emergency.

With respect to the Department of Mental Health (DMH), the Governor has proposed a reduction of almost \$17.5 million (General Fund) in the current year and \$76.8 million (General Fund) in the budget year. All of the Governor's proposed reductions pertain to Community-Based mental health services. The Administration states that no reductions were proposed for the State Hospitals due to potential health and safety concerns.

The table below captures the Administration's proposed reductions in the DMH budget and the actions taken in the Special Session on these items (shaded columns).

Community-Based Mental Health Programs	2007-08 Governor's Proposed Reduction	2007-08 Reduction Approved in Special Session	2008-09 Governor's Proposed Reduction	2008-09 Reduction Approved/ Implied in Special Session
<i>Early and Periodic Screening, Diagnosis & Treatment</i>	-\$6,715,000	-\$3,646,000	-\$46,336,000	-\$14,608,000
<i>Mental Health Medi-Cal Managed Care</i>	-\$8,185,000		-\$23,800,000	
<i>San Mateo and Laboratory Project</i>	-\$190,000		-\$464,000	
<i>Healthy Families, supplemental mental health</i>	-\$20,000		-\$71,000	
<i>Supplemental Rate for Community Treatment Facilities</i>	-\$1,200,000		-\$1,200,000	
<i>AIDS Counseling</i>	-\$50,000		-\$150,000	
<i>Caregiver Resource Centers</i>	-\$400,000	-\$400,000	-\$1,200,000	-\$1,200,000
<i>Cathie Wright Technical Assistance Center</i>	-\$10,000	-\$10,000	-\$40,000	-\$40,000
<i>Early Mental Health Initiative</i>			-\$1,634,000	
<i>DMH Headquarters Administration</i>	-\$722,000	-\$722,000	-\$1,948,000	-\$1,948,000
<i>LAO – Reduce State Hospital Funding for SVPs</i>		-\$12,600,000		
Totals	-\$17,492,000	-\$17,378,000	-\$76,843,000	-\$17,796,000

The Legislature also adopted \$292 million in the following *cash management* solutions as proposed by the Governor for programs administered by the Department of Mental Health.

These actions were as follows:

- \$200 million by delaying payment advance to County Mental Health Plans for Mental Health Medi-Cal Managed Care.
- \$92 million by delaying payment advance to County Mental Health Plans for the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

PANELISTS

- Department of Mental Health
- Department of Finance
- Legislative Analyst's Office

Invited Testimony from:

- California Mental Health Directors Association
- California Council of Community Mental Health Agencies
- Caregiver Resource Centers

STAFF COMMENT

In accordance with the broader approach on prioritization regarding budget issues, items that were found to have the lesser impact on direct care services were chosen for reduction in the current year. In an effort to remain consistent with this approach on budget year prioritization, staff recommends that the Subcommittee affirm the Special Session actions for continuation into budget year, consistent with similar votes taken in this Subcommittee for other departments.

Questions for the Administration:

On the funding for the Caregiver Resource Centers, please describe how the reduction can be distributed across program costs in order to preserve the highest level of caregiver resources. Please describe the activities of the Statewide Resource Consultant.

ISSUE 2: BBR – GOVERNOR'S PROPOSED REDUCTION TO COMMUNITY TREATMENT FACILITIES

It is requested that the Department of Social Services please remain at the hearing for this item within the DMH budget. The Governor proposes to eliminate the state's share of a supplemental rate paid to Community Treatment Facilities which equates to a reduction of \$1.2 million General Fund). This issue was discussed before the full Senate Budget & Fiscal Review Committee on February 4th. Due to the length of this hearing, public testimony was abbreviated. No action was taken in the Special Session on this issue.

Community Treatment Facilities (CTFs), as established in statute, provide secured residential care for the treatment of children diagnosed as being seriously emotionally disturbed (SED). These are locked facilities and provide intensive treatment. Generally, CTFs were created as an alternative to out-of-state placement and state hospitalization for some children. The DMH and Department of Social Services have joint protocols for the oversight of these facilities. The Budget Act of 2001 and related legislation provided supplemental payments to CTFs. These supplemental payments consist of both state (40 percent) and county (60 percent) funding. There are four CTFs in CA. Elimination of this rate would likely shift costs to counties, or result in fewer children being served, or result in placing children in more expensive juvenile facilities.

PANELISTS

- Department of Mental Health
- Department of Finance
- Legislative Analyst's Office

Invited Testimony from:

- County Welfare Directors Association
- California Alliance of Child and Family Services

STAFF COMMENT

Staff recommends that this issue be held open pending receipt of additional information and the May Revision.

Questions for the Administration:

DMH, Please briefly describe the Governor's proposed reduction for the budget year.

DMH and DSS, can you please explain the number of children who are placed out of state currently? What are the reasons around this and has there been a recent increase? Please describe how this might be viewed differently depending on the care setting.

ISSUE 3: BBR – GOVERNOR'S PROPOSED REDUCTION TO THE EARLY MENTAL HEALTH INITIATIVE

The Governor proposes a \$1.634 million (Proposition 98 General Fund) reduction, or over 10 percent, to the Early Mental Health Initiative (EMHI) for total program expenditures of \$13.366 million (Proposition 98 General Fund) for 2008-09.

EMHI grants are awarded on a competitive basis for three years to public elementary schools to provide services to students in K through Third grades who are experiencing mild to moderate school adjustment difficulties. School sites must also contribute funding towards their individual program. EMHI was established in 1991 through Assembly Bill 1650. It is designed to enhance the social and emotional development of young students and to minimize the need for more costly services as they mature. Students from Kindergarten through Third Grade who are enrolled in public schools are the target audience. The EMHI has been independently evaluated and data is available for 7 years of the program (for both pre and post data participants). These findings indicate that the recipients of EMHI-funded services make significant improvements in social behaviors and school adjustment as evaluated by both teachers and school-based mental health professionals.

PANELISTS

- Department of Mental Health
- Department of Finance
- Legislative Analyst's Office

Invited Testimony from:

- EMHI Providers, Including Time for Kids, Inc.

STAFF COMMENT

The Senate took action to approve the Governor's reduction in this program.

Questions for the Administration:

DMH, please describe the impact of the proposed reduction.

ISSUE 4: BBR – GOVERNOR'S PROPOSED REDUCTION TO MENTAL HEALTH MANAGED CARE

The Governor proposes a total reduction of \$47.6 million (\$23.8 million General Fund), or 10 percent of the state General Fund support to the program, for the Mental Health Managed Care Program. Due to the loss of federal matching funds, the reduction equates to a 20 percent reduction overall.

DMH contends that the intent of this proposed reduction is really an “unallocated” reduction, and not elimination of the minor consent program or a rate reduction, which have been offered as components of the administration's reduction proposal. According to the DMH they would leave the reduction up to each of the County Mental Health Plans on how it would choose to implement the reduction. In other words, each county would receive in essence, 10 percent less to work with. No trailer bill legislation is proposed.

Under this model, County Mental Health Plans (County MHPs) generally are at risk for the state matching funds for services provided to Medi-Cal recipients and claim federal matching funds on a cost or negotiated rate basis. County MHPs access County Realignment Funds (Mental Health Subaccount) for this purpose. An annual state General Fund allocation is also provided to the County MHP's. The state General Fund allocation is usually updated each fiscal year to reflect adjustments as contained in Chapter 633, Statutes of 1994 (AB 757, Polanco). These adjustments have included changes in the number of eligibles served, factors pertaining to changes to the consumer price index (CPI) for medical services, and other relevant cost items.

The state's allocation is contingent upon appropriation through the annual Budget Act. Based on the most recent estimate of expenditure data for Mental Health Managed Care, County MHPs provided a 47 percent match while the state provided a 53 percent match. (Adding these two funding sources together equates to 100 percent of the state's match in order to draw down the federal Medicaid funds.)

Overview of Mental Health Managed Care. Under Medi-Cal Mental Health Managed Care psychiatric inpatient hospital services and outpatient specialty mental health services, such as clinic outpatient providers, psychiatrists, psychologists and some nursing services, are the responsibility of a single entity, the Mental Health Plan (MHP) in each county. Full consolidation was completed in June 1998. This consolidation required a Medicaid Waiver (“freedom of choice”) and as such, the approval of the federal government. Medi-Cal recipients must obtain their mental health services through the County MHP. The Waiver promotes plan improvement in three significant areas—access, quality and cost-effectiveness/neutrality. The DMH is responsible for monitoring and oversight activities of the County MHPs to ensure quality of care and to comply with federal and state requirements.

Previous Rate Reduction to Mental Health Managed Care Program. The Mental Health Managed Care Program, along with rates paid to other Medi-Cal Program providers, was reduced by 5 percent for a two-year period (from 2003 to 2005) as contained in legislation. Though the rates paid to providers of health care services under the Medi-Cal Program were restored in 2005, efforts to restore the five percent for this program have not succeeded. In addition, adjustments for certain medical cost-of-living-adjustments have not been provided by the state to County MHPs since 2000.

PANELISTS

- Department of Mental Health
- Department of Finance
- Legislative Analyst's Office

Invited Testimony from:

- California Mental Health Directors Association
- California Council of Community Mental Health Agencies

STAFF COMMENT

It is recommended to hold this issue open pending receipt of any additional clarifying information from the DMH and constituency groups. Further, it is unclear to Subcommittee staff on what direction the DMH would provide to County Mental Health Plans or community mental health providers via "DMH Letters" or the like on how they would need to implement this unallocated reduction if the Legislature were to adopt it.

Questions for the Administration:

DMH, Please clarify the Governor's proposed reduction and how the DMH would in fact administer the reduction if adopted.

DMH, in your view, would this reduction result in reduced access to services at the local level?

ISSUE 5: STATE ADMINISTRATION – INTERNAL CONTROL REVIEW

The Office of State Audits and Evaluations (OSAE) within the Department of Finance conducted an “internal control review” of the Department of Mental Health (DMH). The findings of this review were publicly provided to the DMH and Legislature on January 31, 2008. The OSAE review was conducted during the period of from July 2007 through December 2007.

This internal review encompassed the DMH headquarters, as well as the State Hospitals administered by the DMH. The OSAE identified areas where managerial and fiscal controls are not in place or working as intended. Overall, the OSAE determined the DMH controls to be weak. Their review identified weak budgetary controls, lack of communication and coordination, and weak fiscal oversight among units. They note that due to weak fiscal oversight, the DMH has not effectively or timely prevented or detected budgeting and accounting errors which have resulted in lost opportunities to fund critical needs.

OSAE noted that to ensure a high degree of fiscal integrity, the DMH needs to institute organizational and programmatic budgets, proper accounting structures and allocation methods, document and communicate fiscal processes and control activities, and monitor mechanisms at all levels within the department. The following key deficiencies were noted by OSAE:

- Organizational and programmatic budgets are not developed. Without this level of detail, DMH is prevented from adequately prioritizing activities, promoting responsible resource allocation, and establishing fiscal accountability.
- Written procedures do not exist over the DMH’s budget development process for the State Hospitals. This includes policies and procedures for developing State Hospital patient population projections, the Sexually Violent Predator (SVP) evaluations’ estimates, and distribution of budget allocations to State Hospitals from the DMH headquarters office.
- A method to track and account for costs in the State Hospitals related to the federal Civil Rights for Institutionalized Person’s Act (CRIPA) was not planned or developed, hampering the State Hospitals’ ability to adequately account for, control, and monitor expenditures. In an effort to exhaust the CRIPA funding, the DMH Budget Office provided direction but not until year end.
- Licensing and Certification activities within the DMH totaling \$357,000 were incorrectly charged to the General Fund instead of the appropriate special fund (i.e., fee supported).
- Significant control weaknesses exist in the accounts receivable function. Inadequate controls over accounts receivable at DMH have a negative impact on cash flow and DMH’s ability to meet its obligations as they become due.
- Contract controls are not in place or working as intended to ensure that DMH’s best interests are served. Without adequate contracting controls, the propriety and legality of contracts cannot be assured, and timely delivery of quality goods and services may be compromised. For example, the same staff initiating the contract request is also responsible for evaluating, ranking, and ultimately selecting the proposals. For Information Technology contracts, the project manager requesting the contract selects the consultant, monitors performance, and indirectly approves payment by certifying the consultant’s timesheet records.
- System development and Information Technology (IT) project management procedures are outdated. OSAE states that DMH’s management does not meet the state’s minimum requirements for planning, tracking, risk management, and communication.

Without adequate project management practices, the DMH is at risk that IT projects will neither be completed timely and within budget, nor accomplish the project objectives.

OSAE identified the IT project management requirements not meet to include the following:

- Development and maintenance of project cost estimates for all projects.
- Recording of actual costs by cost category and comparing actual costs to budgeted amounts.
- Tracking and reporting of work plan activities, schedules, and milestones for all projects.
- Regular status reporting to key stakeholders, including budgets and milestones.
- In addition, the department's IT Risk Management Plan was not updated or certified to the DOF. Further, OSAE stated that access and programming rights to systems, applications and files are not adequately controlled.
- Controls are not in place to ensure adequate safeguarding of public assets. Policies and procedures for reviews, approvals, and reconciliations are not documented.
- Encumbrance, disbursement, and adjustment postings to the general ledger are not reviewed for accuracy and propriety. Financial statements are unreliable.

The OSAE provided the DMH with a series of recommendations to assist the DMH management in focusing attention on strengthening internal controls, preventing and mitigating risks, and improving operations. Further, to strengthen controls, OSAE recommended for the DMH to develop a plan to address the observations and recommendations noted in the report.

PANELISTS

- Department of Mental Health
- Department of Finance
- Legislative Analyst's Office

STAFF COMMENT

This OSAE report identifies fundamental concerns with core fiscal and administrative functions at the DMH. The DMH was recently re-organized in November 2007 and has hired some new key personnel to address the layers of issues identified here. However, given the magnitude of the issues identified, it will take significant efforts on the part of the department to fully remedy them and to restore integrity and trust in the operations of the department.

The DMH should report as to the proposed savings levels associated with their enhanced controls, as has been requested in the Senate. Some of the issues identified by OSAE pertain to the State Hospitals and their fiscal controls, including budget estimates. Therefore, it is also recommended for the Subcommittee to adopt, intending to conform eventually to Senate action, placeholder trailer bill language, to require the DMH to provide the DOF and Legislature with a comprehensive budget estimate package on the State Hospitals.

Questions for the Administration:

DMH, specifically, what key and immediate steps have been taken to address the issues identified?

DMH, what amount of administrative savings can be identified from these efforts?

ISSUE 6: EARLY AND PERIODIC SCREENING, DIAGNOSIS AND TREATMENT PROGRAM – STATUS UPDATE

Significant issues were raised last year regarding the DMH's management and administration of the EPSDT Program. Due to these management issues, the budget incurred a significant deficiency from prior year's claims not being addressed, as well as a federal audit whose results are still pending at this writing.

As part of its actions through the budget process, the Legislature requested the Office of State Audits and Evaluations (OSAE) to conduct a managerial review of the program to identify areas for correction.

Summary of OSAE Reports (Two Reports). The Office of State Audits and Evaluations (OSAE) within the Department of Finance conducted (1) an analysis of the estimating methodology used by the DMH for projecting EPSDT expenditures; and (2) a review of the DMH's fiscal processes involved in the payment of local assistance claims for the EPSDT Program and for Mental Health Managed Care (i.e., payments made to County Mental Health Plans for reimbursement of services provided).

With respect to the EPSDT estimating methodology, the DMH has made changes to analytically improve the forecast and will be working to establish an "Estimates" section within the department to conduct further work. Regarding the OSAE review of the overall DMH payment system, among other things, the OSAE determined that:

- Program governance between the DMH and Department of Health Care Services (DHCS) is weak and unclear. Generally, governance over the program is fragmented, decentralized and ineffective.
- The County Mental Health Plans are not being paid timely due to problems with the DMH claims reimbursement system.
- DMH's claims reimbursement system, including the information system, is outdated and problematic.
- DMH is at continued risk of over billing the federal government because of insufficient corrective actions in response to previous billing errors. Additional measures must be taken to ensure that federal financial participation claims are accurate.
- DMH has not required the County Mental Health Plans to fully implement federal HIPAA requirements regarding patient records and processing.

Significant issues were raised through budget Subcommittee deliberations last year regarding the DMH's management and administration of the EPSDT Program.

These issues intertwined and included the following key items:

- A significant deficiency request from the DMH for prior year claims from the counties.
- A DMH accounting error of \$177 million that occurred in 2005-06.
- A need to significantly modify the DMH's claims processing (billing) system.
- Use of inaccurate methodologies for estimating program expenditures.
- A lack of communication between the DMH and the Department of Health Care Services (Medi-Cal agency) regarding program operations.
- Concerns with double billing the federal government for Medicaid (Medi-Cal) expenditures.

Budget Act of 2007 Actions. Due to the severity of the issues, the Legislature requested the Office of Statewide Audits and Evaluations (OSAE) within the Department of Finance to conduct a review of the DMH's methodology for calculating EPSDT budget estimates and another review of their overall systems for claims processing.

In addition, agreement was reached with the Administration to reimburse County Mental Health Plans for past-year claims of \$260.2 million (General Fund) over a three-year period. About \$86.7 million (General Fund) will be provided each year, commencing with the current-year, for this reimbursement. Finally, the DMH was directed to work with the Legislature to develop an appropriate administrative structure for the program for implementation during 2008-09, including enacting legislation. It should be noted the Administration is working with the Legislature on this issue presently (i.e., Assembly Bill 1780 (Galgiani), as introduced).

PANELISTS

- Department of Mental Health
- Department of Finance
- Legislative Analyst's Office

Invited Testimony from:

- California Mental Health Directors Association
- California Council of Community Mental Health Agencies

STAFF COMMENT

The DMH has taken the OSAE report recommendations and is working through the issues comprehensively with the County Mental Health Plans, stakeholder community, and other involved parties, including the Department of Health Care Services. Again, due to the layers of issues identified, it will likely take some time for the DMH to resolve them.

With respect to improving fiscal integrity, it is recommended for the Subcommittee to adopt placeholder trailer bill language, with the intention to eventually conform to Senate action, to require the DMH to provide the DOF and Legislature with a comprehensive budget estimate package on the EPSDT Program.

Questions for the Administration:

DMH, Please provide a brief update regarding key changes that have been accomplished and key items that still need to be accomplished.

DMH, Has the federal government provided the Administration with any recent updates regarding their federal audit of the EPSDT program? Is there any potential for federal audit exceptions that may result in state General Fund costs?

ISSUE 7: BBR – EPSDT REDUCTIONS

The Governor proposes significant reductions to the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program through the Special Session and for the budget year. These proposed reductions and their estimated current-year and 2008-09 implications are displayed in the table below. Since the EPSDT Program receives a 50 percent federal match, total reductions for the current year are \$13.4 million (total funds), and for 2008-09 are \$92.7 million (total funds).

Governor's Special Session General Fund Reductions to EPSDT

Proposal Topic	Proposal Current Year (General Fund)	2008-09 (General Fund)
1. Require a Six-Month Reauthorization for Day Treatment Services		-\$19,448,000
2. Reduce Schedule of Maximum Allowances (rates)	-\$3,069,000	-\$12,280,000
3. Elimination of COLA (adopted by Legislature in Special Session)	-\$1,878,000	-\$7,516,000
4. Reduce Costs by increased DMH Monitoring (adopted by Legislature in Special Session)	-\$1,768,000	-\$7,092,000

The two proposals from the Governor which remain before the Legislature, items 1 and 2 from the table above, are discussed below.

Require a Six Month Reauthorization for Day Treatment Services. Under this proposal, the DMH would require County Mental Health Plans (County MHPs) to review requests for EPSDT services submitted by Day Treatment providers that exceed six months of treatment for a child.

The DMH is seeking emergency regulation authority to implement this proposal. Of the 8,000 children annually who receive Day Treatment services under the EPSDT Program, almost half of them are children who are also in Foster Care. The DMH estimates this would reduce expenditures by \$38.8 million (\$19.4 million General Fund) in 2008-09. The basis for this DMH estimate is shown below:

- 8,000 children with severe emotional disturbances receive Day Treatment services and of these children about one-third, or 2,670 children, receive these services for more than six-months.
- Of the 2,670 children, the DMH assumes 75 percent or 2,003 children would no longer require Day Treatment services.

There is concern with this proposal as presented for several reasons. First, the proposal would eliminate over 2,000 children with severe emotional disturbance from receiving Day Treatment services. If from a clinical perspective these children no longer require Day Treatment services, then they indeed do not require the services. However, the DMH has not provided any policy or clinical rationale as to why 75 percent of these children, many of whom are in Foster Care, would no longer need Day Treatment services. As such, children would either be dropped from a program they need, or a General Fund savings level is being proposed that may not be realistically achievable.

If the intent of the DMH is that these 2,000 children would transition to local services supported with Proposition 63 Funds (Mental Health Services Act Funds), then the DMH needs to make clear how these children would be appropriately transitioned. In addition, if services other than Day Treatment services are more clinically appropriate for a particular child, then the County MHP should be utilizing the clinically appropriate service. Any shifting of services should be identified through the DMH oversight of the EPSDT Program and then reflected in any budgetary trend line. Therefore, it is unclear as to the intention of the proposal.

The DMH contracts with County MHPs, who in turn, contract with providers of Day Treatment services. There are several "DMH Letters" which have been issued over the past several years regarding the provision of Day Treatment services. As such, it is unclear as to how this proposed DMH budget issue interacts with the existing DMH contract with the County MHPs, or existing DMH issued Letters or program regulations.

Second, County MHPs are already required by the DMH to require providers of Day Treatment services to request payment authorization for continuation of Day Treatment services at least every three months and at least every six months. As such, it is unclear what further requirements the DMH intends to place on County MHPs or providers of Day Treatment services. If more oversight of the existing practice is necessary, the DMH can proceed with this aspect through their expanded "EPSDT monitoring" efforts which was approved by the Legislature.

Third, the DMH is seeking emergency regulation authority for this purpose. This is disconcerting for it would provide the DMH with substantive authority with little oversight by the Legislature. Further, the use of emergency regulation authority without any context as to how the policy and programmatic framework is to be designed is not constructive.

Reduce Schedule of Maximum Allowances (rates). This Governor's proposal would permanently reduce the "Schedule of Maximum Allowances" by five percent. The Schedule of Maximum Allowances are upper limit rates, established for each type of services, for a unit of service (such as a patient day or minutes for other program services). In other words, the reimbursement for services cannot exceed these upper limits.

The DMH states that this proposal would reduce rates by \$24.6 million (\$12.3 million General Fund) for 2008-09. It should be noted that the Legislature did adopt the Governor's proposal to eliminate the annual COLA provided to the Schedule of Maximum Allowances. This DMH proposal would lower this amount even further.

The DMH states that they do not believe this reduction will result in a direct reduction in the number of clients served or a loss of medically necessary services to clients. They state that reductions are more likely to take the form of a reduction in the cost per client as the County Mental Health Plans implement more stringent reviews of medical necessity for specialty mental health services, increase reviews of authorizations for services and possibly reduce payments to providers.

Due to fiscal constraints, the Legislature adopted the Governor's proposals to: (1) establish a unit within the DMH to monitor EPSDT claims; and (2) eliminate the Cost-of-Living-Adjustment using the federal home health market basket which is applied to the Schedule of Maximum Allowances used for rates. Both of these actions are administrative in nature and did not

require state statutory change. It is assumed these two actions will reduce expenditures by \$7.3 million (\$3.6 million General Fund) in the current-year and by \$29.2 million (\$14.6 million General Fund) in 2008-09.

PANELISTS

- Department of Mental Health
- Department of Finance
- Legislative Analyst's Office

Invited Testimony from:

- California Mental Health Directors Association
- California Council of Community Mental Health Agencies

STAFF COMMENT

It is recommended to hold this item open pending the receipt of additional information from the DMH, as well as constituency groups.

Questions for the Administration:

DMH, Please briefly describe your proposal regarding the Six-Month Treatment Authorization Requirement. How would children be transitioned from services exactly?

DMH, Please briefly describe your proposal regarding the reduction to the Schedule of Maximum Allowances. How may this proposal affect access to services?

ISSUE 8: STATE HOSPITALS AND PATIENT POPULATION

The expenditures for the State Hospital system have increased exponentially in the past several years from \$811.6 million in 2004 to over \$1.312 billion proposed for 2008-09, including state administrative support. This represents an increase of about \$500 million, or almost 62 percent in only four-years. The State Hospitals are primarily funded with General Fund support.

Expenditures of \$1.312 billion, including state support, are proposed to operate the five State Hospitals and two psychiatric units which serve a projected total population of 6,448 patients for 2008-09. The proposed budget for 2008-09 reflects an increase of \$129 million (\$123 million General Fund and \$6 million County Realignment Funds) as compared to the Budget Act of 2007. Most of the proposed increase is due to (1) employee compensation adjustments required by the Coleman Court; and (2) compliance with the continued implementation of a settlement agreement with the federal government regarding the Civil Rights for Institutionalized Persons Act (CRIPA). The Governor did not reduce the State Hospital system in his proposed across-the-board 10 percent reduction due to potential concerns with health and safety issues.

Overall Background and Funding Sources. The department directly administers the operation of five State Hospitals—Atascadero, Metropolitan, Napa, Patton, and Coalinga. In addition, the DMH administers acute psychiatric programs at the California Medical Facility in Vacaville, and the Salinas Valley State Prison.

Patients admitted to the State Hospitals are generally either (1) civilly committed, or (2) judicially committed. As structured through the State-Local Realignment statutes of 1991/92, County Mental Health Plans (County MHPs) contract with the state to purchase State Hospital beds. County MHPs reimburse the state for these beds using County Realignment Funds (Mental Health Subaccount). Judicially committed patients are treated solely using state General Fund support. The majority of the General Fund support for these judicially committed patients is appropriated through the Department of Mental Health (DMH). Penal Code-related patients include individuals who are classified as: (1) not guilty by reason of insanity (NGI), (2) incompetent to stand trial (IST), (3) mentally disordered offenders (MDO), (4) sexually violent predators (SVP), and (5) other miscellaneous categories as noted.

Legislative Analyst's Office (LAO) Recommendation—Reduce Estimate for SVP Caseload. As previously noted, the LAO believes the DMH has over estimated the SVP caseload in both the current-year and budget year. Specifically, the LAO notes the historical growth (from 1999 to January 2008) rate for the SVP committed caseload is 47 patients (average year-to-year increase). As of March 2008, the SVP caseload at the State Hospitals was 700 patients. Yet the DMH was projecting a total caseload of 867 patients in the current year. Adoption of the LAO recommendation during the Special Session reduced the appropriation level to provide for a total of 739 total patients as of June 30, 2008. This level of funding for the current-year may likely need to be at the May Revision as well. For 2008-09, the DMH is projecting an SVP caseload of 1,227 patients or 488 patients higher than the revised current year adopted in Special Session. This estimate is likely overstated.

As such, the LAO recommends reducing the budget-year request by \$13.8 million (General Fund) to reflect an increase in caseload of 220 SVP patients. The LAO will also be analyzing the May Revision for any other adjustments in this area.

PANELISTS

- Department of Mental Health
- Legislative Analyst's Office
- Department of Finance

STAFF COMMENT

Staff recommends adoption of Budget Bill Language and the LAO Recommendation, which will conform to Senate action in this area. It is recommended to: (1) adopt Budget Trailer Bill Language to have the DMH provide information to the Office of State Audits and Evaluation (OSAE) in order for the OSAE to review the methodology used to estimate State Hospital caseload and fiscal information; and (2) adopt the LAO recommendation to reduce by \$13.8 million (General Fund) due to over estimating by the DMH. The proposed Budget Bill Language is as follows:

“It is the intent of the Legislature for the Office of State Audits and Evaluations (OSAE) to examine the methodology used by the Department of Mental Health in developing its budget estimate of the State Hospital system, including the projecting of all patient caseload categories, operating expenditures and related information used for this purpose. As part of its analysis, the OSAE will also review marginal costing information used for this population. The OSAE shall report its preliminary finding to the chairpersons of the fiscal committees of the Legislature, including the Joint Legislative Budget Committee, by October 1, 2008. To the extent that these preliminary findings are applicable, they shall be incorporated into the Department of Mental Health’s State Hospital estimate for the Governor’s Budget in January. The OSAE shall provide its final report to the chairpersons of the fiscal committees of the Legislature, including the Joint Legislative Budget Committee, by December 1, 2008. Any substantive findings in the final report that have not already been incorporated into the estimate process will be incorporated into the State Hospital estimate for the May Revision.”

Questions for the Administration:

DMH, Please provide a brief summary of the proposal.

LAO, Please provide a brief summary of the LAO recommendation.

ISSUE 9: COUNTY PURCHASE OF STATE HOSPITAL BEDS

Senate Subcommittee No. 3 on Health and Human Services has raised the issue of the state's continued use of General Fund support for State Hospital beds purchased by County Mental Health Plans (County MHPs) for civil commitments. Specifically, the Department of Mental Health (DMH) provides about \$9.8 million (General Fund) to subsidize, or to offset the full cost of, the State Hospital beds purchased by County MHPs. County MHPs purchase State Hospital beds from the DMH on a contracted basis.

According to the DMH's budget, it is estimated that County MHPs will contract for a total of 542 beds (i.e., "Civil Commitments") in 2008-09. Counties purchase State Hospital beds using their County Realignment Funds (Mental Health Subaccount). Under realignment, counties may choose to purchase State Hospital beds or to utilize community-based resources as appropriate for the individual patient. During the mid-1990's, the DMH provided some General Fund support to counties to offset the high cost of State Hospital beds while counties were developing community-based resources, including crisis intervention services and more expansive continuum of care services. As community-based resources were expanded, the counties purchased fewer State Hospital beds over time.

PANELISTS

- Department of Mental Health
- Legislative Analyst's Office
- Department of Finance

STAFF COMMENT

During the mid-1990's General Fund augmentations were provided for several years to assist in offsetting the high cost of State Hospital beds to enable counties to purchase beds as necessary for patient care. However, considering the development of community-based resources and the state's present fiscal situation, the state should eliminate the \$9.8 million (General Fund) subsidy for counties. Without the General Fund subsidy, County MHPs may choose to purchase a State Hospital bed at full cost, utilize other long-term care resources, access other community-based resources, or develop new treatment models for patients. It is recommended to eliminate the \$9.8 million General Fund subsidy for the purchase of State Hospital beds and to increase by \$9.8 million Reimbursements (coming from County Realignment for the State Hospitals). This would conform to Senate action on this item.

Questions for the Administration:

DMH, is there any comment or concern regarding this item?

ISSUE 10: ANCILLARY HEALTH SERVICES FOR PATIENTS IN INSTITUTES FOR MENTAL DISEASE

Senate Subcommittee No. 3 on Health and Human Services acted to clarify responsibilities for patients receiving mental health treatment in Institutes for Mental Disease facilities (IMDs). This is a cross-over issue between the Department of Mental Health (DMH) and the Department of Health Care Services (DHCS). The DMH is responsible for the administration of public mental health programs and the DHCS is the state's Medicaid (Medi-Cal in California) agency. With respect to the DHCS Medi-Cal budget, the state is presently *repaying* the federal government for improperly claimed federal funds for ancillary health services for Medi-Cal enrollees residing in IMD facilities. Specifically, the Medi-Cal budget reflects General Fund expenditures of \$36 million for 2007-08 and \$12 million for 2008-09 for the repayment to the federal government for these ancillary health services due to the IMD federal exclusion. The payment for 2008-09 reflects the last payment owed to the federal government at this time.

The Senate contends that these federal audit exceptions, and therefore General Fund expenditures, should cease once the state has repaid the federal government for past years owed. To ensure that this occurs, additional clarity should be provided in statute and communication between the DMH and DHCS regarding the exchange of data needs to improve. Services provided to most individuals residing in IMDs are generally *not* eligible for federal matching funds as is normally available under the Medi-Cal Program. This includes specialty mental health services, *as well as* ancillary health services (i.e., services that are health-related but not for the treatment of the specific mental illness, including expenditures for pharmacy, laboratory services, and physician services).

As defined in a November 2002 letter from the Department of Mental Health to Counties, Institutes for Mental Disease are "a hospital, nursing facility, or other institution of *more than* 16-beds that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care, and related services." Generally, this includes the following facilities: Acute Psychiatric Hospitals, Psychiatric Health Facilities, Skilled Nursing Facilities with a certified special treatment program, and Mental Health Rehabilitation Centers.

The Senate took action to mitigate General Fund exposure due to any federal audit exceptions related to the IMD federal exclusion and adopted the following trailer bill language:

"As federal financial participation reimbursement is not allowed for ancillary services provided to persons residing in facilities that have been found to be Institutions for Mental Disease, and since, consistent with Part 2 (commencing with Section 5600) of Division 5 and Chapter 6 (commencing with Section 17600) of Part 5 or Division 9 of the Welfare and Institutions Code, counties are financially responsible for mental health services and related ancillary services provided to persons through county mental health programs when Medi-Cal reimbursement is not available, when it is determined that Medi-Cal reimbursement has been paid for ancillary services for residents of IMDs, both the federal financial participation reimbursement and any state funds paid for these ancillary services provided to residents of IMDs shall be recovered by the Department of Mental Health in accordance with applicable state and federal statutes and regulations."

PANELISTS

- Department of Mental Health
- Legislative Analyst's Office
- Department of Finance

STAFF COMMENT

The language adopted by the Senate will more comprehensively compel the DMH to provide increased oversight of County MHPs with this issue and should overall encourage more of a coordinated state effort. Staff recommends adoption of this language, which would conform to action taken in the Senate.

Questions for the Administration:

Please comment on the proposed trailer bill language.

ISSUE 11: SPRING FINANCE LETTER - PROPOSITION 63 MENTAL HEALTH SERVICES ACT

The Subcommittee is in receipt of a Finance Letter requesting several adjustments for the Department of Mental Health pertaining to continued implementation of the Mental Health Services Act (MHSA). A total increase of \$32.9 million (MHSA Funds and matching federal reimbursements) is requested for 2008-09. This includes: (1) \$5.8 million for state operations (DMH and the Oversight Commission); and (2) \$27.2 million for local assistance.

Key components of the Finance Letter request include:

- *Workforce Education and Training.* The MHSA requires the development of a program intended to remedy the shortage of qualified individuals providing services to severely mentally ill people. Using data submitted by counties and key stakeholders, the DMH is finalizing a five-year plan based upon a statewide workforce needs assessment. To this end, contract funds are requested for the following: (1) Psychiatric Residency Programs (\$1.350 million); (2) Stipend Programs (\$10 million); and (3) Client and Family Member Technical Assistance Center (\$800,000).
- *Prevention and Early Intervention—Office of Suicide Prevention.* The DMH is requesting a total of four positions (\$370,000) to establish an Office of Suicide Prevention and to contract for statewide initiatives regarding suicide prevention (\$7 million). Additional funding in this effort also includes: (1) \$900,000 for a statewide resource center on suicide prevention; (2) \$2.3 million for crisis lines; and (3) \$1.5 million for support training and workforce enhancements to prevent suicide.
- *Prevention and Early Intervention—Student Mental Health Initiative.* An increase of \$8 million is identified for the provision of mental health services in educational settings throughout the state. A grant program to award about 56 higher education grants to support training, mental health education, peer support and violence prevention would be implemented.
- *Mental Health Services Oversight and Accountability Commission (Commission).* An increase of \$842,000 (MHSA Funds) is requested to support two new positions—a Staff Counsel III and a Consulting Psychologist is requested, along with funds to contract out for subject matter experts.

The Mental Health Services Act (Act) addresses a broad spectrum of prevention, early intervention and service needs and the necessary infrastructure, technology and training elements that will effectively support the local mental health system. It is intended to expand mental health services to children and youth, adults and older adults who have severe mental illnesses or severe mental health disorders and whose service needs are not being met through other funding sources (i.e., funds are to supplement and not supplant existing resources). Most of the Act's funding will be provided to County Mental Health programs to fund programs consistent with their approved local plans. The Act provides for a *continuous appropriation* of the funds to a special fund designated for this purpose.

MHSA Background. The Act requires that each County Mental Health program prepare and submit a three-year plan which shall be updated at least annually and approved by the Department of Mental Health (DMH) after review and comment by the Mental Health Services Oversight and Accountability Commission (OAC).

The Act imposes a 1 percent income tax on personal income in excess of \$1 million. The Act is projected to generate (i.e., revenues) about \$1.363 billion in 2005-06, \$1.528 billion in 2006-07, and \$1.694 billion in 2007-08. The six components and the required funding percentage specified in the Act are as follows:

- Community Services & Supports 55%
- Workforce Education & Training 10%
- Capital Facilities & Technology 10%
- State Implementation/Admin 5%
- Prevention and Early Intervention 20%
- Innovation (within the Community Services & Supports and Prevention components)
- TOTALS 100 %

The following descriptions outline the various local assistance components to the Act.

- Local Planning (County plans): Each county must engage in a local process involving clients, families, caregivers, and partner agencies to identify community issues related to mental illness and resulting from lack of community services and supports. Each county is to submit for state review and approval a three-year plan for the delivery of mental health services within their jurisdiction. Counties are also required to provide annual updates and expenditure plans for the provision of mental health services.
- Community Services and Supports. These are the programs, services, and strategies that are being identified by each county through its stakeholder process to serve un-served and underserved populations, with an emphasis on eliminating racial disparity.
- Education & Training. This component will be used for workforce development programs to remedy the shortage of qualified individuals to provide services to address severe mental illness.
- Capital Facilities and Technology. This component is intended to support implementation of the Community Services and Supports programs at the local level. Funds can be used for capital outlay and to improve or replace existing information technology systems and related infrastructure needs.
- Prevention & Early Intervention. These funds are to be used to support the design of programs to prevent mental illness from becoming severe and disabling.

PANELISTS

- Department of Mental Health
- Legislative Analyst's Office
- Department of Finance

STAFF COMMENT

Staff recommends approval of the Spring Finance Letter as proposed, excluding the Housing component, which will be considered further by the Subcommittee.

Senate Subcommittee No. 3 on Health and Human Services took action to approve this aspect of the Spring Finance Letter and, in an effort to clarify the DMH's use of contracting for certain functions, Senate staff worked with the DMH, the County Mental Health Directors Association and others to craft the following amendment (underlined) to Section 4061 of Welfare and Institutions Code as follows, which this Subcommittee has been approached to approve:

4061 (a) The department shall utilize a joint state-county decision-making process to determine the appropriate use of state and local training, technical assistance, and regulatory resources to meet the mission and goals of the state's mental health system. The department shall use the decision-making collaborative process required by this section in all of the following areas:

- (1) Provide technical assistance to the State Department of Mental Health and local mental health departments through direction of existing state and local mental health staff and other resources.
- (2) Analyze mental health programs, policies, and procedures.
- (3) Provide forums on specific topics as they relate to the following:
 - (A) Identifying current level of services.
 - (B) Evaluating existing needs and gaps in current services.
 - (C) Developing strategies for achieving statewide goals and objectives in the provision of services for the specific area.
 - (D) Developing plans to accomplish the identified goals and objectives.
- (4) Providing forums on policy development and direction with respect to mental health program operations and clinical issues.
- (5) To the extent resources are available, identify and fund a statewide training and technical assistance entity jointly governed by local mental health directors and mental health constituency representation, which can:
 - (A) Coordinate state and local resources to support training and technical assistance to promote quality mental health programs;
 - (B) Coordinate training and technical assistance to assure efficient and effective program development; and
 - (C) Provide essential training and technical assistance as determined by the state-county decision-making process.

The Senate adopted this language and staff recommends the same action, which would conform.

Questions for the Administration:

DMH, Please describe the changes the DMH has made regarding clarification of its fiscal policies in its administration of the Mental Health Services Act Funding.

DMH, Are MHSA Funds being distributed more efficiently to the Counties for local expenditure due to the fiscal changes? Please be specific.

DMH, Please provide a brief summary of the key components to the proposed Finance Letter and comment regarding the proposed trailer bill language as noted above.