AGENDA
SUBCOMMITTEE NO. 1
ON HEALTH AND HUMAN SERVICES

PART 2

ASSEMBLYMEMBER PATTY BERG, CHAIR

WEDNESDAY, MAY 28, 2008
STATE CAPITOL, ROOM 4202

ITEMS TO BE HEARD

VOTE-ONLY CALENDAR

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 1: BBR – REDUCTION TO SUPPORTED EMPLOYMENT PROGRAMS

BACKGROUND

The Subcommittee considered this issue at its April 23rd hearing and held this item open pending further review and consideration of the May Revision. The Governor is proposing a reduction of $9.6 million ($7.7 million General Fund) to reduce the 24 percent rate increase provided to Supported Employment Programs in the Budget Act of 2006, by 10 percent. The Governor's proposed 10 percent reduction would reduce the rate for job coach services from $34.24 to $30.82 per hour. Trailer bill language would be needed to implement this reduction. The savings level assumes a July 1, 2008 effective date.

The Budget Act of 2006 provided a 24 percent increase in Supported Employment Programs to assist in the development of employment services for persons with developmental disabilities. Specifically, it was increased from $27.62 per hour to $34.24 per hour. This rate increase was expected to assist in the development of 600 additional new jobs annually.

Supported employment provides opportunities for persons with developmental disabilities to work in the community, in integrated settings, with support services provided by community rehabilitation programs. These services enable consumers to learn necessary job skills and maintain employment. Supported Employment Programs provide services for individually employed consumers (individual placements), as well as consumers employed in group settings (group employment.). The caseload is affected by Regional Centers referring consumers for supported employment from "Work Activity Programs" (WAPs), Day Programs, schools or other programs. Caseload is also impacted by employment opportunities within the community and the ability of consumers to obtain and maintain employment. These factors are critical because these services are only purchased when the consumer is employed.

The LAO recommends adoption of the Governor's 10 percent reduction. Due to the fiscal crisis, staff recommends adoption the Governor's reduction. These programs would still sustain almost a 15 percent rate increase as compared with the Budget Act of 2006 (when they received the 24 percent increase).

Staff Recommendation: Adopt the Governor's 10 Percent reduction and the accompanying trailer bill language necessary to implement the reduction. This action conforms to the Senate on this issue.

ISSUE 2: BBR – CONSOLIDATE REGIONAL RESOURCE DEVELOPMENT PROJECTS

BACKGROUND

The Subcommittee considered this issue at its April 23rd hearing and held this item open pending further review and consideration of the May Revision.

The Subcommittee had not yet acted on this BBR in the Special Session, which proposes a reduction of $663,000 for budget year. The cut would result in the reduction of two RRDP offices no longer situated on DC grounds, including all associated OE&E costs.

Staff Recommendation: Accept the Governor's budget proposal for a 10% reduction to the Regional Resource Development Projects. This action is intended to conform to Senate action on this item.

ISSUE 3: BBR – PROPOSAL TO DEFER EXPANSION AT PORTERVILLE DC

BACKGROUND

The Subcommittee considered this issue at its April 23rd hearing and held this item open pending further review and consideration of the May Revision.

The Governor proposes to defer any population expansion at Porterville DC for the "Secure Treatment Program" beyond the existing 300 beds for savings of $11.7 million General Fund in 2008-09. The DDS is also proposing trailer bill language for this purpose.

The DDS' proposed savings comes from not utilizing the 96-bed residential expansion (6 units with 16-beds each) which is scheduled for completion in October 2008. Therefore, if the population of the Secure Treatment Program at Porterville is not increased, the DDS will not need to hire staff to provide for the active treatment and care of the population that would be needed if the population were increased.

The DDS trailer bill language is as follows:

> *Add Section 7502.5. "The total number of developmental center residents in the secure treatment facility at Porterville Developmental Center shall not exceed 297."*

The DDS notes that no existing services to individuals residing at the Developmental Centers would be affected by this reduction proposal.

The 96-bed expansion project is lease revenue bond funded by the state and managed by the Department of General Services. The state will be required to begin scheduled payments on the bond funding after construction is completed, the Fire Marshal has signed off and the bonds are sold. The DDS budget includes funding for the bond payments.

Request for Augmentation for Security on 96-Bed Expansion. The DDS is requesting an increase of $600,000 (General Fund) in one-time funding to acquire external perimeter security cameras for the Secure Treatment Program and the 96-bed expansion. The DDS states that the proposed external perimeter security cameras would work in conjunction with a security system that has already been approved as part of the construction design for the 96-bed expansion project.

Staff Recommendation: Approve the Governor's proposal to defer Porterville expansion and deny the $600,000 General Fund request, conforming to action taken in the Senate.

ISSUE 4: BBR – REDUCTION TO CLIENT'S RIGHTS ADVOCACY

BACKGROUND

The Subcommittee considered this issue at its April 23rd hearing and held this item open pending further review and consideration of the May Revision.

The Governor has proposed to reduce the contract for Clients' Rights Advocacy services by 10 percent. The current contract cost is projected to be $5.1 million (General Fund). The Governors proposal would reduce this by $512,000 (General Fund) for a total expenditure of $4.6 million for 2008-09. The DDS states that the reduction would decrease the contractor's ability to provide direct advocacy assistance and consultation to consumers and their families, as well as indirect assistance such as training and educational efforts.

Existing statute requires the DDS to contract with an outside entity for the provision of clients' rights advocacy Section 4433 of Welfare and Institutions Code). This was done to avoid any appearance of a conflict of interest (by the DDS or the Regional Centers). The DDS contracts with Protection and Advocacy, Incorporated through its Office of Clients' Rights Advocacy for the statewide provision of clients' rights advocacy to consumers served by the 21 Regional Centers.

Staff Recommendation: Reject the Governor's proposed reduction as included in the BBR.

ISSUE 5: BCP – PORTERVILLE CAPITAL OUTLAY PROJECT FOR 24 SATELLITE KITCHENS/DINING ROOMS

BACKGROUND

The Subcommittee considered this issue at its April 23rd hearing and held this item open pending further review and consideration of the May Revision.

The DDS is requesting an augmentation of $18.3 million General Fund for the construction phase of renovating 24 satellite kitchens/dining rooms at Porterville Developmental Center. The DDS states that this construction phase will accomplish needed renovations for Porterville bring them up to code compliance. The 24 satellite kitchens/dinning rooms do not presently meet all health and safety standards for serving food. The satellite kitchen equipment is 22 years old and some of it is not fully operational.

The Legislature did approve funding for the construction of the Main Kitchen at Porterville using lease-revenue bonds of $25.4 million (lease revenue bonds). Work is continuing on completion of the Main Kitchen where food is first prepared and packaged. The Legislature also approved the preliminary plans and working drawings for the 24 satellite kitchens/dining rooms at Porterville. According to an updated schedule, the construction start date would begin May 2009 with the project being completed by May 2011, assuming the appropriation of the $18 million General Fund in this budget.

The Subcommittee is in receipt of a technical issue regarding the Porterville Developmental Center and the construction of its Main Kitchen. The construction of the Main Kitchen is funded with Lease Revenue Bonds.

Specifically, the DDS is requesting an increase of $5.4 million (Lease Revenue Bonds) and Budget Bill Language. The Public Works Board recently approved an increase for this project of $5.409 million (Lease Revenue Bonds). This increase is due to (1) an unanticipated need for a retention pond to prevent rainwater from pooling at the Main Kitchen; (2) poor soil conditions that will be rectified by enhancing the Main Kitchen's foundation; (3) the cost of inspections by the State Fire Marshall and the Department of Public Health; and (4) a reassessment of project management rates. This increases the Main Kitchen construction costs of the project to $25.4 million (Lease Revenue Bond).

The requested Budget Bill Language (Item 4300-301-0660) is as follows:

1. The State Public Works Board may issue lease revenue bonds, notes, or bond anticipation notes pursuant to Chapter 5 (commencing with Section 15830) of Part 10b of Division 3 of Title 2 of the Government Code to finance the construction of the project authorized by this item.
2. The State Department of Developmental Services and State Public Works Board are authorized and directed to execute and deliver any and all leases, contracts,

agreements, or other documents necessary or advisable to consummate the sale of bonds or otherwise effectuate the financing of the scheduled projects.

3. The State Public Works Board shall not be deemed to be the lead or responsible agency for purposes of the California Environmental Quality Act (Division 13 [commencing with Section 21000] of the Public Resources Code) for any activities under the State Building Construction Act of 1955 (Part 10b [commencing with Section 15800] of Division 3 of Title 2 of the Government Code). This provision does not exempt the State Department of Developmental Services from the requirements of the California Environmental Quality Act. This provision is declaratory of existing law.

No issues have been raised by the Legislative Analyst's Office or Subcommittee staff.

Staff Recommendation: Reject the augmentation and defer the $18 million General Fund construction project until 2009-2010. Approve the $5.409 million (Lease Revenue Bonds) and the Budget Bill Language as requested. Both of these actions conform to the Senate on this issue.

ISSUE 6: BEST BUDDIES GENERAL FUND GRANT

BACKGROUND

In the Budget Act of 2000, an augmentation of $1 million General Fund was provided for the Best Buddies Program. This augmentation was originally provided as a special request when General Fund revenues were robust. Since that time, an additional $500,000 (General Fund) was provided in the Budget Act of 2006 for a total annual appropriation of $1.5 million (General Fund).

This program provides opportunities for socialization and social integration for persons with developmental disabilities. This is achieved by pairing high school and college students with individuals with developmental disabilities.

Subcommittee staff notes that the DDS program has no other contractual relationship such as this for the provision of services within the appropriation for community-based, Regional Center services.

This program did not receive a 10% reduction neither in the Jan. 10 budget nor in the May Revision. The program receives substantial private support as an international organization.

Staff Recommendation: Approve the elimination of this $1.5 million GF appropriation for Best Buddies, conforming to Senate action.

ISSUE 7: PLANNED REVIEW OF COST CONTAINMENT PROPOSALS

BACKGROUND

The administration proposed in the Special Session to make permanent some cost containment measures that would otherwise sunset at the end of the current year for a savings of about approximately $215 million General Fund in 2008–09. These measures included the following savings: (1) $128 million from freezing rates for contracted services, (2) $34 million from freezing service levels and eliminating a specified pass–through of federal funds for community care facilities, (3) $33 million from freezing funding for startup of certain new types of programs, (4) $11 million from freezing rates for day, work activity and in–home respite programs, and (5) $9.4 million from freezing rates for habilitation services. The Legislature approved the permanency of these cost containment proposals in ABX3 5.

Before the action to make these measures permanent, their sunset date was extended on a year to year basis. In light of the action taken to make these measures permanent given the state of the fiscal crisis, advocates have requested some mechanism to for review of whether the containment proposals can be lifted in the absence of a sunset date.

Staff recommends the following, uncodified placeholder trailer bill language to effectuate this review:

> *The Department of Developmental Services shall provide an update to the appropriate policy and fiscal committees of the Legislature during the fall legislative interim on an annual basis, beginning in the 2008-09 fiscal year, regarding the impact of the adopted freezes and various cost containment measures on clients and service levels. The policy committees of the Legislature may choose to hold informational hearings on these issues to further review and explore the prioritization and levels at which a cost containment measure or measures may be proposed for modification or elimination and shall report these findings for consideration in the annual Subcommittee budget process or in legislation, where appropriate.*

Staff Recommendation: Adopt uncodified, placeholder language on the update and review of the impact of extended cost containment measures on DD clients.

ISSUE 8: MAY REVISION – ADJUSTMENTS TO 10 PERCENT REDUCTION

BACKGROUND

The Subcommittee is in receipt of a technical Finance Letter that contains a series of adjustments to the Governor's 10 percent reductions as updated for the May Revision which only pertains to special fund adjustments (i.e., federal funds and reimbursements). There are no General Fund impacts.

This technical letter makes adjustments needed to correct the Governor's budget which were adopted in Special Session and in previous Subcommittee actions.

These are technical adjustments regarding receipt of federal funds and reimbursements only. There is no General Fund impact.

Staff Recommendation: Adopt May Revision and the technical adjustments regarding receipt of federal funds and reimbursements. This action conforms to the Senate.

ISSUE 9: MAY REVISION – REVERSION LANGUAGE FOR CURRENT YEAR REGIONAL CENTER SAVINGS

BACKGROUND

The Subcommittee is in receipt of a Finance Letter requesting the adoption of Budget Bill Language to revert an estimated $88.8 million (General Fund) for 2007-08 for the budget for the Regional Centers.

The DDS states that this is do to a re-estimation of Regional Center Operations and the Purchase of Services (POS) expenditures.

The proposed Budget Bill Language is as follows:

4300-495 Reversion, Department of Developmental Services. As of June 30, 2008, the balances of the appropriations provided in the following citations shall revert to the funds from which the appropriations were made.

0001—General Fund

(1) Item 4300-101-0001, Budget Act of 2007 (Chapters 171 and 172, Statutes of 2007). Up to $88,772,000 appropriated in Program 10.10.010—Operations, Program 10.10.020-Purchase of Services, and Reimbursements.

(2) Item 4300-101-0001, Budget Act of 2007 (Chapters 171 and 172, Statutes of 2007). Up to $20,000 appropriated in Program 10.10.020—Regional Centers: Purchase of Services, Risk Pool, Self-Directed Services.

It is recommended to adopt this language and to recognize $88.7 million (General Fund) in unexpended General Fund support. Based on information provided by the DDS, these funds will not be needed in the current-year (2007-08) to provide services and supports to individuals with developmental disabilities.

Staff Recommendation: Adopt Governor's language and to recognize $88.7 million in unexpended General Fund support. This action conforms to the Senate.

4440 DEPARTMENT OF MENTAL HEALTH

ISSUE 1: BBR – COMMUNITY TREATMENT FACILITIES

The Subcommittee considered this issue at its April 30th hearing and held this item open pending further review and consideration of the May Revision. The Governor proposes to eliminate the state's share of a supplemental rate paid to CTFs for a total reduction of $1.2 million (General Fund). This was part of the Governor's January proposal and it assumed a March 1, 2008 implementation date. The Administration is requesting statutory change to implement this proposal.

Community Treatment Facilities (CTFs), provide secured residential care for the treatment of children diagnosed as being seriously emotionally disturbed (SED). These are locked facilities that provide intensive treatment. 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 were five CTFs in CA at the time of the development of the state's $1.2 million (General Fund) portion. These CTFs were as follows: (1) San Francisco Community Alternatives; (2) Seneca-Oak Community Alternatives in Concord; (3) Starlight Adolescent Center in San Jose; (4) Starview Children & Family in Santa Clara; and (5) Vista Del Mar Child & Family Services in Los Angeles. Two of these facilities recently closed in 2008 for various reasons.

Staff recommends a modification of the proposal to reflect CTF closures. At the time the $1.2 million supplemental rate was provided there were five CTFs with a total of 140 beds. There are now three CTFs with a total of 86 beds.

Due to the reduction in beds, Subcommittee staff recommends to provide a total appropriation of $750,000 (General Fund) in lieu of the Governor's complete elimination or the full restoration of $1.2 million which is not warranted. This level of funding will provide the same amount on a per bed basis as previously allocated.

In addition, trailer bill language is not necessary since existing statute was only applicable for past year levels and is silent regarding any ongoing funding level. It is recommended to adopt Budget Bill Language to identify the amount and purpose of the expenditure as follows: *Of the amount appropriated in this Item, $750,000 shall be used to provide a supplemental payment to Community Treatment Facilities for 2008-09.*

Staff Recommendation: Provide a total appropriation of $750,000 GF and adopt Budget Bill Language as specified in the agenda. This action conforms to the Senate.

ISSUE 2: BBR – EARLY MENTAL HEALTH INITIATIVE

The Subcommittee considered this issue at its April 30th hearing and held this item open pending further review and consideration of the May Revision.

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.

The Senate chose to accept the BBR cut for this program or 10.9% and $1.634 million in GF. Given the restorations being sought in the Assembly plan and the numerous competing proposals for limited resources, staff recommends a 5% reduction in this program to recognize the fiscal crisis, the need for a reduction, and, moreover, the value of this program.

Staff Recommendation: Reject the BBR and accept a reduction in the GF support of the program of 5%, with staff to reconcile with Finance.

ISSUE 3: BBR AND MAY REVISION – MEDI-CAL MENTAL HEALTH MANAGED CARE

The Subcommittee considered the Medi-Cal Mental Health Managed Care program at its April 30th hearing and held the proposed BBR open pending further review and consideration at May Revision.

For the May Revision, the Administration is proposing to continue the Governor's 10 percent reduction of $23.8 million (General Fund) to the amount the state provides in support of Medi-Cal Mental Health Managed Care. However, the DMH is now proposing an "unallocated" reduction approach to this proposed reduction. In January the DMH had specifically targeted elimination of the minor consent program, a 5 percent rate reduction and elimination of state support for certain federal regulation assistance. In addition, the DMH is proposing a minor adjustment of $22,000 (General Fund) to account for standard baseline adjustments which would occur on the natural, such as for caseload and related items.

Therefore, the DMH is proposing a total appropriation of $214.4 million (General Fund), including the 10 percent unallocated reduction of $23.8 million.

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.)

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.

The Subcommittee is in receipt of a letter from several constituency groups expressing concern with the Governor's proposed reductions. Among other things, they note that although the Mental Health Services Act (i.e., Proposition 63) provided new revenues for mental health services, revenues from this act cannot be used to supplant existing programs or backfill for General Fund support.

Subcommittee Staff Recommendation—Modify the May Revision. The Governor's ten percent unallocated reduction for this program raises potential concerns regarding maintenance of effort provisions as contained in the Mental Health Services Act (Proposition 63), Statutes of 2004. It is therefore recommended to reject this approach.

However, Subcommittee staff, in concurrence with action taken in the Senate, recommends a reduction of $5.350 million (General Fund) provided to County Mental Health Plans for administration of federal regulations which were issued several years ago regarding providing informing materials to Medi-Cal enrollees regarding mental health treatment services. This reduction is recommended for the following reasons:

- Implementation of the federal regulations initially required more expenditure as the process was newly established and required more workload;
- The Administration is in the process of re-negotiating California's Medi-Cal Mental Health Waiver and has the opportunity to streamline these requirements;
- County Mental Health Plans need to provide a certain modicum of support for informing materials and related aspects to the federal requirements; as such, it is reasonable to expect that they would share in the cost and even be deemed to be meeting many of the requirements by what they provide in the first place; and
- If needed, additional sources of funding could be obtained, such as from foundations for special projects related to consumer awareness and choices.

Further, the Mental Health Services Act has been very beneficial in providing information regarding mental health services and treatment and has undoubtedly facilitated in this process on the natural. The DMH should discuss this aspect with the federal CMS in their negotiations.

Staff Recommendation: Conforming to Senate action (1) **reject the Governor's 10 percent unallocated reduction of $23.8 million (General Fund);** (2) **adopt the technical baseline adjustment increase of $22,000 (General Fund); and** (3) **reduce by $5.350 million (General Fund) to delete state support for the federal regulations.**

ISSUE 4: FINANCE LETTER – CONREP

The Subcommittee is in receipt of a Finance Letter to increase the CONREP by $600,000 (General Fund) to support up to four court-ordered alternative placements for Sexually Violent Predators (SVPs). This funding level reflects the existing methodology.

The DMH contracts with Liberty Healthcare for the ongoing operation of this component of CONREP, including direct service costs for the patients' living arrangements, treatment and supervision. Statute requires that SVPs be conditionally released into their county of domicile, thus Liberty Healthcare must receive sufficient funding to be able to provide treatment and supervision services when an SVP is court-ordered conditionally released to a county.

This program provides for (1) outpatient services to patients into the Conditional Release Program (CONREP) via either a court order or as a condition of parole, and (2) hospital liaison visits to patients continuing their inpatient treatment at State Hospitals who may eventually enter CONREP. The patient population includes: (1) Not Guilty by Reason of Insanity, (2) Mentally Disordered Offenders, (3) Mentally Disordered Sex Offenders, and (4) Sexually Violent Predators.

The DMH contracts with counties and private organizations to provide these mandated services in the state, although patients remain DMH's responsibility per statute when they are court-ordered into CONREP community treatment and supervision. The program as developed by the DMH includes sex offender treatment, dynamic risk assessments, and certain screening and diagnostic tools. Supervision and monitoring tools include Global Positioning System (GPS), polygraphs, substance abuse screening, and collaboration with law enforcement.

In addition to the services provided through the contracts as referenced above, the DMH administers the State Transitional Residential Program (STRP) which is another component of the CONREP continuum of care. This program operates 40 beds located in three licensed non-medical facilities providing a highly structured residential program assisting patients' transition from the State Hospital system to the community. Typically, patients in a STRP facility stay about three to four months.

No issues have been raised with this proposal. It is recommended to approve the increase for the budget year.

Staff Recommendation: Approve the Finance letter on CONREP.

ISSUE 5: FINANCE LETTER – HEALTHY FAMILIES PROGRAM FOR SUPPLEMENTAL MENTAL HEALTH

The May Revision for the supplemental mental health services provided under the Healthy Families Program (HFP) as administered by the Department of Mental Health (DMH) reflects two adjustments.

First, it continues the Governor's proposed 10 percent reduction to the program as recalculated using under the May Revision. Therefore, the updated 10 percent reduction is $52,000 (General Fund), versus the proposed reduction of $71,000 (General Fund) from January. The Subcommittee considered and rejected this BBR at its April 30 hearing.

Second, the baseline program has been updated for May Revision, including adjustments for caseload and expenditures which would occur on the natural. These adjustments reflect a reduction of $6,449,000 (reduction of $190,000 General Fund and reduction of $6,259,000 in reimbursements).

Staff Recommendation: (1) Reject the Governor's 10 percent reduction as modified by the May Revision; and (2) adopt the proposed caseload adjustments for the budget year. (Technical note to the DOF: Delete the amendment from the prior Subcommittee action for the 10 percent and reflect the rejection of the 10 percent per the updated May Revision amount.) This action conforms to the Senate.

ISSUE 6: COUNTY PURCHASE OF STATE HOSPITAL BEDS

The Subcommittee considered this issue at its April 30th hearing and held this item open pending further review and consideration of the May Revision.

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.

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.

The LAO recently announced that it has no issue with this approach.

Staff Recommendation: Conforming to the Senate, eliminate the $9.8 million GF subsidy for the purchase of State Hospital beds and increase reimbursements by $9.8 million to reflect that counties that opt to will be purchasing state hospital beds at the state's cost.

ISSUE 7: MHSA OVERSIGHT COMMISSION

The Senate took action to direct the DOF to establish a separate display item within the Budget Bill to better track the Mental Health Oversight and Accountability expenditures.

Staff Recommendation: Concurrence with Senate action in this direction to the Department of Finance.

ISSUE 8: FINANCE LETTER – MHSA HOUSING INITIATIVE

The Senate took action on a Finance letter informing the Legislature of the Administration's intent to allocate funding for the capital costs associated with development, acquisition, construction, and/or rehabilitation of permanent supportive housing for individuals with mental illness.

In line with the Senate, f*irst*, it is recommended to approve the Finance Letter to commence with full implementation of the Housing Initiative.

Second, it is recommended to require the Administration to annually display the Fund Condition Statement of the “Non-Budget Act” special fund (i.e., MHSA Housing Support Account) in the Governor’s annual budget summary released on January 10th of each year.

This will enable the Legislature to track the flow of the funds. **The following Budget Bill Language is recommended for this purpose:**
Item 4440-001-3085
“Provision 3. The department shall annually provide to the Department of Finance a Fund Condition Statement for the Housing Support Account (special deposit account number 0942215-4450-1945-601) which shall be annually published in the Governor’s January 10th budget summary. It is the intent of the Legislature to utilize this information to track the fiscal allocations made for the Housing Initiative Program as established under the Mental Health Services Act.”

Third, it is recommended to require the Department of Mental Health, in collaboration with the CA Housing Finance Agency (CalHFA) to provide semi-annual updates to the Legislature on the progress and results of the $400 million being expended for the Housing Initiative Program.
The proposed trailer bill language is as follows: “The Department of Mental Health, in collaboration with the California Housing Finance Agency, shall provide the fiscal and policy committees of the Legislature with semi-annual updates regarding key results and funding for the capital costs associated with development, acquisition, construction, and/or rehabilitation of permanent supportive housing for individuals with mental illness as provided for under the Housing Initiatives Program as administered by the state. These semiannual updates shall commence as of July 1, 2008 and shall be provided to the Legislature as noted within 30-days after the end of the first and third quarters of each fiscal year thereafter. “

Staff Recommendation: Approve the funding and adopt the two sets of language as contained in this agenda item.

ISSUE 9: SAN MATEO PHARMACY AND LAB PROJECT

First, the Administration is proposing several fiscal adjustments to the San Mateo Project. These adjustments are as follows:
• Provides $8.7 million (General Fund) to complete the payment of prior years' claims which were owed to San Mateo by the DMH. This consists of $3.6 million (General Fund) for 2004-05 and $5.1 million (General Fund) for 2005-06.
• Adjusts the 2007-08 (current year) due to interactions with federal Medicare Part D pharmacy costs. Specifically, $3.1 million ($1.6 million General Fund) is being reduced due to pharmacy cost shifts to the federal Medicare Part D Program. This $1.6 million (General Fund) is being redirected to offset the prior year costs (as shown above).
• Adjusts the 2008-09 pharmacy estimate by $2.9 million ($1.5 million General Fund). This $1.5 million (General Fund) is being redirected to offset the prior year costs (as shown above).
• Reduces by $928,000 ($464,000 General Fund) to reflect the Governor's proposed 10 percent across-the-board reduction for 2008-09.

Second, at the request of the Legislature, the Office of Statewide Audits and Evaluations (OSAE) conducted a review of the DMH's administration of this program. Key observations and findings of this OSAE review, released in June 2007, include the following:
• There was a lack of DMH oversight over costs, including pharmacy expenditures, laboratory expenditures and pharmacy rebates.
• There was inadequate assessment by the DMH of the federal Medicare Part D Program impacts.
• The program estimate prepared by the DMH lacks essential user and service level detail.
• The DMH did not assess the program for cost effectiveness. The OSAE recommended for the DMH to *significantly* increase its oversight of the program and to conduct a detailed assessment of the program from a fiscal perspective.

As recommended by OSAE, the Legislature required the DMH to report back regarding an Action Plan to implement fiscal reforms regarding the San Mateo Project. The DMH provided their report to the Legislature as of January 2008.

The Senate took the following actions on this issue and they are recommended for this Subcommittee's approval.

First, it is recommended to approve all of the budget adjustments, including the prior year payments and the Governor's 10 percent reduction.

Second, it is recommended to adopt the following trailer bill language to ensure an appropriate transition for the San Mateo Project since the contract between the DMH and the county expires as of June 30, 2008. The proposed language is as follows:

“The Department of Mental Health shall confer with San Mateo County, relevant constituency groups, and the Department of Health Care Services to appropriately craft a transition plan to ensure the continuity of care for mental health clients in the event the state’s contract for the services provided under the San Mateo Pharmacy and Laboratory Project are substantially modified or transitioned to the Department of Health Care Services. The Department of Mental Health shall provide the fiscal and policy committees of the Legislature with a status update regarding the development of a transition plan by no later than December 31, 2008."

Subcommittee staff believes this language is necessary since the contract between the DMH and San Mateo expires as of June 30, 2009 and because the Legislature has not received the March 1, 2008 report which would have provided more information to craft future policy for the program.

Staff Recommendation: Conform to Senate action by approving the budget adjustments as noted, including the prior year amount and the Governor's 10 percent reduction, and adopt the language as contained in this issue of the agenda.

ISSUE 10: MAY REVISION – SAN MATEO PHARMACY PROJECT

First, the Department of Finance has requested through the May Revision process technical provisional language which allows for the allocation of General Fund moneys to pay prior years' claims from 2004-05 and 2005-06. This language will simply serve to provide a historical technical reference that funds were provided for this purpose (in the event the State Controller or others have questions).

The DOF proposed language is as follows:

"Of the amount appropriated in this Item, a portion is for costs and claims incurred by the San Mateo Pharmacy and Laboratory Services Program in the 2004-05 and 2005-06 fiscal years."

Second, the DMH needs to adjust the 10 percent reduction proposed for the Project and adopted by the Subcommittee. The May Revision proposes a reduction of $928,000 (General Fund) not $964,000 (General Fund) as proposed in January.

It is recommended to approve the above language and to adopt the May Revision adjustment for the 10 percent reduction. No issues have been raised.

Administration's Technical Scheduling Correction. The DOF has informed the Subcommittee that a technical scheduling shift between state support items within the DMH needs to be done to appropriately reflect an administrative reduction as proposed through the Governor's 10 percent reduction process and as adopted by the Subcommittee. The adjustment pertains to administrative services and information technology projects. No issues have been raised.

Staff Recommendation: Staff recommends adoption of the proposed language and technical adjustment. These actions are intended to reconcile with action on the preceding item and to conform with all actions taken in the Senate on the San Mateo Pharmacy Project.

ISSUE 11: SPRING FINANCE LETTER - NAPA STATE HOSPITAL CAPITAL OUTLAY

The Subcommittee is in receipt of a Finance Letter which makes adjustments to a capital outlay project at Napa State Hospital. Specifically the letter proposes a reduction of $4.1 million (reduction of $449,000 General Fund and reduction of $3.6 million in Lease Revenue Bonds) to this project.

Based on this revision, the Administration is proposing expenditures of $32.2 million ($605,000 General Fund and $31.6 million Lease Revenue Bonds) for working drawings and the construction phase of rebuilding the main kitchen and several satellite kitchens at Napa State Hospital.

The Legislature has reviewed this project and recognizes the need for completion in order to meet licensing requirements and patient and staff needs. No issues have been raised.

Staff Recommendation: Adopt the Finance Letter for capital outlay at Napa State Hospital.

ISSUE 12: BBR – AIDS COUNSELING PROGRAM

The Governor proposes to reduce this Department of Mental Health Program by $150,000 (General Fund), or by 10 percent. The AIDS Counseling Program is presently funded at $1.5 million (General Fund). According to the DMH, about 3,186 clients received some form of service through this funding. This translates into an average cost of $471 per person served. The main purpose of this program is to provide counseling and mental health services to support persons at risk of HIV/AIDS, who are HIV/AIDS positive, and partners and; family members needing mental health services, counseling and support for HIV/AIDS and related concerns. The majority of the funds provide individual, group or family counseling services.

Client services may include: information and referral; individual psychotherapy; couple psychotherapy; crisis counseling; psychosocial rehabilitation and support services; psychotropic medication monitoring; psychiatric assessments; services coordination; case management; and education and training. Another service of this funding is the publication and distribution of a monthly newsletter called "Focus: A Guide to AIDS Research and Counseling". According to the DMH, the allocation used to distribute these funds to non-profit and county agencies was done through a competitive process 19 years ago. Through this process, the DMH selected 14 entities to fund. The funding for these 14 entities has not changed since inception of the program.

In line with the Senate view on this item and in concurrence with their action, due to the fiscal crisis and limited General Fund resources, it is recommended to eliminate the AIDS Counseling Program operated by the DMH and to shift the remaining $1.350 million (General Fund) of the program (after the Governor's reduction of $150,000) to the Office of AIDS. Specifically this $1.350 million would be used to assist in backfilling the $1.6 million General Fund reduction proposed by the Governor. However, the following BBL is also offered for adoption to assist with the transition of the Hemophilia Council's dependency on this allocation:

Item 4265-111-0001
Provision x. In order to meet the needs of individuals with hemophilia who are at high-risk of HIV infection or who have HIV/AIDS, the Office of AIDS shall continue the existing state contract with the Hemophilia Council for 2008-09 as provided by the Department of Mental Health as part of the transition period for consolidating programs.

Staff Recommendation: (1) Eliminate the remaining $1.350 million (General Fund) from the DMH after the Governor's budget balancing reduction of $150,000, and shift the $1.350 million in funds to the Office of AIDS to the Education and Prevention Program; and (2) adopt Budget Bill Language in Item 4265 regarding the Hemophilia contract as specified in the agenda. This action conforms to the Senate.

ISSUE 13: MAY REVISION – ADJUSTMENTS FOR THE STATE HOSPITALS

The Governor's May Revision contains various adjustments for the State Hospitals as they pertain to patient population and expenditures. Several of these adjustments correspond to reductions already taken by the Subcommittee based on Legislative Analyst's Office (LAO) recommendations. Other adjustments are technical and relate to staffing compliments that are needed to appropriate address patient care as well as facility operations, such as food service, plant operations and related functions.

The four key adjustments include the following:

- Decrease of $24.742 million and 245 positions to reflect the full-year impact of current-year reductions in patient population (DOF issue #220);

- Decrease of $328,000 to reflect a decrease in the number of positions associated with the continued activation of Coalinga State Hospital (DOF issue #221);

- Decrease of $13.3 million and 130 positions to reflect a net decrease in the Judicially Committed/Penal Code population of 188 patients (DOF issue #223); and

- Increase of $6.7 million and 50 positions to support a 64-bed expansion of the Salinas Valley Psychiatric Program as required by the Coleman Court.

The LAO concurs with these revised adjustments.

Subcommittee Staff Recommendation—Adopt May Revision. It is recommended to rescind the Subcommittee's April 30th action to reduce as recommended by the LAO and to instead, adopt the May Revision estimate.

Though the LAO recommendation was very valuable, due to other technical adjustments in the Administration's May Revision package, this recommended action will provide for a more accurate base for 2008-09.

Additionally, placeholder trailer bill adopted by this Subcommittee on April 30 has been developed and was accepted in the Senate during its May Revise hearings in the following form. It is recommended that the Subcommittee also adopt this language.

Add Section 4100.2 to Welfare and Institutions Code:

> "The Department of Mental Health shall provide the fiscal committees of the Legislature with a fiscal estimate package for the current-year and budget-year for the State Hospitals by January 10 and at the time of the Governor's May Revision commencing as of January 10, 2009 and ongoing thereafter. At a minimum, this estimate package shall address patient caseload by commitment

category, Non-Level-Of-Care and Level-Of-Care staffing requirements, and operating expenses and equipment. Each submitted estimate shall articulate the assumptions and methodologies used for calculating the patient caseload factors, all staffing costs, and operating expenses and equipment. Where applicable, individual policy changes shall contain a narrative and basis for its proposed and estimated costs. Fiscal bridge charts shall be included to provide the basis for the year-to-year changes. The department may provide any additional information as deemed appropriate to provide a comprehensive fiscal perspective to the Legislature for their analysis and deliberations for purposes of appropriation."

Staff Recommendation: Rescind the Subcommittee's April 30th action to reduce as recommended by the LAO and to instead, adopt the May Revision estimate as provided. Additionally, the developed trailer bill language is adopted per acceptance in the Senate. This set of actions is intended to conform to the Senate.

4700 DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

ISSUE 1: BBR – NATURALIZATION SERVICES PROGRAM

The Governor's Budget proposes a reduction of $300,000 General Fund, which is a ten percent reduction, to the Naturalization Services Program (NSP).

The NSP, through contracts with 32 community-based organizations throughout California, assists legal permanent residents in obtaining citizenship by providing services that include outreach, intake, assessment, collaboration with and referral to other organizations, citizenship application assistance, citizenship testing and interview preparation, and follow-up activities. The program assists an average of 12,000 individuals annually in the completion of citizenship applications. Positive outcomes as a result of NSP and citizenship include improved employment opportunities for citizens, and reduced caseload for state-only programs such as the Cash Assistance Program for Immigrants (CAPI), as citizens may qualify for the federally-funded Supplemental Security Income (SSI) program. The Department of Community Services and Development (CSD) estimates that proposed reduction will result in 1,130 legal residents not receiving assistance.

In their alternative budget proposal, the Legislative Analyst's Office (LAO) recommends reducing the NSP by $1.3 million General Fund. They indicate that the remaining funding of $1.7 million will maintain support for a core group of contracted community-based organizations that deliver these services.

This issue and the impacts of the cuts were discussed in previously in this Subcommittee in the January hearings and on April 2.

Notwithstanding the value of these services, staff notes that this reduction is necessitated by the fiscal crisis and the need to protect direct services to low income individuals. However, as testified to by CSD, the LAO's proposed reduction will result in the complete inability of some community-based organizations to provide services and is too deep.

Staff Recommendation: Approve the proposed $300,000 reduction included in the BBR. This action conforms to action taken in the Senate.

ISSUE 2: SPRING FINANCE LETTER – PRISONER REENTRY INITIATIVE (PRI) PROGRAM

The Department of Community Services and Development (CSD) has submitted a spring Finance Letter requesting a $50,000 increase in federal fund state operations authority for 2008-09 for the administration of the PRI Program. The PRI Program is a $450,000 two-year grant from the federal Bureau of Justice Assistance to provide services to probationers and parolees to ensure their successful reentry into society. The grant start date was July 1, 2007, although CSD was not notified by the federal government of receipt of the award until September 2007. CSD did not submit a Section 28 request to enable them to begin implementing the program until late in the 2007 calendar year. That Section 28 request included approval of $100,000 for state operations funding for CSD for 2007-08. Given the delays in starting up the program, CSD is requesting that $50,000 of that $100,000 be transferred from 2007-08 to 2008-09.

Staff Recommendation: Approve the spring Finance Letter. This action conforms to the Senate.

ISSUE 3: MAY REVISION – OFFICE RELOCATION

The May Revision requests $957,000 ($19,000 General Fund) to provide funding for expenses associated with CSD's anticipated relocation. There is also provisional language proposed that would allow these funds to be used only for facilities relocation upon approval by the Department of Finance.

The CSD leases office space in a building owned by the Lottery Commission and was notified by the Lottery that they would have to vacate their office space sometime during the spring of 2009. The Lottery plans to renovate and rebuild all of the structures on this site. The exact timing of the relocation is still being negotiated with the Lottery, therefore, the amount of funding needed for 2008-09 is not completely known.

Staff Recommendation: Approve the requested funding and provisional budget language. This action conforms to the Senate.

5160 DEPARTMENT OF REHABILITATION

ISSUE 1: BBR – REDUCE HEADQUARTERS BUDGET BALANCING REDUCTION

The Governor proposes a $700,000 ($150,000 General Fund) reduction and elimination of 4.5 positions from the Department of Rehabilitation (DOR) headquarters. DOR headquarters staff is responsible for the central administrative support activities essential to the DOR's basic operations. Services include the administration of the Vocational Rehabilitation and Independent Living programs, legal affairs, civil rights, audit services, and administrative support.

Staff Recommendation: Approve the reduction. This action conforms to the Senate.

ISSUE 2: BBR – OPERATING EXPENSES

The Governor proposes a $4.2 million ($638,000 General Fund) reduction to operating expenses in DOR in 2008-09, which would increase to $4.8 million ($1.0 million General Fund) in 2009-10 and annually thereafter. Although DOR originally stated that the savings would result from the closure of 10-15 district offices throughout the State, there would be no savings associated with district office closures until 2009-10. All of the reduction in 2008-09 and the majority of the reduction in 2009-10 would be to general expense, printing, postage, travel, training, consultant services, data center services, and equipment.

The Subcommittee discussed the issue of closing district offices at the April 2, 2008 hearing. At that time, DOR was convening internal meetings to determine which offices to close. DOR committed to providing a specific plan for the closure of district offices, including timelines, specific offices identified, and expected impact on service-delivery to provide sufficient time for legislative staff to review the information. However, that information was not provided until the May Revision and it is still in draft form. Therefore, the Legislature does not have sufficient information to determine the feasibility of DOR's proposal.

Staff Recommendation: Approve the $4.2 million ($638,000 General Fund) reduction to operating expenses for 2008-09 and ongoing (including the May Revision technical adjustment as appropriate). Reject the proposal to close district offices as there is no budget year savings and the Legislature does not have adequate information at this time. This action conforms to the Senate.

ISSUE 3: VOCATIONAL REHABILITATION SUPPORTED EMPLOYMENT AND WORK ACTIVITY PROGRAM CASELOAD AND RATES

At the April 2, 2008 hearing, the Subcommittee discussed the caseload changes to the Vocational Rehabilitation Supported Employment Program (VR/SEP) and Vocational Rehabilitation Work Activity Program (VR/WAP). The Governor's Budget requested an increase of $4.9 million ($479,000 General Fund) to fund increased caseload. The issue was held open pending any caseload adjustments in the May Revision.

In addition, the Governor's Budget proposed a 10 percent rate cut to the Supported Employment Program, which would result in savings of $728,000 General Fund in DOR's budget. This issue was heard with the Department of Developmental Services' budget in Subcommittee on April 23, 2008.

Staff Recommendation: Adopt the VR/SEP and VR/WAP caseload and conform to the Subcommittee's action previously on this agenda on the SEP rate. This action is intended to conform to the Senate.

5175 DEPARTMENT OF CHILD SUPPORT SERVICES

ISSUE 1: SELECT BBR PROPOSALS

The Governor's Budget proposed the following BBRs as part of the ten percent across-the-board reduction for the Department of Child Support Services (DCSS). These BBRs were heard in the April 2 Subcommittee hearing and held open pending receipt of additional information by DCSS.

- Locate and Intercept Contracts – Reduce by $781,000 ($175,000 General Fund) the contracts with various state agencies to locate non-custodial parents (NCPs) and their assets and for the intercept of these assets. As originally proposed on January 10, this proposal also would have resulted in General Fund revenue losses in excess of the savings. To address this problem, DCSS identified administrative and workload savings in these contracts so that this reduction can be achieved without impacting customers or collections. Based on additional information eventually provided by DCSS, the LAO has been able to confirm these administrative and workload savings.

- Customer Operations – Reduce by $1.1 million ($383,000 General Fund) and 14 positions to various areas of its Operations Divisions, including its Non IV-D Call Center, central financial work, the California Central Registry, the State Disbursement Unit, and locate and intercept processing. This component of the BBR was almost completely revised from that originally proposed on January 10 and most of the positions proposed for elimination are different. Based on additional review, the LAO has concurred that child support collections will not be affected by the proposed reductions.

Staff Recommendation: Approve the proposed reductions to the locate and intercept contracts and to customer operations. This action conforms to the Senate.

ISSUE 2: BCP – STATE DISBURSEMENT UNIT (SDU) BANK EXCEPTIONS

The Governor's Budget proposed two permanent positions to perform accounting activities for analyzing and processing banking exceptions and monitoring the recovery of funds. The DCSS will redirect $169,000 ($57,000 General Fund) from their Operating Expense and Equipment (OE&E) budget to fund the positions. Banking exceptions result in a loss of funds to the State, as the disbursement of funds has been made through the State Treasury, but the underlying funds have reversed because of exceptions.

This issue was heard in the April 2 Subcommittee hearing and held open pending a better understanding of the SDU position proposed for elimination as part of the DCSS' budget balancing reductions and of whether resources can be redirected within the SDU to fund one of these requested positions.

Based upon additional discussions with the DCSS and the Department of Finance, staff has determined that the SDU position proposed for elimination as part of the BBR and the requested positions have very different functions. Furthermore, the General Fund savings do not change whether a position is redirected within SDU to cover one of the new requested positions or a position is eliminated and two new positions are added. From a technical standpoint therefore, approval of the two new positions is simpler.

Staff Recommendation: Approve the two requested positions and redirection of OE&E funding. This action conforms to the Senate.

ISSUE 3: BCP – COMPROMISE OF ARREARS PROGRAM (COAP)

The Governor's Budget proposed $700,000 ($230,000 General Fund) and 7.5 permanent positions to extend the Compromise of Arrears Program (COAP). The budget also proposed trailer bill language to extend the sunset for the COAP two years, from June 30, 2008 to June 30, 2010, as well as other changes intended to improve the program.

In the Senate, Subcommittee No. 3 approved the funding and positions on a one-year limited-term basis, extended the sunset date for COAP in the trailer bill language until 2009, and rejected the additional proposed changes to the program in the trailer bill language pending a comprehensive COAP proposal. Senate Sub. 3 took this action because the program was being proposed as a temporary program but DCSS was requesting permanent positions; the proposed trailer bill language did not incorporate the outcomes of two reviews of COAP conducted by DCSS and the Program Review Unit within the Department of Finance (DOF); and the LAO had concerns with the trailer bill. This Subcommittee held the issue open pending further review.

Since that hearing, DCSS has developed a multi-year plan to implement the recommendations of the two reports, revised the trailer bill language to address the LAO's concerns and make the program permanent, and has come to agreement with DOF that the positions should be made permanent.

Staff Recommendation: Approve the $700,000 ($230,000 General Fund) and 7.5 permanent positions on a permanent basis and approve the revised trailer bill language. This action conforms to the Senate.

ISSUE 4: SPRING FINANCE LETTER – ENTERPRISE CUSTOMER SERVICE SOLUTION (ECSS) CONTRACT EXTENSION

The Department of Child Support Services (DCSS) has submitted a spring Finance Letter requesting $5.7 million ($1.9 million General Fund) in reappropriation funding to allow the California Child Support Automation System (CCSAS) business partner to continue to provide maintenance and support for the ECSS until September 30, 2010. The ECSS consists of a central state Contact Center for Non IV-D customers, a central self-service interactive voice response system, a central call routing engine, and standardized hardware and software for Local Child Support Agencies (LCSAs) and the state call center. The budget request will enable the current business partner to provide support, maintain the current quality of service, and continue the level of access of the child support customer information during and post final transition of the LCSAs to the child support enforcement (CSE) system. DCSS is currently considering options for ongoing maintenance and operations of the ECSS past September 2010 once the system transition is complete. The total 24-month ECSS contract service project costs are $23.9 million.

Staff Recommendation: Approve the request. This action conforms to the Senate.

ISSUE 5: SPRING FINANCE LETTER – CENTRAL PRINT AND MAIL SERVICES

DCSS has submitted a spring Finance Letter requesting the transfer of $12.6 million ($4.3 million General Fund) from local assistance to state operations to print and mail child support forms and notices through the Office of State Publishing (OSP). These forms and notices were originally generated locally, but as LCSAs move to the statewide CCSAS system, they will be generated by the State. The costs of these functions are based on estimated contract cost with the OSP. In the event that the actual costs are less than projected, DCSS has proposed budget bill language that would permit them to transfer the extra funds back to local assistance.

The Finance Letter requests the following, specifically: Approval of the requested transfer of $12.6 million ($4.3 million General Fund) from state operations to local assistance and the following provisional budget bill language:

> Add to Item 5175-002-0001:
>
> "In the event the actual costs to print and mail child support forms and notices through the Office of State Publishing are less than $6,300,000 the department shall transfer funds from this item to Item 5175-101-0001 upon approval by the Department of Finance."
>
> Add to Item 5175-002-0890:
>
> "In the event the actual costs to print and mail child support forms and notices through the Office of State Publishing are less than $12,200,000, the department shall transfer funds from this item to Item 5175-101-0891 upon approval by the Department of Finance."

Staff Recommendation: Adopt the requests in the Spring Finance for Central Print and Mail Services, conforming to action in the Senate.

ISSUE 6: SPRING FINANCE LETTER – CCSAS USER ADMINISTRATION SUPPORT

DCSS has submitted a spring Finance Letter requesting the continuation of two limited-term positions for an additional two years and continued redirection of contract funding of $158,000 ($63,000 General Fund) to fund the positions. These positions were initially provided in 2007-08 for one year to allow DCSS to maintain system security access for CCSAS users and to provide training to LCSA system administrators. Although DCSS expects this workload to be ongoing, they will not be sure at what level until transition to CCSAS is complete. The Legislative Analyst's Office recommends that one of these positions be made permanent now in order to reduce the turnover that is created by limited-term positions because the nature of this workload is such that excessive turnover could have security risks.

Staff Recommendation: Approve the request and make one of the two requested positions permanent. This action conforms to the Senate.

ISSUE 7: SPRING FINANCE LETTER – CCSAS TRANSFER FROM THE FRANCHISE TAX BOARD (FTB)

DCSS has submitted a spring Finance Letter request to transfer $44.5 million General Fund and 146 positions from the FTB to DCSS for CCSAS and requests associated budget bill and trailer bill language. The transfer would be accomplished in two phases. In phase one, the transfer of legislative authority and funding would occur on July 1, 2008. In phase two, the transfer of positions will occur on January 1, 2009, after the Child Support Enforcement (CSE) component of CCSAS is fully implemented in all counties.

The May Revision also included two technical adjustments related to this transfer to correct for funding that was inappropriately budgeted as state operations rather than local assistance for the CCSAS related Wide Area Network costs and one technical adjustment to include local assistance funding transferring from state operations to local assistance that was inadvertently omitted from the spring Finance Letter. These adjustments would result in a reduction of $3.0 million ($1.1 million General Fund) to state operations and an increase of $3.5 million ($1.1 million General Fund) to local assistance.

Staff Recommendation: Approve the transfer of positions and funding from FTB to DCSS and the associated May Revision technical adjustments. Approve the proposed trailer bill and budget bill language, and add trailer bill language that states that the transfer of staff from FTB to DCSS shall not occur until the federal funding cap placed on the CCSAS project is lifted. This action conforms to the Senate.

ISSUE 8: SPRING FINANCE LETTER – CCSAS PLANNING DOCUMENTS

The DCSS submitted a spring Finance Letter requesting $4.3 million ($2.3 million General Fund) to align the project budget with the latest approved CCSAS planning documents. The funding will be provided through 2005-06 reappropriated funds.

In addition, the May Revision requests that federal fund authority for the CCSAS project be increased by $269,000 to align the federal fund authority with the actual federal financial participation.

Staff Recommendation: Approve the spring Finance Letter and May Revision adjustment. This action conforms to the Senate.

ISSUE 9: BBR – JUDICIAL COUNCIL CONTRACT

DCSS has submitted a revision to the BBR proposed in January to reduce the Judicial Council Contract that provides for court commissioner, family law facilitator, support staff salaries, and court expenses necessary to establish and adjust child support orders for all child support cases. As originally proposed on January 10, this proposal would have actually resulted in greater General Fund revenue losses than the savings from the contract reduction due to reductions in the establishment of child support orders. To address this problem, DCSS has secured agreement from the courts that they will redirect $1.5 million in trial court funding to backfill the General Fund reduction to ensure that there is no loss in General Fund revenue. In addition, the courts will receive an additional $5.5 million in federal funds to provide a federal match to child support hearing costs that the courts are absorbing with trial court funds.

Staff Recommendation: Approve the revised BBR. This action conforms to the Senate.

ISSUE 10: BBR – CHILD SUPPORT STATE HEARINGS

As part of the 10 percent across-the-board reduction for DCSS, the Governor proposed, in January, to reduce funding for child support state hearings by $538,000 ($183,000 General Fund) and modify the child support complaint resolution process in order to better determine which issues should go forward to a formal state hearing. When this issue was first heard in Subcommittee, DCSS did not have a specific process developed yet and had proposed trailer bill language that would simply give the Director of DCSS the authority to determine the method the department would use for child support hearings without specifying what that method would be. DCSS stated they were working to develop a specific proposal and would provide that to the Legislature for consideration when it was developed. The proposed BBR was held open pending receipt of a specific proposal.

On May 12, DCSS submitted a proposal to modify the state hearing process based on a pilot project that the Department has been testing since November 2007. Under the pilot process, after all requests for state hearing are received and logged in at the State Hearing Office, they are sent to DCSS pilot staff for review and customer service. Within 10 days, DCSS pilot staff contact both the customer and the LCSA to attempt to resolve the problem outside the state hearing process and ensure that the customer has gone through the appropriate administrative steps prior to state hearing to resolve the problem. DCSS states that the pilot process has provided preliminary evidence that early intervention by DCSS can provide better customer service and complaint resolution, and reduce the number of state hearings.

Although DCSS acknowledges that the pilot project has not operated long enough to provide data on which to form definitive conclusions, DCSS would like to expand this pilot statewide to achieve the estimated savings in the state hearing process. However, DCSS has not demonstrated that the pilot process will result in the savings estimated, it is not clear whether there would be additional state costs related to the DCSS staff needed to implement the pilot statewide, and the DCSS has not revised the trailer bill language to implement their proposal, but instead continues with language that simply gives the Director of DCSS broad authority to determine the hearing method the department would use. As a result, adoption of this proposal is premature.

Staff Recommendation: Reject the proposed BBR. As an alternative, adopt the $183,000 General Fund in estimated savings, but provide $183,000 General Fund in reappropriation funding for one year to continue the current state hearing process. Adopt trailer bill language that would require DCSS to provide by January 10, 2009 the following: 1) more comprehensive data from the state hearing pilot project that demonstrates that the pilot has reduced state hearings; 2) a breakdown of how the pilot's revised hearing process results in the estimated savings to state hearing costs; and 3) trailer bill language that puts the specific new hearing process in statute. This action conforms to the Senate.

ISSUE 11: CHILD SUPPORT TRANSITIONAL ARREARAGES SAVINGS

As part of the 2006-07 budget, $28.5 million ($25.5 million General Fund) was provided to DCSS to resolve an issue with creation of arrears (outstanding child support obligations) due to a payment processing change implemented by the State. In developing CCSAS, the State changed the method by which the date of payment for child support is recorded from the date of withholding from a non-custodial parent's (NCPs) wages to the date the payment is received by the State. This change has resulted in the creation of an arrearage balance for some NCPs. The funding allowed the State to make payments on behalf of affected NCPs in 2006-07 to clear their arrearage balances. The NCPs then repaid these obligations upon termination of their child support orders.

Of the $25.5 million in General Fund provided, DCSS ended up only needing $10.5 million General Fund. Instead of reverting the $15 million in General Fund savings, DCSS proposes to reappropriate those savings. DCSS has been provided authority to reappropriate funds from 2002 and each year thereafter to cover unanticipated costs associated with the CCSAS project. This reappropriation authority has helped to ensure that the CCSAS project stays on schedule since there is funding set aside that can be tapped into quickly as approved needs arise. However, given the current fiscal situation and the significant overestimation of the need for funding in 2006-07 for its original purpose of paying arrearages, it is valid to consider reverting the $15 million General Fund.

Staff Recommendation: Revert $14.817 million General Fund from 2006-07. This amount is the difference between the $15 million that was not needed in 2006-07 to pay arrearages on behalf of NCPs and the $183,000 General Fund that is reappropriated pursuant to the staff recommendation in the Vote Only Issue to continue the funding of state hearings. This action conforms to the Senate.

ISSUE 12: MAY REVISION – SDU SERVICE PROVIDER CONTRACT

The May Revision reflects savings of $5.5 million ($1.6 million General Fund) for reduced SDU Service Provider contract costs due to a decrease in transaction volume.

Staff Recommendation: Approve the reduction. This action conforms to the Senate.

ISSUE 13: MAY REVISION – COUNTY MATCH FOR ADMINISTRATION

The May Revision requests $6.4 million in federal fund authority to allow participating counties, and counties wishing to participate, the ability to increase their federal fund participation level through the use of their county matching funds.

Staff Recommendation: Approve the request. This action conforms to the Senate.

ISSUE14: FEDERAL TAX REFUND INTERCEPT FEES

The May Revision requests $881,000 ($299,000 General Fund) to cover the increased costs for fees charged for the Federal Income Tax intercepts related to an increased number of intercepts. The Internal Revenue Services charges a fee of $14.65 for every federal income tax intercept. Intercepts are anticipated to increase as a result of the one-time Economic Stimulus Act and because intercepts may now be done for non-minors. The current intercept fees are funded from Local Child Support Agency (LCSA) administrative funding, but the amount set aside for intercept fees is fully expended.

Staff Recommendation: Approve the May Revision request. This action conforms to the Senate.

ITEMS TO BE HEARD

4300 DEPARTMENT OF DEVELOPMENTAL SERVICES

ISSUE 1: ESTIMATE FOR REGIONAL CENTERS

The Governor's May Revision for the Regional Centers has been recalculated based on (1) caseload changes and the need for consumer services; (2) technical adjustments to the cost containment measures as proposed by the Governor and adopted by the Legislature during Special Session; and (3) policy changes proposed by the Governor that are contained in other Departments which affect people with developmental disabilities. Each of these areas is discussed in this item.

Caseoad changes. First, the May Revision proposes a budget of $3.9 billion ($2.388 billion General Fund) for community-based services, provided via the Regional Centers, to serve a total of 221,069 consumers living in the community. This funding level reflects an increase of $150.5 million ($45.9 million General Fund) as compared to January.

Of this amount $3.378 billion is for the Purchase of Services, including funds for the Early Start Program and habilitation services. The Operations budget is $529.8 million (total funds). No issues have been raised by staff regarding the baseline adjustments.

Cost containment measures. Second, the May Revision reflects minor fiscal adjustments to the Governor's cost containment measures as adopted by the Legislature in the Special Session. No issues have been raised by staff regarding these minor fiscal adjustments, primarily to reflect caseload adjustments.

Other Policy changes and Effects for DDS. Third, the May Revision also contains significant new policy assumptions within other programs and departments that provide "generic" services to Regional Center clients, such as the Medi-Cal Program the In-Home Supportive Services (IHSS) Program, and SSI/SSP payments.

Specifically, these other significant program policy changes would result in an increased cost of $21.2 million (General Fund) because the generic service would no longer be available to Regional Center clients to access. Therefore, the Regional Centers would have to "purchase" these services for the clients using Purchase of Services funds since the clients would still need to utilize the service.

These significant policy changes as proposed by the Governor include the following:

- *IHSS Changes*. The Department of Social Services' is proposed change to the In-Home Supportive Services (IHSS) Program establishing a baseline for receiving domestic and related services would impact Regional Center clients. Therefore, the

DDS budget proposes an increase of $6.1 million ($4.2 million General Fund) to replace services that would be eliminated due to this Governor's proposal.

- *Elimination of Medi-Cal Optional Benefits.* The Department of Health Care Services is proposing to eliminate 10 Optional Benefits within the Medi-Cal Program, including Adult Dental Services. This proposal would affect Regional Center clients. Therefore, the DDS budget proposes an increase of $11.1 million ($8.2 million General Fund) to replace services that would be eliminated due to this Governor's proposal.

- *Supplemental Security Income/State Supplementary Payment (SSI/SSP).* The Department of Social Services is proposing to eliminate the pass-through of the January 1, 2009 SSI COLA and to suspend the June 1, 2008 SSP COLA adjustment and to suspend the June 1, 2009 increase. As a result, anticipated savings in the Regional Center community care facilities of $3.8 million would not be realized and needs to be maintained in order to appropriately fund residential services.

- *Month-to-Month Eligibility for Emergency Medi-Cal for Restricted Scope Eligible Immigrants and Elimination of State-Only funded Nonemergency Services for Immigrants.* The Department of Health Care Services within the Medi-Cal Program is proposing drastic changes which would rescind full-scope Medi-Cal services for legal immigrants and would eliminate non-emergency services for undocumented individuals. As a result, the DDS would need additional funds of $200,000 (General Fund) in 2008-09 to replace these services.

These policy changes by other departments represent substantial policy change and will be discussed by the Subcommittee when these departments—Department of Social Services, and Department of Health Care Services—are scheduled for budget hearings. These are not proposals being driven by the Department of Developmental Services (DDS). The DDS is proposing to provide General Fund backfill for services which would be lost to RC clients if these Governor's proposals were to be adopted.

Governor's Reductions Adopted by the Legislature in Special Session—Regional Center. The table below summarizes the Governor's reductions adopted by the Legislature in Special Session that directly affect the Regional Centers budget (both Purchase of Services and Operations).

Most of the adopted reductions are attributable to the Governor's proposal to make permanent cost containment measures enacted in prior years regarding Regional Center Purchase of Services funds and Operations funds.

With respect to the Governor's reductions for Purchase of Services funds, these measures included the following: (1) Freezing rates for Non-Community Placement Start-Up; (2) Freezing rates for Day Program, Work Activity, and In-Home Respite services; (3) Freezing rates for Community Care Facilities (CCF) and eliminating the

SSI/SSP pass-through to these facilities; (4) Freezing all Regional Center negotiated rates and establishing limits for new negotiated rate programs and services; and (5) Freezing rates for Habilitation Services.

Governor's Reductions Adopted by Legislature in Special Session

Department of Developmental Services **Community Based Services/Regional Centers**	Reduction for 2007-08 (General Fund)	Reduction for 2008-09 (General Fund)
Community-Based Services		
Governor's Cost Containment Measures for Purchase of Services (POS)		-$228,800,000
Governor's Expansion of Family Cost Participation Fee		-$773,000
Subtotal of Purchase of Services Reduction		**-$229,573,000**
Governor's Cost Containment for Regional Center Operations		-$20,500,000
Governor's Reduction: Community Placement Operations by 10%	-$660,000	-$2,112,000
Governor's Reduction: Regional Center Operations for HIPAA	-$23,000	-$141,000
Subtotal of Regional Center's Operations Reduction		**-$22,753,000**
TOTAL General Fund Reduction	**-$683,000**	**-$252,326,000**

The Legislature adopted the Governor's statutory changes as requested for the reductions specified in the table above. These statutory changes are contained in Assembly Bill 5 3X, Statutes of 2008.

Staff Recommendation.

- Adopt technical changes contained in the May Revision to reflect the Governor's cost containment measures already adopted by the Legislature in the Special Session, including an adjustment for SSI/SSP.

- Conform federal Title XX Temporary Assistance for Needy Families (TANF) grant funds to future actions to be taken within the Department of Social Services. The primary purpose of federal Title XX TANF funds is to support California's CalWORKS Program. Therefore, if these funds are not available for use by the DDS, General Fund support will be provided to appropriately fund the budget for the Regional Centers. Therefore, this item will remain open until the DSS is closed out. The DDS budget will conform to this action.

- Conform all of the significant policy changes as proposed by other departments when those programs and departments are heard (as noted above).

It is the intent of the Subcommittee to appropriately fund the budget for the Regional Centers. Therefore, these issues will remain open until the Medi-Cal budget for the DHCS is closed out and the Department of Social Services is closed out. The DDS budget will conform to those actions.

Questions.

- DDS, Please provide a summary of the May Revision for the Regional Centers, including the baseline adjustments, technical adjustments and the significant policy issue changes as proposed by other departments.

Staff Recommendation: Adopt the staff recommendation as outlined in the agenda regarding technical changes and conforming actions in DDS to policy decisions being made in the budgets of other departments. These items shall be kept open until those departments are closed out.

ISSUE 2: MAY REVISION ADJUSTMENTS FOR DEVELOPMENTAL CENTERS

The DDS is proposing no significant changes for 2008-09 for the Developmental Centers budget. As noted above the Agnews Developmental Center closure will be addressed as a "rolling closure". Therefore, the DDS did not make any adjustments to their January budget.

There is one small adjustment regarding a technical issue associated with the Governor's reductions which were adopted in Special Session and by the Subcommittee. This adjustment is minor and pertains to reimbursements.

Background--Summary of Funding and Enrollment. The budget proposes expenditures of $669.1 million ($357.4 million General Fund), excluding state support, to serve an average of 2,449 residents who reside in the state DC system. This reflects a caseload decrease of 171 residents or 6.5 percent, as noted in the table below.

The most significant change in population is due to the DDS' closure of Agnews Developmental Center by June 30, 2008.

Summary of Developmental Center Budget Year Population (Average)

Facility	Current Year 2008-09	Budget Year 2008-09	Difference
Agnews DC	111	0	-111
Canyon Springs (community-based)	52	52	0
Fairview DC	560	527	-33
Lanterman DC	485	442	-43
Porterville DC	666	703	37
Sierra Vista (community-based)	51	50	-1
Sonoma DC	685	675	-10
Total	**2,610 people**	**2,449 people**	**-161 people**

No issues have been raised. It is recommended to approve the May Revision.

Questions.

DDS, please provide a brief summary on the Developmental Centers budget.

Staff Recommendation: Approve the May Revision estimates for Developmental Centers.

ISSUE 3: ADMINISTRATION'S CLOSURE OF AGNEWS DEVELOPMENTAL CENTER

The Administration's closure of Agnews Developmental Center was discussed in Subcommittee on April 30th. The Subcommittee received testimony from several constituency groups who noted that transition planning was proceeding well and consumers and their families who have been transitioned were doing well.

It was also noted by the DDS that the original date of June 30, 2008 for the closure of Agnews was no longer applicable and that closure is being driven by a "rolling closure process".

The Governor's May Revision states that the closure process is driven by a "rolling closure" process whereby individuals are transitioned from Agnews to the community when the housing and support services are available; therefore, it is not driven by a specific closure date. Transition to the community occurs only when all necessary services and supports are in place and the consumer is ready to move.

The DDS' May Revision proposes no fiscal changes for either Agnews Developmental Center or the Bay Area Community Placement Plan (funding for the three Bay Area Regional Centers which are providing the community services and supports).

However, the DDS is proposing Budget Bill Language to provide for funds not used in the current-year to be reappropriated for 2008-09 (budget year) to complete the closure in a budget neutral fashion.

The DDS' reappropriation language is as follows:

> 4300-491 Reappropriation, DDS. Notwithstanding any other provision of law, as of June 30, 2008, the balances of the appropriations provided in the following citations are reappropriated for the purposes specified and shall be available for encumbrance or expenditure until June 30, 2009.
>
> 0001 General Fund
>
> (1) Item 4300-003-0001, Budget Act of 2007 (Chapters 171 and 172, Stats. of 2007)
> (a) Balance of appropriations in Schedule (1) 20 Developmental Centers Program and Schedule (2) Reimbursements to provide care and assistance to consumers that will remain at Agnews Developmental Center past the June 30, 2008 closure date.
>
> (2) Item 4300-101-0001, Budget Act of 2007 (Chapters 171 and 172, Stats of 2007)
> (a) Balance of appropriations in Schedule (1) 10.10.010 Operations, Schedule (2) 10.10.020 Purchase of Services, and Schedule (4) Reimbursements to

provide care and assistance to consumers that will remain at Agnews Developmental Center past the June 30, 2008 closure date.

The Administration states that a total of $22 million is available for reappropriation (from 2007-08 for expenditure in 2008-09). Specifically, the DDS anticipates having $17 million (total funds) in unspent Purchase of Services funds due to delayed placements for Agnews consumers (as discussed below) to reappropriate for 2008-09. An additional $5 million in funds is unspent for employee related transition costs is in the Agnews Developmental Center budget and is available for reappropriation for 2008-09.

At the Subcommittee's request, an update on **key aspects** of the Agnews closure has been provided, including the following:

- Bay Area Housing Plan Homes. All 61 homes have been acquired. The status of these are follows:

  - 32 Homes ready for occupancy with 22 of these having been licensed and certified. Sixty people have been transitioned to live in these homes.

  - 17 Homes await the start of construction (remodeling mostly). DDS anticipates that 10 of these homes will be approved to start construction by May 31, 2008.

  - 6 Homes have recently completed construction.

  - 4 Homes are still awaiting the planning permitting process. As referenced previously, this process varies depending upon local ordinances and the like.

- Provider Readiness. DDS notes that each of the three Regional Centers has taken different approaches in residential service resource development (and staffing of the different models being used in their communities).

  One of the challenges within this process has been recruiting nurse administrators and direct care staff. Each of these issues has prevented providers from being completely ready to provide services at the time the homes are delivered which has presented a delay in opening some of the homes.

  The DDS and Regional Centers are working closely with providers to ensure appropriate staffing levels and provider readiness.

- Consumer Placements. As of May 15, 2008, 152 people are residing at Agnews. The number of people who will move from Agnews before June 30, 2008 is contingent upon providers resolving staff recruitment issues, the delivery of housing, and the ability of the Interdisciplinary Team to coordinate the development of Individual Program Plans (IPP for the consumer) and community living options discussions (to ensure an individual's choice). Additionally, DDS notes that transition activities are contingent upon the health and safety of each person.

DDS anticipates that 47 people will either move to their community home or transfer to another Developmental Center by June 30, 2008. The remaining 105 residents of Agnews will move to their community home after July 1, 2008.

- <u>Health Care & Agnews Community Clinic.</u> As required by legislation, the DDS and Department of Health Care Services (DHCS) finalized a memorandum of understanding which establishes protocols to share information for health care strategic planning, health plan enrollment, and rate development.

  DDS states they are working with the DHCS finalizing efforts to establish the Agnews Outpatient Clinic, as required by Senator Alquist's legislation, after Agnews Developmental Center closes. The clinic is to provide a safety net to ensure that health, dental and behavioral services are seamless during the transition process.

- <u>Developmental Center Operations and "Warm Shutdown".</u> DDS states that as people move to the community, residential units at Agnews are consolidated and vacant units are placed into the "warm shutdown" process.

  Additional activities related to consolidation and eventual closure includes the transfer of files, equipment, and furnishing to other Developmental Centers, surplus or storage. Warm shutdown will expand in scope and activity as the number of residents leave and is expected to continue thought 2008-09.

  As of May 15, 2008, Agnews is operating 5 Nursing Facility and 5 Intermediate Care Facility residences for the 152 people living there. Agnews anticipates closing 1 Nursing Facility and 1 Intermediate Care Facility by June 30, 2008 should provider readiness, the delivery of housing and community placements meet the projected timelines.

- <u>Agnews Developmental Center Costs for 2008-09.</u> The DDS states that they cannot estimate the actual cost per person for those consumers residing at Agnews after June 30, 2008. Estimating the actual cost per person is difficult due to the complex needs of each person and the variation in cost based upon those needs.

  Using the 2007-08 projected expenditures for Agnews, the average monthly cost per person at Agnews for 2008-09 is estimated to be $58,000 (per month). The actual cost will vary by the number of individuals and their individual needs. Therefore, if 105 residents stay through July 2008, a total of $6.1 million would be needed for the reappropriation language to operate. This figure does not reflect funding in the budget for staff separation costs, or closing Agnews Developmental Center

- <u>Cost of Services in the Community.</u> DDS states that based on 2007-08 projected expenditures for 2008-09, the monthly expenditure for an individual living in a Bay

Area Housing Plan ranges from $16,246 to 25,407 depending on the type of home (SB 962 model, Family Teaching Model, et al). It should be noted that this cost includes residential expenses, Day Program expenses and transportation. Generally, it is all inclusive arrangement.

Questions.

DDS, Please provide a brief update on the key components of the Agnew closure as noted above.

DDS, Please provide a brief summary of the requested reappropriation language and the fiscal information related to it.

DDS, Please briefly explain the potential cost implications for 2008-09 if the closure progresses past July.

Staff Recommendation: Approve the Reappropriation Language as requested. This is intended to conform to Senate action.

4440 DEPARTMENT OF MENTAL HEALTH

ISSUE 1: ADJUSTMENTS TO THE EARLY AND PERIODIC SCREENING, DIAGNOSIS, AND TREATMENT PROGRAMS

There are a series of adjustments that are needed for the EPSDT Program. These adjustments pertain to **(1)** the Governor's reduction proposals from January and adjusted for the May Revision; **(2)** an alternative to one of the reduction proposals; **(3)** adjustments to actions taken in the Special Session which affect budget year that need technical adjustments due to the May Revision; and **(4)** other "baseline" adjustments to the EPSDT Program that are occurring due to the May Revision. These issues are discussed below.

In his January budget, the Governor proposed significant reductions to the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program through the Special Session and for the budget year. These reductions consisted of several distinct proposals.

The Legislature did adopt two of the Governor's proposals, as noted below in the table regarding Special Session actions, which are being updated for May Revision to account for caseload and expenditure adjustments that would normally occur.

The remaining two "open" issues from the Governor's reduction package include: **(1)** to reduce the Schedule of Maximum Allowances (a complex rate methodology); and **(2)** to require a six-month reauthorization for Day Treatment Services.

With respect to the Schedule of Maximum Allowances, it is the belief of Subcommittee staff that this proposal would likely lead to litigation and would be problematic to implement. It is recommended to reject this reduction proposal.

Regarding the Administration's proposal to require a six-month reauthorization for Day Treatment Services, in both hearings it was evident that the proposal was not plausible and would in fact eliminate 2,003 children with serious emotional disturbances from receiving Day Treatment services.

As such, the DMH has been meeting with constituency groups to see if other options are available to provide EPSDT Day Treatment Services with a more enhanced evidence-based approach to progress a child's treatment. Due to the time limitations with the Governor's May Revision, a comprehensive package could not be developed for release last week by the Administration.

In response, Senate Subcommittee No. 3 proposed to utilize components of the DMH's work with constituency groups to propose an alternative as **outlined below**:

"Alternative"—EPSDT Statewide Performance Improvement Project

Using APS Healthcare, the DMH's contractor used for conducting quality reviews as required for Medi-Cal purposes, a statewide performance improvement project approach would be used to review the services being provided under the EPSDT Program for the highest 3 percent of service users, as determined by their average monthly dollar value of approved claims. These reviews would evaluate the spectrum and amount of services provided to these high-end users in order to streamline and coordinate care for quality purposes.

Therefore, on the natural, cost savings would be achieved through administrative and service strategies/interventions targeting coordination and integration of care though appropriate case management. The interventions applied would result in more efficient EPSDT service delivery while reducing total program costs for high-end users.

The DMH has completed some preliminary analysis of EPSDT data and the highest 3 percent group, as referenced above, was found to represent 5,518 clients who have an average monthly cost for services equal or greater than $3,000. These clients were found to have received services costing $242 million (total funds), or about 25 percent of the total annual expenditures for the program.

The DMH has consulted with representatives from various key constituency groups and stakeholders, including individuals with clinical expertise and evidence-based practice expertise. Based on these varied discussions, it appears that an overall program reduction of 12 percent can occur from increasing quality, effectiveness and efficiency of service delivery to children.

With respect to an **operational plan** for this alternative EPSDT Statewide Performance Improvement Project, the following components are provided:

- County Mental Health Plans would identify children enrolled in the EPSDT (i.e., the 3 percent target grouping).
- The APS Healthcare and CA Institute for Mental Health would provide monitoring and technical assistance to the project. (The DMH has existing contracts with these entities for "performance improvement projects" already and this project can be substituted for others as applicable/appropriate.)
- The project would be guided by a quality improvement process and a "plan-do-check-act" cycle where strategies/interventions are implemented and then data are examined again to determine the effectiveness of the quality and cost-reduction strategies.

- Each county would design strategies and interventions specific to their needs in achieving quality and efficiency goals. They will also need to conduct frequent utilization reviews in order to inform the process ongoing.

This would be done in lieu of the Administration's six-month reauthorization for Day Treatment Services (i.e., reject the Administration's six-month reauthorization and adopt the "alternative").

Subcommittee staff recommends the following placeholder trailer bill language to implement this proposal, conforming to action taken in the Senate:

> **Add to Section 5777 (g)** (i.e., pertains to Medi-Cal Waiver contracting activities) the following:
>
> (1) Commencing July 1, 2008, county Mental Health Plans, in collaboration with the department, the federally required external review organization, providers and other stakeholders, shall establish an advisory statewide performance improvement project (PIP) to increase the quality, effectiveness and efficiency of service delivery to children receiving at least $3,000 per month in EPSDT services. The statewide PIP will replace one of the two required PIPs that county Mental Health Plans must perform under federal regulations outlined in the Mental Health Plan contract.
>
> The federally required external quality review organization shall provide independent oversight and reviews with recommendations and findings or summaries of findings, as appropriate, from a statewide perspective. This information shall be accessible to county mental health plans, the department, county welfare directors, providers and other interested stakeholders in a manner that both facilitates and allows for a comprehensive quality improvement process for the EPSDT Program.
>
> Each July, the department, in consultation with the external quality review organization and the county Mental Health Plans, shall determine the average monthly cost threshold for counties to use to identify children currently receiving services whose care costs of EPSDT services exceed that monthly cost on average over the total consecutive months in which services were delivered. The department shall consult with representatives of county mental health directors, county welfare directors, providers and the federally required external quality review organization in setting the annual average monthly cost threshold and in implementing the statewide PIP. The department shall provide an annual update to the Legislature on the results of this statewide PIP by October 1 of each year for the prior fiscal year.
>
> It is the intent of the Legislature for the EPSDT PIP to increase the quality, effectiveness and efficiency of service delivery to children receiving EPSDT services and to facilitate evidence-based practices within the program to ensure

that children are receiving appropriate mental health services for their mental health wellness.

This provision shall sunset on September 1, 2011 and shall be repealed by December 31, 2011 unless subsequent legislation is enacted to extend it.

It is estimated that a savings of about 12 percent could be achieved from implementation of the EPSDT PIP, or $29.1 million ($12.150 million General Fund, $2.3 million County Funds and $14.5 million federal funds).

Special Session Actions by Legislature and Updated May Revision Amounts. The Legislature adopted two of the Governor's reduction proposals in Special Session as shown in the table below. The Subcommittee will need to adopt the May Revision amounts for these two actions due to technical adjustments for caseload and expenditures that naturally occur when the program is recalculated at May.

Governor's Proposal	Current Year (General Fund) Special Session	January Estimate 2008-09 (General Fund)	**May Revision 2008-09 (General Fund)**
Elimination of COLA	-$1,878,000	-$7,516,000	**-$7,389,000**
Reduce Costs from DMH Monitoring	-$1,768,000	-$7,092,000	**-$6,498,000**
Total Amounts	**-$3,646,000**	-$14,608,000	**-$13,887,000**

"Baseline" EPSDT Adjustments for May Revision Reflects Reduction. The EPSDT Program is re-estimated at the May Revision to reflect updated caseload information and costs.

According to the DMH, a reduction of $12.108 (General Fund) is needed to reflect this update to the baseline program. This reflects baseline adjustments according to a standard methodology.

Staff Recommendation. Based on the above information, the following actions are recommended:

- Reject the Governor's proposal to change the Schedule of Maximum Allowances.
- Adopt the "Alternative" EPSDT Statewide Performance Improvement Project in lieu of the Administration's six-month reauthorization for Day Treatment Services proposal. this requires the following two technical actions:

  (1) Reduce by $12.150 million (General Fund) to reflect adoption of the "Alternative" EPSDT PIP proposal;

  (2) Adopt the proposed placeholder trailer bill language as contained in the Agenda above.

- Adopt the May Revision adjustments for the two Special Session actions adopted by the Legislature as shown in the table above to reflect the 2008-09 on-going effects of the reductions enacted.
- Adopt the May Revision "baseline" adjustment for May Revision which reflects a decrease of $12.108 million (General Fund).

The table below provides a summary of the General Fund piece of these recommended adjustments for **2008-09**.

Description of Adjustments in Subcommittee Proposal	2008-09 General Fund Amount
Adjusted Baseline for EPSDT for 2008-09	$505,447,000
Reject Governor's Schedule of Maximum Allowances Changes	0
Adopt "Alternative" EPSDT Performance Improvement Project	-$12,150,000
Special Session Actions, adjusted for May Revision. (This includes the elimination of the COLA and the increased monitoring by the DMH.)	-$13,887,000
Baseline EPSDT Program adjustments for May Revision	-$12,108,000
TOTAL Revised General Fund Amount for 2008-09	**$467,302,000**

(Adjustments are per the May Revision Update)

Questions.

DMH, Please comment on the "Alternative" EPSDT Statewide Performance Improvement Project. Is it workable?

Staff Recommendation: Adopt the staff recommendations on EPSDT as outlined in the components in this agenda item, conforming to work completed and actions taken in the Senate. This includes (1) rejection of the Governor's proposal to change the State Maximum Allowable rate, (2) adoption of an alternative EPSDT Performance Improvement Project in lieu of the Governor's 6-Month Day Treatment proposal, including the funding adjustment and placeholder trailer bill language, and (3) adoption the May Revise adjustments for special session actions and baselines adjustments for caseload and related factors.

ISSUE 2: INCREASED BUDGET AUTHORITY FOR MENTAL HEALTH SERVICES ACT FUNDING

The Subcommittee is in receipt of information from various stakeholders requesting an adjustment to the Department of Mental Health's (DMH) budget for the statewide initiatives adopted in the Subcommittee on May 12th as contained in a Finance Letter.

Based on discussions, there appears to be a consensus that the appropriation authority of the DMH needs to be increase by a total of $25 million (Mental Health Services Act Funds) in order to meet the needs identified for the statewide projects, as well as timelines that have been identified.

All of these funds would flow from local assistance (i.e., counties) to the DMH for expenditure since these are statewide initiatives. Under current legal interpretation of the MHSA Act, counties must first receive the MHSA Funds and can then reassign them to the state, such as in this case for the identified statewide initiatives. Therefore, DMH expenditure authority is needed to fully utilize the funds.

The statewide projects and the requested increases in Mental Health Services Act Funds are each described below.

- <u>Student Mental Health Initiative.</u> An increase of $7 million (Mental Health Services Act Funds) is needed to fully fund this initiative. Of this increase, $6.5 million would be for K-12, and $500,000 would be for higher education.

  The Mental Health Services Oversight and Accountability Commission (OAC) approved $15 million annually for four years for this initiative. Of this amount, it dedicated $8.5 million to higher education and $6.5 million to K-12 education. However, the Finance Letter only provided authority for $8 million. In order for the OAC to direct DMH to fully implement this initiative the additional $7 million (Mental Health Services Act) is needed.

  This initiative incorporates strategies to identify students with potential mental health problems in K-12 settings and to support those with diagnosed mental illnesses as part of a comprehensive student mental health strategy. Practical experience and academic literature demonstrate that mental health problems that can lead to school violence begin early, in primary, middle and high schools.

- <u>Statewide Initiative on Stigma and Discrimination Reduction.</u> An increase of $15 million (Mental Health Services Act Funds) is needed to fully fund this initiative.

  The Mental Health Services Oversight and Accountability Commission (OAC) has approved a total of $30 million annually for four years for this initiative. However, only $15 million has been appropriated for this purpose. Therefore, an additional $15 million is needed.

- Statewide Initiative on Suicide Prevention. An increase of $3 million (Mental Health Services Act Funds) is needed to fully fund this initiative.

  The Mental Health Services Oversight and Accountability Commission (OAC) approved $14 million annually for four years for this initiative. The OAC dedicated $4 million of this amount to the Student Mental Health Initiative, leaving $10 million for the Statewide Initiative on Suicide Prevention. The Finance Letter included only $7 million to implement this. Therefore, the DMH needs an increase of $3 million (Mental Health Services Act Funds).

In addition to the proposed increase of $25 million (Mental Health Services Act Funds), the following uncodified trailer bill language is proposed to ensure that the Mental Health Services Oversight and Accountability Commission (OAC) has timely access to data from these statewide initiatives. The proposed trailer bill language is as follows:

> "The Department of Mental Health shall provide the Mental Health Services Oversight and Accountability Commission (OAC) with data, as specified and requested by the OAC, for the purpose of the OAC to utilize in its oversight, review and evaluation capacity regarding projects and programs funded with Mental Health Services Act funds."

Staff Recommendation: Increase by $25 million (Proposition 63) for the Statewide Initiatives and adopt trailer bill language as displayed in the agenda to ensure access to data regarding the Initiatives. This action conforms to the Senate.