Summary of California's Enacted 2012-13 Budget: Impact on Older Adults and People with Disabilities

On June 27, 2012, California Governor Edmund G. Brown, Jr., signed the 2012-13 budget. The enacted budget outlines the state's spending plan for the fiscal year beginning on July 1, 2012 and ending June 30, 2013. The budget includes new initiatives and program reductions that impact California's older adults and people with disabilities.

Background

When Governor Brown released the 2012-13 proposed budget in January, the Department of Finance projected a General Fund (GF) shortfall of approximately $9.2 billion through the period ending June 30, 2013. The May Revision of the 2012-13 budget reflected a budget deficit increase of $6.5 billion over the January projections for a total of $15.7 billion. This increased budget deficit resulted from lower-than-anticipated tax revenues, increased costs to fund K-12 education, as well as court rulings and federal government determinations that prevented implementation of previous budget reductions.[1] To close this $15.7 billion budget deficit and adopt a nearly $1 billion reserve, the enacted budget relies on spending reductions, tax increases and other solutions. In total, the budget outlines $8.1 billion in spending cuts, assumes approximately $6 billion in new GF revenues from voter approval of the tax initiative in November 2012 and other revenue measures, and adopts other solutions for $2.5 billion.[2]

Tax Initiative

The enacted 2012-13 budget assumes the passage of the governor's proposed tax initiative (The Schools and Local Public Safety Protection Act) at the November 2012 election.[3] The initiative would increase the personal income tax for seven years on California taxpayers earning more than $250,000 and would increase the sales and use tax by one-quarter of one percent for four years. The governor estimates that the measure will generate approximately $8.5 billion in new revenues in 2012-13, with $2.9 billion funding for schools and community colleges and a net increase of $5.6 billion in GF revenues. Should voters fail to pass the ballot initiative, the Legislature outlines a series of "ballot trigger cuts" totaling approximately $6 billion that would go into effect on January 1, 2013. The trigger cuts would primarily impact education (K-12 and higher education), but also include trigger reductions of $50 million to developmental services.

Budget Initiatives Impacting Seniors and Persons With Disabilities

The Coordinated Care Initiative[4,5]

Enacted as part of the 2012-13 budget, the Coordinated Care Initiative (CCI) includes a number of changes to the medical care and long-term services and supports (LTSS) systems impacting persons eligible for both Medicare and Medi-Cal ("dual eligibles") as well as individuals who are eligible for Medi-Cal only (seniors and persons with disabilities), for a GF savings of $611.5 million in 2012-13. The main provisions are summarized below.

- **Expansion of the Dual Eligibles Integration Demonstration:** Senate Bill 208 (Steinberg, Chapter 714, Statutes of 2010)[6] authorized a pilot project (now referred to as the "Dual Eligibles Integration Demonstration") to integrate the range of Medicare and Medi-Cal services, including Medi-Cal long-term services and supports (LTSS), for dual eligibles in up to four counties. At least one of the four counties needed to be a County-Organized Health System (COHS) and another a Two-Plan model of Medi-Cal managed care.* The CCI expands the number of counties participating in the demonstration from four to eight counties beginning no sooner than March 1, 2013.

- **Mandatory Enrollment of Dual Eligibles into Medi-Cal Managed Care for Medi-Cal Health Care Services:** Previous state law required that seniors and persons with disabilities (SPDs) eligible for only Medi-Cal be enrolled into Medi-Cal managed care, as agreed to in the 1115 waiver requirements.[7] While the CCI provides dual eligibles who reside in the eight demonstration counties with the ability to opt-out of the Dual Eligibles Integration Demonstration for purposes of *Medicare* coverage, dual eligibles will be mandated to enroll in a Medi-Cal managed care plan for coverage of the range of *Medi-Cal* benefits offered by these plans.[4,5] The requirement to mandatorily enroll in Medi-Cal managed care applies only to dual eligibles living in the eight demonstration counties.

- **Integration of Medi-Cal Long-Term Services and Supports (LTSS) into Managed Care:** At present, Medi-Cal managed care plans cover Medi-Cal acute, primary, and rehabilitative care services, with most Medi-Cal LTSS not included (referred to as being "carved-out"). The CCI integrates LTSS services as a Medi-Cal managed care benefit for all dual eligibles as well as Medi-Cal only SPDs† residing in the demonstration counties beginning no sooner than March 1, 2013. For purposes of the CCI, LTSS in the demonstration are defined as

*COHS currently serve about 885,000 beneficiaries through six health plans in 14 counties. In the COHS counties, California's Department of Health Care Services (DHCS) contracts with a health plan created by the County Board of Supervisors. The County administers the health plan, and all Medi-Cal beneficiaries residing in that county are enrolled in the COHS health plan. Two-Plan Models serve about three million beneficiaries in 14 counties. In most Two-Plan model counties, there is a "Local Initiative" (LI) and a "commercial plan" (CP). DHCS contracts with both plans. Local stakeholders are able to give input when the LI is created, and it is designed to meet the needs and concerns of the community. The CP is a private insurance plan that also provides care for Medi-Cal beneficiaries. In addition, the Geographic Managed Care (GMC) model serves approximately 450,000 beneficiaries in two counties: Sacramento and San Diego. In these GMC counties, the state contracts with several commercial plans.

† Certain populations are exempt from these provisions, including children in the state's foster care program, enrollees of the Program of All Inclusive Care for the Elderly (PACE), enrollees of the AIDS Healthcare Foundation, and other populations.

institutional services (nursing home), In-Home Supportive Services, Multipurpose Senior Services Program (MSSP), and the Community-Based Adult Services program (CBAS). Therefore, in order to access Medi-Cal LTSS, Medi-Cal-only SPDs and dual eligibles residing in the demonstration counties will need to enroll in a Medi-Cal managed care plan for provision of Medi-Cal LTSS. Behavioral health services will be a coordinated service. In addition, as of July 1, 2012 the Community-Based Adult Services program (CBAS, formerly Adult Day Health Care)‡ is transitioning to a Medi-Cal managed care benefit in all County Organized Health System counties, with the exception of Ventura County. On October 1, 2012 all of the remaining counties with Medi-cal managed care will include CBAS as a benefit, not just the eight demonstration counties. Therefore, in order to access CBAS services, dual eligible individuals will need to enroll in a Medi-cal managed care plan.

Other Medi-Cal Proposals

Statewide Expansion of Medi-Cal Managed Care

California's Medi-Cal managed care system includes the County Organized Health System model, the Two-Plan model and Geographic Managed Care (description of these models can be found in the footnote on the previous page). Currently, Medi-Cal managed care exists in 30 counties across the state. The 2012-13 budget expands Medi-Cal managed care into the remaining 28 counties that currently operate in a fee-for-service environment, beginning in June 2013. The enacted budget assumes that this expansion would result in a GF savings of $2.7 million in 2012-13 and $9 million in 2013-14.[2]

Limits on Medi-Cal Managed Care Open Enrollment

Under current law, Medi-Cal beneficiaries may change plans once per month or up to 12 times per year.

- **January Proposal:** In January, the governor proposed to mandate that Medi-Cal beneficiaries may only change plans one time per year during an annual open enrollment period, for a GF savings of $3.6 million in 2012-13 and $6 million in 2013-14.[8]

- **Enacted Budget**: The Legislature rejected this proposal, and therefore it is not included in the enacted 2012-2013 budget.

‡The Community-Based Adult Services (CBAS) program is an outpatient, facility-based service program that delivers skilled nursing care, social services, therapies, personal care, family and caregiver training and support, meals, and transportation to older persons and adults with chronic conditions and/or disabilities that are at risk of needing institutional care. This program replaced the Adult Day Health Care program (ADHC), which was a Medi-Cal State Plan optional benefit. The Centers for Medicare and Medicaid Services (CMS) approved the state's request to amend the 1115 "Bridge to Reform" waiver and implement the CBAS program as part of this waiver.

Nursing Facility Rate Adjustment

- **Prior Budget Actions:** The 2011-12 enacted budget reduced nursing facility reimbursement for the 14-month period of June 1, 2011 through July 31, 2012 by 10 percent, but also included provisions to repay providers for this payment reduction by December 2012.

- **January Proposal:** In January, the governor's proposed 2012-13 budget included funding to restore the 10 percent provider rate reduction and also included supplemental payments for nursing facilities. The governor also proposed to permanently extend the rate methodology and nursing facility fee initially established by Assembly Bill 1629 (Chapter 875, Statutes of 2004).[8]

- **Enacted Budget:** The 2012-13 budget freezes nursing home rates during 2012-13 and assumes an ongoing payment deferral to skilled nursing facilities beginning in 2012-13 and suspends supplemental quality payments for 2012-13. Additionally, instead of permanently extending the rate methodology and nursing facility fee established by AB 1629, there is a proposal being considered in the current legislative session that would extend the sunset for an additional two years.◈ The total combined GF savings associated with this item is $87.8 million in 2012-13.[2]

Medi-Cal Copayments

- **Previous Budget Actions:** The 2011-12 enacted budget[9] authorized a series of Medi-Cal copayments for Medi-Cal beneficiaries, including copayments for physician, clinic, dental, emergency room, pharmacy and other services in 2012-13, with implementation subject to federal approval. The federal government rejected this proposal.

- **May Revision:** The May Revision proposed new copayments of $15 for visits to the emergency room that are deemed "non-emergency" in nature, as well as $3.10 pharmacy copayments based on drug status.

- **Enacted Budget:** The 2012-13 budget includes a $15 copayment for non-emergency use of the emergency room as well as prescription drug copayments of $3.10 for certain pharmacy services, with implementation subject to federal approval ($20.2 million GF savings in 2012-13).[10,11]

In-Home Supportive Services (IHSS): Program Reductions

IHSS provides in-home assistance to low-income adults who are over 65 years of age, blind, or disabled, and to children who are blind or disabled. County social workers assess individuals using a standardized assessment to determine need and then authorize service hours per month based on functional index scores (1=lowest need; 5=highest need).

◈At the time of publication, the proposal was not yet in print.

In-Home Supportive Services(IHSS): Eliminate Domestic and Related Services

- **January Proposal:** Domestic and related services provided under the IHSS program include housework, grocery shopping, meal preparation and cleanup, laundry, and other shopping and errands. Under the governor's January proposal, IHSS beneficiaries residing in a shared living arrangement would not be eligible for domestic and related services that can be provided by other household members, with specified exceptions. This proposal was estimated to provide GF savings of $163.8 million in 2012-13 and would have impacted approximately 254,000 IHSS recipients beginning July 1, 2012.[8]

- **Enacted Budget:** The Legislature rejected the governor's proposal to eliminate domestic and related services. Therefore, this reduction is not included in the enacted 2012-13 budget.

IHSS: Seven Percent Across-the-Board Reduction in IHSS Hours

- **May Revision:** The governor's May Revision proposed a seven percent across-the-board reduction in authorized IHSS hours, effective August 1, 2012 ($99.2 million GF savings). The existing 3.6 percent across-the-board reduction is scheduled to sunset on July 1, 2012.

- **Enacted Budget:** The Legislature rejected the seven percent across-the-board reduction, and instead the 2012-13 budget maintains the 3.6 percent across-the-board reduction in IHSS hours, through June 2013. This reduction reflects a GF savings of $52.2 million in 2012-13, effective August 1, 2012 with a sunset in June 2013.

IHSS: 20 Percent Across-the-Board Reduction in IHSS Hours

- **January Proposal:** The governor's proposed budget assumed savings from a partial-year implementation of a 20 percent reduction in authorized service hours for all IHSS recipients, with specified exceptions. This reduction was triggered by lower than expected 2011-12 revenues, pursuant to the enacted 2011-12 budget (Chapter 41, Statutes of 2011). To date, this "trigger cut" has been temporarily halted by a federal court decision in response to litigation filed against the state. As a result, the state currently is prevented from implementing this reduction. However, the governor's January budget assumed success in litigation such that the reduction can take effect at a later date, following resolution of *Oster v. Lightbourne* in the U.S. District Court, California Northern District.

- **Enacted Budget:** The 2012-13 budget assumes that the state will prevail in this litigation, such that the reduction will take effect in April 2013 following resolution of *Oster v. Lightbourne* in the U.S. District Court, California Northern District. The GF savings associated with this assumption is $22.4 million. The 2012-13 budget sets aside an equivalent amount of funding in the event that the state does not prevail in the litigation.

IHSS: Other Policy Proposals

IHSS: Repeal Medication Dispensing Machine Pilot Project

- **Previous Budget Actions:** Originally enacted as part of the 2011-12 budget, the Medication Dispensing Machine Pilot Project was designed to utilize an automated medication dispensing machine with associated telephonic reporting service for monitoring and assist Medi-Cal recipients with taking prescribed medications. Prior to the current budget enactment, the Department of Social Services would have been required to implement an across-the-board reduction in authorized hours for IHSS recipients beginning October 1, 2012, to the extent the pilot project and/or alternative savings proposals enacted by the Legislature did not achieve a combined net annual GF savings of $140 million.

- **January Proposal:** The governor proposed to repeal the Medication Dispensing Machine Pilot Project, as well as the related provisions. The proposed budget assumed neither savings from the pilot project nor savings from the associated across-the-board reduction, and proposed to repeal the associated statutory requirements.[12,13]

- **Enacted Budget:** The 2012-13 budget repeals the Medication Dispensing Machine Pilot Project and related provisions.

IHSS: Sales Tax Extension

- **Previous Budget Actions:** The 2010-11 enacted budget included the extension of a sales tax on home care, which would draw down additional federal funds and offset GF expenditures in the IHSS program. In turn, the IHSS providers subject to the home care tax would receive a supplementary payment.[14] Approval of the sales tax extension is still pending federal approval. However, the governor assumes that the sales tax will not be approved by the federal government.

- **Enacted Budget:** The 2012-13 budget assumes that the IHSS sales tax extension will not be approved by the federal government, and therefore, no savings are attached to this policy item.

IHSS: Creation of a Statewide Public Authority

- **Enacted Budget:** Prior to the passage of the enacted budget, local IHSS Public Authorities maintained responsibility for performing a number of functions for the IHSS program including acting as an employer of record for IHSS workers, maintaining provider registries, providing training for consumers and providers, and other functions. The 2012-13 budget establishes the California In-Home Supportive Services Authority (Statewide Authority) as the employer of record, for purposes of collective bargaining for IHSS providers in

accordance with certain procedures. To this end, the 2012-13 budget transfers collective bargaining authority from the county level to the state level. Local public authorities will retain all other functions except for collective bargaining. It is important to note that the legislation only authorizes the shift in collective bargaining for the eight demonstration counties participating in the CCI.[5] Additional legislation would be needed to shift collective bargaining in other counties. The 2012-13 budget also establishes a statewide advisory committee to be appointed by the Statewide Authority, which will be responsible for providing ongoing advice and recommendations on the IHSS program. In addition, the 2012-13 budget mandates the development of a training curriculum for IHSS providers that addresses issues of consistency, accountability, and increased quality of care for IHSS recipients. Participation in the training program is voluntary. The California Department of Social Services will lead a stakeholder process to establish training requirements.

Other Program Reductions

Eliminate Funding for California's Caregiver Resource Centers

- **January Proposal:** The governor's January budget proposed to eliminate funding for California's Caregiver Resource Center program administered by the Department of Mental Health. Caregiver Resource Centers (CRCs) provide information and referrals, short-term counseling, respite care, education, training and support to families and caregivers of persons with Alzheimer's disease, stroke, Parkinson's disease, and other disorders at 11 centers throughout the state.[15] The governor's January proposal would have eliminated all funding for the program, for a savings of $2.9 million GF in 2012-13.[8]

- **Enacted Budget:** The Legislature rejected the governor's proposal, reinstating funding for the Caregiver Resource Center program and placing responsibility for the program with the Department of Health Care Services. The 2012-13 budget includes $2.9 million GF for Caregiver Resources Centers.

Department of Developmental Services

The Department of Developmental Services (DDS) serves approximately 256,000 individuals with developmental disabilities in the community and 1,500 individuals in state-operated facilities.

- **January Proposal:** The governor's proposed January budget included a decrease of $200 million GF for DDS.[8]

- **Enacted Budget:** The 2012-13 budget includes a decrease of $200 million GF, which will be implemented through new cost-saving measures. These new cost-saving measures include redesigning options for consumers who have been hard to serve in the community, which among other provisions entails restricting new admissions to state Developmental Centers. Other new policies include, but are not limited to, maximizing use of federal funds, increasing insurance billing for certain autism-related services, and implementing a 1.25

percent provider payment reduction for one year.[16] The budget also includes provisions for a $50 million "trigger reduction" to developmental services effective January 1, 2013 if the Governor's November 2012 tax initiative is not passed by California voters.

State-Level Administrative Changes

Consolidating Behavioral Health Programs

- **January Proposal:** Consistent with the enacted 2011-12 budget, the governor's proposed budget provided the plan for completing the elimination of the Departments of Mental Health (DMH) and Alcohol and Drug Programs (DADP).[8]

- **Enacted Budget:** The 2012-13 budget transfers authority for community mental health programs from DMH to various departments within the California Health and Human Services Agency (CHHS), effective July 1, 2012. In addition, the budget transfers authority for various DADP functions to other departments within CHHS, effective July 1, 2013. The budget also requires CHHS, in consultation with stakeholders, to prepare a plan for the reorganization of DADP to be submitted as part of the Governor's proposed 2013-14 budget.

Department of State Hospitals

- **January Proposal:** The governor's proposed January budget established a new Department of State Hospitals (DSH) to provide long-term care and services to individuals with mental illness.[8]

- **Enacted Budget:** The 2012-13 budget establishes the DSH, which will have the singular focus of providing oversight, safety, and accountability at the state's five mental health hospitals and other state psychiatric facilities.

Realignment

- **Previous Budget Actions:** The enacted 2011-12 budget moved or "realigned" a range of government services to local jurisdictions, referred to as the "2011 realignment." This included the realignment of Adult Protective Services, mental health services, public safety programs, and others to the county. These services are funded through two sources: a state special fund sales tax and Vehicle License Fees.

- **January Proposal:** The governor's proposed 2012-13 budget outlined a permanent funding structure for the 2011 Realignment for base and growth funding that seeks to provide local entities with a reliable and stable funding source for these programs.[8]

- **Enacted budget:** The 2012-13 budget includes funding for the 2011 Realignment. The

Legislature is anticipated to adopt a permanent funding structure in the near future that includes base and growth funding for realignment.

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