

CPCA Policy Team's Initial Analysis of the Governor's 2015-16 Proposed State Budget

The Governor released his proposed 2015-2016 budget today, and, as anticipated, it mainly implements and provides funding for programs and services required for the implementation of the Affordable Care Act. The budget assumes an estimated 3.3 million additional people will enroll in Medi-Cal by the end of 2015-16, as a result of health care reform implementation.

While he does not propose additional cuts to vital health care safety net services, unfortunately, he also does not address the major issue of those who will remain uninsured even after implementation of the ACA and Medi-Cal expansion. CPCA continues to play a leadership role in finding solutions (SB 4, Lara), that will make health care services available to all Californians.

The Governor's Budget Proposal does not provide immigrants protected by President Obama's recent Executive Order the opportunity to enroll in Medi-Cal. CPCA is committed to ensuring access for this population to full scope state-only Medi-Cal and we will work with the immigrant groups on this effort.

The Governor also included a section on Investing in California's Workforce, the details of which can be found at the end of this document.

The Governor's Budget is detailed below. CPCA's Policy Team will send out a budget analysis next week. If you have any questions, please direct them to ssouth@cpc.org.

Mental health and Substance Use Disorder Services

- The budget continued to reflect the costs of the expansion of mental health and substance use disorder benefits to Medi-Cal beneficiaries.
- Due to concerns about the program integrity in the Drug Medi-Cal program, DHCS took steps to eliminate fraud and abuse in the program, including the temporary suspension of some certification
- The budget extends the 21 positions and \$2.2 million (\$1.1 million General Fund) provided in the 2014 Budget Act to continue the current recertification effort and implement on-site monitoring.

County Medi-Cal Administration

- County workers conduct Medi-Cal eligibility work on behalf of the state. Medi-Cal caseload has grown significantly since implementation of the Affordable Care Act, and the system built to automate eligibility work is still not completely functional. As a result, counties require additional resources for administration of the program. The

Budget includes an additional \$150 million (\$48.8 million General Fund) in 2014-15 for these purposes.

10% Provider Rate Cuts

- The state will continue to impose the 10% provider rate cut going forward, but will continue to exclude intermediate care facilities for the developmentally disabled, medical transportation, high-cost prescription drugs, specialty physician services, various distinct-part nursing facilities and nonprofit pediatric dental surgery centers.
- **This cut does not impact FQHCs who bill their PPS rate.**

Limited Benefit Programs

- Several state health programs including the Medi-Cal Access Program, California Children's Services, the Genetically Handicapped Persons Program, and Every Woman Counts currently provide health services that do not qualify as comprehensive coverage. Due to the Affordable Care Act, individuals can receive comprehensive health coverage that typically covers the services provided in these non-comprehensive programs. Consistent with a policy of encouraging comprehensive coverage, the Budget proposes to require individuals in these programs to seek comprehensive coverage offered through Covered California or Medi-Cal in order to maintain eligibility for these programs. **No change in eligibility or coverage in these programs is proposed.**

Annual Open Enrollment

- The Budget proposes to institute an annual 90-day time period when certain non-disabled Medi-Cal beneficiaries enrolled in managed care plans can change their health plan, similar to the Covered California open enrollment period. According to the Governor, this proposal supports continuity of care and enables increased care management and does not impact the ability of individuals to apply for and be enrolled in Medi-Cal coverage at any time throughout the year. This change results in General Fund savings of \$1.6 million in 2015-16.

High Cost Drugs

- The Governor's budget has allocated \$3 million to account for the fiscal impact of new high cost Hepatitis C drugs for participants in Medi-Cal, AIDS Drug Assistance Program, inmates in state prisons and patients in state hospitals who are infected with Hepatitis

C. This is a positive step for CCHCs who have struggled to obtain authorization from Medi-Cal Managed Care Plans to cover these drugs since they have come on the market.

Coordinated Care Initiative

- With savings generated from the federally approved 4% tax on managed care organizations that will remain effective through June 30, 2016, the Budget projects net General Fund savings for the CCI of \$176.1 million in 2015-16. However, without revenue from this tax, the CCI would have a General Fund cost of \$396.8 million. The federal government will not allow this tax to continue past June 30, 2016.
- CCI could result in a net cost in 2016/17 due to major hiccups in the program implementation since the 2012 Budget Act, including the exemption of certain categories of Medi-Cal beneficiaries, a delay in passive enrollment and the drop out of one of the eight participating counties, a 25% reduction in savings from CCI that California was allowed by the federal government to retain, a significantly increased state cost for In Home Support Services (IHSS) due to revised federal Fair Labor Standards Act regulations that entitle IHSS providers to overtime compensation, and a nearly 70% opt-out rate among beneficiaries compared to initial projections of 33%.
- The Administration remains committed to implementing the CCI to the extent it can continue to generate program savings. However, preliminary analyses of the CCI concludes that it may result in net costs to the state in 2016-17 and beyond. If these cost factors are not addressed by January 2016, the CCI will be terminated effective January 2017.

Managed Care Organization Tax

- Chapter 33, Statutes of 2013 (SB 78), authorized a tax on the operating revenue of Medi-Cal managed care plans based on the state sales tax rate. Nearly half of this revenue is used for the non-federal share of supplemental payments to Medi-Cal managed care plans. The remainder of the revenue is used to fund increased capitation rates for Medi-Cal managed care plans that would otherwise be paid by the General Fund, which offsets General Fund spending in the Medi-Cal program. The Budget includes a General Fund offset from the tax of \$803 million in 2014-15 and \$1.1 billion in 2015-16.
- The federal government recently released guidance indicating that this tax is likely impermissible under federal Medicaid regulations because it only applies narrowly to Medi-Cal managed care plans. The current form of the tax, therefore, could not be extended.

- The Administration is proposing a new managed care tax that complies with federal law. The new revenue will offset the same amount of General Fund expenditures as the current tax, as well as fund a restoration of the 7-percent across-the-board reduction to authorized IHSS hours of service. The restoration of hours is consistent with a settlement of various IHSS cases to seek a non-General Fund source of funding for these hours. The Administration will be pursuing this new managed care tax early in 2015.

Medi-Cal 1115 Waiver Renewal

The state's current 1115 Waiver expires in October 2015. DHCS will seek a 5 year renewal that will support ACA implementation, drive delivery system transformation, and provide for long term fiscal sustainability of the Medi-Cal program. The objectives of the new Waiver are:

- Strengthen primary care delivery and access
- Avoid unnecessary institutionalization and services
- Use the Medi-Cal program to test innovative approaches to care

The Budget assumes continuation of the funding available in the current Waiver designated for public hospital systems, however updates to those assumptions will be made during May Revise.

Health Care Reform Implementation

- The Budget assumes net costs of \$2 billion (\$943.2 million General Fund) in 2015-16 to provide for the mandatory Medi-Cal expansion. These costs reflect the increase in the enrollment to the Medi-Cal program from the requirements to simply eligibility, enrollment and retention rules. The Budget also assumes net costs of \$14.3 billion in 2015-16 for the optional Medi-Cal expansion all of which the federal government is paying for until 2019.

1991-92 State-Local Realignment Health Account Redirection

- County savings are estimated to be \$724.9 million in 2014-15 and \$698.2 million in 2015-16, and these savings will be redirected to counties for CalWORKs expenditures.
- The estimates for 2015-16 will be updated in the May revise
- Based on current revenue estimates to the Local Revenue Fund's Child Poverty and Family Supplemental Support Subaccount, and carryover funding, total deposits to the Subaccount in 2015-16 are projected to be \$267.2 million. As a result, the Budget

includes a \$73.3 million General Fund allocation to provide the remaining funding needed for the full-year costs of the CalWORKS grant increases.

2011 Realignment Funding

- The administration will continue to develop an application for funds in the 2011 Realignment Behavioral Health Service Growth Special Account. From 13-14, the Account has \$60 million.

Department of Public Health

- The budget includes \$3.1 billion (\$124.4 million General Fund) in 2015-16 for the Department of Public Health.
- To meet state and federal licensing and certification workload and improve the licensing and certification program, the Budget includes an additional \$21.8 million in special funds and 237 new positions for 2015-16.
- Lastly, the budget includes \$9.5 million in special finds to augment the LA county contract to allow the county to complete high-priority workloads relating to licensing and certification.

Department of State Hospitals

- **The budget includes \$1.7 billion (\$1.6 million General Fund) in 2015-16 for support to the Department of State Hospitals.**

Department of Social Services (DSS)

Community Care Licensing

The Budget includes \$3 million General Fund and 28.5 positions to address a backlog of complaint cases and expand training and technical assistance. Beginning in January 2017, DSS will begin increasing inspection frequency to every three years for all facilities, every two years by 2018 for all facility types except child care, and annually by 2019 for adult day care and residential care facilities for the elderly.

Interagency Child Abuse and Neglect (ICAN) Investigation Reports Grants

The Budget includes \$4 million General Fund to support an optional grant program for counties to report instances of suspected child abuse or neglect to local law enforcement agencies.

State Utility Assistance Subsidy

- The Budget includes \$9.2 million General Fund to provide a state-funded energy assistance subsidy for CalFresh recipients to comply with federal changes regarding the minimum energy assistance benefit that must be received by a household in order to access the standard utility allowance. This program increases household monthly food payments by an average of \$62 for over 320,000 families.

Continuum of Care Reform

- The Budget includes \$9.6 million (\$7 million General Fund) to begin implementing the Continuum of Care Reform. This reform effort builds upon past collaborative system improvements, including the development of preventive services to help keep children safely in their homes, kinship guardian programs to help increase long-term family care for children, extended foster care supports through age 20, and wraparound and increased mental health services to help support successful reunifications.

California Work Opportunity and Responsibility to Kids(CalWORKS)

Average monthly CalWORKs caseload is estimated to be about 529,000 families in 2015-16, a 0.6-percent decrease from the 2014 Budget Act projection.

Significant Adjustments:

- **Maximum Aid Payment Levels**—The 2014 Budget Act increases Maximum Aid Payment levels by 5 percent, effective April 1, 2015. This increase, combined with the prior 5 percent increase in 2014 is estimated to cost approximately \$340.5 million in 2015-16. The increase will be funded by 1991-92 Realignment growth funds deposited in the Child Poverty and Family Supplemental Support Subaccount (see the Health Care Reform Implementation section within DHCS), as well as a \$73.3 million General Fund augmentation. Subsequent grant increases will be based on analysis of revenue and caseload estimates in future years.

In-Home Supportive Services

The IHSS program provides domestic and related services such as housework, transportation, and personal care services to eligible low-income aged, blind, and disabled persons. These

services are provided to assist individuals to remain safely in their homes and prevent institutionalization. The IHSS program is also a key component of the Coordinated Care Initiative (CCI). IHSS will be incorporated into the managed care delivery system, along with a range of long-term services and supports.

- The Budget includes \$8.2 billion (\$2.5 billion General Fund) for the IHSS program in 2015-16, a 14.4-percent increase over the revised 2014-15 level. Average monthly caseload in this program is estimated to be 463,000 recipients in 2015-16, a 0.3-percent decrease from the 2014 Budget Act projection.
- Implementation of the U.S. Department of Labor regulations that require overtime pay for domestic workers effective January 1, 2015, is estimated to cost \$403.5 million in 2014-15 and \$707.6 million annually thereafter. Chapters 29 and 488, Statutes of 2014 (SB 855 and SB 873), limit providers to a 66-hour workweek, less the current 7-percent reduction in service hours (or a 61-hour workweek). IHSS providers who work for multiple recipients will be paid for their travel time between recipients, up to 7 hours per week. In late December 2014, a federal district court ruled that a portion of the regulations exceeded the Department of Labor's authority and delayed the implementation of the regulations. Under state law, the state's implementation of overtime is also delayed pending further action by the federal court.
- The Budget proposes to restore the current 7-percent across-the-board reduction in service hours with proceeds from the new tax on managed care organizations effective July 1, 2015. The cost to restore the 7-percent reduction is estimated to be \$483.1 million in 2015-16.

Supplemental Security Income/State Supplementary Payment

- The Budget includes \$2.8 billion General Fund for the SSI/SSP program. This represents a 1-percent increase (\$29 million) over the revised 2014-15 budget. The average monthly caseload in this program is estimated to be 1.3 million recipients in 2015-16, a slight increase over the 2014-15 projected level. The SSI/SSP caseload consists of 71-percent disabled persons, 27-percent aged, and 2-percent blind.
- Effective January 2015, maximum SSI/SSP grant levels are \$881 per month for individuals and \$1,483 per month for couples. SSA applies an annual cost-of-living adjustment to the SSI portion of the grant equivalent to the year-over-year increase in the Consumer Price Index (CPI). The current CPI growth factors are 1.7 percent for 2015 and a projected 1.5 percent for 2016. Maximum SSI/SSP monthly grant levels will increase by \$11 and \$16 for individuals and couples, respectively, effective January 2016. CAPI benefits are equivalent to SSI/SSP benefits, less \$10 per month for individuals and \$20 per month for couples.

Investing in California's Workforce

- The budget outlines a comprehensive framework to strengthen California's workforce through funding to high-quality, job-related instruction; increase employer engagement in the workforce development systems; continue development of career pathway programs; and emphasize non-traditional apprenticeship programs in high-growth industries.
- The budget provides over \$1.2 billion to support the following programs: Adult Education Block Grant (\$500 million); Career Technical Education (\$250 million); Workforce Investment Act (\$390.8 million); Apprenticeship Program Funding (\$14 million); and Enhanced Non-Credit Rate Change (\$49 million)
- Additionally, the budget notes that discretionary funding for the Workforce Investment Act related-programs will be detailed in the May Revise.
- Healthcare workforce development, and workforce needs, are not specifically referenced in the framework.