

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency oversees departments and other state entities such as boards, commissions, councils, and offices that provide health and social services to California's vulnerable and at-risk residents.

The May Revision includes total funding of \$136.7 billion (\$29.6 billion General Fund and \$107.1 billion other funds) for all programs overseen by this Agency, an increase of \$839.2 million General Fund over the Governor's Budget.

DEPARTMENT OF HEALTH CARE SERVICES

The Department of Health Care Services (DHCS) administers Medi-Cal, California's Medicaid program, which is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals including families with children, seniors, persons with disabilities, children in foster care, and pregnant women. The federal government mandates basic services including physician services, family nurse practitioner services, nursing facility services, hospital inpatient and outpatient services, laboratory and radiology services, family planning, and early and periodic screening, diagnosis, and treatment services for children. In addition to these mandatory services, the state provides optional benefits such as outpatient drugs, home and community-based services, and medical equipment. DHCS also administers California Children's Services, Primary and Rural Health program, Family PACT, Every Woman Counts, and Drug Medi-Cal as well as county-operated community mental health programs.

Significant Adjustments:

- **Pediatric Vision Services**—The May Revision proposes \$2 million (\$1 million General Fund) for a pilot program to increase utilization of pediatric vision services. The pilot would use qualified mobile vision providers to expand vision screenings and services. Participating mobile vision service providers will contract with school districts to provide vision exams and eyeglasses to children enrolled in Medi-Cal managed care plans. The pilot may expand to other locations as discussions with providers continue.
- **Katie A. Settlement/Administrative Costs**—The May Revision includes \$2 million (\$600,000 General Fund in the DHCS budget and \$400,000 General Fund in the Department of Social Services budget) as a placeholder for potential county administrative costs associated with semi-annual progress reports requirements under the *Katie A. v. Bonta* settlement agreement. The settlement concerns the improvement of mental health and supportive services for children and youth in, or at imminent risk of placement in, foster care in California. Proposition 30, passed in 2012, requires the state to provide annual funding for newly required activities that have an overall effect of increasing county costs in realigned programs. Although the settlement was reached prior to the passage of Proposition 30, there may be new administrative activities that increase the overall cost to counties. The use of this funding is subject to further discussion between the Administration and counties to determine if overall costs have increased.

HEALTH CARE REFORM IMPLEMENTATION

In the past year, California has continued to implement the federal Affordable Care Act (ACA). Since January 1, more than 3 million Californians have been able to procure health insurance, either through the state’s new insurance exchange (Covered California) or through Medi-Cal.

The state has been committed to early implementation of health care reform. California initiated a Medi-Cal expansion by enacting the Low Income Health Program (LIHP) under the “Bridge to Reform” federal waiver in 2010. The waiver permitted counties to provide a Medicaid-like expansion to individuals with incomes up to 138 percent of the federal poverty level through 2013. The purpose of the LIHP was to expand health care coverage to low-income adults prior to the effective date of the ACA. The LIHP was a voluntary, county-run program financed with 50 percent county and 50 percent federal funds. On January 1, 2014, 650,000 LIHP members were successfully enrolled into Medi-Cal.

On October 1, 2013, Covered California began offering affordable health insurance, including plans subsidized with federally funded tax subsidies and products for small businesses. In addition, the Medi-Cal program was expanded in two ways:

- The mandatory expansion simplified eligibility, enrollment, and retention rules making it easier to enroll and stay on the program.
- The optional expansion extended eligibility to adults without children and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level, which includes the LIHP population.

Based on the large increases in Medi-Cal enrollment from the LIHP transition and the optional and mandatory expansions, total Medi-Cal enrollment is now projected to be 11.5 million in 2014-15, or almost 30 percent of the total state population.

The May Revision increases the caseload estimate for the ACA mandatory expansion by nearly 60 percent (to 815,000) for 2014-15 over what was assumed in the Governor's Budget. The May Revision assumes additional net General Fund costs of approximately \$89.3 million in 2013-14 and \$513 million in 2014-15 associated with this increase, bringing the total General Fund costs to \$193 million in 2013-14 and \$918 million in 2014-15.

The May Revision increases the estimate for the optional expansion caseload by nearly 100 percent to 1.6 million in 2014-15 and assumes additional federal fund costs of \$6 billion in 2014-15 for the optional Medi-Cal expansion. The federal government has committed to pay 100 percent of the cost of the new adult group optional expansion for the first three years; by 2020-21, the federal share will decrease to 90 percent and the state will pay 10 percent.

California also increased the mental health and substance use disorder benefits available through Medi-Cal, at a General Fund cost of \$191.2 million in 2014-15. The May Revision also includes \$187.2 million General Fund for managed care rate increases in 2014-15.

The California Health Eligibility Enrollment and Retention System (CalHEERS) is the information technology system designed to determine Medi-Cal eligibility and process Covered California applications. Although the system was made operational in time to implement the ACA by January 1, 2014, numerous problems with the system persist. There is a backlog of approximately 900,000 Medi-Cal applications pending verification of residency and income. To reduce this backlog more quickly,

the state has already suspended the requirement that paper verification of residency be submitted until the CalHEERS system can electronically verify residency beginning in July 2014. Due to the anticipated workload for new enrollees, the Governor's Budget assumed a delay of required Medi-Cal eligibility redeterminations through April 1, 2014. However, the necessary CalHEERS functionality to perform redeterminations will likely not be available until July. The May Revision assumes further delays in resuming redeterminations and additional General Fund costs of \$68.6 million in 2013-14 and \$25.8 million in 2014-15.

The ACA is a fundamental change to the way health care is delivered. All aspects of the health care industry are adjusting and changing to meet the new realities of the health care market. Despite the state's initial success, significant uncertainties and risks still exist with the ACA and with the Medi-Cal program. Uncertainty regarding eligibility, rates, and utilization continue to pose significant risks to the state budget.

CAPTURING COUNTY INDIGENT CARE SAVINGS

Under the ACA, county costs and responsibilities for indigent health care are expected to decrease as more individuals gain access to health care coverage. The state-based Medi-Cal expansion will result in indigent care costs previously paid by counties shifting to the state. Chapter 24, Statutes of 2013 (AB 85), modifies 1991 Realignment Local Revenue Fund distributions to capture and redirect county savings due to the implementation of federal health care reform. The savings will be redirected to counties for CalWORKs expenditures, providing a corresponding General Fund offset.

AB 85 included several methodologies for calculating savings. Based on updated county information, the May Revision continues to assume a redirection of \$300 million in 2013-14, but decreases the 2014-15 redirection amount of \$900 million to \$724.9 million. Compared to the Governor's Budget, this revised redirection amount results in increased CalWORKs General Fund costs of \$175.1 million. The 2013-14 and 2014-15 estimated redirections are interim calculations. A final reconciliation for 2013-14 will take place no later than January 2016.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (MRMIB) currently administers programs that provide health coverage through commercial health plans, local initiatives, and county organized health systems to eligible individuals who do not have health insurance.

The Governor's Budget proposes to eliminate MRMIB and transfer the remaining programs to DHCS on July 1, 2014.

Significant Adjustment:

- Major Risk Medical Insurance Program (MRMIP)—The May Revision eliminates this state-only program effective January 1, 2015. Because most individuals with pre-existing conditions can now seek coverage through Covered California or the individual market and get better coverage than through MRMIP, program participation has dropped by more than 50 percent. There is a small population of individuals with End Stage Renal Disease on Medicare who cannot obtain supplemental coverage in the individual market due to statutory prohibitions and therefore use MRMIP as their Medicare supplemental insurance. The proposal includes statutory changes to require health care plans to offer their Medicare supplemental insurance products to these individuals.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services administers programs that provide services and assistance payments to needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

Significant Adjustments:

- In-Home Supportive Services Caseload—An increase of \$107.9 million General Fund in 2013-14 and \$134.4 million General Fund in 2014-15 primarily associated with increases in caseload, hours per case, and costs per hour.
- CalWORKs Caseload—Increased General Fund and federal Temporary Assistance for Needy Families block grant expenditures of \$35 million in 2013-14 and \$95.2 million in 2014-15 to reflect revised caseload projections since the Governor's Budget. Overall CalWORKs caseload continues to decline, but at a slower rate than previously assumed.
- March 2014 CalWORKs Grant Increase—Effective March 1, 2014, CalWORKs Maximum Aid Payment levels increased by 5 percent. Based on the revised caseload and updated projections of revenues to the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund, additional General Fund is needed to fund the grant increase in 2014-15. The May Revision includes \$13 million

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General Fund for this purpose, an increase of \$6.8 million General Fund from the Governor's Budget.

- Drought Relief—The May Revision includes \$5 million General Fund in 2014-15 for additional food assistance to severely drought-impacted communities with high levels of unemployment. This funding is in addition to \$15 million in estimated unspent funds authorized for 2013-14, bringing the total amount available for drought response to \$20 million in 2014-15.
- Title IV-E Waiver Extension—An increase of \$3.1 million (\$1.5 million General Fund) for additional positions to support the entrance of up to 18 additional counties into the federal child welfare waiver program. This waiver allows California to improve child welfare services program outcomes.
- State Utility Assistance Subsidy—An increase of \$10.5 million General Fund in 2014-15 to provide a state-funded energy assistance subsidy for CalFresh recipients, to comply with recent 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 budgets by an average of \$62 for over 320,000 families.
- CalFresh Caseload—The May Revision includes \$20.7 million General Fund for administration, associated with an additional 134,000 CalFresh households by June 2015 as a result of ACA implementation—bringing the total estimated 2014-15 CalFresh caseload increase due to ACA implementation to 279,000 households.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health is charged with protecting and promoting the health status of Californians through programs and policies that use population-wide interventions.

Significant Adjustments:

- AIDS Drug Assistance Program (ADAP)-New Hepatitis C Virus Medications—The May Revision includes \$26.1 million (federal funds) to add two new Hepatitis C virus drugs to the ADAP drug formulary. The drugs were approved by the Food and Drug Administration in late 2013 and were recently recommended for addition to the ADAP drug formulary by the ADAP Medical Advisory Committee because they provide a significant improvement in treatment, have a better cure rate, and require

a shorter treatment duration. The Department is working with the ADAP Medical Advisory Committee to develop usage and treatment authorization guidelines to ensure available resources are targeted for ADAP clients with the greatest needs.

- Office of AIDS-Health Insurance Premium Payment Program (OA-HIPP)-Medical Payment Cost Sharing Wrap—The Department will pursue mechanisms to pay out-of-pocket medical expenses for clients who choose to purchase private health insurance beginning January 1, 2016. Developing and implementing the administrative capacity to pay out-of-pocket medical expenses in addition to premiums for eligible OA-HIPP clients will remove the current financial disincentive for ADAP-only clients to obtain private health insurance. This shift will provide clients with comprehensive health insurance and access to the full continuum of care.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services provides consumers with developmental disabilities a variety of services and supports that allow them to live and work independently, or in supported environments. The Department serves approximately 275,000 individuals with developmental disabilities in the community, and 1,112 individuals in state-operated developmental centers. The May Revision includes \$5.2 billion (\$2.9 billion General Fund) in 2014-15 for support of the Department and community services.

THE PLAN FOR THE FUTURE OF DEVELOPMENTAL CENTERS

The Plan for the Future of Developmental Centers in California, issued January 13, 2014, recommended that the future role of the state should be the operation of a limited number of smaller, safety-net crisis and residential services. The Plan also recommends continuing to serve individuals judicially committed to the state for competency training and to provide these individuals transition services as they move back to the community. Further, the Plan recommended developing new and additional service components, including development of an enhanced community behavioral home model and providing health resource centers and community housing through public/private partnerships.

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Consistent with the Plan, the May Revision proposes developing resources in the community for individuals transitioning from developmental centers, as follows:

- Developing a pilot program for a new enhanced behavioral support home model in the community. The May Revision contains \$13 million in reappropriated Community Placement Plan funds for this purpose.
- Improving crisis services at Fairview Developmental Center and establishing new crisis services at Sonoma Developmental Center. The May Revision proposes \$3.2 million (\$2 million General Fund) and 43.1 positions to serve individuals in the community with developmental disabilities who need short-term stabilization.
- Expanding the Community State Staff Program to support individuals moving from developmental centers and enhancing regional center staffing to support community transition, resource development, and quality assurance. The May Revision contains \$458,000 (\$321,000 General Fund) and four redirected positions for the Department to evaluate developmental services community placement funds.

Significant Adjustment:

- Federal Certification Status—The May Revision includes \$1.5 million (\$894,000 General Fund) for 2014-15 contract costs related to the Program Improvement Plan for Fairview, Porterville, and Lanterman Developmental Centers. The Plan was entered into on January 16, 2014, with the California Department of Public Health and the federal Centers for Medicare and Medicaid Services to bring the facilities back into compliance with federal requirements.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed and voluntary patients. The May Revision includes \$1.6 billion (\$1.5 billion General Fund) in 2014-15 for support of the Department. The patient population is projected to reach a total of 7,109 in 2014-15.

Significant Adjustment:

- Restoration of Competency Expansion—The May Revision includes \$3.9 million General Fund and 13.5 positions to expand the Restoration of Competency Program

by up to 55 beds. The program provides for treatment of certain Incompetent to Stand Trial (IST) patients in county jails rather than inpatient treatment at a state hospital. Treating these patients at the county jail is more cost effective than inpatient treatment at a state hospital. This expansion should result in more patients receiving competency restoration faster, while helping to reduce the waitlist for IST defendants.

HEALTH AND HUMAN SERVICES AGENCY

Significant Adjustment:

- Office of Investigations and Law Enforcement Support—The May Revision proposes \$1.2 million General Fund and nine positions to establish the Office of Investigations and Law Enforcement Support within the Health and Human Services Agency. The Department of Developmental Services has been the subject of federal interventions regarding the handling of investigations in a significant number of assault cases. The Department of State Hospitals also operates a law enforcement unit that would benefit from the oversight and support of the Office. The Office will work with the California Highway Patrol to develop policies and procedures and an organizational structure that will enable the Office to provide centralized oversight and accountability of these two law enforcement programs. The Office will also establish and implement standardized policies and procedures, provide and review administrative and criminal investigations, and improve recruitment and training.

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