

HEALTH AND HUMAN SERVICES

The Health and Human Services Agency oversees departments and other state entities that provide health and social services to California's vulnerable and at-risk residents.

The May Revision includes \$158.7 billion (\$38.9 billion General Fund and \$119.8 billion other funds) for all health and human services programs, an increase of \$1.5 billion General Fund compared to the Governor's Budget.

MENTAL HEALTH INITIATIVES

The state's mental health system includes services provided by both the state and counties. Most mental health services are provided in the community by counties, with significant state and federal funding participation. Funding sources, totaling approximately \$8 billion annually, include 1991 Realignment, 2011 Realignment, the Mental Health Services Act (Proposition 63), as well as General Fund and matching federal funds through the Medi-Cal program. Additionally, mental health services are provided at the Department of State Hospitals and the California Department of Corrections and Rehabilitation.

Despite substantial funding and some recent efforts to enhance mental health services, many challenges remain in the mental health system. These include continued growth in incompetent to stand trial referrals, increasing interactions between individuals with mental illness and the criminal justice system, and the prevalence of mental illness (and co-occurring substance use disorder issues) in California's homeless population.

In recognition of these challenges, especially for incompetent to stand trial referral rates, the Governor's Budget included proposals that focused on expanding community placements and services rather than incarceration or referral to a state hospital. Targeted funding was provided to Los Angeles County (about \$15 million General Fund when fully operational), the county with the highest number of severely mentally ill individuals and the majority of referrals to state hospitals. The Governor's Budget also included \$100 million General Fund over three years for the expansion and development of county diversion programs with the majority of funding going to the 15 counties with the highest referrals to state hospitals. To support this effort, the Governor's Budget also included \$5 million from Mental Health Services Act funds over two years to assist counties in developing innovation plans that incorporate new approaches to the diversion of mentally ill individuals away from law enforcement to community-based programs.

Other efforts incorporated into existing safety net programs are not included in the previously mentioned mental health totals, such as the state's 1115 Medicaid waiver, which includes the Medi-Cal Whole Person Care Pilot, to coordinate the health, behavioral health, and social services needs of Medi-Cal beneficiaries. This pilot program provides \$1.5 billion in additional federal funds over five years to coordinate services for vulnerable Medi-Cal beneficiaries who have been identified as frequent users of multiple systems and have poor health outcomes. Of the 25 pilots, 23 target homeless populations or those at risk of homelessness and 13 of those specifically target (though all have a focus on) individuals with mental health and/or substance use disorder conditions—all with the goal of providing comprehensive, coordinated care for the beneficiary and better health outcomes.

ADDITIONAL INVESTMENTS IN THE MENTAL HEALTH SYSTEM

The May Revision includes additional resources to both build upon earlier efforts and strengthen cross-sector collaboration to help counties support identification, treatment, and services at various points in the mental health system. These targeted investments will enhance and encourage local mental health efforts and benefit other program areas by decreasing homelessness and reducing the number of mentally ill individuals involved in the criminal justice system—including the number of individuals incarcerated in county jails and state prisons, as well as those awaiting placement in state hospitals.

No Place Like Home—The May Revision proposes placing the No Place Like Home program on the November 2018 ballot. Voters will have an opportunity to validate the No Place Like Home program, which allocates \$2 billion from Mental Health Services Act funds to provide housing for individuals who are in need of mental health services and are experiencing homeless or at risk of homelessness. The Department of Housing and Community Development will issue an initial Notice of Funding Availability prior to November and make awards before the end of the calendar year, contingent on voter approval of the measure.

Children's Mental Health Mandate Repayment—The May Revision includes repayment of approximately \$254 million plus interest for repealed state mandates related to services provided by counties to seriously emotionally disturbed children (AB 3632), as referenced in the Statewide Issues and Various Departments Chapter. The costs were incurred by the counties between 2004 and 2011. The Administration expects counties to use this funding for early intervention and prevention of mental health services for youth, with an emphasis on teens.

Homeless Mentally Ill Outreach and Treatment—The May Revision proposes a one-time augmentation of \$50 million for the Department of Health Care Services to provide counties with targeted funding for multi-disciplinary teams to support intensive outreach, treatment and related services for homeless persons with mental illness, as referenced in the Statewide Issues and Various Departments Chapter. The funding allocation will be targeted to local entities based on the principles of Chapter 518, Statutes of 2000 (AB 2034) and Chapter 617, Statutes of 1999 (AB 34). Counties are encouraged to match these funds with local mental health funding as well as federal matching funds, where appropriate. This type of intervention is expected to result in earlier identification of mental health needs, prevention of criminal justice involvement, and improved coordination of care for this population at the local level.

Graduate Medical Education—To address the lack of mental health professionals, the May Revision proposes an increase of \$55 million one-time General Fund to support psychiatric graduate medical education programs serving Health Professional Shortage Areas or Medically Underserved Areas in rural portions of the state, as referenced in the Higher Education Chapter.

Oversight and Planning—The May Revision proposes \$6.7 million for 48 staff at the Department of Health Care Services to support oversight of county mental health programs and review of Mental Health Services Act expenditures, as well as planning efforts for system and data improvements to support the evaluation of county mental health programs.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services. Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost for low-income individuals. 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, dental, home and community-based services, and medical equipment. The Department also operates the California Children's Services and the Primary and Rural

Health programs, and oversees county-operated community mental health and substance use disorder programs.

Medi-Cal was established more than 50 years ago, but has changed significantly in recent years. Since 2011, the number of individuals receiving coverage through Medi-Cal and the Children’s Health Insurance Program (CHIP) increased from 8.5 million to 13.3 million. Compared to the 2011 Budget Act, total program costs increased from \$45.5 billion (\$14.7 billion General Fund) to an estimated \$103.9 billion (\$22.9 billion General Fund) in 2018-19.

Unlike most programs, Medi-Cal operates on a cash, rather than an accrual, accounting basis. Both the rapid expansion of the program and federal constraints have significantly increased the difficulty and uncertainty of budgeting for this program on a cash basis.

Many of the complexities in forecasting program expenditures have resulted in a Medi-Cal shortfall compared to the 2017 Budget Act that now totals \$830.5 million General Fund. This is an increase of \$286.9 million compared to the Governor’s Budget. As reflected in Figure HHS-01, there are many adjustments within the Medi-Cal estimate that contribute to this change.

Figure HHS-01
Significant General Fund Adjustments
2017-18
(Dollars in Millions)

Category	Program	Governor's Budget Expenditures	May Revision Expenditures	Impact on General Fund
Financing Complexities	Drug Rebates	-\$1,106.7	-\$831.4	\$275.3
	Managed Care Organization Taxes	-2,175.2	-1,747.0	428.2
	Managed Care Financing	10,187.4	10,009.8	-177.6
Federal Actions	Hospital Quality Assurance Fee	-851.8	-1,328.9	-477.1
	Children's Health Insurance Program Reauthorization	640.2	396.7	-243.5
	Deferred Claims	71.7	754.0	682.3
	Base Program ^{1/}	13,243.9	13,043.2	-200.7
Total General Fund		\$20,009.5	\$20,296.4	\$286.9

^{1/} Includes net adjustments for various policies in the Medi-Cal May 2018 Local Assistance Estimate.

These changes are primarily attributed to:

- Drug Rebates—Savings are lower due primarily to retroactive payments to the federal government tied to the rapid changes allowed under the Affordable Care Act.

- Managed Care Organization Tax—Offsets to General Fund costs are lower due to updated caseload projections and rate adjustments that reduced the tax on health plans.
- Managed Care Financing—Costs have decreased since the Governor’s Budget due to lower than projected caseload, retroactive rate adjustments, and lower Hepatitis C costs.
- Hospital Quality Assurance Fee—Delays in federal approval of this fee changed the timing of anticipated revenue, offsetting additional current year costs.
- CHIP Reauthorization—In December 2017, Congress reauthorized a short-term extension of enhanced federal funding. Through two actions at the end of January and early February 2018, the federal government passed a ten-year extension, continuing the enhanced 88-percent federal share of costs through September 30, 2019. The enhanced funding then decreases incrementally over time to the historic sharing ratio of 65 percent federal funds and 35 percent state funds. These reductions in federal funding will increase General Fund costs beginning in 2019-20. In the short term, the reauthorization results in a combined two-year, General Fund decrease of \$898.1 million in 2017-18 and 2018-19 compared to the Governor’s Budget.
- Deferred Claims— Increased costs as a result of new federal requirements, which require the state to repay disputed claims while the Department works to substantiate them.

Significant Adjustments:

- Specialty Mental Health Services Federal Audit Repayment—A recent audit by the U.S. Department of Health and Human Services, Office of the Inspector General is expected to result in the disallowance of approximately \$180.7 million in federal Medi-Cal claims for county specialty mental health services. These funds will initially be paid by the state in 2018-19 with repayments from counties occurring over the next four years to prevent the removal of significant local funds from the mental health delivery system in a single year.
- Proposition 56—Updated revenues from this tobacco tax increased slightly compared to the estimate in January. Net revenues after backfill amounts total \$1.3 billion in 2018-19, an increase of \$32 million since the Governor's Budget. The May Revision forecasts expenditures of \$629.9 million in 2018-19 for supplemental payments and rate increases, a decrease of \$51.6 million compared to the Governor's Budget. Based on year-to-date expenditures in 2017-18, claims for physicians were lower than expected. However, the May Revision maintains the increase of approximately \$163 million for physician payments and \$70 million for dental payments in 2018-19. The May Revision also reflects an increase of \$55.3 million to support new growth in Medi-Cal in 2018-19. The Administration will

continue to work with the Legislature and stakeholders on a 2018-19 supplemental payment structure for submission to the federal government by September 2018.

- Pharmacy Reimbursement—The May Revision maintains the Administration’s proposal to prohibit the use of federal 340B Drug Pricing Program reimbursements within the Medi-Cal program beginning July 1, 2019, to prevent duplicate discounts and overpayments, and reduce drug rebate disputes. The Administration estimates this proposal will result in \$16.6 million General Fund savings annually beginning in 2020-21.
- Expand Hepatitis C Treatment Clinical Guidelines—An increase of \$70.4 million (\$21.8 million General Fund) in 2018-19 to authorize treatment for all patients ages 13 and above with Hepatitis C, regardless of liver fibrosis stage or co-morbidity, except for patients with a life expectancy of less than 12 months. Currently, Medi-Cal authorizes treatment for individuals with stage two or above liver fibrosis, or at any stage if they have a qualifying co-morbid condition.
- California Medicaid Management Information System (CA-MMIS)—An increase of \$41.7 million (\$9.7 million General Fund) in 2018-19 to provide resources for the existing Medi-Cal fiscal intermediary contracts and the implementation of a modular modernization strategy for the CA-MMIS project.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department's major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, and Disability Determination.

Caseload Adjustments:

- IHSS—The overall cost for IHSS increased by \$105.6 million General Fund in 2017-18, and \$174.7 million General Fund in 2018-19, due primarily to a projected increase in costs associated with IHSS overtime, average hours per case, and average cost per case. These increases were offset partially by slower caseload growth compared to the prior forecast, with caseload projected to be over 544,000 in 2018-19.

- CalWORKs—A decrease of \$37.1 million General Fund and federal Temporary Assistance for Needy Families (TANF) block grant funds in 2017-18 and \$34.4 million General Fund and TANF in 2018-19. This reflects updated caseload and average cost per case projections. The total caseload of 406,175 is the lowest level in about 30 years.
- SSI/SSP—A decrease of \$21.9 million General Fund in 2017-18 and \$34.4 million General Fund in 2018-19 to reflect continued decreases in caseload to approximately 1,246,000 recipients.

CONTINUUM OF CARE REFORM

As implementation of the foster care reforms outlined in Chapter 773, Statutes of 2015 (AB 403), continues into its second full year, expected savings have eroded. This is due primarily to a slower-than-anticipated decline in congregate care caseload, as well as continued use of the Specialized Care Increments (SCIs) that were expected to decrease as foster care rates increased. This results in General Fund increases of \$49.5 million in 2017-18 and \$56 million in 2018-19. The May Revision continues to assume counties will reduce SCI payments to reflect the transition from age-based foster care rates to the new home-based family care rate structure beginning in July 2018. Additionally, one-time funding of \$3.2 million General Fund is provided to support county efforts in eliminating the backlog of foster care resource family applications that are pending review and approval. An increase of \$2.5 million General Fund is also proposed to address county workload associated with implementation of an assessment tool to assess a child's level-of-care needs. Together, these increases will further support the transition to a home-based family care model with improved access to services to support these placements.

In addition to the funding noted above, the May Revision includes an increase of \$13.4 million TANF in 2018-19 to provide caregivers with up to six months of emergency assistance payments pending approval as a resource family. Beginning in 2019-20, and annually thereafter, emergency assistance payments will be available for up to three months, as local child welfare agencies and probation departments are expected to eliminate the backlog and complete the resource family approval process within three months of application receipt. The May Revision sets aside \$27 million TANF to fund these emergency assistance costs through 2020-21.

SERVICES TO ADDRESS HOMELESSNESS

The number of homeless individuals in California increased significantly between 2016 and 2017. The May Revision provides additional resources to the state's social services safety net programs to prevent vulnerable Californians from becoming homeless, as referenced in the

Statewide Issues and Various Departments Chapter. The May Revision provides \$47.3 million in increased General Fund resources in 2018-19, increasing to \$63.7 million in 2019-20, for the following county programs:

- CalWORKs Housing Support Program—An increase of \$24.2 million to help CalWORKs families secure permanent housing. With an additional augmentation in 2019-20, the total program funding will increase from \$47 million to \$95 million annually. This program provides counties with flexibility to address the needs of each family, including move-in assistance, temporary rental subsidies, and intensive case management.
- CalWORKs Homeless Assistance Program—An increase in the daily payment rate for temporary assistance for families who are homeless or face imminent eviction. This program provides up to 16 days of temporary housing each year by issuing eligible families a voucher for either a temporary shelter or hotel/motel. For a family of four, the rate will increase from \$65 to \$85 beginning January 1, 2019. This daily rate was last increased more than ten years ago. The May Revision includes \$8.1 million in 2018-19, increasing to \$15.3 million in 2019-20.
- Home Safe Pilot Program—The May Revision proposes \$15 million, on a one-time basis, to fund a pilot program within Adult Protective Services. The pilot provides housing-related supports to seniors experiencing homelessness or at risk of losing their homes by providing temporary rental or utility assistance, housing repairs, landlord mediation, and case management. The funding will be available to participating counties over a three-year period with a local match.

OTHER SIGNIFICANT ADJUSTMENTS

- CalWORKs Single Allocation—An increase of \$55.8 million TANF in 2018-19 to reflect the adoption of a revised budgeting methodology for county administration of the CalWORKs eligibility determination process. This model recognizes that counties have difficulty adjusting to significant increases and decreases in caseload, and attempts to smooth out the changes to county funding. The methodology: (1) establishes a fixed-base funding level that does not adjust when caseload changes, and (2) includes a variable component that adjusts when caseload increases or decreases by 5 percent or more, compared to the 2018-19 caseload.
- 1991 State-Local Realignment Health Account Redirection (AB 85)—County indigent health savings are projected to increase by \$242.7 million in 2018-19. This results in additional 1991 Realignment funds available to offset General Fund costs in CalWORKs.

- IHSS County Administration—An increase of \$24 million General Fund in 2018-19 to reflect higher estimates of county workload related to the IHSS program.
- County IHSS Maintenance of Effort—Chapter 25, Statutes of 2017 (SB 90), specified the counties' share of IHSS costs and implemented a revised maintenance-of-effort (MOE) structure, resulting in higher county costs compared to the prior MOE levels. Based on updated revenue projections and redirections, available 1991 Realignment revenues are expected to cover a larger share of the increased MOE costs. When combined with \$330 million in state mitigation for 2018-19 and \$200 million in 2019-20, this results in no net fiscal impact to counties through 2019-20.
- Expanded Access to Online Community College Education—The May Revision includes additional funding for the development of additional courses in the proposed California Online Community College, as referenced in the Higher Education Chapter. As these courses are developed, additional funding for educational support services within CalWORKs employment services will be provided, consistent with current practice. This includes funding for laptops, internet access, and books needed to participate in these courses. Initial enrollment is anticipated to begin in fall 2019.

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