

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 \$141 billion (\$33 billion General Fund and \$108 billion other funds) for all programs overseen by this Agency, a decrease of \$747 million General Fund compared to the Governor's Budget.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). 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, home and community-based services, and medical equipment. DHCS 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.

Significant Adjustments:

- **Medi-Cal 2020 Waiver**—The May Revision includes \$2.2 billion in federal funds for the new Medi-Cal 2020 waiver. California and the federal government reached an agreement on the Section 1115 Waiver renewal that began on January 1, 2016. The waiver includes a number of initiatives to improve health care quality. Those initiatives include Public Hospital Redesign and Incentives in Medi-Cal, the Global Payment Program, Whole Person Care Pilots, and the Dental Transformation Initiative.
- **Behavioral Health Treatment**—The May Revision includes \$180.2 million General Fund, an increase of \$86.4 million, to provide federally required Behavioral Health Treatment services. The Medi-Cal costs have increased to reflect transitioning responsibility for the provision of these services to the Medi-Cal program from the state’s Developmental Services system.
- **Full-Scope Medi-Cal Coverage for Undocumented Children**—The May Revision includes \$188.2 million General Fund, an increase of \$45.4 million, to provide full-scope benefits to 185,000 children. Chapter 18, Statutes of 2015 (SB 75), expands full-scope Medi-Cal benefits to undocumented children under 19 years of age. The provision of this benefit begins in May 2016.
- **Newly Qualified Immigrant Benefits and Affordability Program**—An increase of \$31.8 million General Fund to reflect a delay in the implementation date to January 1, 2018. The program will enroll eligible beneficiaries in an Exchange Qualified Health Plan with premium and out-of-pocket payment assistance.
- **Minimum Wage**—An increase of \$7.1 million General Fund to reflect the impact of the 50-cent increase in the state minimum hourly wage, effective January 1, 2017, pursuant to Chapter 4, Statutes of 2016 (SB 3).
- **Medicaid Managed Care Regulations**—An increase of \$5 million General Fund and 38 positions to implement the federal regulations. In May 2016, the federal government published final regulations pertaining to Medicaid managed care programs, and published final regulations in November 2015 pertaining to Medicaid fee-for-service access standards and monitoring. The managed care regulations are related to beneficiary grievances, provider networks, program integrity, and financing, and there are several components of the regulations that could negatively impact California and result in General Fund costs in the hundreds of millions of dollars annually.

- Continuum of Care Reform—An increase of \$6.4 million General Fund for county mental health costs associated with implementation of Continuum of Care Reform efforts pursuant to Chapter 773, Statutes of 2015 (AB 403), including participation in child and family teams, mental health assessments for children in foster care, and training for mental health providers.
- Residential Treatment Services—Decreased costs of \$20.1 million General Fund, leaving a total of \$12.3 million General Fund (\$39.1 million total funds), for the implementation of residential treatment services. The revised funding reflects the time needed to obtain state, county, and federal approval of county implementation plans pursuant to the federal Drug Medi-Cal-Organized Delivery System Waiver approved in 2015.
- Institutional Deeming—An increase of \$2.2 million (\$1.1 million General Fund) to provide transition assistance to approximately 433 children currently enrolled in the Home and Community-Based Services Waiver for Persons with Developmental Disabilities. Under federal law, these children will likely lose their Medi-Cal eligibility with the transition of Behavioral Health Treatment from a waiver benefit to a state plan benefit in March 2017. The assistors will facilitate enrollment into appropriate, comprehensive health care coverage.

HEALTH CARE REFORM IMPLEMENTATION

In 2013, California implemented significant portions of the Affordable Care Act. The Health Benefits Exchange has provided affordable health insurance, including plans subsidized with federally funded tax subsidies and products for small businesses, beginning January 1, 2014. The Medi-Cal program was expanded with simplified eligibility rules, and the optional expansion extended eligibility to adults without children, as well as parent and caretaker relatives with incomes up to 138 percent of the federal poverty level.

With these reforms, the Medi-Cal caseload will increase from 7.9 million in 2012-13 to a projected 14.1 million in 2016-17, covering over a third of the state's population. Beginning in 2017, the state assumes a 5-percent share of cost for the optional expansion population. By 2020-21, the federal share will have decreased to 90 percent and the state will pay 10 percent. The May Revision assumes costs of \$16.2 billion (\$819.5 million General Fund) in 2016-17 for the state's share of costs for the optional Medi-Cal expansion.

1991-92 STATE-LOCAL REALIGNMENT HEALTH SUBACCOUNT REDIRECTION

Under the Affordable Care Act, county costs and responsibilities for indigent health care are decreasing as more individuals gain access to health care coverage. The state-based Medi-Cal expansion has resulted in indigent care costs previously paid by counties shifting to the state, contributing to significant increases in state costs.

Chapter 24, Statutes of 2013 (AB 85), modified the 1991 Realignment Local Revenue Fund distributions to capture and redirect savings counties are experiencing from the implementation of federal health care reform. These savings are reallocated to counties to pay an increased county contribution towards the costs of CalWORKs grants, which reduces state General Fund expenditures. County savings are estimated to be \$749.9 million in 2015-16 and \$643.4 million in 2016-17. However, actual county savings in 2013-14 were \$177.4 million lower than estimated and the May Revision assumes reimbursement of this amount to counties in 2016-17.

MANAGED CARE ORGANIZATION FINANCING

The Governor called a special session in June 2015 to address a proposed tax on health plans. Chapter 2, Statutes of 2016, Second Extraordinary Session (SBX2 2), authorized a tax on the enrollment of Medi-Cal managed care plans and commercial health plans. This reduces General Fund spending in the Medi-Cal program by approximately \$1.1 billion in the budget year, and more than \$1.7 billion in 2017-18 and 2018-19. SBX2 2 also included reforms that reduced taxes paid by the health plan industry. The May Revision assumes a decrease in General Fund revenue of \$300 million in the budget year to account for a reduction in insurance tax and corporation tax revenue from affected health plans.

Chapter 3, Statutes of 2016, Second Extraordinary Session (ABX2 1), included significant investments made possible by the managed care organization tax. These investments include:

- Developmental Services—\$287 million in General Fund expenditures for various developmental services programs, including rate adjustments for community-based providers serving individuals with developmental disabilities.
- Retiree Health Prefunding—\$240 million General Fund set aside in a trust fund to pay for future retiree health care benefits.

- Medi-Cal Rates—\$135 million General Fund in the budget year for increased Medi-Cal rates for Intermediate Care Facilities for the Developmentally Disabled and forgiveness of recoupments for Distinct Part Nursing Facilities.
- UC PRIME—\$2 million General Fund for the University of California, San Joaquin Valley Program in Medical Education.

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.

Significant Adjustments:

- Continuum of Care Reform—An increase of \$59.9 million General Fund in 2016-17 for county child welfare agencies and probation departments to continue the implementation of the Continuum of Care reforms contained in Chapter 773, Statutes of 2015 (AB 403). The reforms emphasize home-based family care, improved access to services without having to change out-of-home placements to get those services, and an increased role of children, youth, and families in assessment and case planning. The measure establishes a core practice model to govern all services, whether delivered by a county or licensed provider organization, and provides currently required medically necessary mental health services to children regardless of their placement setting. Combined with funding in the Department of Health Care Services, the May Revision includes \$127.3 million General Fund to implement the reforms.
- Restoration of IHSS 7-Percent Across-the-Board Reduction—An increase of \$265.8 million General Fund to reflect restoration of the 7-percent reduction to IHSS. The Governor's Budget proposed funding this restoration using proceeds from the managed care organization tax. The restoration shall remain in effect until June 30, 2019, when the tax is scheduled to expire.
- IHSS Overtime Exemptions—Increases of \$3.6 million General Fund in 2015-16 and \$22.3 million General Fund in 2016-17 to reflect costs associated with exempting

providers who meet specified criteria from IHSS overtime restrictions enacted in Chapter 29, Statutes of 2014 (SB 855). Exemptions will be available for live-in family care providers who, as of January 31, 2016, reside in the home of two or more disabled minor or adult children or grandchildren for whom they provide services. A second type of exemption will be considered for recipients with extraordinary circumstances and granted on a case-by-case basis. Under either exemption, the maximum number of hours a provider may work cannot exceed 360 hours per month.

- **IHSS Compliance with Fair Labor Standards Act**—A decrease of \$65.8 million General Fund in 2015-16 primarily resulting from the revised implementation schedule for the payment of overtime, travel and medical accompaniment to IHSS providers to comply with federal Fair Labor Standards Act rules and the provisions of SB 855.
- **CalWORKs Grant Increase**—Due to an increase in 1991-92 State-Local Realignment revenue projections, the May Revision includes a 1.4-percent increase to CalWORKs grants, effective October 1, 2016. The Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund is projected to have a 2016-17 ending balance of \$47.4 million. Of this amount, \$35.4 million will be used to fund the first-year costs (9 months) of the grant increase, with the remainder carried forward to 2017-18 to help fund the full-year costs.
- **Minimum Wage Increase**—An increase in IHSS expenditures of \$18.4 million General Fund and a decrease in CalWORKs expenditures of \$6 million General Fund to reflect the impact of the 50-cent increase in the state minimum hourly wage, effective January 1, 2017, pursuant to Chapter 4, Statutes of 2016 (SB 3).
- **Caseload-Related Adjustments**—The May Revision reflects revised basic caseload and cost projections since the Governor’s Budget. Major caseload-related adjustments include:
 - **IHSS**—General Fund increases of \$131.7 million in 2015-16 and \$183.1 million in 2016-17 to reflect increases in caseload growth, average hours per case, and average cost per case.
 - **CalWORKs**—An increase of \$46.6 million General Fund and federal Temporary Assistance for Needy Families (TANF) block grant funds in 2015-16 and a decrease of \$28.4 million General Fund and TANF in 2016-17 to reflect updated caseload and average cost per case projections.

- SSI/SSP—Decreases of \$19.4 million in 2015-16 and \$44 million in 2016-17 to reflect updated caseload and average cost per case projections. The May Revision continues to reflect a cost-of-living increase, effective January 1, 2017, to the SSP portion of the SSI/SSP grant equivalent to the increase in the California Necessities Index, which is 2.76 percent.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals (DSH) 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 patients.

INCOMPETENT TO STAND TRIAL ADMISSIONS

Over the past four years, DSH has experienced a significant increase in the number of Incompetent to Stand Trial (IST) referrals from local courts, with an annual growth rate of over 10 percent since 2013-14. In response, the department has activated 336 inpatient beds and 108 jail-based competency restoration beds. Despite these measures, referrals continue to outpace admissions and discharges and the pending placement list was over 450 individuals as of May 1, 2016. The May Revision proposes further expansion of both inpatient and jail-based beds, but this expansion will exhaust current capacity within state hospitals and cannot satisfy demand if referrals continue to grow. To address this continued growth, the Administration will continue to work with county partners, the Judicial Council, and stakeholders to find approaches to ameliorate the growth in referrals, explore additional ways to make the IST process more efficient, and examine opportunities for additional bed capacity through partnerships with counties. In the near term, the May Revision includes the proposals described below.

As discussed in the Governor’s Budget, the Administration remains committed to working with Los Angeles County to address alternative ways to create a more collaborative state and local public safety system to achieve efficiencies. One possible approach is the creation of a joint use correctional treatment facility that could serve as a diversion program or housing for state and local inmates with high mental health or substance use disorder treatment needs. These offenders tend to drive significant costs for the criminal justice system. This new model of diversion and treatment would aim to break the cycle of crime and reduce costs, which is of particular importance for Los Angeles County given the County represents approximately one-third of inmates within the state prison system, and the County currently has approximately 135 offenders deemed incompetent

to stand trial and awaiting placement in a state hospital. While the May Revision does not include a specific proposal to address this potential collaboration, the Administration will continue working with Los Angeles County and other interested counties on this effort.

Significant Adjustments:

- Jail-Based Competency Treatment Beds—The May Revision includes \$2.7 million General Fund and 1 position for DSH to expand the jail-based competency treatment program by 25 beds and provide additional oversight of the restoration of competency program. With this request, and the additional 10 beds proposed in the Governor’s Budget, DSH will support a total of 183 restoration of competency beds to serve incompetent to stand trial patients outside of the state hospitals, at a cost of approximately \$22.6 million General Fund.
- Activation of State Hospital Beds—The May Revision includes an increase of \$18.1 million General Fund and 175.5 positions to activate an additional 60 beds at Napa State Hospital and 36 beds at Metropolitan State Hospital. The activations of these available beds improve DSH’s ability to address the immediate needs of pending placements.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) provides individuals with developmental disabilities a variety of services that allow them to live and work independently or in supported environments. California is the only state that provides developmental services as an individual entitlement. The state is in the process of closing all the state-operated developmental centers, except for the secure treatment area at the Porterville Developmental Center. By the end of 2016-17, DDS estimates it will serve approximately 303,000 individuals with developmental disabilities in the community and 847 individuals in state-operated developmental centers.

DEVELOPMENTAL CENTER CLOSURES

DDS carries out its responsibilities through 21 community-based, non-profit regional centers, 3 state-operated developmental centers, and 1 state-operated community facility.

As part of the closure activities at the Sonoma, Fairview, and Porterville (general treatment area) developmental centers, the May Revision includes language to: (1) extend special managed care provisions to Medi-Cal eligible individuals that are

transitioning from developmental centers into the community; (2) provide an exemption to allow developmental center employees working at facilities slated for closure to go through the process of becoming community-based service providers; and (3) provide retention incentives for developmental center staff during the closure process to maintain services during the transition. The Administration will continue to work on developing an effective approach to encourage successful transition of the developmental center workforce to the private sector during the closure process.

REGIONAL CENTER SERVICES

The regional center system is projected to serve more than 300,000 individuals with developmental disabilities and their families in the budget year. Regional centers provide intake, assessment, eligibility determination, resource development, and case management services. The centers also work with the thousands of businesses and individuals providing developmental services in the community.

In addition to the Governor's Budget proposals totaling \$80 million (\$50 million General Fund) for targeted investments in the developmental services system, the May Revision reflects \$287 million General Fund (\$473.2 million total funds) in additional funding from Chapter 3, Statutes of 2016, Second Extraordinary Session (ABX2 1).

The May Revision proposes an additional \$6.6 million General Fund in 2016-17 for regional center and DDS resources to implement changes authorized by ABX2 1. These resources will be used to oversee the implementation of cultural programs and competitive integrated employment activities, contract for a provider rate study, and report on adjustments to provider rates.

Significant Adjustments:

- **Minimum Wage**—An increase of \$12 million General Fund to reflect the impact of the 50-cent increase in the state minimum hourly wage, effective January 1, 2017, pursuant to Chapter 4, Statutes of 2016 (SB 3).
- **Behavioral Health Treatment**—The May Revision includes a decrease of \$75.8 million General Fund to reflect the transition of Behavioral Health Treatment services for regional center consumers that will now receive these services in the Medi-Cal program.

EMERGENCY MEDICAL SERVICES AUTHORITY

The Emergency Medical Services Authority administers a system of coordinated emergency medical and disaster medical response. For 2016-17, the May Revision includes \$36.1 million (\$8.7 million General Fund) for the Authority.

In 2007, the State of California purchased three Mobile Field Hospitals with the intent to replace or augment acute hospital care capacity during catastrophic disasters. To date, the Mobile Field Hospitals have never been deployed. Working with other state agencies, and within existing resources, the Emergency Medical Services Authority proposes to redesign the Mobile Field Hospital program to modify and expand the potential uses of the equipment into general staging, stabilization and shelter capability. This could include alternate healthcare sites to provide low acuity care for triage and stabilization, command and staff shelters for incident command, and general or medical shelter facilities. This approach allows for flexible deployment to support a broad range of emergencies, including earthquakes, fires, floods, severe influenza, a novel virus epidemic, or bioterrorism. Additionally, the equipment may benefit other state agencies, including the Office of Emergency Services, the Military Department, and the Department of Public Health. The public health and medical response for health care surge capacity continues to be supported by federal, state and local resources that collectively will help to address the medical impacts of disasters and major events.