

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 (\$33.7 billion General Fund and \$125.1 billion other funds) for all health and human services programs, a decrease of \$324.8 million General Fund compared to the Governor's Budget.

END OF COORDINATED CARE INITIATIVE

The Coordinated Care Initiative (CCI) was created in 2012 in an effort to reduce state costs and improve health care delivery by coordinating services through a single health plan. The Governor's Budget reflected the finding that the CCI was no longer cost-effective and that under current law, the program would end in 2017-18. This resulted in removing In-Home Supportive Services (IHSS) benefits from Medi-Cal managed care capitation rates, returning bargaining for IHSS workers' wages and benefits to the seven CCI counties, and re-establishing the county share-of cost in IHSS at 35 percent of non-federal costs rather than a maintenance-of-effort structure. The state pays 65 percent of the non-federal costs. The net fiscal result to counties was an estimated cost of \$623 million. In recognition that 1991 Realignment funds, which fund counties' share of IHSS, were insufficient to cover this magnitude of increase, the Administration indicated its desire to mitigate, to the extent possible, the impact on counties.

The May Revision reflects an updated estimate of \$592.2 million to return to the share-of-cost structure for counties. In discussions this spring, counties emphasized the need for financial assistance, more predictability of costs, and time to adjust to any changes. The May Revision provides significant help in each of these areas. The May Revision includes an infusion of General Fund and other state resources to help offset these costs as well as additional mitigations to assist the counties during this transition. The proposal assumes all other programs supported by the 1991 Realignment Social Services Subaccount continue to be funded as they have been.

The proposal includes the following fiscal provisions:

- General Fund Assistance—\$400 million General Fund in 2017-18; \$330 million in 2018-19; \$200 million in 2019-20 and \$150 million in 2020-21 and ongoing.
- Use of Growth Funds—Redirection of all Vehicle License Fee growth for three years from the Health, County Medical Services Program (CMSP), and Mental Health Subaccounts to provide additional resources for IHSS. In years four and five, 50 percent of this Vehicle License Fee growth will be redirected. The portion of the growth funds redirected from the Health Services Subaccount, which would have offset General Fund costs in CalWORKs, are reflected in the General Fund assistance totals above.
- Maintenance-of-Effort Structure—Institute a maintenance-of-effort (MOE) structure rather than a 65-percent state/35-percent county share-of-cost structure. The General Fund will pay the difference between the MOE and the non-federal share of IHSS costs.
- More Current Cost Data—Change the methodology for calculation of IHSS caseload in the Social Services Subaccount to use the current estimate of caseload and cost information.
- Inflation Factor—Create a new base for county costs of IHSS in 2017-18 that includes services and administrative costs. An annual inflation factor will be phased in and applied to the base. In year one (2017-18), the inflation factor will be zero; in the second year, the inflation factor will be 5 percent. In future years, the inflation factor would be on a sliding scale based on 1991 Realignment revenue performance. If revenue growth is negative, then there would be no inflation factor applied. If revenue growth is less than 2 percent, then the inflation factor would be 3.5 percent. If revenue growth is above 2 percent, the inflation factor would be 7 percent (the expected IHSS annual cost growth).

The estimated net amounts of county costs not covered are:

- 2017-18: \$141 million
- 2018-19: \$129 million
- 2019-20: \$230 million
- 2020-21: \$251 million

Based on revenue growth allocations under the CCI pilot, the Health, CMSP, and Mental Health Subaccounts received funding that allowed their base amounts to grow beyond normal expectations. While not receiving growth for a limited-time period—as proposed in the May Revision—requires an adjustment, redirecting the growth to IHSS reflects the highest funding priority. Under current law, counties are obligated to provide a 3.5-percent annual rate increase to Institutions for Mental Disease. In recognition of the reduced amount of growth funding going to the Mental Health Subaccount, the May Revision proposes that in any year the Mental Health Subaccount does not receive its full growth allocation, this rate increase requirement will be suspended.

The May Revision also proposes that counties experiencing financial hardship due to the increased costs of IHSS may apply to the Department of Finance for a low-interest loan to help cover those costs. The Department of Finance will work with counties to determine how such a loan would be structured and what documentation would be needed for application.

Because IHSS costs and 1991 Realignment revenues can be volatile, the Administration has agreed to on-going discussions with the counties about the costs of the program within the structure of 1991 Realignment and the impact of the inflation factor as it relates to overall 1991 Realignment revenues.

The May Revision also proposes that any amounts counties may owe the state through 2015-16 because of the Board of Equalization’s miscalculations of sales tax revenue allocations will not have to be repaid.

IHSS COLLECTIVE BARGAINING

With the return of collective bargaining to all counties, the Administration reviewed the current structure of local bargaining and is proposing several adjustments.

Under CCI, if a county negotiated a wage and benefit increase, its MOE increased by its 35 percent share. State participation has been capped at \$12.10 per hour for wages and benefits since 2007-08. The May Revision maintains the 35-percent county share of negotiated increases and proposes that the state participation cap should float to always be \$1.10 above the hourly minimum wage set in Chapter 4, Statutes 2016 (SB 3), for large employers. Like SB 3, the cap would rise with inflation once the minimum wage reaches \$15 per hour.

Many counties are at or exceed the current state cap of \$12.10. For those counties, the state would agree to participate at its 65-percent share of costs up to a 10-percent increase in wages and benefits over three years.

Beginning July 1, 2017, the May Revision proposes that if a county does not conclude bargaining with its IHSS workers within nine months, the union may appeal to the Public Employment Relations Board.

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, 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.

Significant Adjustments:

- **Current Year Shortfall**—The Medi-Cal shortfall has decreased by approximately \$620 million General Fund compared to the Governor's Budget. The reduction is primarily attributable to savings from drug rebates in Medi-Cal managed care, retroactive managed care rate adjustments, and slower caseload growth than previously estimated. Medi-Cal program expenditures are expected to exceed the appropriation included in the 2016 Budget Act by approximately \$1.1 billion.

- **Medi-Cal Estimate**—Given the size of the current year shortfall, the May Revision provides \$495,000 (\$248,000 General Fund) to upgrade the system used to produce the Medi-Cal estimate. These upgrades would enhance system stability and improve flexibility, making it more adaptable to changes in the Medi-Cal program. The system enhancements will provide estimates that are more accurate and improve reporting capabilities. In addition, a request for information to solicit contractors to assist the Department in refining the current estimate process will be issued in 2017-18.
- **Duals Demonstration Pilot**—Pursuant to the provisions of current law, the Coordinated Care Initiative (CCI) is discontinued in 2017-18; however, the Governor’s Budget proposed reinstating three programmatic components of the CCI. Based on the lessons learned from CCI, the May Revision continues: (1) extension of the Cal MediConnect program, (2) mandatory enrollment of dual eligibles, and (3) long-term services and supports integration into managed care, except IHSS. The May Revision includes savings of approximately \$8 million General Fund based on the proposed continuation of the Cal MediConnect duals demonstration pilot. This represents a decrease of approximately \$12 million in General Fund savings compared to Governor’s Budget due to a decrease in the number of beneficiaries choosing to participate in the pilot. Although CCI was not cost-effective during the initial demonstration period, the duals demonstration program provides the potential to reduce the cost of health care and improve health outcomes for individuals that maintain Cal MediConnect enrollment.
- **Proposition 56**—An increase of \$19.8 million in the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) allocation to Medi-Cal based on updated revenue projections. Overall revenue from Proposition 56 increased by \$23.3 million compared to the Governor’s Budget.
- **Newly Qualified Immigrants (NQI) Affordability and Benefit Program**—An increase of \$48 million General Fund from the elimination of the NQI Affordability Benefit Program. Existing law authorizes the Department to implement a program to transition most NQIs in the state-only full-scope Medi-Cal to a Covered California qualified health plan. Due to operational and programmatic uncertainties, the Administration will stop efforts to implement the program.
- **Palliative Care**—Net General Fund costs of \$1.3 million in 2017-18 for the implementation of the Palliative Care Services program no later than January 1, 2018. This program will serve adult Medi-Cal beneficiaries and provide one-time grants to health care plans of up to \$50,000 for provider network development, data analysis,

and other palliative care program development costs. Conditions eligible for palliative care include cancer, congestive heart failure, chronic obstructive pulmonary disease, or liver disease for patients with no more than a one-year life expectancy.

- California Medicaid Management Information System (CA-MMIS)—\$14.9 million (\$5.2 million General Fund), to fund 7 new positions, an extension of 21 limited-term positions, and contract resources to support both the ongoing maintenance and operations of the existing Legacy CA-MMIS claims processing system and to continue the design, development, and implementation efforts to modernize the CA-MMIS system using a modular approach.
- Implementation of the Covered Outpatient Drug Final Rule—The May Revision proposes statutory changes to outpatient drug reimbursement in the Medi-Cal program consistent with the requirements of the federal Covered Outpatient Drug Rule and the proposal released by the Department earlier this year. The proposed legislation codifies a new drug ingredient reimbursement methodology and dispensing fee based on a study of pharmacy provider costs in the Medi-Cal program.
- Contract Pharmacies and the 340B Program—The May Revision also proposes statutory changes to end the use of contract pharmacies in the 340B program in Medi-Cal, consistent with recent concerns raised by federal agencies. This change avoids inappropriate duplicate discounts by claiming federal drug rebates on already discounted drugs and prevents unnecessary overpayment in Medi-Cal. Planned Parenthood, a 340B entity, does not use contract pharmacies and is unaffected by this change.
- Performance Outcomes System—\$6.2 million General Fund for the implementation of functional assessment tools for populations receiving specialty mental health services through county mental health plans. These assessment tools will gather data from both a clinician’s and caregiver’s perspective and will be used to track outcomes for Medi-Cal mental health services provided to children up to age 21. The revised funding reflects training, staff, and information technology costs associated with implementation of the newly selected functional assessment tools.
- Federal Cures Act Opioid Targeted Response Grant—\$44.7 million in federal funding to reflect the award of the federal Opioid State Targeted Response grant. This grant will allow for increased medication-assisted treatment for individuals with substance use disorders. The Department will establish 15 “hub and spoke” systems, where a Narcotic Treatment Program will serve as a “hub” and the “spokes” are regional

physicians approved to prescribe medication-assisted treatment. For counties that do not have a Narcotic Treatment Program, the lead entity could be the county, an alcohol and other drug facility, a federally qualified health center, or other group. Narcotic Treatment Programs will begin providing expanded substance use disorder services by September 1, 2017 as required by the grant provisions.

- School-Based Mobile Vision Care Services—The Department authorized a three-year pilot program in Los Angeles County for school-based mobile vision services that ends on June 30, 2018. Based on requirements under current law, the Department will conduct an evaluation of the pilot program by the end of calendar year 2017. Pending the outcome of the evaluation, the Administration proposes to expand the mobile vision services program statewide in 2018-19 provided it resulted in improved treatment for children in the county.

1991 STATE-LOCAL REALIGNMENT HEALTH ACCOUNT REDIRECTION

Chapter 24, Statutes of 2013 (AB 85), modified the 1991 Realignment Local Revenue Fund (LRF) distributions to capture and redirect county savings due to the implementation of federal health care reform. The net savings are redirected for county CalWORKs expenditures, which reduce General Fund spending on the CalWORKs program.

County savings are estimated to be \$585.9 million in 2016-17, and \$688.8 million in 2017-18, or approximately \$143 million higher compared to Governor's Budget estimates. A portion of these additional General Fund savings will be redirected to offset increased county IHSS program costs. Additionally, actual expenditure data reported by counties indicates county net savings in 2014-15 were \$255.6 million higher than estimated based on the preliminary reconciliation of 2014-15. This amount is slightly higher than the estimate included in the Governor's Budget. The May Revision continues to assume reimbursement of this amount from the counties in 2017-18. Final reconciliation for 2014-15 will be completed in June 2017 using audited data from the counties. The General Fund savings are reflected in the CalWORKs program within the Department of Social Services' budget.

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, IHSS, Supplemental Security Income/State Supplementary

Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, and Disability Determination.

Significant Adjustments:

- Immigration Services—An increase of \$15 million General Fund—bringing total funding to \$30 million—to further expand the availability of legal services for people seeking naturalization services, deportation defense, or assistance in securing other legal immigration status.
- Continuum of Care Reform—An increase of \$11.2 million General Fund to implement a higher hourly rate for county social worker and probation staff for certain administrative components, and to provide foster youth placed with relative caregivers the same infant supplement grant and dual agency rate as federally eligible foster youth.
- IHSS—A net decrease of \$22.5 million General Fund in 2016-17 and \$80.8 million General Fund in 2017-18 due primarily to a projected decrease in costs associated with IHSS provider travel time and medical accompaniment wait time, partially offset by increases in caseload growth, average hours per case, average cost per case, and other miscellaneous adjustments.
- CalWORKs—A decrease of \$19.1 million General Fund and federal Temporary Assistance for Needy Families (TANF) block grant funds in 2016-17 and \$35.5 million General Fund and TANF in 2017-18 to reflect updated caseload and average cost per case projections.
- SSI/SSP—A decrease of \$34.1 million General Fund in 2016-17 and \$37.3 million General Fund in 2017-18 to reflect updated caseload and average cost per case projections.

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 patients.

METROPOLITAN STATE HOSPITAL

To address the long-term needs of a growing in-patient population, the 2016 Budget Act included \$31.2 million to develop a security fence at the Metropolitan State Hospital,

enabling the department to increase the number of beds by over 200 in 2018-19. With these new unit activations scheduled for the fall of 2018, staff recruitment, training, and personnel for patient movement is needed. The May Revision includes \$7.8 million General Fund to support the movement of approximately 150 civilly-committed patients at the Metropolitan State Hospital to another building, to allow additional Incompetent to Stand Trial (IST) waitlist commitments to be placed in secured treatment beds beginning in 2018-19.

INCOMPETENT TO STAND TRIAL ADMISSIONS

The Department of State Hospitals continues to experience a significant increase in the number of IST referrals from local courts, with an annual growth rate of approximately 10 percent since 2013-14. Despite 188 authorized jail-based competency restoration beds, referrals continue to outpace capacity, with the IST pending placement list at approximately 550 individuals in early May 2017.

To further address this ongoing growth, the Administration continues to work with county partners, the Judicial Council, and stakeholders to find approaches to address the growth of IST referrals.

In addition to previous proposals to increase bed capacity, the May Revision includes \$3.1 million General Fund to establish additional jail-based competency treatment programs for up to 24 beds. DSH continues to identify opportunities for collaboration with counties that will result in efficiencies and reduced costs for housing and treatment of ISTs.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services 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 state-operated developmental centers, except for the secure treatment area at the Porterville Developmental Center, and the Canyon Springs community facility.

SAFETY NET SERVICES

The May Revision proposes \$7.5 million General Fund in 2017-18 to establish acute crisis services in the community given the closure of the developmental centers and the state-run crisis units at the Fairview and Sonoma Developmental Centers. These

new services are part of the Department's overall Safety Net Plan to provide access to crisis services after the closure of the developmental centers. The Department will also allocate existing resources for this purpose.

These additional resources will be used to develop Stabilization, Training, Assistance and Reintegration (STAR) acute crisis facilities in the community that will provide services similar to those currently provided at the Northern and Southern STAR homes, as well as to establish two, 24-hour mobile acute crisis teams to provide in-home treatment and associated stabilization services and supports to help maintain individuals in their existing residences.

In addition, DDS proposes to establish intensive transition and support services to promote a successful transition into the community for those leaving secured treatment settings as well as to prevent such placements. These services will provide wrap-around residential services through individual evaluations, assessments, and treatment recommendations. These are targeted to individuals with developmental disabilities who are transitioning from the Secure Treatment Program at Porterville Developmental Center or are currently living in the community but require additional mental health and behavioral supports to address significant behavioral challenges.