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Improving the Health of all Californians

To: CHEAC General Membership

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RE: Governor's 2017-18 May Revise

This morning, Governor's Brown unveiled his May Revision to the State Budget. Compared to the January budget, where a $1.6 billion revenue deficit was estimated, the revenue picture has improved modestly with an additional $2.5 billion in revenues. However, the Governor continues to urge fiscal restraint, given California is only two years shy of hitting the historic length of economic growth and federal uncertainties at the federal level. He referenced the need to "think about the past" and "manage resources wisely and compassionately." He also noted that a recession of moderate intensity would cost California roughly $55 billion over two years.

May Revision proposes to advance several priorities including increased funding for schools, a restoration of child care provider rate increases, reduced pension liabilities and the mitigation of adverse county impacts resulting from the elimination of CCI.

Other highlights of interest to local health departments are summarized below.

CCI/IHSS: In January, the Administration deemed the CCI to no longer be cost-effective and as a result terminated the CCI in FY 2017-18. The termination of the CCI in January continued the Cal MediConnect Duals Demonstration, but resulted in the following changes:

- Ends the current cap on the county's share of IHSS costs – which under CCI is 3.5% of the cost growth – to the prior county-state sharing ratio of 35/65;
- Shifts roughly $623 million in general fund costs to the counties;
- Removes IHSS benefits from plan capitation rates; and
- Eliminates statewide bargaining and returns collective bargaining to the county.

The May Revise includes the Administration's effort to mitigate the adverse impacts to counties resulting from the Governor's decision in January to terminate the Coordinated Care Initiative (CCI). The Administration and the California State Association of Counties (CSAC) have engaged in discussions over the Spring, which Governor Brown characterized "numerous, cordial and convincing."

The resulting proposal put forth in the May Revise:

- Updates the estimated cost-shift to counties from $623 million to $592.2 million.

- Provides General Fund to reduce the estimated cost-shift to counties in declining amounts:
    - FY 2017-18 - $400 million
    - FY 2018-19 - $330 million
    - FY 2019-20 - $200 million
    - FY 2020-21 and ongoing - $150 million

- Reestablishes a county maintenance-of-effort (MOE), with a new inflator, in lieu of returning to the pre-CCI sharing ratio of 65/35 percent. The inflator will be phased in and, starting in FY 2019-2020, will be on a sliding scale based the performance of 1991 Realignment revenues.
    - FY 2017-18 – 0%
    - FY 2018-19 – 5%
    - FY 2019-2020 and beyond
        - If 1991 Realignment Growth is negative, then no inflator.
        - If 1991 Realignment Growth is less than 2%, then the inflator is 3.5%.
        - If 1991 Realignment Growth is above 2%, then the inflator is 7% (which reflects the IHSS annual cost growth).

- Redirects **<u>all</u>** 1991 Realignment Vehicle License Fee (VLF) Growth from Health, County Medical Services Program and the Mental Health Subaccounts to Social Services Subaccount for IHSS in the first three years (FY 2017-18 through FY 2019-2020). Redirects **<u>50%</u>** of VLF growth from those subaccounts to the Social Services Subaccount for two years (FY 2020-2021 and FY 2021-2022). After FY 2021-2022, VLF growth would be no longer be redirected.

- Revises the IHSS caseload calculation in the Social Services Subaccount to use current caseload estimate and cost information.

- Relieves county Mental Health from paying the 3.5 percent annual rate increase to Institutes for Mental Disease in years where the Mental Health Subaccount does not receive its full growth allocation.

- Allows counties experiencing financial hardship as a result of the increased IHSS costs to apply to the Department of Finance for a low interest loan.

- Includes the Administration's agreement to continue ongoing discussions with counties about the costs of the IHSS within the 1991 Realignment structure and the impact of the inflator. CSAC reported that the Administration has agreed to a reopener clause for counties.

- Forgives any amounts that counties may owe the state through FY 2015-16 as a result of the Board of Equalization's miscalculations of sales tax revenue allocations, which could range from $100 million to $300 million.

Net County Costs. The estimated net county costs, after General Fund is provided, the inflator is applied, and VLF growth is redirected, is:

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

Impacts to Local Health Departments. Under this proposal, local health departments would continue to receive both base 1991 Realignment Sales Tax and Vehicle License Fee revenues. However, given the increased costs to the IHSS program, it is likely local health departments would not see 1991 sales tax growth funding for a significant number of years. This also results in the 1991 sales tax base funding to local health departments remaining stagnant and potentially declining in years where revenues underperform without a mechanism to recover.

Likewise, local health departments would forfeit 1991 Vehicle License Fee growth revenues for three years and would see only 50 percent of the available growth in years four and five. In year six and beyond, counties would receive 100 percent of the available 1991 vehicle license fee growth available for health. The May Revise estimates roughly $33 million in VLF growth would be redirected from Health to Social Services and roughly $28 million in FY 2017-18.

For purposes of AB 85 calculations, only actual 1991 Realignment revenues allocated to the Health Subaccount will be used. This would not include VLF growth that is redirected to Social Services.

The Administration's projections of 1991 Realignment revenues can be viewed here.

AB 85 1991 Realignment Diversions: The Governor's May Revise estimates that $585.9 million and $688.8 million will be redirected in FY 2016-17 and FY 2017-18 respectively. This reflects an increased redirection amount for FY 2017-18 of $143 million since the Governor's January budget estimate.

Recall that as a result of the passage of the Affordable Care Act and Medi-Cal expansion, the State anticipated counties would be spending less on indigent care, given more individuals would qualify for insurance through Medi-Cal or Covered California. Under this assumption, the State enacted AB 85 (Chapter 24, Statutes of 2013), which diverted health realignment dollars from the counties to the State. The State diverted either: 1) 60 percent of health realignment funding received in a given year; or 2) a percentage of health realignment funding based on a formula that considered county revenues and costs. The State estimates the redirection in the Governor's January budget proposal and updates those revisions in the May Revise.

Additionally, AB 85 included a true-up mechanism two years after the close of the fiscal year to determine what the actual county diversion should have been, based on updated county data. In FY 2017-18, the State will true-up the FY 2014-15 diversions. The May Revise estimates that in aggregate $255.6 million is owed to the State, roughly $10 million more than anticipated in January. However, the State is still finalizing the calculations and the final true-up amounts are subject to change.

Though in aggregate the State is owed money, this varies on a county-by-county basis. Counties where 1991 Realignment was diverted in excess of the final determination, should expect a lump sum payment from the State following the final determination notices being sent out. Counties, where the State diverted less than the final calculation, will need to transfer the difference to the local family support account within three months of receiving the final determination.

The county-by-county numbers can be found here.

Cannabis Regulation: As outlined in the CHEAC January Budget memo, the State proposed a $52.2 million loan from the General Fund for regulatory activities related to implementing Proposition 64 (Adult Use Marijuana Act), passed by voters last November. In April, the Administration released a draft budget trailer bill to merge the medicinal and adult use regulatory schemes at the state level to avoid duplication and provide clarity to the industry and public. The Administration also recently released draft cannabis regulations, which will serve as the framework for the regulations, but will be updated through emergency regulations to reflect a merged regulatory structure pending the approval of the trailer bill.

The May Revision includes an additional $43.2 million in funding, for a total of $94.6 million in FY 2017-18, to assist with the regulation of both medicinal and adult use cannabis. An additional $9.3 million is allocated to the California Department of Public Health to implement cannabis manufacturer regulations, licensing, enforcement, training, and information technology activities. A full chart of all state-level cannabis related funding can be viewed here.

Tobacco Tax Initiative – Proposition 56: California voters passed Proposition 56, which increased the cigarette excise tax by $2 per pack with an equivalent increase on other tobacco products and e-cigarettes containing nicotine as of April 1, 2017. Revenues from Proposition 56 will backfill Proposition 99, Proposition 10, the Breast Cancer Fund, and state and local governments, as well as fund specific health and safety entities. Remaining funds are slated to support new growth in Medi-Cal expenditures and tobacco prevention efforts.

The May Revise indicates a $23.3 million increase in overall Proposition 56 revenues compared to the Governor’s Budget. Based on these updated revenue projections, an increase of $19.8 million will be allocated to Medi-Cal. The Administration continues to emphasize the need to use Proposition 56 revenues to meet Medi-Cal obligations. Despite continued advocacy from provider groups, no Medi-Cal provider rate increases were included in the May Revise.

Federal CURES Act Opioid Targeted Response Grant: The May Revise includes $44.7 million in federal funding for the Opioid Targeted Response Grant recently awarded to the State by SAMHSA. In California, the project is known as the “Medication Assisted Treatment (MAT) Expansion”, focused on expanding MAT services to populations with limited access including rural areas. DHCS will establish 15 “hub and spoke” systems, where a Narcotic Treatment Program will serve as a “hub” and “spokes” are regional physicians approved to prescribe MAT. Narcotic Treatment Programs will begin providing these expanded services by September 1, 2017.

For counties that do not have a Narcotic Treatment Program, the lead entity could be the county, an alcohol and other drug facility, an FQHC, or other group. The MAT Expansion Project will also fund prevention activities such as prevention specialists, provision of naloxone, coordination with local opioid coalitions, and training conducted by the University of California, Los Angeles (UCLA) and the California Society of Addiction Medicine (CSAM).

Medi-Cal Caseload: To recap the Governor’s January proposal, the FY 2017-18 budget proposal reflects a total Medi-Cal population of 14.3 million in FY 2017-18 and was budgeted at $19.1 billion. In January, the Administration identified a nearly $1.8 billion General Fund budget shortfall in the Medi-Cal program; however, the May Revise indicates the General Fund shortfall has been decreased by approximately $620 million attributable to savings from drug rebates in Medi-Cal managed care, retroactive managed care rate adjustments, and slower caseload growth. Therefore, the current year, FY 2016-17, Medi-Cal program budget shortfall has been revised down to $1.1 billion.

Duals Demonstration Pilot: Despite the elimination of the CCI, the May Revise continues the: 1) extension of the Cal MediConnect program; 2) mandatory enrollment of dual eligibles; and 3) long-term services and supports integration into managed care with the exception of IHSS. The Administration estimates roughly $8 million General Fund in savings as a result of continuing the duals demonstration.

340B Drug Billing: The May Revision proposes a statutory change to no longer allow the use of contract pharmacies in the 340B program in Medi-Cal, given recent concerns raised by the federal Office of the Inspector General (OIG) and the Centers for Medicare and Medicaid Services (CMS). Essentially, 340B covered entities would not be able to enter into a contract with a non-340B pharmacy to dispense the drug at a non-340B price. The

Administration notes this proposal would not impact Planned Parenthood as they do not use contracted pharmacies.

Newly Qualified Immigrants (NQI) Affordability and Benefit Program: Current law authorizes the Department of Health Care Services (DHCS) to implement a program to transition Newly Qualified Immigrants (NQIs) – low-income legal immigrants who have been in the U.S. for five years or less – from state-only full-scope Medi-Cal to a Covered California plan. The May Revise proposes to stop the implementation of this program given operational and programmatic uncertainties. As a result, the Administration estimates roughly $48 million in General Fund savings.

Palliative Care: The May Revise indicates net General Fund costs of $1.3 million in 2017-18 for the implementation of the Palliative Care Services program by January 1, 2018. This program will serve adult Medi-Cal beneficiaries with conditions such as cancer, congestive heart failure, chronic obstructive pulmonary disease, or liver disease for patients with no more than a one-year life expectancy. Health plans are also eligible for one-time grants of up to $50,000 for provider network development, data analysis, and other palliative care program development expenses.

School-Based Mobile Vision Care Services: The May Revise proposes to expand the mobile vision care services program statewide in FY 2018-19 pending the outcome of the pilot evaluation to be conducted at the end of this calendar year. The current three-year pilot program in Los Angeles County, to provide school-based mobile vision services, ends on June 30, 2018.

Budget Links:
http://www.ebudget.ca.gov/

DHCS May Revision Highlights: http://www.dhcs.ca.gov/Documents/FY_2017-18_MR_Highlights_5-12-17.pdf

Next Steps
The Legislature will begin to hear items related to the Governor's May Revise next week and will take action on all items previously held open in the coming weeks. Conference Committees will also meet upon Subcommittees concluding their business, to reconcile issues where the Senate and Assembly actions do not align. The Constitutional deadline for the Legislature to pass the budget is June 15.

Questions
For questions on the items highlighted above or other budget-related inquiries, please feel free to contact the CHEAC office at (916) 327-7540.