



County Health Executives Association of California  
Budget Memo - Governor's May Revision

To: CHEAC General Membership

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RE: Governor's May Revision

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Today, Governor Brown released his May Revision to the 2016-17 state budget, which can be found at <http://www.ebudget.ca.gov/>. Since January, projected revenues are down \$1.9 billion due to lower than projected income tax and sales tax revenues. Governor Brown continues to emphasize fiscal constraint in the wake of decreased revenues and an expected recession looming. The Budget continues to prioritize funding for education, infrastructure and sustainability.

The Budget continues to propose an additional \$2 billion General Fund to go into the state's reserve. The Budget also projects a state deficit in the near future, largely due to the expiration of Proposition 30 (temporary income and sales tax increase). California voters will have their chance to vote on several tax measures on the November ballot, including an extension of Proposition 30 income tax increase on the highest income earners in the state for another twelve years. Without new funding, the Governor underlined that no new, significant ongoing spending commitments should be made.

Additional highlights from the May Revision are noted below.

**AB 85 Realignment**

The Governor's May Revision estimates \$749.9 million and \$643.4 million will be redirected from counties in FY 2015-16 and FY 2016-17 respectively. These figures represent an increase since the January budget release of \$7.2 million and \$78.9 million in FY 2015-16 and FY 2016-17 respectively, to be diverted from counties back to the state.

Next year (FY 2016-17) marks the first year of the true-up (reconciliation) for counties that opted to use the formula method to calculate the county diversions. The May Revision estimates \$177.4 million will be due back to counties as a result of the FY 2013-14 true up, compared to \$151.7 million in the Governor's January budget. The May Revision and January budget both assume that counties will be repaid within the FY 2016-17 fiscal year.

CHEAC, along with CSAC and CAPH, have been working with the Administration to determine how the payments for the FY 2013-14 true-up will be returned to the counties. Counties should

expect to receive a lump sum payment once the final determination is complete and related appeals are settled.

### **Medi-Cal Caseload**

Due to the coverage expansions under the Affordable Care Act (ACA), the May Revision reflects a total Medi-Cal population of 14.1 million in FY 2016-17, covering over a third of the state's population. Starting in January 2017, the state will assume a 5 percent share-of-cost for the Medi-Cal optional expansion population. Estimated costs include \$819.5 million General Fund in FY 2016-17. General Fund costs are projected to reach \$1.8 billion by FY 2020-21, when the state share increases to 10 percent.

### **Full-Scope Medi-Cal for Undocumented Children**

The 2015-16 Budget Act extended full-scope Medi-Cal to undocumented children under age 19, which will be effective starting May 16, however eligibility will be backdated to May 1. The May Revision includes \$188.2 General Fund, an increase of \$45.4 million from the January's proposal to provide these benefits. Estimated caseload for this population increased to 185,000 children, roughly 15,000 more than the Governor's January Budget.

### **Medi-Cal 2020 Waiver**

Included in the May Revision is \$2.2 billion in federal funds for California's approved Section 1115 Waiver Renewal, entitled Medi-Cal 2020. Recall, the waiver includes several key components, including the Public Hospital Redesign and Incentives in Medi-Cal (PRIME), a Global Payment Program, Whole Person Care Pilots and the Dental Transformation Initiative.

### **Medicaid Managed Care Regulations**

The Governor's May Revision includes an increase of \$5 million General Fund and 38 positions to implement the federal managed care regulations issued earlier this month by the Centers for Medicare & Medicaid Services (CMS). As you may recall, this is the first overhaul of Medicaid and CHIP managed care regulations in more than a decade.

### **Managed Care Organizations Tax**

When the Governor released his proposed budget in January, there was uncertainty surrounding whether California would pass a new managed care organization (MCO) tax. Recall, the federal government released guidance in 2014 indicating that the California's existing MCO tax did not comply with federal guidelines and required states to restructure their MCO tax by the end of the legislative session.

Governor Brown called a special session in June 2015 – the Second Extraordinary Session on Health Care – which resulted in the passage of a new three-year MCO tax, SBX2 2 (Chapter 2, Statutes of 2016, Second Extraordinary Session). The Governor's May Revision notes that the MCO tax will reduce General Fund expenditures by nearly \$1.1 billion in the budget year and upwards of \$1.7 billion in FY 2017-18 and FY 2018-19.

Additionally, the May Revision assumed a decrease of nearly \$300 million in the budget year to account for a reduction in insurance and corporation tax revenue included in the new MCO tax structure. The Governor's budget noted other investments resulting from the MCO tax included

in ABX2 1 (Chapter 3, Statutes of 2016, Second Extraordinary Session), including investments in developmental services.

Also noted in the Governor's budget, proceeds from the MCO tax will also be used to support the 7 percent restoration in in-home supportive services (IHSS) service hours - \$265.8 million General Fund.

### **Residential Treatment Services**

The Governor's May Revision anticipates a decrease in costs of \$20.1 million General Fund, leaving a total of \$12.3 million General Fund (\$39.1 million total funds), due to delayed implementation of the Drug Medi-Cal Organized Delivery System Waiver.

### **Drinking Water**

The Governor's January budget, proposed \$5 million GF for emergency drinking water support for small communities, including addressing private wells. The May Revision increases this amount by \$5 million, for a total appropriation of \$10 million.

### **Lead Exposure**

In the Governor's January budget, CDPH requested an \$8.2 million increase in funding (\$1.4 million state operations and \$6.8 million in local assistance) for four years to conform services to federal guidelines for children who have been exposed to lead. The May Revision also notes that of the \$176.6 million General Fund loan provided through SB 96 and AB 118 (Chapters 9 and 10, Statutes of 2016) to expedite the cleanup caused by the former Exide plant, \$46.9 million will be used in FY 2016-17. The May Revision also included an increase of \$180,000 in the Childhood Lead Poisoning Prevention Fund for the Department of Public Health to upgrade information technology.

### **Office of Emergency Services**

The May Revision includes an increase of \$30 million General Fund to the Office of Emergency Services for the California Disaster Assistance Act. The Act provides financial assistance from the state for costs incurred by local governments as a result of a disaster event such as wildfires, earthquakes, or floods.

### **Housing**

The May Revision included \$3.2 billion in state and federal funding and award authority for affordable housing and homelessness programs. In addition to those efforts, the Governor endorsed one concept from Senate's 'No Place Like Home Initiative' that would repurpose Mental Health Services Act funding to fund a \$2 billion bond to construct permanent supportive housing for chronically homeless persons with mental illness. The May Revision proposed first-year funding of \$267 million from the bond proceeds.

### **Minimum Wage**

Governor Brown signed key legislation this year that will raise the minimum wage to \$15 by 2022. The May Revision estimates that General Fund costs will eventually reach \$3.4 billion, however for FY 2016-17, General Fund costs are estimated to be \$39 million.

## Poverty

No new poverty-reduction proposals were included in the Governor's May Revision, however the Administration noted that the full-year costs of previous budget actions – such as the minimum wage increase, optional expansion of Medi-Cal and creation of a state earned income tax credit, among others – would exceed \$19 billion (\$10.7 billion in Prop 98 funds).

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Next week the Legislature will begin hearing May Revise items and will likely begin closing out items as final budget negotiations continue. The Constitutional deadline for the Legislature to pass the budget is June 15.

For questions on the items highlighted above or other budget-related inquiries, please feel free to contact [Michelle Gibbons](#), [Amy Yan](#) and/or [Betsy Armstrong](#) via email or by phone at (916) 327-7540.