CHEAC
Improving the Health of all Californians

To: CHEAC General Membership

From: Michelle Gibbons, Executive Director
Betsy Armstrong, Policy Analyst
Amy Yan, Legislative/Policy Assistant

Date: January 10, 2017

RE: Governor's Proposed 2017-18 State Budget

Late this morning, Governor Brown released his proposed fiscal year 2017-18 state budget. Unlike the last few years and despite several recent tax increases, the Governor's proposed budget projects a deficit of roughly $1.6 billion based on lagging revenue projections. In response, the Brown Administration included several solutions to protect some of the state's significant investments, such as the minimum wage increase and the Medi-Cal expansion, and to ensure the state can appropriately withstand the next recession. Some of those solutions are to:

- Adjust the Prop 98 guarantee down by $1.7 billion to its minimum guarantee.
- Recapture $0.9 billion in 2016 funding allocations, including eliminating $400 million set aside for affordable housing and a $300 million transfer to modernize state office buildings.
- Keep spending flat, including pausing rate increases for child care and not providing Middle Class Scholarships to any new students.
- Propose legislation to extend the Cap and Trade program beyond 2020.
- Budget $258 million to continue to pay down state debt and liabilities.

The 2017-18 Budget blueprint contains several significant proposals of note:

Medi-Cal Caseload: Due to the coverage expansions under the Affordable Care Act (ACA), the budget proposal reflects a total Medi-Cal population of 14.3 million in FY 2017-18, covering over a third of the state's population. As of January 2017, the state now assumes a 5 percent share-of-cost for the Medi-Cal optional expansion population, which is budgeted at $20.1 billion in FY 2016-17 and $18.9 billion in FY 2017-18. The state share-of-cost will increase to 10 percent by FY 2020-21.

The Budget also includes $279.5 million in General Fund (GF) to provide full-scope Medi-Cal benefits to undocumented children under 19 years of age. After accounting for $1.2 billion in Proposition 56 funds, Medi-Cal General Fund spending is projected to increase by 7 percent to from $17.8 billion in the 2016 Budget Act to $19.1 billion in FY 2017-18.

While the budget document acknowledges federal uncertainty in the Medicaid program, the Governor's January budget proposal notes "*the Budget continues to reflect existing state and federal law*," and as congressional deliberations begin, they pledge to build on "*what has worked, support changes and efficiencies where appropriate, and play a constructive role to protect and enhance the lives and health of Californians-within the fiscal constraints facing the state*."

Tobacco Tax Initiative – Proposition 56: Passed by the voters last November, Proposition 56 increases the cigarette excise tax by $2 per pack with an equivalent increase on other tobacco products and e-cigarettes containing nicotine. The tax takes effect on April 1, 2017.

Revenues from Proposition 56 will first backfill Proposition 99, Proposition 10, the Breast Cancer Fund, and state and local governments affected by the new tax. Revenues will also go to fund specific entities for law enforcement, physician training, dental disease prevention programs, medical research, and administration. Of the remaining funds, 82 percent go to support new growth in Medi-Cal expenditures. Additionally, 13 percent of the remaining revenues will go to the California Department of Public Health and Department of Education for tobacco prevention.

Managed Care Organization (MCO) Tax: The Budget estimates that the MCO tax, passed last year, will offset Medi-Cal General Fund spending by approximately $1.1 billion in FY 2016-17 and $1.6 billion in FY 2017-18.

Children's Health Insurance Program (CHIP): Governor Brown's budget proposal assumes the reauthorization of CHIP at the federal level; however, it does not assume the continuation of the enhanced federal match of 88 percent. Instead, the budget accounts for the non-enhanced federal match percentage of 65 percent effective October 1, 2017. The budget includes General Fund costs of $536.1 million projecting for the decrease in federal match.

Hospital Quality Assurance Fee (QAF) Extension – Proposition 52: Also, passed by the voters last November, Proposition 52 indefinitely extends the existing QAF, which is a fee paid by private hospitals, used to leverage additional federal funds by the State. The Budget assumes over $1 billion in General Fund savings in FY 2017-18.

Medicaid Managed Care Regulations: Last year, the Centers for Medicare & Medicaid Services (CMS) issued a final rule on managed care in Medicaid related to beneficiary grievances, provider networks, program integrity, and financing. Because some of these new requirements overlap with existing oversight activities housed at the Department of Managed Health Care, the budget reflects the consolidation of these activities at the Department of Health Care Services. The Budget includes an additional $4.2 million in General Fund to continue the implementation of these federal regulations.

AB 85 Realignment: The Governor's January proposal estimates $585.9 million and $546.2 million will be redirected from counties in FY 2016-17 and FY 2017-18 respectively. The estimate for FY 2016-17 has decreased by $39.7 million since the Governor's final budget adopted last June.

FY 2017-18 marks the second year of the true-up (reconciliation) for counties that opted to use the formula method to calculate the county diversions. Data reported by counties indicates the state diverted $245.6 million *less* than required as counties had more savings than originally estimated. The Governor's budget assumes the repayment of this amount *from* counties in FY 2017-18. However, these estimates will be updated in the Governor's May Revision based on updated data submissions.

Coordinated Care Initiative: The Coordinative Care Initiative (CCI) has been determined not to be cost-effective for the state, even with the extension of the MCO tax last year. The Administration plans to terminate CCI in FY 2017-18 and proposes to extend the Cal MediConnect program, continue mandatory enrollment of dual eligibles, and integrate long-term services and supports (except IHSS) into managed care. The net result of these changes will be a $626.2 million reduction of General Fund costs in FY 2017-18. Terminating CCI will have the following effects:

- Removes IHSS benefits from plan capitation rates. As part of CCI, IHSS costs were included in bundled payments to health plans, though the plans did not control this benefit.
- Eliminates the statewide authority responsible for bargaining IHSS workers' wages and benefits in the seven CCI counties. These counties would again be responsible for IHSS bargaining.
- Re-establishes the state-county share of cost arrangement for the IHSS program that existed prior to the implementation of CCI. Counties will be responsible for the payment of 35 percent of the nonfederal portion of program costs through 1991 Realignment. The Administration estimates that the current growth FY 2017-18 realignment revenues alone will not be sufficient to cover the additional IHSS costs. Therefore, this change is likely to result in financial hardship and cash flow problems for counties. The Administration is prepared to work with counties to mitigate, to the extent possible, the impact of returning a share of the fiscal responsibility for IHSS to counties.

<u>Adult Use Cannabis Implementation:</u> With the passage of Proposition 64 this past November, the budget contains several items related to implementation of the new law. The budget acknowledges that as the state moves forward implementing both the medical cannabis and the adult use cannabis programs, one regulatory structure for all cannabis is needed. A $52.2 million loan will be extended from the General Fund (as the initiative required) to fund regulatory activities, processing licenses, and enforcement. This funding will be expended in the following manner:

- $22.5 million to the Bureau of Medical Cannabis Regulation, under the Department of Consumer affairs, for various regulatory activities
- $1 million to the Department of Public Health for the licensing and regulation of medical cannabis product manufacturers
- $23.4 million to the Department of Food & Agriculture to provide Cannabis Cultivation Program administrative oversight activities and to establish a track and trace program
- $5.3 million to the Board of Equalization to administer the excise and cultivation tax programs
- $5 million to the Department of Health Care Services to implement a public information program. Please recall this program must be established no later than September 1, 2017 and must include:
    - A description of the initiative's provisions;
    - The scientific basis for restricting access to persons under the age of 21;
    - A description of the penalties for providing access to cannabis to persons under 21;
    - Information on the dangers of driving motor vehicles while impaired;
    - The potential harms of using cannabis while pregnant or nursing; and
    - The potential harms of cannabis overuse.

<u>Other Issue Areas</u>

- The Governor's budget also provides $5 to million General Fund to the Department of Water Resources to provide emergency drinking water for small communities most impacted by the drought.

Department of Health Care Services Highlights

The Department of Health Care Services also released highlights of the Governor's 2017-18 Budget. Items of particular interest include:

Child Health and Disability Prevention (CHDP) – State Only

Due to the expansion of full-scope benefits to undocumented children under SB 75, which began in May 2016, the Department of Health Care Services has determined that CHDP-state only services are no longer needed. The department proposes to repeal the statutory provisions for state-only services.

California Children's Services – Whole Child Model

The Department of Health Care Services announced delaying the implementation of several programs to align statutory timelines with the workload realities of the department. The Whole Child model shifts the care coordination and service authorization responsibilities in County Organized Health System counties from the county to the managed care plan as authorized under SB 586 (Chapter 625, Statutes of 2016). According to the department, the Whole Child Model will be implemented no sooner than July 1, 2018.

Next Steps

In the coming weeks, the Legislature will begin hearing proposed budget items. 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.