

Governor Brown's Budget Pulls Back on Affordable Housing Makes No New Investments in the Safety Net January 10, 2017

Governor Brown today introduced a proposed spending plan for the 2017-18 budget year that assumes that the days of increased revenues has come to an end and now requires trimming back on state spending. In specific the \$177 billion budget assumes that without some cuts to spending the state will have a \$2 billion deficit during the 2017-18 budget. The projections by the Governor's Department of Finance reflect a more pessimistic assessment of the state's financial condition than the Legislative Analyst Office (LAO). In recent years, the LAO has been more accurate in their assessments of future revenue growth than the Governor.

In addition to the Governor's concerns that revenue increases may be going away, the Governor also expressed caution given the unpredictable nature of federal budget changes, particularly the possible repeal and replacement of the Affordable Care Act. Until the federal picture becomes clearer the Governor prefers to be prudent with state spending.

The budget proposal can best be described as largely a "baseline" budget in that it funds what is required by law including increased costs due to the minimum wage increase and funds program caseload increases. It does very little to further address issues related to poverty, homelessness, the supply of affordable housing and legal representation for the poor. The Legislature now will begin to evaluate the proposed budget and decide whether they agree with the Governor's approach or find it too pessimistic. In coming months a key issue will be the trends of tax receipts to develop a more accurate assessment of how much money the state has to spend in 2017-18.

Below is more specifics program information.

Affordable Housing

Despite California's well-documented affordable housing crisis, the proposed budget eliminates the \$400 million in general fund spending for affordable housing that was set aside in last year's budget and does not include any new spending to ensure that lower-income Californians have access to safe, decent, affordable housing in every community across the state. California has the highest poverty rate in the nation when housing costs are factored in, continues to lose existing affordable units at an alarming rate, is experiencing unprecedented levels of gentrification and displacement in urban areas,

and has a well-documented homelessness crisis. These challenges cannot be addressed without funding.

Additionally, the budget proposal indicates that support from the Administration for a critically needed permanent source of state funding for affordable housing will be contingent on streamlining the local development approval process for all housing projects. The proposal is heavily focused on increasing housing supply overall as a solution to the affordability crisis, but fails to acknowledge that no amount of increase in the supply of market-rate housing will bring prices down far enough to be affordable to Californians at the very low- and extremely low-income levels. It is disappointing that the Governor is unwilling to support providing the subsidy needed to make housing affordable to the state's most vulnerable residents without attaching strings.

The proposed budget does highlight the need for strengthened enforcement of housing element law and other existing laws aimed at ensuring that all jurisdictions provide housing opportunities for lower-income individuals and families. However, it also indicates that no additional general funds can be expended for this purpose. Currently, enforcement of housing law falls almost entirely on the state's network of legal services organizations, which are severely underfunded. While we would welcome additional assistance in enforcing these laws, it is unclear how stepped up enforcement can be achieved with no additional resources.

Healthcare Budget Proposals

Despite threats from the federal government to repeal the Affordable Care Act (ACA), the Governor's budget proposal continues implementation of ACA, which has reduced the un-insurance rate in half in California. Due to the Governor and legislative leadership in implementing the ACA, 14.3 million are projected to have comprehensive Medi-Cal coverage in 2017-18 and another 1.4 million people will be enrolled in Covered California in 2017-18. However, the Administration proposes some cuts that raise concerns and other changes that will be further analyzed. Below are the most significant proposed adjustments to the health budget:

Coordinated Care Initiative (CCI)

The Coordinated Care Initiative (CCI) implements managed care enrollment for dual Medi-Cal/Medicare beneficiaries in seven counties (Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo, and Santa Clara) and is meant to reduce cost and improve care over the long term. However, the Budget estimates CCI will no longer be cost effective so proposes to remove In-Home Supportive Services (IHSS) from program in 2017-18 while continuing mandatory enrollment in a Medi-Cal managed care plan. Specific IHSS changes will result in net cost of \$626.2 million GF in 2017-18 and includes removing IHSS benefits from plan capitation rates, transferring responsibility for bargaining IHSS workers' wages from state to counties, and re-establishing the state-county share of cost arrangement for the IHSS program. The Budget proposes to continue the duals demonstration project, specifically extending the Cal MediConnect program, continuing mandatory enrollment of dual eligible, and integrating long-term services and supports (except IHSS) into managed care through December 2019. This reflects a savings of \$20 million GF.

New Qualified Immigrants (NQI) Wrap Program

The NQI wrap program would transition all Medi-Cal adults who have less than five years in a "qualified immigration status", except pregnant women and individuals eligible for Medicare, to Covered

California with wraparound Medi-Cal benefits and no cost sharing effective January 1, 2018. Currently, these individuals are eligible for full-scope Medi-Cal. The Budget claims that implementation of the NQI Wrap Program is necessary to help participants avoid a tax liability because the state-only Medi-Cal program is not formally certified as meeting the minimum essential coverage requirements under the ACA. However, the Administration could easily certify state-only Medi-Cal with CMS, eliminating the move to a complicated and untested joint Medi-Cal/Covered California program that requires participants to reconcile taxes based on the dual enrollment in Medi-Cal and Covered California. The Budget assumes GF savings of \$48 million from transitioning coverage for these adults from Medi-Cal to an Exchange plan.

Elimination of State-Only Eligibility for Child Health and Disability Prevention (CHDP) Services and Health4AllKids

The Budget proposes to repeal the statutory provisions for eligibility for the state-only CHDP program services citing the program as no longer necessary due to the expansion of full scope benefits to all children under SB 75, Health4AllKids. The Budget includes \$279.5 million GF to provide full-scope benefits to approximately 185,000 children. CHDP provides periodic health assessments and services to children and youth up to age 19 with family income up to 200% of the federal poverty level (FPL). Although implementation of Health4AllKids has expanded eligibility for full-scope Medi-Cal for all children with family incomes up to 266% FPL, there will be some families, specifically those with incomes between 160 and 200% of the FPL, who may not be able to afford the Medi-Cal premium and instead rely on the CHDP program for access to preventative care.

Major Risk Medical Insurance Fund Abolishment

The Major Risk Medical Insurance Fund currently funds expenses related to the Major Risk Medical Insurance Program, which was originally established as a state high-risk pool. The Budget proposes to abolish the Major Risk Medical Insurance Fund and transfer the fund balance of approximately \$65 million to the newly established Health Care Services Plans Fines and Penalties Fund, which will support coverage for individuals remaining in the Program and expenses related to health care services for children, seniors, persons with disabilities, and dual eligibles in the Medi-Cal program.

Children's Health Insurance Program (CHIP) Reauthorization

CHIP is the joint state/federal program that helps fund Medi-Cal for children up to age 19 with incomes between 139% FPL to 266% FPL, and is currently authorized through September 2017. The Budget assumes CHIP is reauthorized, but at the non-enhanced, federal-matching percentage of 65% (instead of 88%), and includes GF costs of \$536.1 million.

Tobacco Tax Increase (Proposition 56)

Voters passed Proposition 56 passed in November 2016, which increases the excise tax rate on cigarettes and tobacco products effective April 1, 2017 and requires 82% of the funds remaining after specified allocations be transferred to the Healthcare Treatment Fund to support growth in Medi-Cal expenditures. The Budget estimates \$1.2 billion for 2017-18, which includes one quarter of 2016-17 and four quarters of 2017-18 revenue.

Medicaid Managed Care Regulations

The Budget includes an additional \$4.5 million General Fund to continue implementation of the federal regulations related to beneficiary grievances, provider networks, program integrity, and financing and

warns that implementation of the regulation could result in General Fund costs in the hundreds of millions of dollars annually.

Drug Medi-Cal Organized Delivery System Pilot

In August 2015, the federal government approved the waiver necessary to being implementation of the Drug Medi-Cal Organized Delivery system pilot program, where counties can opt in to provide certain substance use disorder treatment services, some of which are already provided by the county. A total of 6 counties are estimated to begin providing services in 2016-17 for a cost of \$3.1 million GF and with an additional 10 counties in 2017-18 for a cost of \$141.6 million GF.

Children Mental Health Services Grants

The budget includes the reversion of \$17 million General Fund from 2016-17 funds intended for grants to local governments to increase the number of facilities providing mental health crisis services for children and youth under the age of 21.

Implementation Delay

The Department has specifically identified initiatives that are to be delayed below:

- Implementation of the Whole Child Model for CCS in COHS counties (SB 586) to no sooner than July 1, 2018
- Implementation of the palliative care program (SB1004) to no sooner than July 1, 2018
- Implementation of the inclusion of marriage and family therapists as billable FQHC providers to (AB 1863) to no sooner than July 1, 2018
- Implementation of the FQHC alternative payment methodology pilot to no sooner than January 1, 2018
- Issuance of regulations for out-of-county foster care presumptive transfer (AB 1299) to July 1, 2020
- Issuance of evaluation report for Assisted Outpatient Treatment (AB 59) to no sooner than July 1, 2018.

CalWORKs, SSI/SSP and Nutrition

There are no proposals to increase either CalWORKs or SSI grants in the Governor's budget. The budget assumes that there will be a 2.6 percent federal COLA increase that will increase SSI grants by about \$20 a month starting in January 2018. The failure to provide a state COLA on the SSP portion of the grant means that in effect the purchasing power of the SSI grant will decline beginning in 2018. The maximum SSI grant is just 90% of the federal poverty level.

The situation with CalWORKs grants is more dire. The maximum grant for a CalWORKs family of three is just 43 percent of the federal poverty level. Current grant amounts are simply insufficient to pay for basic living costs and are destabilizing families across the state. The number of clients facing evictions and homelessness is growing as housing costs increase across the state. The Legislature will have to consider whether a CalWORKs grant increase is a better policy solution than continuing to subject families to severe deprivation.

Nutrition Proposals

The budget proposes \$4.5 million in funding to implement the SNAP ABAWD time limit by the end of 2017. California was recently informed that we have the option to extend our statewide waiver of the ABAWD time limit through August 2018 but no additional funds were included to reflect the additional 6 months of implementation.

The budget provides no new allocations for two programs that were funded in the current year – the Emergency Food Assistance Program and Drought Food Assistance program. Given the continuing needs for these services it is anticipated that the Legislature will consider extending funding for both programs.

Budget Proposes to Repeal Housing and Disability Advocacy Program (HDAP)

While the budget makes few, if any, program augmentations it also does not propose cuts in most programs. The one exception is a new program funded in last year's budget to help counties reduce homelessness by providing housing and SSI advocacy for homeless persons. The \$45 million dollar matching program was designed to build upon successful programs operating in several counties in California. The Governor's budget proposes to eliminate the program even before it has been implemented.

The program was adopted as part of the No Place Like Home Initiative in last year's budget. The concept was to identify persons likely to be eligible for SSI and begin an expedited application process. While the person waited for approval of their SSI application the county would provide immediate housing for homeless persons or those exiting public hospitals. Once the application was approved the county could recoup some of the costs for providing housing from the SSI retroactive check that could then be used for another homeless person.

Access to Justice

The Governor's budget does propose one significant proposal to assist Californians who cannot afford to pay the high cost of traffic tickets and have their driver's license suspended. The budget proposes to repeal the authority of traffic courts to suspend a license due to an inability to pay. More than 600,000 persons have had their license suspended because they could not afford the high cost of traffic tickets in California. Senator Robert Hertzberg has repeatedly proposed legislation to reduce the use of license suspensions to collect court ordered debt. The Governor's proposal is a major step in achieving this goal.