

## **Governor Brown's Budget Continues Cautious Approach Some Good News for Child Care, NQI May 11, 2017**

Governor Brown today presented his revised spending plan for the 2017-18 budget year. Like the January budget, the May Revise budget portrays concern with the state fiscal environment and the unpredictability of federal funding. Revenues are \$2.5 billion higher than projected in January over three years though just \$1.8 billion is available for the 2017-18 budget as \$649 million of this amount goes into the Budget Stabilization Account. This brings the total "Rainy Day" account funding to \$8.7 billion along with a \$2.6 billion budget surplus (when comparing revenue to expenses) and a \$1.6 reserve for economic uncertainties.

The funding increases in the budget are mostly related to formula driven increases related to Proposition 98 K-12 education funding increase of \$1.1 billion and \$184 million for community colleges. The budget mitigates the January proposal to shift \$600 million in costs to the counties by ending the Coordinated Care Initiative. Instead this budget provides \$400 million in General Fund to offset the impact.

The budget eliminates the "pause" on \$500 million in increased child care funding from the 2016-17 budget but it fails to provide \$30 million that child care advocates sought to update income ceilings and streamline reporting requirements. The budget also failed to restore \$45 million in funding for the Housing and Disability Advocacy Program that had been "paused" in January.

There are no proposals to address the affordable housing crisis in the May Revise. Dating back to the 2016 May Revision the Governor has requested legislation to remove regulatory barriers to housing construction by local governments before considering potential increases in affordable housing funding. There are no proposals to increase CalWORKs grants, SSI/SSP grants or to restore the reductions to the CalWORKs Single Allocation Fund that funds services to CalWORKs families.

The Legislature will begin budget hearings on Monday May 15<sup>th</sup> and they will continue throughout the week. It is expected that sub-committees will close down by early in the week of May 22<sup>nd</sup>. The full Budget committees in each house will likely finish their business by the end of the week of May 22<sup>nd</sup> so that a two house conference committee can convene to resolve differences between the two houses and to finalize negotiations with the Governor by the deadline of June 15<sup>th</sup>.

Below is more specific information in the different program areas.

## **Affordable Housing**

The May Revision highlights the role of California's housing crisis in driving inflation and future economic uncertainty, but does not include any new spending to address the crisis and proposes no other solutions. 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, and has a well-documented homelessness crisis. These challenges cannot be addressed without funding and other substantial reforms.

The Governor's January budget proposal indicated 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 housing projects and laid out a set of principles for a package of housing legislation that he challenged the Legislature to deliver. While it is disappointing that the Governor continues to be unwilling to support providing the subsidy needed to make housing affordable to the state's most vulnerable residents without attaching strings, we will continue to work with leadership and members of both houses of the Legislature to pass a package of bills that address the Governor's principles while delivering the meaningful reforms needed to begin alleviating the crisis.

## **Healthcare Budget Proposals**

We are proud that California is a leader in the implementation of the Affordable Care Act and in providing Medi-Cal for over 14 million low-income people. Despite threats from the federal government to repeal the ACA, specifically the recent House action to pass the American Health Care Act, the May Revision continues implementation of the ACA, which has reduced the un-insurance rate by more than half in California. However, the May Revision continues to cast a shadow on the future of the Medi-Cal program resulting in a baseline budget with little change from last year's budget.

### **Medi-Cal Overview**

The May Revision reduces the budget shortfall by \$620 million General Fund compared to the Governor's January proposal, which estimated a \$1.8 billion shortfall due to delay in repaying drug rebates to the federal government and accounting errors in the Coordinated Care Initiative (CCI) program. 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.

### **Ends Newly Qualified Immigrant (NQI) Wrap Proposal**

The Newly Qualified Immigrant Wrap program would transition all Medi-Cal adults not eligible for Medicare who have less than 5 years in a "qualified immigration status" to Covered California with wraparound services. Following concerns raised by Western Center and other advocates, the May Revision rightly stops efforts to implement the program at a \$48 million GF cost. We appreciate that the proposal has been eliminated and that the

department has indicated that it will certify that state-only, full-scope Medi-Cal is minimum essential coverage. Current Medi-Cal beneficiaries are being harmed by the failure to certify because they are unable to show that they have met the requirements of the individual mandate on health insurance when they file their taxes, despite being enrolled in full-scope Medi-Cal.

### **Tobacco Tax Funding and Medi-Cal Expansion**

Based on updated revenue projections, the May Revision projects an increase of \$19.8 million in Proposition 56 allocation to Medi-Cal. The May Revision continues to propose that the tobacco tax funds from the passage of Proposition 56 be spent on increased General Fund health care costs in the Medi-Cal program such as the state's 5% share for the expansion population. We do not believe this was the voter's intention in passing Proposition 56 as funding for Medi-Cal expansion was a commitment made when the state agreed to expand Medi-Cal, nor was the Proposition crafted in a way to go exclusively to provider rates. The Governor presumes federal funding cuts are looming, but until such cuts are passed, the Legislature and Governor have the opportunity to strengthen the Medi-Cal program. The projected \$1.2 billion from Proposition 56 allow for some enhancements to the Medi-Cal program such as restored dental services for adults, leveling up the income cap for seniors, or expanded services for immigrant adults currently ineligible for full-scope Medi-Cal.

### **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. 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, \$4 million lower than January Proposal due to high opt-out rate.

The January Proposal shifted IHSS net cost of \$626.2 million GF in 2017-18 to the county. The May Revision reflects \$400 million in General Fund assistance; redirection of all Vehicle License Fee growth for three years from the Health, County Medical Services Program (CMSP), and Mental Health Subaccounts; and other fiscal provisions that result in \$141 million net county cost in 2017-18.

### **Mental Health Performance Outcomes System**

The May Revision provides \$6.2 million General Fund for the implementation of functional assessment tools for children up to age 21 receiving specialty mental health services through county mental health plans. The revised funding reflects training, staff, and information technology costs associated with implementation of the newly selected functional assessment tools.

## **CalWORKs, SSI/SSP, Nutrition and HDAP**

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 SSI COLA increase that will increase SSI grants by about \$20 a month for individuals starting in January 2018. The budget assumes though that the state cost of living is higher than the federal cost of living adjustment so the failure to provide a state COLA on the SSP portion of the grant means that the purchasing power of the SSI grant will decline. The maximum SSI/SSP grant is just 90% of the federal poverty level.

### **CalWORKs**

Due to declining caseloads the May Revision reduces spending in CalWORKs by \$54 million over two years. This is on top of the \$198 million reduction in the county Single Allocation Fund that was in the January budget. As with prior years reduced caseload costs are not reinvested into the program and funding diverted from TANF and the MOE now exceeds \$1.7 billion annually according to the Assembly Budget Committee.

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 continue to increase. It will now be in the hands of the Legislature 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 Eliminate Funding for Housing and Disability Advocacy Program (HDAP)**

The May Revision continues the proposal to withdraw funding for the Housing and Disability Advocacy Program. The \$45 million dollar matching grant program was designed to build upon successful programs operating in several counties to assist individuals move from General Assistance to SSI. 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. Both budget sub-committees have already rejected this proposal setting up a potential conflict over priorities between the Governor and the Legislature.

## **Access to Justice**

### **Immigrant Funding**

The budget proposes an increase of \$15 million in 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. Other funding for Equal Access Fund were not included.

Last year's budget saw a one-time \$5 million increase, to \$15.3 million, in the Equal Access Fund (EAF). This was the first such increase in the EAF since the Fund's inception in 1999. The federal government currently provides California-based nonprofit legal services organizations with more than \$70 million per year. President Trump's proposed budget drastically cuts this amount. Due to these threatened cuts, Western Center and its allies are seeking an increase in EAF funding to \$30 million so that we may preserve access to justice for our most vulnerable citizens. We are optimistic that the Legislature will recognize the important of civil legal assistance to the indigent and provide for the requested EAF increase.

### **Driver's License Suspension**

The Governor's budget continues to propose a significant proposal to assist Californians who cannot afford 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.