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The Best of Times for the State,
But Still the Worst of Times for State's Poor

Governor's 2016-17 Budget Includes Record Budget Surplus but Maintains Harsh MFG Policy and Fails to Address Affordable Housing Crisis

In his 2016-17 budget proposal Governor Jerry Brown continues putting more funds in reserves for a possible future fiscal crisis instead of addressing the real crisis poor Californians experience every day. Though California has the highest level of supplemental poverty Governor Brown's proposed budget includes little new to assist low-income state residents. The Governor does include the first increase in SSI/SSP grant levels since 2006 which is an important first step. We note however that his budget would delay the increase to 2017 and, that even with the increase, low-income poor and disabled residents will still be living below the federal poverty level in our high-cost state.

Governor Brown proposes a $170.7 billion annual budget with most revenue increases going to schools and the "Rainy Day Fund." Specifically, the proposed budget would put $2.8 billion in new funding for K-12 education and $2 billion into the Rainy Day Fund which would then have $8 billion in reserves. His budget would also devote $1.5 billion for new and renovated state buildings.

Following is a summary of key proposals for human services, health care, and housing. The Legislature will begin hearing the budget proposals in budget subcommittee hearings and the Governor will release a revised budget proposal by May 15 to account for tax changes. The budget must be passed to the Governor by June 15 for official enactment of the next fiscal year on July 1.

Human Services

CalWORKs

There are no new proposals in the Governor's CalWORKs budget. It is silent on efforts to repeal the Maximum Family Grant and includes no increase in the basic CalWORKs grants even though the grants are only at 42% of the federal poverty level. Funding from the Child Poverty account that was created in the 2013-14 budget is again being used to pay for the prior two 5% CalWORKs increases. When the grant increases were initially approved they were mostly funded with state General Fund, but have been replaced with funding from the Child Poverty account. In essence, the Administration is choosing to restore General Fund rather than increase CalWORKs grants.

The budget projects a 5.9% decline in the CalWORKs caseload, continuing a multi-year decline. This decline will reduce the amount of funds needed to pay for both grants and services to families. Rather than use these savings to reduce extreme poverty, the Administration simply reduces overall funding for CalWORKs.

Additionally, the Department of Social Services is reporting that California has met the TANF Work Participation Rate (WPR) and that potential TANF penalties in excess of $340 million have been avoided. The state WPR is now at 55% with 35% of this representing direct work participation and the other 20% derived from the WINS program, which includes non-assistance CalFresh cases that are being used to meet federal TANF work requirements. If the state achieves a WPR above 50% for federal fiscal year 2016, additional penalties approaching $600 million could be eliminated. These positive developments lift a fiscal cloud that has hung above the state's TANF program for nearly eight years.

The budget provides level funding for four programs that were funded in the 2015-16 budget. They are:

- CalWORKs Housing Support: $35 million
- Legal Services for Undocumented Unaccompanied Minors: $3 million
- Immigration Assistance: $15 million

Drought Food Assistance Program: $18. 4 million

SSI/SSP
The federal/state SSI/SSP program provides cash assistance to some 1.3 million blind, aged and disabled Californians. For most of them it is the only money they have to pay for housing, food and utilities. They are not eligible for CalFresh. The state last provided a state cost of living adjustment as part of the 2006-7 budget and in 2009 repealed the state COLA. Since then, grants for individual SSI recipients has dropped to about 90% of the federal poverty level, placing more than one million Californians below the poverty line.

The Governor proposes the first increase in the state portion of the grant since 2006-7. His budget would provide $80 million for a 2.96 increase in the grant amount that would go into effect on January 1, 2017. According to the Department of Finance, this will result in monthly increases in the SSI/SSP amounts of $17 for individuals and $31 for couples. While this will not lift individual SSI recipients out of poverty it is a significant first step.

Healthcare

After raising the real threat of over a billion dollars in cuts to the Medi-Cal program if a Managed Care Organization (MCO) tax was not passed, the Governor proposed a budget that would extend the MCO tax, which still requires a 2/3 vote from the Legislature. However, despite significant revenue surplus, the Governor's proposal continues pre-recession cuts and continues to cast shadows on the Medi-Cal program by citing uncertainties from the federal government that may cost the state billions, including federal regulations on Medicaid managed care programs, federal regulations on Medicaid fee-for-service access standards and monitoring, and reduced funding to public hospitals. The following are the most significant proposed adjustments to the health budget.

Managed Care Organization (MCO) Tax

The Administration proposes amending the current MCO tax, which is set to expire at the end of the 2015-16 legislative year to comply with federal requirements by broadening the tax to apply to nearly all managed care plans. The revenue is meant to offset General Fund expenditures in the Medi-Cal program by $1 billion annually and to restore the 7% reduction in hours for recipients of In-Home Supportive Services (IHSS), $236 million annually. The proposal assumes the tax is in place for three years starting 2016-17.

Funding for Health4All Kids (no proposal for Health4All)

Last year's budget act expanded full-scope Medi-Cal benefits to all income-eligible children under age 19 regardless of immigration status. The Governor's proposal rightly includes $182 million ($145 million General Fund) to provide full-scope benefits to 170,000 children, starting May 1, 2016. Unfortunately, there is no proposal to expand full-scope Medi-Cal to all income-eligible adults regardless of immigration status.

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). The coordination of care for dual eligibles was meant to reduce cost and improve care over the long term, but has not been found to be cost effective due in in part to high-opt out rates. As of November 1, 2015, approximately 69% of eligible participants have opted out of the demonstration compared to initial projections of approximately 33%. If the MCO tax is not extended <u>and</u> participation is not improved by January 2017, the budget calls for stopping CCI effective January 2018. This would result in yet another transition for poor seniors.

Mental Health and Substance Use Disorder Services

The proposed budget includes $90.9 million ($32.5 million General Fund) for expansion of residential treatment services under the Medi-Cal 2020 Waiver. To participate in the waiver, counties must opt in by submitting an implementation plan to DHCS, which expects over 50 counties to begin participating by the end of the budget year. The budget also includes $11.9 million federal funds for implementation of Performance Outcomes System to track outcomes of Medi-Cal Specialty Mental Health Services for children and youth, including county collection of assessment data and related training to better report on participant outcomes.

Behavioral Health Treatment

The federal government required states to provide Behavioral Health Treatment as a mandatory Medi-Cal benefit for individuals with Autism Spectrum Disorder up to 21 years of age. This benefit is estimated to cost $91 million General Fund, down $60 million from the Governor's January proposal last year.

Medi-Cal 1115 Waiver

California recently received approval for its 1115 waiver renewal, effective January 2016 through December 2020. The total initial federal funding in the renewal is $6.2 billion over five years. Of note are the whole person care pilot program that would integrate care for high-risk, vulnerable populations in a county-based, voluntary program, funded up to $1.5 billion and a dental transformation incentive program to improve dental health for Medi-Cal children, totaling $750 million.

County Medi-Cal Administration

The Budget provides counties an additional $169.9 million ($57 million General Fund) in 2016-17 and the following year fund county workers in conducting Medi-Cal eligibility work on behalf of the state.

No Repeal of California's Medi-Cal Estate Recovery

The Governor's proposal continues to implement California's Medi-Cal estate recovery policy, under which only the poorest Californians are subject to estate recovery for using basic health care services. California's policy is much more expansive than the federal requirements and than most other states.

Maintains Lower Income Eligibility Threshold for Seniors (Medi-Cal Aged &Disabled Program)

California seniors continue to have a lower income eligibility threshold for free Medi-Cal compared to all other adults. The monthly income level for the Aged and Disabled Medi-Cal Program is $1,211 for an individual, which is the equivalent of 123% of the federal poverty line (FPL). For all other adults, the monthly income level is $1,353 or 138% FPL.

Maintains Benefit Cuts to Adult Medi-Cal Services

The Governor's proposal maintains cuts to several Medi-Cal benefits that were cut in 2009. Some adult dental services were restored effective May 1, 2014, but important dental services, such as gum treatment and partial dentures or implants, are still not covered.

Housing

The proposed budget does not include any new proposals or funding to address the state's ongoing affordable housing crisis. With past affordable bonds depleted and the significant funding hole left by the loss of redevelopment agencies, it continues to be disappointing that the Governor is unwilling to dedicate funds or propose other solutions to ensure that low-income Californians can access safe, decent, affordable housing. California remains home to many of the least affordable housing markets in the country, is experiencing tremendous levels of gentrification and displacement in urban areas, and has a well-documented homelessness crisis. These challenges cannot be addressed without funding.

The budget does include $400 million in Cap and Trade funds for the Affordable Housing and Sustainable Communities (AHSC) program, at least half of which must be spent to fund affordable housing located near transit. These funds are continuously appropriated so do not represent new or unexpected funding. While AHSC is an exciting program that is producing much-needed housing, the dollars are very specifically targeted and cannot serve the broad range of unmet housing needs in the state.

The Minimum Wage

The Administration states that the recent increase in the minimum wage to $10 an hour has increased state costs of $250 million annually. Most of these costs are in IHSS and services for developmentally disabled persons. While the budget calls raising the minimum wage a "noble goal" and the Governor voiced some support for a higher minimum wage at his press conference, the Administration also asserts that raising the wage to $15 an hour might harm business and cost the state $2 billion annually. It notes that at $10 an hour the minimum wage is at its highest inflation-adjusted point since 1979. The Governor believes that any increase in the wage must be done gradually and have "off-ramps" from approved wage increases if the state has a recession.

The assertions by the Administration beg the question of the value of the minimum wage in 1979. The wage has had a long history of declining purchasing power and even at $10 an hour, a parent working full-time at the minimum wage with two children is living below the federal poverty level. The accuracy of the fiscal impact is also in question as it appears to include several negative assumptions about the impact of minimum wages on employment and revenue while discounting cost savings that would arise from having a higher minimum wage.

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