State Budget Bulletin - May 13, 2016

Governor's May Revision Includes Some Important Anti-Poverty Measures but Must do More Including Repealing the Unjust MFG Rule

In the May Revision of his 2016-17 budget proposal, Governor Jerry Brown notes several significant changes since January: lower tax revenue forecast, passage of a Medi-Cal managed care financing package and associated funding commitments and the passage of a significant minimum wage increase.[1] Against that backdrop, Governor Brown once again argues strenuously against new spending programs, instead urging the deposit of $2 billion more in the "Rainy Day Fund" than is constitutionally required under Proposition 2. Again he advocates for saving to address a future downfall rather than spending now to alleviate the suffering of Californians living in poverty.

Western Center appreciates the Governor's recognition in the May Revision that California has the highest rate of poverty in the country. Under the supplemental poverty measure almost one quarter of our state's residents are living in poverty (23.4%), largely due to the state's extremely high housing costs. The Governor rightly acknowledges that the state's housing affordability crisis and high rate of homelessness are critical issues that have real impacts in our communities and need to be addressed. We appreciate the Governor's recognition that a serious shortage of housing statewide, particularly in coastal areas, is making housing unaffordable for Californians at higher and higher income levels and that increasing supply is an important component of reducing prices. Western Center agrees that reducing regulatory barriers to housing construction, especially for projects that are affordable, is an important part of the solution. We also applaud the Governor for supporting Senate President Pro Tem De León's No Place Like Home initiative, which will provide critically needed funding to address chronic homelessness. However, we are concerned that the Governor did not acknowledge the need for funding to provide affordable housing opportunities for other low-income individuals and families who cannot be served by the market no matter how much we increase the overall housing supply.

The May Revision proposes small increases in CalWORKs and SSI/SSP grant levels but, even with these increases, individuals on SSI will still be living below the poverty level and families on CalWORKs will be living below 50% of the poverty level. The final budget should include a repeal of the MFG rule in CalWORKs, more significant SSP grant increases, funding to support the state's existing affordable housing programs and changes to make Medi-Cal more equitable, as detailed below.

Following is a summary of key proposals for housing, human services, and health care as well as a discussion of other needed actions. The Legislature must pass the budget bill to the Governor by June 15 for enactment at the beginning of the fiscal year on July 1.

Housing

No Place Like Home Initiative (NPLH)

The May Revise endorses Senate Pro Tem De León's ambitious plan to address homelessness for persons living with mental illness. The proposal includes using a portion of Proposition 63 mental health revenue to pay for the cost of a $2 billion bond to construct or rehabilitate 10,000 units of permanently affordable housing for persons living with mental illness. The proposal also included a $200 million General Fund allocation over four years for rental subsidies to assist individuals until the housing was built. It also includes proposals to increase housing for families in the child welfare system, a proposal to increase funding for the CalWORKs Housing Support Program, increased funding for SSP grants and funding to local governments to incentivize counties to help homeless individuals qualify for SSI. While the Governor's proposal did not mention these other aspects of the NPLH proposal, the Senate is expected to push for additional pieces of the proposal as the budget negotiations proceed.

Other Housing Proposals

In addition, the May Revision includes additional detail on the $25 million competitive grant program proposed in the Governor's budget in January to encourage cities and counties to site housing that provides treatment and reentry programming for those exiting the criminal justice system. The new Community-Based Transitional Housing

Program would include funding to local communities that site transitional housing and supportive services for offenders released from state prison or county jail, with requirements that a portion of the funds be used to increase public safety around the facility and improve communication with neighbors. The funds would have to be shared with non-profit facility operators to support rehabilitative services, security, and community outreach.

While the Governor did not propose any additional funding for affordable housing programs, he did propose new legislation to streamline the approval projects for multifamily housing projects located in infill areas that have an affordable component. Under the proposal, local governments would have to approve "by right" projects located near transit that have either 10% lower-income units or 5% very low-income units and projects located in other infill areas that have 20% of units affordable to those at 80% of area median income and below and that are otherwise consistent with the general plan and zoning. The goal of the proposal is to speed the approval of housing projects in order to cut costs and more rapidly increase supply.

The Governor additionally endorsed three bills currently pending in the Legislature that aim to reduce barriers to housing development and increase affordability. One of those bills, AB 2501 (Bloom) is co-sponsored by Western Center and the California Rural Legal Assistance Foundation. The bill makes a variety of changes to the state's Density Bonus Law aimed at reducing barriers to utilizing the law by developers who are willing to include affordable units in market-rate housing developments. The other two bills, AB 2299 (Bloom) and SB 1069 (Wieckowski) are both aimed at reducing barriers to the construction of second units, which can be a valuable source of lower-cost housing.

Human Services

CalWORKs

<u>Grant Increase</u>

The budget proposes a 1.4 percent grant increase to begin October 2016. This funding would come from the Child Poverty Sub-account which is a dedicated non General Fund revenue stream devoted to increasing CalWORKs grants. This represents an increase of $10 a month for a family of three in Region I and a $9 a month increase in

Region II. Grants would increase to $714 and $679 a month, respectively. Grants for a family of three in Region I would be worth 42.5 percent of the federal poverty level, slightly above the current value of 41.9 percent.

Maximum Family Grant Repeal

The budget makes no proposal regarding the Maximum Family Grant (MFG). The Assembly and Senate continue to press for repeal of the policy. A press release from Pro Tem Kevin De León described MFG as "discriminatory" and called for its repeal in the budget. Speaker Anthony Rendon and the Assembly have proposed to repeal the MFG policy beginning January 1, 2017 and to pay for the cost of providing the benefits to an estimated 135,000 children by using funds from the Child Poverty Sub-account. The Assembly has also proposed a four percent increase in the base CalWORKs grant levels.

Minimum Wage

The Administration is estimating that increasing the minimum wage by fifty cents an hour on January 1, 2017 will reduce CalWORKs grant expenditures by $6 million in the 2016-17 budget. This amount is likely to grow and compound over time as the minimum wage increases.

SSI/SSP

The May Revision has the same proposal as in January to increase the state's contribution to the SSI grant level by providing a cost of living adjustment on January 1, 2017. The estimated increase based on the California Necessities Index is 2.76 percent which would raise the SSP portion of the grant from $156 a month to $160 a month. The federal government is also expected to provide a cost of living increase starting January 1, 2107. While the amount of the federal increase has not been announced it is likely to be in the range of $12-15 a month. Combined, SSI recipients would see an increase for a single person from $889 a month to $905 a month. SSI couples would see an $18 a month increase in the SSP amount of $396 and a $25 to $30 increase in the federal portion of the SSI grant which is currently $1,100.

Both the Senate and Assembly have expressed support for increasing the SSP higher than proposed by the Governor, but neither house has approved a specific dollar amount.

Earned Income Tax Credit

In 2015, the Governor and the Legislature created a state Earned Income Tax Credit (EITC) worth 85 percent of the federal EITC. The state credit is targeted to extremely low wage earners. Take up of the program has been robust as the Department of Finance reports that some 350,000 tax filers applied for the credit in the first year. Nonetheless, the Administration is proposing to boost participation in the credit by increasing outreach efforts and is proposing $2 million for the Franchise Tax Board for that purpose. The proposal, however, would not expand the credit to additional filers such as those with earnings from self-employment or non-citizens using an ITIN as Western Center and other advocates have proposed.

Health Care

The May Revision makes positive steps toward implementing the Affordable Care Act in California, implementing Health4AllKids, delaying the complicated transition of Newly Qualified Immigrants from Medi-Cal to Covered California, and executing the Medi-Cal waiver initiatives. However, key investments are still needed to reduce enrollment barriers, provide parity for seniors, and fully restore critical Medi-Cal benefits.

Health4AllKids: The May Revision includes $188.2 million General Fund (GF), an increase of $45.4 million over the January proposal due to caseload increase, to provide full-scope Medi-Cal to 185,000 children to be implemented on May 16, retroactive to May 1st.

Delay of Newly Qualified Immigrant (NQI) Wrap: The Newly Qualified Immigrant Wrap program would transition Medi-Cal expansion adults who have less than five 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 delays this transition to January 2018 at a $31.8 million GF cost.

Medi-Cal 2020 Waiver: The May Revision includes $2.2 billion in federal funds for the new Medi-Cal waiver, which includes the Whole Person Care Pilots and the Dental Transformation Initiative, as well as an assessment of network adequacy in the Medi-Cal managed care plans.

<u>Behavior Health Treatment (BHT):</u> The May Revision includes $180.2 million GF, an increase of $86.4 million from January, to provide federally required BHT for Medi-Cal children with Autism Spectrum Disorder up to 21 years of age.

<u>Medicaid Regulations</u>: The May Revision includes an increase of $5 million GF to implement federal regulations related to Medi-Cal managed care and fee-for-service. The Medicaid managed care regulations related to beneficiary grievances, provider networks, program integrity and financing could result in GF costs in the hundreds of millions of dollars annually.

<u>Minimum Wage</u>: The Administration estimates that increasing the minimum wage by fifty cents an hour on January 1, 2017 will reduce GF for Medi-Cal expenditures by $7.1 million in the 2016-17 budget. This amount is likely to grow and compound over time as the minimum wage increases.

<u>Residential Treatment Services</u>: The May Revision includes a decrease of $20.1 million GF leaving a total of $39.1 million total funds for the implementation of residential treatment services.

<u>Managed Care Organization (MCO) Financing</u>: Last year the Governor called a special legislative session to address the pending expiration of the MCO tax. Signed by the Governor in March, SBx2_2 authorized a tax swap whereby a new enrollment tax on health plans was authorized, allowing draw down of federal funds, but taxes paid the by the health plan industry as a whole were reduced. As a result, GF spending in the Medi-Cal program was reduced by approximately $1.1 billion in 2016-17 and more than $1.7 billion in 2017-18 and 2018-19. These savings include the following investments:

- $287 million in GF expenditures for developmental services programs, including provider rate increases;
- $287 million GF set aside in a trust fund to pay for future retiree health care benefits;
- $135 million GF for increased Medi-Cal rates for Intermediate Care Facilities for the Developmentally Disabled and forgiveness of recoupments for Distinct Part Nursing Facilities; and
- $2 million GF for UC, San Joaquin Valley Program in Medical Education.

In addition to these measures, Western Center calls on the Legislature and Governor to include the following health policy initiatives that will help address the poverty crisis in our state:

Limit Estate Recovery to Federal Requirement

Now that people are required to have health insurance, limiting estate recovery is a critical equity issue. Only the poorest Californians, those on Medi-Cal, are subject to estate recovery whereas their higher income counterparts who receive subsidies on Covered California are not. Estate recovery is an enrollment barrier to Medi-Cal as many low-income consumers would rather forgo health insurance than risk losing their family home. Western Center supports limited Medi-Cal estate recovery only to long-term care services.

Make Health Care Affordable for Seniors

Under health reform, adults are eligible for Medi-Cal with incomes up to 138% of the Federal Poverty Level (FPL) (or $1,367 a month for an individual) except seniors. By virtue of their age, people 65 and older have a lower income eligibility threshold, equivalent to 123% FPL or $1,220 a month for an individual. We support providing parity for low-income seniors by having an income level of 138% for all adults.

Restore Critical Medi-Cal Benefits Eliminated in the 2009-10 Budget.

A number of Medi-Cal benefits, including acupuncture, audiology, chiropractic, podiatry, speech therapy, and full restoration of adult dental coverage, were eliminated in 2009 due to the state's budget crisis and it is time to restore these critical benefits. Adult dental services, which gives Medi-Cal beneficiaries access to preventative care, restorations, and full dentures, were partially restored in the 2013-14 budget,. However, important services such as gum treatment and partial dentures or implants are still not covered in Medi-Cal.

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[1] SB 3 (Leno) co-sponsored by Western Center, the Service Employees United International, the United Food and Commercial Workers and the Women's Foundation of California.