MHSOAC Financial Oversight Committee
Highlights from the May Revision 2013-14

Introduction

The Governor's Budget reflected California's most stable fiscal footing in well over a decade. With the tough spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the state's budget is projected to remain balanced for the foreseeable future. However, substantial risks, uncertainties, and liabilities remain.

Changes since the Governor's Budget

The May Revision reflects the net changes in the national and state economic outlook, the corresponding effects on revenues and the state's obligation to schools, as well as other spending adjustments.

Among the key developments are:

- Mental Health Services Oversight and Accountability Commission
    - The Mental Health Services Oversight and Accountability Commission provides oversight, review, accountability and evaluation of projects and programs supported with Mental Health Services Act funds.
    - Significant Adjustment: *Evaluation Master Plan* — The May Revision includes $947,000 Mental Health Service Fund and 6 positions to begin implementation of the Mental Health Services Act Evaluation Master Plan approved by the Commission on March 28, 2013. These resources fund the initial costs of the 5‑year Evaluation Master Plan beginning in2013‑14, which includes steps to maintain and upgrade the performance monitoring system, and evaluation studies
- Health Care Reform
    - Federal health care reform (Affordable Care Act, ACA) increases access to both private and public health care coverage. The Governor's Budget continued implementation of federal health care reform in California, building on the early establishment of the California Health Benefit Exchange (Covered California) and the early coverage expansion through the "Bridge to Reform" waiver. It outlined the following principles for health care reform implementation: (1) it must be sustainable and affordable, (2) it must fairly allocate risk and clearly delineate responsibilities between the state and counties, (3) it must maintain a strong public safety net, and (4) it must support local flexibility. It outlined two approaches, county based and state based, to provide coverage to low income adults without eligible children (optional expansion)
    - The May Revision proposes the state based approach for expansion. Newly eligible individuals will receive the comprehensive benefits currently provided by Medi Cal, including county administered comprehensive specialty mental health services and county supported substance use disorder services. Long‑ term care

services will be covered, provided the federal government approves the retention of an asset test for these services. At a county option, beneficiaries, both existing enrollees and new eligible's, may receive an enhanced benefit package for substance use disorders.

- Today, as the provider of last resort, counties are responsible for indigent health care. Under the 1991 realignment, the state provides roughly $1.5 billion to counties to assist them in meeting their obligations. To receive these funds, counties must spend a required maintenance of effort of $343 million. Many counties spend additional funds on indigent care.

- Under health care reform, county costs and responsibilities for indigent health care are expected to decrease. Under the state-based expansion and the eligibility simplification required by federal law, the state will bear the financial cost and risk of expanding coverage to currently uninsured adults. The state will be responsible for the bulk of indigent health care, providing coverage for nearly all low‑ income, uninsured individuals seeking health services. Given that health care costs have risen rapidly over the last few decades, generally outpacing revenue growth, and given that Medi‑ Cal is the second largest General Fund expense, the state cannot afford to both assume the cost of coverage, and continue its level of funding for county health care programs. Preserving a strong public safety net remains a priority.

- While coverage will increase, thereby lessening county costs, uncertainty remains regarding how many people will enroll in coverage, where they will receive care, and what costs associated with services provided to uninsured individuals will remain. Counties play a key role in providing access to and delivery of health care services to both Medi-Cal beneficiaries and the uninsured. Given these factors, the May Revision proposes to determine county health care savings based on actual experience.

- Other Key Developments:

  - A downward revision in the short‑ term economic outlook due to recent federal actions. Specifically, the federal government did not extend the 2 percent payroll tax reduction that had been in place in 2011 and 2012. This action was not assumed in the Governor's Budget economic forecast. As a result, forecasted personal income growth in 2013 has been cut almost in half, from 4.3 percent to 2.2 percent. In addition, the federal government allowed the sequester of tens of billions of dollars in spending.

  - The May Revision reflects, as required by Proposition 98, $2.9 billion in additional funds in the current year for K 12 schools and community colleges. The May Revision proposes that these one time funds be used to reduce the deferral of payments to schools and community colleges, and to support the implementation of new academic standards.

  - Medi‑ Cal experiencing higher costs of $467 million, principally as a result of the federal government and courts either rejecting or delaying approval of previously adopted legislative actions.

- The costs of borrowing for both short‐term cash and long‐term infrastructure investments have been reduced by $484 million. This was made possible by the state's improved fiscal condition.

The May Revision includes several key investments that will help successfully implement recent programmatic changes. It proposes an additional $48 million in CalWORKs for job training and subsidized employment opportunities to assist Californians in getting back to work under program reforms adopted last year. The May Revision also includes an additional $72 million (for a total of $107 million) for county probation departments because of responsibilities they have incurred in assisting the state in reducing its prison population.

Proposed legislation aims to strengthen the state's economic development programs to bolster the business environment and reintegrate people into the workforce

- Risks to the budget/May revision
  - Pace of economic growth is still uncertain
  - Prison population costs if state does not prevail in federal prison population reduction
  - Rising health care costs due to inflation
  - Court cases related to dissolution of redevelopment agencies
  - Shortfall to state due to federal sequester
  - Future liability of state for public retirement fund liability
  - Healthcare for retired state employees
  - Deferred maintenance to state infrastructure
  -