



Governor Newsom's First Budget Health Care Highlights

In his first act as Governor of California, on his first day, Gavin Newsom announced executive actions and budget proposals to expand health coverage and improve affordability, signaling that health care will be one of his top priorities. Governor Newsom stated his intent to move California closer to the goal of health care for all, positioning California as a national leader in strategies to expand coverage.

As part of the Governor's announcement, he released a [letter](#) to President Trump and Congress, urging them to create new Transformational Cost and Universal Coverage Waivers for states. In the letter, he states, "I ask that you amend federal law to enable states to apply for and receive Transformational Cost and Universal Coverage Waivers, empowering California to truly innovate and to begin transformative reforms that provide the path to a single-payer health care system." As outlined in the letter, under the new waivers, states would have the flexibility to, among other things, move funds to best meet the needs of all the state's population, use public exchanges as a platform for portable benefits, and assure competition by making public plan options available in areas with limited health carriers. The Governor also requested that the President and Congress build on the successes of the Affordable Care Act (ACA) by reinstating the individual mandate, providing federal premium assistance for individuals above 400 percent of the federal poverty level (FPL), expanding federal subsidies that lower out-of-pocket costs for low-income individuals in exchange coverage (known as cost-sharing reductions), and implementing a reinsurance program to protect health plans from very high cost claims for health services above a specified threshold.

On January 10, 2019, Governor Newsom introduced his proposed budget for state fiscal year 2019-20, including elements of the new reform plan and other potentially significant investments to improve coverage and care in California.

This ITUP blog highlights health care items in the Governor's proposed budget.

Health Care Coverage and Affordability

- ***Expand Medi-Cal, California's state Medicaid program, to cover undocumented young adults up to age 26.*** The budget proposes \$260 million (\$194 million state general fund (GF)) to cover an estimated 138,000 undocumented young adults (up to age 26) who would otherwise be eligible for Medi-Cal except for their immigration status. Currently, undocumented adults are limited to Medi-Cal coverage for emergency and pregnancy-related services. This proposal builds on California's 2016 Medi-Cal expansion covering low-income children regardless of immigration status and would make California the first state in the nation to adopt such a policy.
- ***Expand premium subsidies in Covered California to improve affordability for low- and middle-income Californians.*** The budget proposes to build on and expand the ACA premium subsidies for individual coverage in California's ACA marketplace, Covered California. ACA premium tax credits reduce premiums for individuals up to 400 FPL (\$48,000 for an individual,

\$98,000 for a family). The Governor proposes additional state-based premium assistance for individuals up to 400 percent FPL and new state subsidies for individuals between 400-600 FPL (up to \$72,840 for individuals and \$150,600 for a family of four). Researchers conducting the [California Health Interview Survey](#) found that even with the availability of ACA subsidies, eligible individuals cite affordability as the primary reason for remaining uninsured.¹

- **Implement a state coverage requirement to replace the ACA individual mandate.** The Governor proposes a state individual coverage requirement, with a financial penalty, and proposes to use the revenues to fund increased premium assistance in Covered California as described above. In presenting the budget, the Governor said the penalty would raise approximately \$500 million in additional state revenues. The proposed state coverage requirement would continue the ACA individual mandate, following congressional action last year to eliminate the federal financial penalty for not having coverage starting in 2019. Because of the elimination of the federal individual mandate tax penalty, researchers estimate that without intervening state or federal action between 150,000 and 450,000 more Californians will be uninsured in 2020, increasing to 790,000 newly uninsured Californians by 2023.² University of California researchers estimate the number of uninsured non-elderly Californians would grow from 3.5 million to more than four million by 2020 with the elimination of the federal mandate.³

A workgroup being led by Covered California is looking at options to improve affordability for coverage in the exchange, with the final report due February 1, 2019. In the most recent draft of the workgroup findings, "[Options to Improve Affordability in California's Individual Health Insurance Market](#)," Covered California consultants found that pairing increased subsidies with an individual mandate resulted in a greater number of uninsured Californians getting health coverage than subsidies without a mandate.

For more information on strategies to expand coverage and improve affordability see the ITUP issue brief, [California Strategies: Covering California's Remaining Uninsured and Improving Affordability](#).

Lowering Prescription Drug Costs

- **Establish the nation's largest purchasing program for prescription drugs, leading to a "single-payer" system for prescription drugs in the state.** On January 7, 2019, the Governor signed an [executive order](#) directing the Department of Health Care Services to standardize and transfer all pharmacy services provided by existing Medi-Cal managed care plans to a fee-for-service system and to negotiate prescription drug prices on behalf of all 13 million Medi-Cal beneficiaries. Currently, the state and health plans participating in Medi-Cal (serving 10.6 million Medi-Cal managed care members as of December 2018)⁴ negotiate drug prices separately. According to the Governor, this proposal will result in hundreds of millions of dollars in annual Medi-Cal savings starting in FY 2021-22. The budget also proposes to strengthen the existing [California Pharmaceutical Collaborative](#), administered by the state Department of General Services, which allows state and local governments to access state contracts for purchasing bulk pharmaceuticals and related pharmaceutical services at reduced cost. The Governor also proposes to enact a new state "bulk purchasing prescription drug program" for public and private payers.

Mental Health Services

In 2017, almost one in five Californians reported needing help for a mental health condition or substance use disorder. Of those who needed help, only 60 percent saw a health professional for their condition.⁵ Governor Newsom proposed the following initiatives related to mental health services:

- Increase training for mental health workforce programs, with a one-time allocation of \$50 million state GF.
- Improve early treatment and detection of psychosis in children through a one-time allocation of \$25 million GF for demonstration projects focused on detecting psychosis and intervening when a young person first begins experiencing episodes.
- Provide \$100 million state GF available through 2025 in the existing [Whole Person Care Pilot \(WPCP\)](#) Program. The new funds are intended for supportive housing services for individuals who are homeless or are at risk of becoming homeless, with a focus on people with mental illness. The WPCP is a program under California's existing Section 1115 federal Medicaid waiver which provides funding for 25 local projects that coordinate health, behavioral health, and social service needs for Medi-Cal beneficiaries.
- Expedite the allocation of \$2 billion in bond funding for the No Place Like Home program, approved by voters in the 2018 November election. This program is intended to fund permanent supportive housing for persons in need of mental health services who are homeless or at risk of becoming homeless. The bond is to be repaid with Mental Health Service Act funding, which imposes a one percent income tax on wealthy individuals to fund mental health services.

Proposition 56 Tobacco Tax Revenues

Proposition 56, passed by voters in 2016, increased the state tax on tobacco products to backfill existing tobacco tax funded programs and to support new health care and tobacco-use prevention programs, including Medi-Cal, physician training, and research on tobacco-related diseases. The budget proposes the following distribution of Proposition 56 funding for the Medi-Cal program:

- Continue Proposition 56 supplemental payments and rate increases for certain Medi-Cal providers (\$3.2 billion including \$1.05 billion from Proposition 56 funds.)
- Create a Value-Based Payment Program with incentives for providers, through Medi-Cal managed care plans, to meet specific metrics in management of chronic diseases, prenatal/post-partum care, and behavioral health integration, with the stated goal of improving care for certain high-need high- cost populations (\$360 million including \$180 million in Proposition 56 funds.)
- Increase early developmental screenings for children (\$60 million including an additional \$30 million in state GF) and trauma screening for all children ages 0-21 and for adults enrolled in the full-scope Medi-Cal program (for example, not including adults only eligible for emergency Medi-Cal services) (\$45 million including \$22.5 million in Proposition 56 funds).

- Additional \$50 million in funding for Medi-Cal family planning services. The budget estimates that the new state funding could yield as much as \$500 million in total funds as a result of enhanced federal Medicaid match for family planning services.

Other Health Care Proposals

- **County funding for indigent care services.** The budget proposes to change the formulas that annually redirect county realignment funds to the state, reflecting a drop in county costs for health care services for low-income uninsured residents following ACA implementation. The budget proposes to redirect an additional \$63 million in 2019-20 to offset state GF costs in the CalWORKS cash assistance program for low-income families.

Known as the “[AB 85 redirection](#),” state law requires counties to shift a portion of county health realignment revenues to reduce state costs in CalWORKS. Prior to the ACA, county indigent care programs served low-income uninsured individuals not eligible for Medi-Cal, primarily childless adults. Following the ACA expansion of Medi-Cal to low-income adults, the state and counties agreed on formulas to redirect local health realignment funds. Realignment assigns counties fiscal and program responsibility for specific health and social services programs, in exchange for dedicated revenues counties receive to defray program costs. California’s complex realignment structure has been revised over time since first enacted in 1991, including the AB 85 changes enacted in 2013. According to the [Legislative Analyst’s Office](#), in 2018-19 counties transferred \$773 million in health realignment funds.

- **In-Home Supportive Services.** The budget proposes to restore the seven percent across-the-board service hour reductions for In-Home Supportive Services (IHSS), scheduled to expire in July 2019 (\$342.3 million state GF.) The budget also proposes some relief for counties from their growing share of financial responsibility for IHSS. IHSS provides housework, transportation, and personal care services to low-income aged, blind, and disabled Medi-Cal beneficiaries at risk of nursing home placement.
- **State Surgeon General.** On January 7, Governor Newsom signed an [executive order](#) to establish a California Surgeon General tasked with addressing the root causes of California health challenges and inequities. According to the order, the new California Surgeon General will be a key spokesperson on public health issues, tasked with providing Californians with the best medical and scientific evidence through public health reports and other tools. The Surgeon General is also required to gather broad-based stakeholder input on potential solutions to the pressing public health challenges facing the state.

Notes

¹ Laurel Lucia and Ken Jacobs, "[Towards Universal Health Coverage: California Policy Options for Improving Individual Market Affordability and Enrollment](#)," UC Berkeley Labor Center, March 2018.

² Miranda Dietz, Laurel Lucia, Dylan H. Roby, Ken Jacobs, Petra Rasmussen, Xiao Chen, Dave Graham-Squire, Greg Watson, Ian Perry, and Gerald Kominski, "[California's Health Coverage Gains to Erode Without Further State Action](#)," University of California, Berkeley, Center for Labor Research and Education, and University of California, Los Angeles, Center for Health Policy Research, November 2018.

³ Dietz, Lucia, Roby, Jacobs, Rasmussen, Chen, Graham-Squire, Watson, Perry, and Kominski, "California's Health Coverage Gains to Erode Without Further State Action."

⁴ Department of Health Care Services, [Medi-Cal Managed Care Enrollment Report, December 2018](#).

⁵ UCLA Center for Health Policy Research, "2017 California Health Interview Survey (CHIS)," October 2018.

About ITUP

Insure the Uninsured Project (ITUP) is a Sacramento-based nonprofit health policy institute that for more than two decades has provided expert analysis and facilitated convenings for California policymakers and decisionmakers focused on health reform.

The mission of ITUP is to promote innovative and workable policy solutions that expand health care access and improve the health of Californians, through policy-focused research and broad-based stakeholder engagement.

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