› Legislative Update

2019-20 Governor's Budget May Revision Highlights

May 14, 2019

On Thursday, May 9, 2019, Governor Newsom announced the "May Revision" [1] to his 2019-20 proposed budget, maintaining proposals to expand health care coverage and improve the affordability of individual coverage originally proposed in January. This ITUP Legislative Update provides an overview of the May Revision and health and health-related proposals.

The May Revision also includes and augments investment in other health programs, including workforce development and mental health services. In addition, this overview considers budget items that address social and community indicators of health, typically referred to as the social determinants of health.

Budget Overview

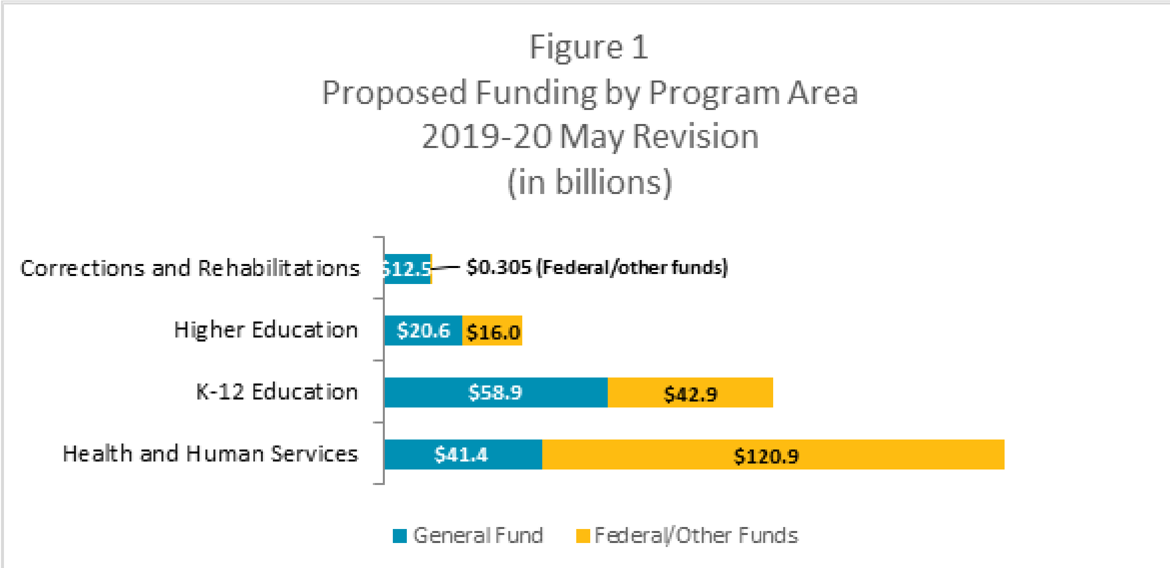
The May Revision forecasts revenues that are $3.2 billion higher than the January estimate over three fiscal years, from 2017-18 to 2019-20, primarily because of ongoing economic growth.

The May Revision proposes $162.3 billion ($41.4 billion General Fund and $120.9 billion federal/other funds) for health and human services in 2019-20, a 2.6 percent increase from January. As illustrated in Figure 1, health and human services is the largest area of state spending, but only 26 percent is state general fund, with federal funds and other revenues as the remaining funding sources.

Health Care Coverage and Affordability

- ***Medi-Cal Expansion to Young Adults.*** The May Revision maintains the January proposal to cover undocumented young adults between the ages of 19 and 25 in Medi-Cal but delays the start date for six months until January 1, 2020. The January proposal included $260 million for 138,000 individuals, while the May Revision proposes $98 million for coverage of 90,000 young adults.

[1] The annual May Revision to the Governor's proposed January budget includes updated estimates of revenues, caseloads and expenditures. The Legislature considers the Governor's Revisiond budget proposals as it works to finalize the state budget by the June 15 constitutional deadline, in advance of the new state fiscal year beginning July 1.



- ***State Financial Assistance for Individuals Enrolled in Covered California.*** The May Revision continues and proposes to expand state-funded financial assistance for individuals covered through Covered California. Under current law, federal premium tax credits reduce premiums for enrolled individuals between 250 and 400 percent of the federal poverty level (FPL); (400 percent FPL is $48,560 for an individual, $100,400 for a family of four in 2019).

  In January, the Governor proposed state assistance, in addition to federal subsidies, for individuals with incomes 250-600 percent FPL (up to $72,840 for individuals and $150,600 for a family of four). The May Revision proposes to extend the assistance to individuals with incomes between 200 and 250 FPL ($24,280 - $30,350 in household income for an individual).

  In 2018, the average premium payment for unsubsidized Covered California enrollees, including enrollees over 400 percent FPL, was approximately $446 per month. Under the Governor's proposal, assistance for individuals between 400 and 600 percent FPL could reduce premiums on average $100 per month (over 20 percent) depending on income, family size, age and other factors.

  The May Revision proposes to end state-based assistance in three years. According to Governor Newsom, the proposed timeline would allow for consideration of anticipated recommendations from the proposed Healthy California for All Commission (Commission) discussed in more detail below.

- ***State Individual Coverage Requirement.*** The May Revision maintains the January proposal for a state individual coverage requirement, with a financial penalty, that will fund the increased financial assistance in Covered California. The May Revision reduces expected state penalty revenues from the January estimate of $500 million to $295.3 million in 2019-20 and $330.4 million in 2020-21. The proposed state coverage requirement would replace the federal individual mandate penalty which Congress decreased to $0 starting in January

2019. Because of the elimination of the federal individual mandate tax penalty, new enrollment in Covered California dropped significantly in 2019. For more information on the impact of the elimination of the individual mandate tax penalty on Covered California, read the ITUP blog, *Covered California Announces 2019 Enrollment*.

Healthy California for All Commission

The May Revision includes the Governor's proposal to establish the Commission as a replacement for the Council on Health Care Delivery Systems (Council) included in the 2018-19 budget. Last year, the Legislature provided $5 million for the Council to develop "options for advancing progress toward achieving a health care delivery system in California that provides coverage and access through a unified financing system."

In March, the Newsom Administration proposed amendments to the Council, including renaming it and expanding the membership from 5 to 13 members. The Administration's amendments require the Commission to submit a report to the Legislature and the Governor by July 1, 2020 on "options for additional steps California can take to prepare for transition to a single-payer financing system" and "options for coverage expansions, including potential funding sources." The Legislature is currently evaluating the changes proposed by the Governor.

Health Care Workforce Initiatives

The May Revision adds $120 million in Proposition 56 funds for the Medi-Cal loan repayment program (see below) and $100 million for mental health workforce development. The January budget included $122 million for health care workforce programs.

- ***Loan Repayment Program.*** CalHealthCares is a loan repayment program for physicians and dentists whose patient caseload is at least 30 percent Medi-Cal beneficiaries. The program is funded with Proposition 56 cigarette and tobacco tax revenues (see below for more on Proposition 56). The state Department of Health Care Services (DHCS) awarded a grant to Physicians for a Healthy California to administer CalHealthCares.

  The 2018-19 state budget appropriated $220 million in Proposition 56 funding for CalHealthCares. Under the May Revision, CalHealthCares revenues would increase to $340 million ($290 million for physicians and $50 million for dentists) to be awarded over multiple years. To be eligible, providers must commit to five years of Medi-Cal participation for a loan repayment up to $300,000 or ten years of Medi-Cal participation for a practice support grant of the same amount.

- ***Workforce Education and Training.*** The May Revision also proposes to allocate $100 million from the Mental Health Services Fund (Fund) to implement the 2020-25 Workforce Education and Training (WET) Five-Year Plan. Proposition 63, passed by voters on November 2, 2004, established the Mental Health Services Act (MHSA), funded by a 1 percent tax on incomes over $1 million, to support public mental health services, including workforce improvement efforts. The new WET plan will use regional partnerships and provide support to individuals and providers through pipeline development, undergraduate scholarships, education stipends, and loan repayment.

Including other health workforce investments, the May Revision brings the Governor's proposed investment in workforce development to $600 million.

Medi-Cal

The May Revision projects that enrollment in the Medi-Cal Program will remain relatively stable, with a 2.4 percent projected decrease in the current budget year and a slight increase in 2019-20.

Medi-Cal expenditures in 2019-20 are expected to increase by $3.3 billion compared with 2018-19 expenditures. One-third of the increase is attributable to a higher average cost per eligible and other factors. Another third is due to a shift in the timing of payments from the current year to the budget year. Finally, one-third of this increase is due to the expiration of the managed care organization (MCO) tax which the state used in prior years to draw down $1.5-1.9 billion in federal Medicaid matching funds, subject to the terms of a federal Medicaid waiver. The MCO tax is scheduled to expire at the end of the 2018-19 budget year. According to the Governor, seeking federal approval for continuation of the MCO tax must be considered along with other state priorities, and is, for the moment, too risky given California's other expiring and pending federal waiver requests.

Other Medi-Cal highlights:

- ***Pharmacy Services Transition.*** The May Revision maintains the Governor's proposal to transition pharmacy services from Medi-Cal managed care to fee-for-service by 2021. The Administration estimates the plan will save $393 million General Fund by 2022-23. Safety-net providers participating in the 340B Drug Discount Program have raised concerns that under the proposal losing 340B funding could jeopardize their ability to provide affordable drugs to low-income patients. The federal 340B Drug Discount Program requires drug manufacturers to provide outpatient drugs to eligible health organizations at significantly reduced prices.

- ***Whole Person Care Pilots.*** In addition to the one-time augmentation of $100 million for Whole Person Care Pilots in the January budget, the May Revision adds $20 million for counties not currently operating such pilot projects to develop care coordination services. The proposal prioritizes the increase for individuals experiencing mental illness and homelessness or who are at risk for homelessness.

- ***County Health Realignment Funds.*** The May Revision modifies the January budget proposal to redirect additional Health Realignment funds from counties to the state. Following the ACA expansion of Medi-Cal to low-income uninsured adults, previously served in county indigent care programs, the state and counties agreed on formulas to redirect local health realignment funds to the state. The day after release of the May Revision, the Governor notified the Legislature of his intent to reinstate $5 million in realignment funds he proposed to redirect from four counties (Placer, Sacramento, Santa Barbara, and Stanislaus). For more information on county indigent care programs, see ITUP publication entitled, *2019 County Medically Indigent Programs*.

- ***Medi-Cal County Administration***. The May Revision increases funding for county eligibility administration by $15.3 million above the January budget, for a total of $2.1 billion for this purpose.

Medi-Cal: Proposition 56 Tobacco Tax Revenues

Proposition 56, passed by voters in 2016, increases the state tax on tobacco products. The initiative earmarks the additional revenues 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 Governor's January budget included $3.2 billion in Proposition 56 revenues (including federal matching funds) and proposed the following distribution of Proposition 56 funding in Medi-Cal:

- Continue Proposition 56 supplemental payments and rate increases for certain Medi-Cal providers ($2.2 billion, $748 million from Proposition 56).

- 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/postpartum care, and behavioral health integration, with the stated goal of improving care for certain high-need, high-cost populations ($360 million, $180 million from Proposition 56).

- Increase early developmental screenings for children ($60 million, including an additional $30 million in state General Fund) and trauma screening for all children ages 0-21, and for adults enrolled in comprehensive Medi-Cal, excluding adults only eligible for emergency and pregnancy-related Medi-Cal services ($45 million, including $22.5 million from Proposition 56).

- 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.

The May Revision includes an additional $263 million Proposition 56 for Medi-Cal above the January proposal, including:

- $120 million for the CalHealthCares program.

- $70 million for the Value-Based Payment Program, specifically for behavioral health integration.

- $25 million to train providers conducting the trauma screenings proposed in the Governor's January budget.

- Restoration of optician and optical lab services for Medi-Cal adult beneficiaries, effective no sooner than January 1, 2020.

The Governor proposes to sunset Proposition 56 allocations on December 31, 2021, consistent with his stated intent to be responsive to the Commission recommendations in 2020. Tobacco tax revenues tend to decrease over time as tobacco use declines. Accordingly, DHCS points out that, starting January 1, 2022, the Governor proposes to use the remaining Proposition 56 revenue primarily for growth in the Medi-Cal program.

Expenditures on Social Determinants of Health

The Governor's Budget and May Revision propose investments in programs and initiatives that can be viewed as addressing diverse factors affecting individual and community health, often referred to as the "social determinants of health." This section highlights several examples of budget items related to the social determinants.

Social determinants of health include the conditions and factors that influence a person's health and well-being. The United States Office of Disease Prevention and Health Promotion Healthy People 2020 lists five broad determinants of health:

- Economic stability
- Education
- Social and community context
- Health and health care, and
- Neighborhood and built environment.

The budget proposals addressing these determinants include investment in early childhood learning and care systems, K-12 and higher education, housing affordability and access, and homelessness mitigation and prevention. A few examples of these investments:

- ***Investments in Children and Families.*** Priorities in early childhood learning and care systems include supporting pre-school and kindergarten programs, expanding paid family leave, and a $10 million investment to develop a long-term strategic plan for an early learning and care system. The proposed budget also builds on investments in children and families through expanding the Earned Income Tax Credit (EITC), a cost-of-living tax refund that helps families with financial burdens.

- ***Investments in Education***. The budget proposes investments to improve quality and access to K-12 and higher education. Priorities include special education and supporting educators through training, professional development and loan repayment programs. Additionally, the Governor proposes investments to the University of California and California State University systems to avoid any resident student tuition increases in fiscal year 2019-20.

- ***Targeting the Housing and Homelessness Crisis.*** The budget proposes to address the housing crisis through investments in affordable housing and market rate housing development, including $500 million to support affordable housing development and assistance for California renters. The May Revision adds $1 billion in funding to address homelessness, including $650 million to local governments for emergency shelters and Navigator Centers.

  Related proposals for increased investment in workforce development ($150 million in the May Revision) focus on the acute shortage of professionals in mental health services and will also increase capacity to serve homeless individuals with mental health conditions.

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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