› Legislative Update

2019-20 Final State Budget Health Care Highlights

June 27, 2019

Final 2019-20 State Budget Continues the Move Toward Universal Coverage

The final 2019-20 state budget (and related legislation) recently signed by Governor Newsom moves California steps closer to universal coverage, improves coverage affordability in the individual market, and invests in system improvements in Medi-Cal, mental health services and services for homeless individuals.

The budget appropriates $215 billion in total state spending. The final budget, among other things:

- Expands Medi-Cal to cover low-income undocumented young adults age 19-25;
- Extends Medi-Cal eligibility to low-income seniors with incomes up to 138 percent of the federal poverty level (FPL), addressing a gap in the existing eligibility formula;
- Establishes state subsidies, above the level of federal Affordable Care Act (ACA) subsidies, for individuals who buy coverage through the state's ACA marketplace, Covered California;
- Requires all Californians to maintain minimum health care coverage and establishes a state penalty for failure to do so; and
- Allocates Proposition 56 tobacco tax revenues to, among other things, Medi-Cal provider rate increases, payment reform, workforce programs and trauma screening for Medi-Cal recipients.

Healthy California for All Commission

The budget revises the focus of the five-member Council on Health Care Delivery Systems (approved in the 2018 Budget Act), renames it the Healthy California for All Commission (Commission) and increases its membership from five to 13. The Commission is charged with developing options for achieving health care delivery through a unified financing system, including, but not limited to, developing a single-payer financing system for all Californians. The budget requires the Commission to submit specified reports in 2020 and 2021 to the legislature and the governor outlining the options and key considerations in transitioning to a unified financing system.

Health Care Coverage and Affordability

Medi-Cal Expansion to Undocumented Young Adults

The budget includes $98 million ($74.3 million General Fund) to expand eligibility for full-scope Medi-Cal (California's Medicaid program) to an estimated 90,000 undocumented, low-income young adults 19-25 years of age.

Background. Undocumented individuals are not eligible for federal Medicaid, except for emergency and pregnancy-related services (sometimes referred to as restricted scope Medicaid) and states cannot receive federal Medicaid matching funds for other services for these individuals. In 2016, California established a state program, using state funds to make up for the lack of federal match, to extend comprehensive Medi-Cal coverage to all low-income children up to age 19 regardless of immigration status. In subsequent years, the legislature has considered but failed to pass multiple budget and legislative proposals to cover undocumented adults.

"Full-scope Medi-Cal" is the comprehensive program that covers primary and preventive medical care, prescription drugs, dental, mental health, and substance use treatment, among other benefits. The budget extends full-scope coverage to low-income young adults 19-25 regardless of immigration status.

For more information on the complex set of programs and services available to California immigrants, see the ITUP Fact Sheet, *Health Care Programs for California Immigrants* (released prior to the final budget).

Medi-Cal Expansion for Low-Income Seniors Not Covered under ACA

The budget appropriates $124.9 million ($64 million General Fund) to extend full-scope Medi-Cal to seniors with incomes up to 138 percent FPL (household income of $17,237 for an individual). This expansion makes qualifying seniors eligible for the same coverage as low-income adults 19-64 with incomes up to 138 percent FPL.

Background. Under the ACA, most uninsured adults under age 65 with incomes up to 138 percent FPL became Medi-Cal eligible, but the ACA Medicaid expansion does not cover adults 65 and over.

In California, low-income seniors and persons with a disability access comprehensive Medi-Cal coverage under the Aged and Disabled (A&D) Program. The A&D program covers seniors and persons with a disability with incomes up to 100 percent FPL, plus a standard income disregard of $230 for an individual and $310 for a couple, establishing the income limit at approximately 124 percent FPL ($15,613 annual income for an individual). Above 124 percent FPL seniors pay a monthly out-of-pocket amount (share of cost), similar to a health insurance deductible, before Medi-Cal coverage begins.

The budget extends Medi-Cal eligibility to an estimated 27,000 seniors whose income for eligibility purposes is calculated to be 124-138 percent FPL.

State Individual Coverage Requirement

The budget includes a requirement that all Californians maintain a minimum level of health insurance coverage, or pay a penalty, unless they qualify for an exemption.

Background. The ACA includes a minimum coverage requirement, and federal tax penalty, but Congress set the penalty at $0 beginning January 2019.

New enrollment in Covered California dropped significantly following the elimination of the federal penalty. In response, Governor Newsom proposed the individual mandate along with additional state financial assistance as outlined below. 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.*

Covered California will develop the structure for the coverage requirement and the penalty, including any exemptions, and the state Franchise Tax Board will administer the tax penalty.

State Financial Assistance for Individuals Enrolled in Covered California

The budget includes a total of $1.45 billion over three years for state-based financial assistance, beyond existing federal ACA subsidies, to increase affordability for individual coverage in Covered California. The funding will come, in part, from the penalties Californians will pay for not having a minimum level of health insurance coverage as described above.

Background. Under the ACA, individuals with incomes at 100-400 percent FPL ($48,560 for an individual and $100,400 for a family of four) buying individual coverage through a state marketplace are eligible for premium tax credits to reduce the premiums they pay. California is the first state to offer state-based financial assistance for middle income individuals to help them afford coverage.

In January, the legislature introduced proposals to provide state-based financial assistance and Governor Newsom included similar language in his proposed budget. The final budget provides state assistance for individuals with incomes between 200-600 percent FPL (up to $72,840 for individuals and $150,600 for a family of four.)

Covered California projects that 187,000 people will become newly insured in coverage year 2020 with this budget deal.[1]

For 2019-20, the budget includes $428.6 million to be allocated as follows:

- 17 percent for individuals with incomes 200-400 percent FPL, and
- 83 percent for individuals with incomes 400-600 percent FPL, and to reduce premiums to $0 for an estimated 20,000 individuals with incomes at or below 138 percent FPL who are not eligible for Medi-Cal, primarily Lawfully Present Immigrants (LPI), including immigrants with Temporary Protected Status (TPS). For more on immigrant categories see the ITUP Fact Sheet, *Health Care Programs for California Immigrants* (released prior to the final budget).

In determining federal financial assistance amounts, individuals' year-end income is reconciled with their projected income at the start of the coverage year. For individuals above 400 percent FPL at year-end, they must repay some of the subsidies they received, while individuals at or below 400 percent FPL by year-end will hit a repayment dollar cap. Covered California will consider the structure for state repayment caps and will report back to the board in August.

Other Medi-Cal Budget Issues

Restoration of Optional Benefits

The final budget includes $17.4 million General Fund for 2019-20 ($40.5 million in future years) to restore for three years most of the Medi-Cal optional benefits eliminated during the 2009 recession, including audiology, incontinence creams/washes, optical, podiatry, and speech therapy. Suspends funding on December 31, 2021 unless certain conditions are met.

Background. Federal law requires states to provide specific mandatory benefits in their Medicaid programs and allows states to add other "optional" benefits. Federal matching funds are available for both optional and mandatory Medicaid benefits.

In 2009, California eliminated various optional Medi-Cal benefits to help address a significant budget deficit. Previous state budgets have restored some of these optional benefits such as adult dental. With this year's budget action, chiropractic care is the only previously eliminated optional benefit not restored in Medi-Cal.

Renewal of the Managed Care Organization (MCO) Tax

The budget authorizes the state to pursue renewal of the federal authorization for the MCO tax which allows the state to draw down more than $1 million in federal Medicaid matching funds for the revenues collected. Federal authority for the MCO tax is scheduled to expire on July 1, 2019.

Background. To renew the MCO tax, the administration must secure federal approval. The Senate and Assembly budget committees estimated between $858 million - $1.4 billion in federal revenue the state could receive. The final budget does not estimate General Fund savings tied to receiving federal matching funds with an MCO tax. The Newsom Administration has expressed concerns about securing a renewal of the MCO tax given uncertainty under the Trump Administration.

Transition of Pharmacy Services in Medi-Cal Managed Care (MCMC) to Fee-for-Service

The Governor proposed to transition pharmacy services under MCMC to the Medi-Cal Fee-for-Service (FFS) program. The final budget directs the Department of Health Care Services (DHCS) to establish a pharmacy advisory group to inform and receive feedback from stakeholders on the anticipated changes for managed care plans and beneficiaries. DHCS must update the advisory group and other stakeholders on anticipated changes to beneficiary access to medications and expected savings resulting from the transition.

Background. On January 7, 2019, the governor issued an executive order directing various state agencies to take actions intended to lower prescription drug costs. The executive order directs DHCS to transition the MCMC pharmacy benefit to the Medi-Cal FFS program by 2021. According to the Legislative Analyst's Office, under current state law, the administration has the authority to carve-out the pharmacy benefit from managed care contracts without additional legislative authority.

The Governor has argued that the state can effectively negotiate better drug prices and estimates $393 million in annual General Fund savings beginning in 2022-23.

Allocation of Proposition 56 (Prop 56) Tobacco Tax Revenues

The budget allocates tobacco tax revenues under Proposition 56 as follows:

- $2.7 billion ($824.1 million Prop 56 funding plus federal Medicaid match) for supplemental provider payments to physicians, dentists and other Medi-Cal providers. This amount includes $500 million ($50 million Prop 56 funding) for family planning services. Additionally, authorizes funding for the following two fiscal years.

- $544.2 million ($250 million Prop 56 funding) for three years to establish a Value-Based Payments Program that provides provider incentives, through MCMC plans, to meet specific performance measures related to clinical care,
- $105 million ($52.5 million one-time Prop 56 funding) for developmental and trauma screenings,
- $50 million ($25 million one-time Prop 56 funding) for provider training to deliver trauma screenings,
- $120 million in additional one-time funding for the Physicians and Dentists Loan Repayment Program through CalHealthCares. Last year's budget appropriated $220 million in Prop 56 funding for CalHealthCares. To be eligible for loan repayment, practitioners must be Medi-Cal providers and agree to maintain a patient caseload of at least 30 percent Medi-Cal beneficiaries.

Background. California levies a $2.87 per pack tax on cigarettes, including the $0.87 tax added in 2016 when voters passed Prop 56. Prop 56 also taxes tobacco products. Funds from Prop 56 serve various purposes, including provider rate increases aimed at ensuring timely access to quality care for Medi-Cal beneficiaries. To date, policymakers have appropriated Prop 56 revenues for supplemental provider payments, managed care rate increases, loan repayment programs, and for year-over-year growth in Medi-Cal expenditures.

New Funding for Whole Person Care (WPC) Pilots

The budget includes $120 million one-time General Fund for the WPC pilots. Implemented under California's current §1115 federal Medicaid waiver, known as Medi-Cal 2020, the WPC pilots coordinate health, behavioral health, and social services for individuals who access multiple systems of care. The final budget includes $100 million to existing WPC pilots for supportive housing services for homeless, mentally ill beneficiaries and $20 million for counties without WPC pilots to implement programs focused on coordinating health, behavioral health, and social services for similarly vulnerable beneficiaries.

Health Home Program Implementation Timeline

The budget extends the timeframe funds are available for the Health Home Program (HHP) implementation from June 30, 2020 to June 30, 2024. The HHP provides enhanced care coordination services for members with certain chronic health conditions and/or a serious mental illness. MCMC plans in San Francisco County began implementing the HHP on July 1, 2018. MCMC plans in 13 additional counties have begun or are planning to implement the HHP in phases, with the last health plan implementing on January 1, 2020. The timeline extension in the budget is consistent with the current timeline for implementing this program.

Background. States implementing the HHP are eligible for an enhanced federal match for a two-year implementation period. As in California, the implementation period can be phased-in. In California, the state does not provide the state match (nonfederal share) to implement HHP. To support care coordination services, the California Endowment (TCE), a private nonprofit foundation, provides the funding for HHP implementation to help secure the enhanced federal match.

Health Enrollment Navigator Funding

The budget includes one-time, two-year funding of $60 million ($30 million General Fund) for health enrollment navigators to reinstate and continue this enrollment support for Medi-Cal beneficiaries. Navigators provide outreach, enrollment, retention, and utilization assistance in Medi-Cal.

Background. In 2014, as mentioned, the ACA expanded Medicaid to new populations. To supplement county efforts to enroll newly eligible populations, TCE provided DHCS with $12.5 million for health enrollment navigators. These funds were exhausted by June 30, 2018.

Multipurpose Senior Services Program (MSSP) Rate Increase

The budget includes $14.8 million in a one-time, three-year General Fund appropriation for supplemental rate increases benefiting local MSSP sites. MSSP is a 1915(c) Home and Community-Based Services federal Medicaid waiver program, providing care management and supplemental services to assist Medi-Cal beneficiaries age 65 and older at risk of nursing facility placement remain at home.

Behavioral Health Services

The budget includes the following augmentations for behavioral health services in Medi-Cal:

- $8.4 million ($2.6 million General Fund) to expand for three years the Screening, Brief Intervention, and Referral to Treatment (SBIRT) program currently used in Medi-Cal to include screening for the overuse of opioids and illicit drugs.
- One-time $20 million General Fund to hire trained substance use disorder (SUD) and behavioral health peer navigators for emergency departments of acute care hospitals.
- $8.6 million General Fund to extend for three years Medi-Cal eligibility from 60 days to one year for post-partum women diagnosed with a maternal mental health condition.

Mental Health Services Act (MHSA)

Establishing Youth Drop-In Centers

The budget includes $15 million in one-time MHSA funds to establish local centers that will provide integrated youth behavioral health services. The centers are intended to support young people unwilling or hesitant to access behavioral health services in a traditional clinic setting. Centers may provide educational and vocational services along with mental health, physical health, substance use disorder (SUD), and social support services.

Mental Health Triage Grants

The budget includes $40 million one-time and $10 million ongoing MHSA funds for School-Mental Health Partnerships. Counties use these funds to place triage personnel in schools. The budget also includes $10 million in one-time MHSA funds for student mental health at the higher education level.

The Investment in Mental Health Wellness Act of 2013, SB 82 (Committee on Budget and Fiscal Review, Chapter 34, Statutes of 2013), authorizes $32 million annually in MHSA funds to add 600 triage personnel in select rural, urban, and suburban regions. The 2017-18 budget cut the amount available to $20 million and many counties subsequently reduced the number of triage personnel, with school-based personnel being especially hard hit. Triage personnel provide intensive case management and linkage to services for individuals with mental health disorders at various points of access.

Workforce

The final budget includes multiple new investments for workforce development, including medical training and scholarships.

Mental Health Workforce Development

The budget appropriates $46.3 million for mental health workforce development, $2.7 million for psychiatry fellowships, and $1 million to scholarships for former foster youth serving as mental health professionals in public clinics or provider shortage areas. These one-time General Fund expenditures target a growing health care workforce crisis in the state, with significant deficits in mental health providers.

UC Riverside, School of Medicine Expansion

The budget appropriates $80 million in one-time General Fund for construction of a new medical school facility and $25 million ongoing General Fund beginning in 2019-20 for operational support to expand enrollment at the medical school. California's health care workforce crisis has had a disproportionate impact on rural and remote areas, including the Inland Empire.

Workforce Education and Training (WET) Five-Year Plan

The budget appropriates $35 million one-time General Fund and $25 million one-time MHSA Funds for the 2020-25 WET Program Five-Year Plan, which supports and train individuals and providers working in mental health. The budget requires counties to match 33 percent of the state WET funds.

Proposition 64 (Prop 64) Substance Use Services for Youth

In 2016, the voters passed Prop 64 which legalized the sale of recreational marijuana and imposed a tax on these sales. The budget includes $21.5 million from the Prop 64 Youth Education, Prevention, Early Intervention and Treatment Account (Youth Account) for competitive grants to develop and implement new youth programs focused on education, prevention and early intervention related to SUDs.

Background. Prop 64 mandates that some marijuana tax revenue be distributed for specific purposes and directs 60 percent of the remaining funds to the Youth Account, administered by DHCS. With these funds and in collaboration with the Department of Public Health and the California Department of Education (CDE), DHCS administers specified programs for youth.

Social Determinants of Health - Homelessness

In this year's budget, policymakers prioritized funding addressing homelessness. The budget includes a total of $2.4 billion to address housing and homelessness. This funding includes $650 million in one-time funds to help local jurisdictions fight homelessness and $500 million in one-time funds to expand the Low-Income Housing Tax Credit program.

Background. The lack of stable housing impacts an individual's health and wellbeing. In 2005, a study found that people experiencing homelessness had an average life expectancy between 42 and 52 years, much less than the national average life expectancy of almost 80 years at the time.[2] Homeless Alameda County residents in 2017 shared how homelessness impacts their health by self-reporting health outcomes with 41 percent experiencing psychiatric or emotional conditions, 36 percent dealing with chronic health issues, and 27 percent living with a physical disability, among other conditions.[3]

[1] Covered California, AB 1810 Affordability Workgroup California State Subsidy Program Overview, June 21, 2019.
[2] O'Connell, James J., Premature Mortality in Homeless Populations: A Review of the Literature, December 2005.
[3] Applied Survey Research, Alameda County Homeless Census and Survey, February 1, 2018.