



2020-21 Proposed State Budget Health Care Highlights

January 22, 2020

Governor Newsom Introduces Proposed 2020-21 Budget New Initiatives and State Spending Advance Health Reform

On January 10, 2020, Governor Newsom introduced his proposed budget for fiscal year 2020-21, including targeted funding and new initiatives aimed at improving health care and coverage in California. This ITUP Legislative Update highlights major health-related items in the Governor’s proposed budget.

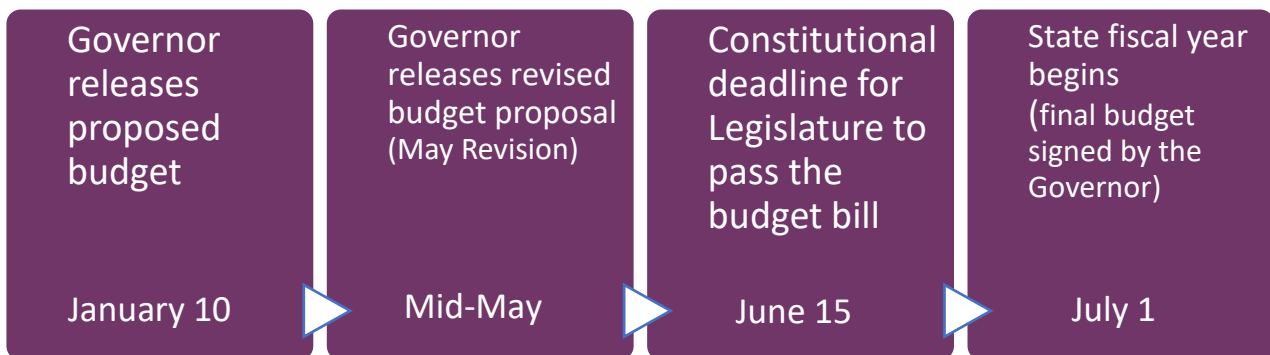
Budget Overview

The Governor’s budget proposes \$222.2 billion in total state funding, \$153.1 billion General Fund. The Governor proposes \$167.9 billion (\$47.5 billion General Fund) for all health and human services programs, including \$107.4 billion (\$26.4 billion General Fund) for California’s Medicaid program, Medi-Cal.

The budget for health-related programs and initiatives, among other things:

- Expands Medi-Cal to cover low-income adults 65 and over regardless of immigration status;
- Builds on 2019-20 budget initiatives to improve affordability in the individual health coverage market, proposing to further “strengthen California’s Public Option,” Covered California, and reduce prescription drug costs for taxpayers, employers and consumers;
- Funds the first installment of the Administration’s proposed Medi-Cal Healthier California for All (Medi-Cal Initiative) reform effort allocating \$695 million (\$348 million General Fund) effective January 1, 2021, growing to \$1.4 billion (\$695 million General Fund) in 2021-22 and 2022-23;
- Proposes to improve behavioral health services and outcomes through investments and program changes, including state-level reforms aimed at achieving better integration and parity of physical health and behavioral health treatment; and
- Invests new resources in areas impacting health, such as homelessness and housing insecurity.

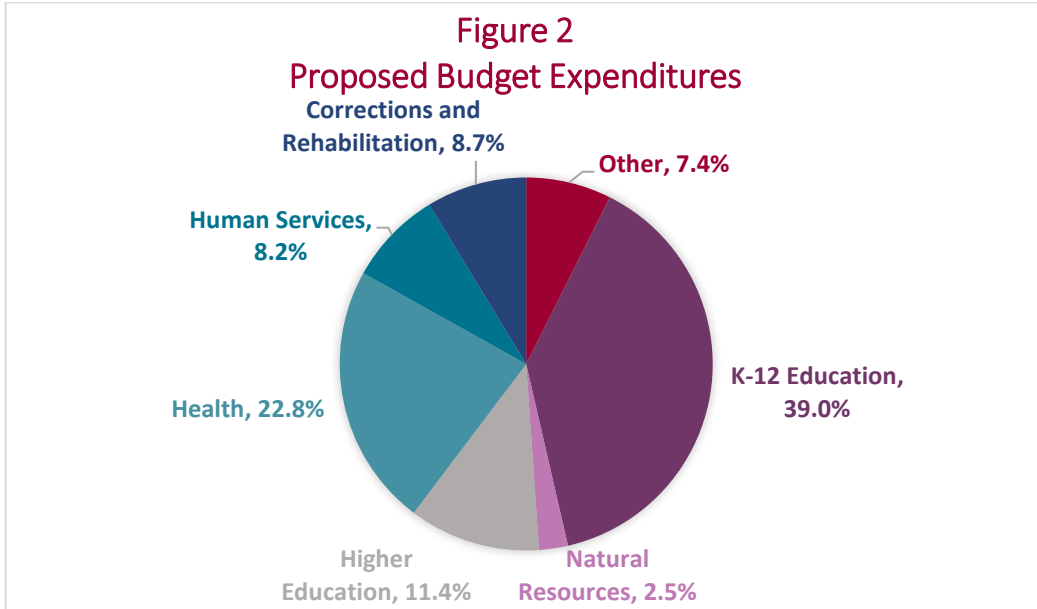
Figure 1
State Budget Timeline



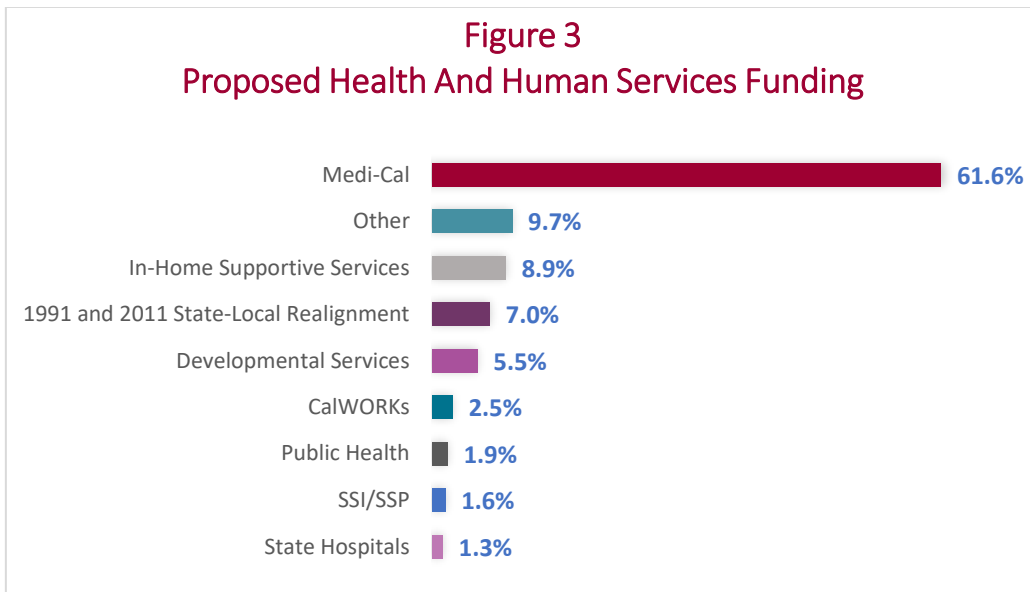


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Source: Department of Finance, [2020-21 Proposed Budget Summary Charts](#), January 10, 2020.
Chart prepared by the Insure the Uninsured Project.



Source: Department of Finance, [2020-21 Health and Human Services Proposed Budget Summary](#), January 10, 2020. Chart prepared by the Insure the Uninsured Project.



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Health Care Coverage and Affordability

Medi-Cal for all low-income seniors 65 and over regardless of immigration status

The budget proposes \$80.5 million (\$64.2 million General Fund) to extend Medi-Cal eligibility to an estimated 27,000 low-income seniors who would otherwise be eligible but for their immigration status, starting January 1, 2021. The cost will increase to around \$350 million (\$320 million General Fund) in 2022-23 ongoing, including \$5.9 million General Fund in 2020-21 and \$119.5 million General Fund in 2021-22 for In-Home Supportive Services (IHSS) costs for seniors enrolled under the expansion.

Background. The proposed Medi-Cal expansion continues the state's incremental movement toward universal coverage. The 2020 budget proposal builds on Medi-Cal coverage for all low-income children 18 and under implemented in 2016 and eligibility for low-income young adults ages 19-25 regardless of immigration status which was effective January 1, 2020.

Individuals newly covered through these eligibility expansions gain coverage to “full-scope” Medi-Cal, comprehensive health coverage with benefits similar to employer coverage. Undocumented adults, age 26-64 will continue to be eligible only for restricted scope Medi-Cal, which covers limited services such as emergency medical care, pregnancy-related services, and long-term care when needed. For more information on the recent Medi-Cal expansion for young adults, see the ITUP blog [Covering Undocumented Young Adults in Medi-Cal](#).

Office of Health Care Affordability

Governor Newsom intends to submit a proposal in the spring of 2020 to create this new Office. According to budget documents, the goal of the office will be to increase price and quality transparency, develop specific strategies and cost targets by the health care industry sector and impose financial consequences for entities that fail to meet the targets. The budget also proposes to address hospital cost differentials by region and focus on higher costs driven by industry consolidation. Finally, the budget states that the new Office will also reportedly establish standards that advance evidence-based and value-based provider payments.

Background. For decades, researchers and health care industry experts have documented wide differences in cost and pricing among health care providers within California, as well as compared to providers in other regions of the country. A recent [report](#) by the California Health Care Foundation (CHCF) found that California pays significantly more for common health care services than the rest of the country, and the gap has been widening. Various inpatient and outpatient services cost more in California than in other states, and they cost more in Northern California than in Southern California. The CHCF report also found that a critical factor in the fast growth of prices in California compared with the rest of the country is market concentration — including hospital consolidation and physician integration.



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California's Public Option

Governor Newsom proposes to “strengthen” California’s Affordable Care Act exchange, Covered California, referred to in the budget as “California’s public option.” The proposed budget calls for the California Health and Human Services Agency (CHHS) to develop options that will strengthen enrollment, affordability, and choice in Covered California, and “to leverage the statewide network of existing public Medi-Cal Managed Care Plans (MCPs).”

Background. California’s ACA marketplace, Covered California, has from its inception been unique in its approach to organizing the market for individual coverage. The enabling statute that created Covered California exceeded ACA minimum requirements and ensured Covered California would be an “active purchaser.” Covered California is a public entity that *selectively contracts* (chooses the health plans that will participate) with those public and private health plans that meet its goals related to premium pricing, network adequacy, regions served, quality standards and other criteria set by the statute and the Covered California Board.

Several other states currently implementing or considering a public option, including Washington and Colorado, are also looking at a similar “public-private partnership” administered by the state as a public option. ITUP will be taking a closer look at this proposal in an upcoming publication.

Prescription Drugs

The proposed 2020-21 budget includes three proposals and two additional initiatives to address the growing cost of pharmaceutical drugs in California. The administration proposes to use the state’s market power to lower the cost of prescription drugs for consumers, taxpayers, and employers. Three proposals expand the state role in negotiating prescription drug prices and purchasing:

- *Expand Medi-Cal Best Price Negotiations.* Proposes extending DHCS authority to negotiate state supplemental rebates for Medi-Cal which now uses the best prices offered by manufacturers within the U.S. Under the proposal, DHCS would also be able to use the best manufacturer prices offered internationally.
- *Negotiate Rebates for Non-Medi-Cal Drug Purchases.* The budget also proposes to authorize DHCS to negotiate supplemental rebates for non-Medi-Cal drug purchases, leveraging the Medi-Cal program’s purchasing power to negotiate rebates on behalf of “targeted populations” outside of Medi-Cal.
- *Expand the State Pharmaceutical Purchasing Program.* Proposes to expand the Statewide Pharmaceutical Program (SPP) administered by the Department of General Services (DGS). SPP allows state and local governments to access state-negotiated contracts for purchasing bulk pharmaceuticals and related pharmaceutical services. Currently, the following state departments participate in SPP: Department of State Hospitals, California Department of Corrections and Rehabilitation, California Correctional Health Care Services, Division of Juvenile Justice, and the Department of Developmental Services.



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The Governor intends to propose two additional prescription drug initiatives in spring 2020:

- *Golden State Drug Pricing Schedule.* This initiative calls for a “single market for drug pricing in the state” combining the purchasing power of Medi-Cal, California Public Employee’s Retirement System, Covered California, private insurers, and self-insured employers, to collectively negotiate prices and purchase pharmaceuticals. The combined market power would result in one of the largest single-purchaser systems for prescription drugs within the U.S. The administration also proposes that drug manufacturers be required to bid to sell their drugs in California and to implement a “most-favored-nation clause” requiring all drug manufacturers to bid prices in California at or below the price they are offering to any other state, nation, or global purchaser.
- *Generic Contracting Program.* This initiative envisions the state establishing its own generic drug label with the goal of increasing competition in the generic market.

Background. These budget proposals aimed at curbing the rising costs of prescription drugs follow [Executive Order N-01-19](#), which Governor Newsom signed in his first month in office, establishing the Medi-Cal Rx initiative in the Medi-Cal program. Under the order, starting January 1, 2021, all pharmacy services covered under Medi-Cal MCPs will revert to a fee-for-service (FFS) benefit in which the state directly negotiates and reimburses drug manufacturers and pharmacies.

According to the DHCS, this transition to FFS allows the state to manage all pharmaceutical drugs purchased through the Medi-Cal program. DHCS argues that Medi-Cal beneficiaries will have better access to prescription drugs and pharmacy services as a result of standardizing the program through a pharmacy network that includes 94 percent of the state’s pharmacies. The 2020-21 budget projects net General Fund savings of \$43.2 million and an overall savings of \$125.8 million associated with this transition, including the cost of new supplemental payments to community health centers described below.

340B Supplemental Payments

The 2020-21 proposed budget includes \$52.5 million (\$26.3 million general fund) to address the loss in 340B savings for non-hospital 340B clinics resulting from the transition of Medi-Cal pharmacy services to FFS. The administration proposes a new supplemental payment pool to manage payments to non-hospital 340B-eligible clinics.

Background. The 340B program is a federal program aimed primarily at assisting safety net providers by requiring participating drug manufacturers to offer discounted drug pricing to eligible entities, such as hospitals and community health centers serving vulnerable populations. Currently, Medi-Cal MCPs provide payments to providers for prescription drug services without taking into account the 340B discounts eligible providers receive. Many safety net providers “save” the



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difference between the MCP payments and their discounted cost of purchasing the drugs under 340B pricing and use the savings to fund in-house pharmacy or other clinic services and supports. The Medi-Cal Rx initiative eliminates those 340B savings for community health centers (and safety net hospital providers) and the budget proposal proposes to defray the losses for clinics.

Medi-Cal Healthier California for All (Medi-Cal Initiative)

The 2020-21 budget proposes funding for the first stages of the DHCS Med-Cal reform initiative, Medi-Cal Healthier California for All (formerly the California Advancing Improvements in Medi-Cal, or CalAIM). The Medi-Cal Initiative is a comprehensive multi-year reform plan that would impact all aspects of Medi-Cal: delivery system, benefits, eligibility, and rates. DHCS is currently conducting a stakeholder process with multiple workgroups to consider and refine the elements of the Medi-Cal Initiative.

The budget proposes \$695 million (\$348 million General Fund) for the Medi-Cal Initiative starting January 1, 2021, increasing to \$1.4 billion (\$695 million General Fund) in 2021-22 and 2022-23. The proposed funding would be specific to these components for the first six months of 2021:

- *Enhanced Care Management (ECM)*. Implement a new statewide Medi-Cal benefit through Medi-Cal MCPs that will replace the existing Whole Person Care and Health Homes programs. According to the DHCS Medi-Cal Initiative proposal, the intent of the new benefit is to provide multiple opportunities to engage high-cost or “high-need” Medi-Cal beneficiaries with a set of services that extend beyond standard care coordination and disease management, (\$225 million, \$112.5 million General Fund).
- *In-Lieu of Services (ILOS)*. Allow MCPs to provide ILOS as a new benefit, defined as payment for services or settings that substitute to avoid other services, such as inpatient hospitalization or a nursing facility stay, focusing primarily on medium-to-high risk beneficiaries. ILOS services are subject to federal Medicaid criteria and standards. (\$357.5 million, \$178.8 million General Fund).
 - Continue existing ILOS through MCPs in regions where they exist, such as housing transition services, sobering centers and recuperative/medical respite care (\$57.5 million)
 - Provide incentives to MCPs to develop and offer ECM and ILOS in regions where they do not exist today. DHCS proposes to eliminate this incentive funding in 2023-24, resulting in ongoing costs for these Medi-Cal Initiative components of \$790 million (\$395 million General Fund).
- *Dental Transformation Initiative*. Build on and expand successful elements of the existing DTI that will end in December 2020 (\$112.5 million, \$56.3 million General Fund).



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Background. In October 2019, DHCS unveiled CalAIM/Medi-Cal Initiative with the following stated goals:

- Identify and manage member risk and need through whole person care approaches and addressing social determinants of health;
- Work toward a more consistent and seamless system by reducing complexity and increasing flexibility; and
- Improve quality outcomes enhance health care quality and system transformation.

See the ITUP 2019 publication, [Medi-Cal Waivers Discussion Guide](#) for background and context on California's expiring federal Medicaid waivers and an overview of the Medi-Cal Initiative elements. ITUP will be taking a closer look at the MCHA in an upcoming publication. Stay tuned.

Other Medi-Cal

Reforming Nurse Facility Financing

The budget proposes reforming nursing facility financing to move away from a primarily cost-based funding methodology. DHCS proposes to reform the funding framework by tying a growing portion of future rate increases to quality measures. The new methodology and extended provider quality assurance fee would expire on December 31, 2024.

Background. The state provides annual cost-based and quality incentive payments to reimburse freestanding nursing facilities. Current quality incentive payments to nursing facilities rely on primarily cost-based methodology and associated provider quality assurance fees. The resulting revenue draws down additional federal funding. The existing nursing facility payment methodology, which was initially authorized in 2004, sunsets on July 31, 2020.

Behavioral Health Services

The proposed 2020-21 budget includes new and expanded behavioral health programs in multiple departments to address treatment for mental health and substance use disorders, including:

- *Behavioral Health Task Force.* A new Behavioral Health Task Force comprised of relevant state departments, counties, advocates, health plans, providers, and other stakeholders will review existing policies and programs and coordinate system changes aimed at better prevention and response to mental illness and substance use disorders in the state. The new task force, chaired by the Secretary of CHHS, will also review timely access to treatment, quality of care and enforcement of behavioral health parity laws and regulations.
- *Behavioral Health Quality Improvement Program.* New funding to be allocated to county-operated community mental health and substance use disorder systems to incentivize



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changes that will help counties prepare for the Medi-Cal Healthier California for All initiative. According to budget documents, system changes include implementing value-based provider payments for services, behavioral health integration, and enhanced data-sharing capabilities for care coordination (\$45.1 million General Fund in 2020-21 and \$42 million General Fund in 2021-22)

- *Mental Health Services Act (MHSA) Reform.* The Administration plans to submit a proposal for reform of the MHSA to better focus on people with mental illness who are experiencing homelessness, involved in the criminal justice system and for early intervention for youth. Background. Proposition 63, passed by voters on November 2, 2004, established the (MHSA) to support public mental health services through a one percent tax on personal incomes above \$1 million. Budget documents state that behavioral health service needs have evolved since passage of the MHSA necessitating an update of the program, including that MHSA funds cannot be used for substance use disorder treatment.
- *Systemic, Therapeutic, Assessment, Resources and Treatment Training.* Funding within the Department of Development Services to provide training on person-centered, evidence-based support services for individuals with developmental disabilities and mental health conditions (\$4.5 million, \$2.6 million General Fund).
- *Community Care Collaborative Pilot Program.* Funding over six years in the Department of State Hospitals to establish a Community Care Collaborative Pilot Program in three counties. According to budget documents, the goal of the program is to develop community-based treatment options for individuals with mental health needs designated as incompetent to stand trial (\$24.6 million General Fund in 2020-21 and \$364.2 million General Fund).
- *Mental Health Services for Veterans.* Permanent resources to improve behavioral health services at state-operated veterans' facilities homes by standardizing mental health support staffing (\$2.3 million General Fund).

Social Determinants of Health

Homelessness and Housing Support

In addition to funding for the Medi-Cal Initiative and reforms to MHSA that would include focus on services for homeless Californians, the proposed budget includes \$750 million one-time General Fund for the California Access to Housing and Services Fund (Fund) administered by the Department of Social Services. The goals of the additional funding include moving individuals into housing and increasing the number of available units by providing additional rental subsidies, developing new, affordable housing units, stabilizing board and care homes (residential care facilities), and interacting with landlords to assist clients with leases and housing.



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Background. In his first year in office, Governor Newsom took several steps aimed at addressing the housing and homelessness crisis in the state, including:

- *California Access to Housing and Services Fund.* The Governor Issued Executive Order [N-23-20](#) on January 8, 2020, which established the Fund, ordered the creation of a multi-agency state crisis response team to assist local governments and directed the DGS to identify state-owned land to temporarily house homeless individuals and provide camp trailers for temporary housing, health care, and social services.
- *Announced the 100-Day Challenge Initiative.* On December 5, 2019, the Governor [called for](#) California cities and counties to end homelessness for populations, such as veterans and youth by applying for Emergency Homelessness Aid funds included in the 2019-20 budget.
- *Funding in the 2019-20 budget.* The Governor and Legislature included \$1 billion in the 2019-20 budget to address homelessness, including \$650 million of emergency aid to local governments, \$120 million one-time General Fund to expand Whole Person Care pilots that provide housing services, and \$25 million for the Bringing Families Home program, which matches county funds to reduce homelessness for families part of the child welfare system.

Trauma- Adverse Childhood Experiences

The proposed budget includes \$10 million one-time General Fund for the development of an adverse childhood experiences (ACEs) training program that will be accredited by the Office of the Surgeon General. The program will consist of a series of trauma-informed trainings in key sectors, including education, government, and law enforcement.

Background. In 2019, Governor Newsom issued Executive Order [N-02-19](#), which established a Surgeon General position to address public health issues in California. The governor then [appointed](#) Dr. Nadine Burke-Harris to be the state's Surgeon General and address ACEs. The 2019-20 budget included \$105 million for developmental and trauma screenings as well as \$50 million for provider training on trauma screening delivery.

Other Health Care Items

California Cognitive Care Coordination Initiative

The budget proposes \$3.6 million one-time General Fund to establish a coordination and trainer program through the Alzheimer's Disease Centers to help families navigate the services and supports needed to care for their loved ones.

Center for Data Insights and Innovation.

The budget proposes to establish this center within CHHS, unifying the Office of Innovation, the Office of the Patient Advocate, and the Office of Health Information Integrity. According to the



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proposal, this center will attempt to improve use and quality of integrated data, which will enhance California's policymaking and programs.

Department of Early Childhood Development

The governor proposes the establishment of this department to unify the early childhood system. According to the proposal, this department will advance program integration and coordination.

Health Care Workforce Initiatives

In Home Supportive Services (IHSS). The budget proposes \$14.9 billion (\$5.2 billion General Fund) for the IHSS program. This proposal includes the IHSS costs devoted to low-income seniors eligible for the Medi-Cal expansion. In addition, the governor includes \$1.1 billion (\$523.8 million General Fund) in funding for planned minimum wage increases and \$3.7 million (1.9 million General Fund) in 2020-21 and \$240,000 (\$120,000 General Fund) ongoing to train county social workers and managers in conducting needs assessments and coordination for IHSS recipients.

Hearing Aids for Children

The proposed budget includes the creation of a Hearing Aids Grant Program, a non-Medi-Cal state program to assist families with the cost of hearing aids and related services, operated by DHCS. The program will cover the cost of hearing aids for children under 18 years old, without health insurance coverage of these services, living in households with incomes up to 600 percent of the FPL (annual income up to \$154,500 for a family of four), the same income eligibility levels for state financial assistance in Covered California. The budget proposes an effective date of January 1, 2021, and \$5 million General Fund in 2020-21, and \$10 million General Fund for full-year funding 2021-22.

Background. There is no existing law mandating coverage for hearing aids for private insurance. However, hearing aids are covered through California Children's Services (CCS) for children age 21 years and under in Medi-Cal if they meet certain qualifications, including a qualifying hearing loss.