



To: CHEAC General Membership

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RE: Governor's 2018-19 Budget Proposal

This morning, Governor Jerry Brown released his [2018-19 budget proposal](#), marking the last January budget release under his Administration. The budget summary highlights the state's economic recovery from the Great Recession, noting the state has increased spending through growth in education funding, expansion of the state's first Earned Income Tax Credit, and an increase to the minimum wage. The budget also notes the state's significant strides in paying down debt and saving for a rainy day.

True to form, the Governor began his press conference remarking upon the need to adopt a prudent budget that considers both the current needs of our state and prepares for the future. The Governor underscored California's heavy reliance upon a volatile tax system that generously provides revenues and warned against the imminent threat of California's 11<sup>th</sup> recession. The \$131.7 billion General Fund budget includes a \$6.1 billion surplus in revenues. The Governor's 2018-19 budget proposal dedicates \$3.5 billion of that surplus to the rainy day fund as a supplemental payment, achieving the constitutional target of \$13.5 billion in reserves.

**Federal Tax Reform.** Governor Brown's proposed budget acknowledges the recent federal tax reform measure that was signed into law late last month, indicating that millions of Californians will likely be significantly impacted by the measure. While the proposed budget does not take into account any federal tax changes, the May Revision will include analyses of the projected impact on the state economy and future revenues. The proposed budget points out that the repeal of the individual health insurance coverage mandate tax penalty, beginning in 2019 included in the tax reform measure, may result in disruptions to California's health insurance markets.

**Affordable Care Act (ACA).** Governor Brown's proposed budget warns that should previous efforts to repeal the ACA and remove health care coverage for millions of Californians be successful, the General Fund would be impacted to the tune of tens of billions of dollars annually and more than doubles Medi-Cal costs. The Governor's budget blueprint cautions that proposals by Congress to reduce funding for the ACA expansion population, and/or institute per capita caps and block grants, among others, would all have drastic impacts on

the state budget. The Governor's May Revision will make appropriate adjustments to reflect any federal action related to health programs that may occur in the coming months.

**Children's Health Insurance Program (CHIP).** In late December, Congress passed a short-term reauthorization of CHIP that extends the federal cost sharing ratio at an enhanced 88 percent federal match through March 2018. Governor Brown's proposed budget was completed prior to this Congressional action and instead reflects the non-enhanced federal match of 65 percent through FY 2018-19. The Governor's May Revision will include the savings of approximately \$150 million General Fund to account for the short-term reauthorization. While Governor Brown expressed optimism during his press conference that CHIP would receive a long-term reauthorization, the proposed budget did mention the dire impact on California in the absence of Congressional action, including a reduction to a 50 percent federal match and the loss of coverage for approximately 32,000 low-income children and pregnant women in California.

**AB 85 1991 Realignment Diversions.** The Governor's 2018-19 budget proposal estimates \$657.1 million and \$530.5 million will be redirected in FY 2017-18 and 2018-19 respectively. This reflects a decreased estimate for FY 2017-18 as the final 2017-18 budget estimated \$688.8 million being redirected to the State. The Governor's proposal also estimates a net true-up for FY 2015-16 of \$208 million, which includes roughly \$23.2 million owed to counties and \$231.1 owed back to the State.

As a brief background, after the passage of the Affordable Care Act and Medi-Cal expansion, the State anticipated counties would be spending less on indigent care, given more individuals would qualify for insurance through Medi-Cal or Covered California. Under this assumption, the State enacted AB 85 (Chapter 24, Statutes of 2013), which diverted health realignment dollars from the counties to the State. The State diverted either: 1) 60 percent of health realignment funding received in a given year; or 2) a specified amount of health realignment funding based on a formula that considered county revenues and costs. The State estimates the redirection in the Governor's January budget proposal and updates those revisions in the May Revision. Additionally, AB 85 included a true-up mechanism two years after the close of the fiscal year to determine what the actual county diversion should have been, based on updated county data.

The county-by-county numbers can be found [here](#).

**Cannabis.** The FY 2018-19 budget continues funding as approved in the [2017 Budget Act](#), for ongoing state cannabis regulatory activities related to the passage of Prop. 64, which legalized cannabis use for adults over the age of 21; however, the Administration states that the amount and timing of revenues generated by new cannabis taxes is uncertain and will depend on a variety of factors including local regulatory activity as well as cannabis price and consumption changes given the current precarious legal environment. The Administration therefore plans to defer all

cannabis-related budget proposals until the May Revision. The Governor's budget proposal does estimate cannabis excise taxes will generate \$175 million in the current budget year and \$643 million in 2018-19.

The Governor's budget proposal also assumes Prop. 64 funding for programs such as substance use disorder treatment programs, mitigating cannabis cultivation environmental impacts, and law enforcement activities, will be available starting in 2019-20 as they rely on tax proceeds collected in the prior year.

**Tobacco Tax Initiative – Proposition 56.** Passed by voters in 2016, Prop. 56 raised California's tax on cigarettes by \$2.00 a pack and went into effect on April 1, 2017. Revenues raised backfill Prop. 99, Prop. 10, the Breast Cancer Fund, and state and local governments, along with new revenues directed to the California Healthcare, Research and Prevention Fund. Recall new revenues are directed to enhanced law enforcement, research, physician training, dental programs, and existing tobacco prevention and control programs; however, the lion's share of new revenues (82 percent) is directed to the Medi-Cal program for provider payments and program growth.

The FY 2018-19 Budget estimates revenues generated by Prop 56 to be [\\$1.3 billion](#). Of that amount, \$850.9 million would be directed to DHCS for Medi-Cal: \$649.9 million for supplemental payments and rate increases for providers; \$169.4 million for new program growth; and \$64.5 million (\$31.6 million Prop 56 funds) for a 50 percent rate increase for home health providers.

The Governor's budget proposal indicates that DHCS will analyze whether payment increases to Medi-Cal providers for key services results in improved access to services for Medi-Cal beneficiaries. In the event that payment increases do not result in improved access, the Administration intends to work with the Legislature to modify the supplemental payments to providers in the Medi-Cal program.

Of note to local health departments, \$30 million will continue to be allocated for the State Dental Program, the funding used for the Oral Health Program, and \$125.9 million will be directed to existing tobacco prevention and control programs at CDPH.

**Public Freestanding Non-Hospital Based Clinics (PFNC) Supplemental Reimbursement Program.** The Governor's budget includes a proposal to repeal the PFNC Supplemental Reimbursement Program from statute resulting from a lack of interest in participation in the program. AB 959 (Chapter 162, Statutes of 2006) authorized the Department of Health Care Services to create the PFNC supplemental reimbursement program to allow public clinics to obtain federal reimbursement for services provided to Medi-Cal beneficiaries.

**340B Drug Billing.** The Governor's budget proposal would prohibit the use of the 340B Drug Pricing Program in the Medi-Cal program beginning July 1, 2019. The Administration cites

continued scrutiny and concern around the implementation of the 340B program across the nation and referenced a 2014 Office of the Inspector General report that highlighted inconsistencies in the identification of eligible prescriptions. The Administration believes that prohibition will enable the State to comply with federal law and eliminate higher costs being paid through Medi-Cal.

**CalWORKs Home Visiting Program.** Included in the Governor's proposed budget is \$26.7 million for a voluntary home visiting pilot program. The program is intended for young, first-time parents in the CalWORKs program and will leverage existing, evidence-based program models currently being implemented throughout the state. \$158.5 million one-time TANF funds are being reserved for this program through calendar year 2021. In the budget briefing hosted by the Health and Human Services Agency, Director Will Lightbourne of the California Department of Social Services mentioned the department's intent to collaborate with the California Department of Public Health, given their experience with other home visiting programs, and shared a target of January 2019 for implementation.

**Housing.** The Governor's budget proposal indicates that the Administration will continue their commitment to improving existing housing programs including the Affordable Housing and Sustainable Communities Program, the No Place Like Home Program, and the Veterans Housing and Homelessness Prevention Program; however, no new significant programs or spending are included.

**Poverty.** While the Governor's proposed budget does not include new proposals to counteract poverty in our state, it does note that roughly 14.3 percent of Californians live in poverty. The Governor emphasized continued investments in the budget aimed at addressing poverty in our state, such as:

- Raising the minimum wage, which increases to \$11 per hour in 2018;
- Expanding Medi-Cal eligibility under the Affordable Care Act;
- Restoring key benefits eliminated during the economic recession such as dental;
- Creating the state's first Earned Income Tax Credit;
- Increasing CalWORKs grants and repealing the maximum family grant rule that denied aid to children born to parents receiving aid; and
- Investing in child care and early education.

**Drinking Water.** The Administration intends to propose statutory language establishing a safe and affordable drinking water program that would provide grants, loans, and administrator contracts or services to assist eligible. Governor Brown proposes \$4.7 million for the State Water Board and the Department of Food and Agriculture to implement this new program. In addition, \$63 million in funding (obtained from the SB 5 California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Bond on the June 2018 ballot if approved by the voters) would be directed to the State Water Board to provide grants to public water systems in disadvantaged communities.

**Public Safety Communications.** In response to communication issues that arose during California wildfires, the budget proposes to direct \$11.5 million to the State Emergency Telephone Number Account (SETNA) to modernize the state's 911 system. The proposal would revise the current SETNA fee structure to a per-subscription flat-rate by expanding the fee to include data plans (capturing cell phones given that only intrastate voice plans are currently assessed).

**Budget Links:**

Governor's 2018-19 Proposed Budget:

<http://www.ebudget.ca.gov/>

DHCS 2018-19 Governor's Budget Highlights:

[http://www.dhcs.ca.gov/Documents/Budget\\_Highlights/FY2018-19\\_GB\\_Highlights\\_11018.pdf](http://www.dhcs.ca.gov/Documents/Budget_Highlights/FY2018-19_GB_Highlights_11018.pdf)

**Next Steps.** Over the coming weeks, the Legislature will begin hearing proposed budget items in addition to stakeholder proposals. The Senate is scheduled to convene a budget overview hearing on January 18 and the Assembly on January 23.

**Questions.** For questions on the items highlighted above or other budget-related inquiries, please feel free to contact the CHEAC office at (916) 327-7540.