



To: CHEAC General Membership

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RE: Governor's 2019-20 Budget Proposal

It has been a busy week for the Newsom Administration, kicking off with Governor Newsom's inauguration on Monday, a series of budget announcements and executive orders, and this morning's release of his [2019-20 budget proposal](#). In his opening comments, Governor Newsom forewarned that his presentation would be unlike the previous Administration and that he would be spending more time presenting the details of the budget. Newsom made good on that statement with a press conference stretching nearly two hours, discussing in-depth his budget proposals and fielding questions from members of the press.

Governor Newsom's FY 2019-20 Budget Proposal totals over \$209 billion (\$144 billion General Fund) and represents a four percent total increase from last year's budget. Newsom stressed the importance of exercising more discipline on one-time investments, particularly in anticipation of a potential economic downturn. The proposed budget includes the expenditure of \$4.8 billion to reduce unfunded pension liabilities, \$4 billion to pay off long-standing debt, and \$4.8 billion to strengthen the state's budgetary reserves. Newsom's budget proposal also adds \$700 million to the Safety Net Reserve created in the 2018 Budget Act, bringing the total of this account to \$900 million. In the event of an economic recession, these funds can be made available for Medi-Cal and CalWORKs.

Beyond the Newsom Administration's significant investments in paying down debt and strengthening budgetary reserves, the majority of proposed General Fund expenditures (81 percent) is slated to fund education and health and human services. Newsom highlighted a series of related proposals during his press conference, including a sizeable investment in emergency preparedness and response activities, expanding paid family leave, more than doubling the Earned Income Tax Credit, funding universal preschool, investing in early childhood initiatives, enhancing K-12 and higher education funding, and providing additional funding for housing and affordability efforts.

In a nod to the Brown Administration, Newsom stressed during his remarks the importance of maintaining the state's fiscal health, balancing volatile revenue bases and limited spending flexibility, and expanding opportunity and affordability to all Californians.

Additional details around the Governor's FY 2019-20 Budget Proposal of particular interest to CHEAC Members are detailed below:

Medi-Cal. Governor Newsom's budget proposal estimates the Medi-Cal budget at \$98.5 billion (\$20.7 billion General Fund) in FY 2018-19 and \$100.7 billion (\$22.9 billion General Fund) in 2019-20. The budget assumes caseload will decrease 1.19 percent from FY 2017-18 to FY 2018-19 and increase 0.39 percent from 2018-19 to 2019-20.

Prescription Drugs. As part of his plan to address the growing costs of prescription drugs, the Governor proposes to transition all Medi-Cal managed care pharmacy services to a fee-for-service benefit by January 2021 to allow for increased drug rebate savings and to allow the Department of Health Care Services (DHCS) to negotiate better drug prices for a larger pool of Medi-Cal beneficiaries. The Administration will also seek to strengthen the California Pharmaceutical Collaborative and, through the Legislature, create a bulk purchasing prescription drug program for both public and private payers.

Expanding Covered California Subsidies. The Governor's budget proposal increases the amount of existing Affordable Care Act (ACA) subsidies in Covered California and expands subsidies to middle income families between 400% and 600% FPL, which includes individuals earning up to \$72,840 and families of four earning up to \$150,600 annually. Funding would be derived from a state-level individual mandate.

Individual Mandate. Governor Newsom's budget proposal establishes an individual health insurance coverage mandate at the state level. Revenues generated by the penalty would then be used to fund increased subsidies through Covered California. The Administration estimates the individual mandate would generate roughly \$500 million annually. Recall, Congress eliminated the tax penalty of the ACA individual mandate as part of the federal tax reform measure passed in December 2017.

Medi-Cal Expansion to Undocumented Young Adults. The Governor's budget proposal expands Medi-Cal eligibility to undocumented young adults ages 19 through 25 who otherwise meet eligibility requirements. DHCS will propose trailer bill language to implement the expansion, which will begin no sooner than July 1, 2019, pending the necessary network approvals and system changes being implemented. The Administration estimates the cost to be \$260 million (\$196.5 million General Fund) by

the end of the first full year of implementation. Net costs to the state are estimated at \$133.5 million (General Fund).

AB 85 1991 Realignment Diversions. The Governor's 2019-20 budget proposal estimates \$617.7 million redirected in FY 2019-20. In addition, the Governor's budget proposal estimates a net true-up for FY 2016-17 to be \$307.2 which includes roughly \$7.8 million owed to counties and \$314.9 million owed to the state (which counties would transfer to the family support subaccount in lieu of a direct payment to the State).

After the passage of the ACA and the Medi-Cal expansion, the State anticipated counties would spend less on indigent care as more individuals are now qualified for insurance through Medi-Cal and 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 in a given year; or 2) a specified amount of health realignment based on a formula that considers county revenues and costs. The State estimates the redirection in the Governor's January budget proposal and updates those estimates in the May Revision. Additionally, AB 85 includes a true-up mechanism two years after the close of the fiscal year, to determine the actual county diversion based on the most updated county data and revenues. See below for additional proposed changes to AB 85.

The county-by-county numbers for FY 2016-17 Final Redirection are [available here](#) and FY 2019-20 Interim Redirection are [available here](#).

Changes to AB 85. To fund the Medi-Cal expansion to undocumented individuals ages 19-25, Governor Newsom proposes a change in the realignment redirection of non-formula-based AB 85 counties and CMSP from 60/40 to 75/25 beginning in FY 2019-20. DHCS will be releasing trailer bill language to modify the percentage of 1991 Realignment revenues to be redirected that will continue to offset General Fund costs to CalWORKs.

1991 Realignment and In-Home Supportive Services (IHSS). The Governor's 2019-20 budget proposal includes a [1991 Realignment Report](#) as required by SB 90 (Chapter 25, Statutes of 2017). Recall the 2017-18 enacted budget terminated the Coordinated Care Initiative (CCI) and ended the long-standing cost-sharing ratio between the State and counties for IHSS that would have resulted in a roughly \$600 million cost shift to the counties.

To mitigate this cost-shift, the FY 2017-18 enacted budget provided General Fund appropriations beginning at \$400 million in FY 2017-18 and decreasing to \$150 million ongoing in FY 2020-21. It also established a rebased county MOE and redirected 100

percent of health, mental health and CMSP VLF growth for three fiscal years (FY 2016-17 through FY 2018-19) and 50% for the following two fiscal years (FY 2019-20 through FY 2020-21). SB 90 also required the Department of Finance (DOF) to issue a report to reexamine the funding structure within 1991 Realignment, including whether 1991 Realignment revenues are sufficient to meet costs of realigned programs, whether IHSS program and administration costs are growing at a rate higher than the MOE and the impacts on the health, mental health, and CMSP subaccount, and other social services programs.

The report included the following recommendations, which were included in Governor Newsom's 2019-20 budget proposal:

- Beginning in FY 2019-20, VLF growth from the Health, Mental Health, and CMSP Subaccounts to the Social Services Subaccount would stop.
- Beginning in FY 2019-20, the CMSP Board would no longer receive *any* growth until the Board's operating reserves fall below three months, indicating the current reserve of over \$360 million.
- Distribute general growth to counties in proportion to their respective bases. Note, the health subaccount would continue to receive 18.4545 percent of the General Growth.
- Reset the county IHSS base costs in 2017-18 using historical state-county cost-sharing ratios.
- Consistent with current law, apply a 5-percent growth factor in FY 2018-19 and 7-percent in 2019-20.
- Rebase the IHSS MOE in FY 2019-20 with a 4-percent inflation factor beginning in FY 2020-21, eliminating the General Fund mitigation beginning in FY 2019-20.
- Provide a General Fund allocation for county IHSS administrative costs.
- Discontinue the accelerated approach to calculating caseload and return to the original methodology.
- The Administration estimates the total General Fund costs above those included in the 2017-18 budget are:
 - FY 2019-20: \$241.7 million
 - FY 2020-21: \$369.4 million

- FY 2021-22: \$454.4 million
 - FY 2022-23: \$697.3 million (including the \$150 million General Fund assumed under the current law mitigation)
- The Governor's budget also proposes that once the minimum wage reaches \$15 the county-state sharing ratio for costs in excess of the minimum wage would then move to 65 percent (county) and 35 percent (state).

IHSS Restoration. Restores the 7-percent across-the-board reduction to authorized IHSS hours that would result in a \$342.3 million cost to the General Fund.

Sexually Transmitted Diseases (STDs). A \$2 million (General Fund) continuous appropriation would be provided to local health departments for the prevention of STDs. Recall, \$2 million (General Fund) in one-time funding was included as part of the 2018-19 Budget.

Home Visiting. With a substantial investment in early childhood programs, the proposed budget includes investments in home visiting programs for pregnant women and children for both CalWORKs eligible families and for existing home visiting programs provided through the California Department of Public Health (CDPH). The proposed budget provides \$78.9 million (total funds) will be provided for home visiting services in CalWORKs. Meanwhile, \$23 million in state General Fund is proposed for the California Home Visiting Program (CHVP), with approximately \$21 million of that amount for local assistance purposes. The budget narrative notes that this expansion of the CHVP will provide a wider range of home visiting models "based on varying family needs."

Black Infant Health Programs. The Governor's budget proposal expands the Black Infant Health Program with an additional \$7.5 million in General Fund (\$7 million local assistance).

Proposition 56 – Tobacco Tax Initiative. Proposition 56 was passed by voters in 2016 and increased California's tax on cigarettes by \$2.00 per pack. Revenues backfill Proposition 99, Proposition 10, the Breast Cancer Fund, and state and local governments, along with new revenues directed to the California Healthcare, Research, and Prevention Fund. These new revenues are used for enhanced law enforcement, research, physician training, dental programs, and existing tobacco prevention and control programs. The bulk of new revenues, however, are dedicated to Medi-Cal program provider payments and program growth.

The FY 2019-20 budget proposal estimates Proposition 56 revenues at [\\$1.45 billion](#), which includes:

- \$1.05 billion will be dedicated to Medi-Cal supplemental payments and rate increases for health care providers, care facilities, and specified health services.
- \$28.8 million is slated to go to the State Dental Program for the Oral Health Program. While Proposition 56 provides \$30 million for these purposes, it also includes language that allows this allocation to be adjusted based on the priority order established to distribute Proposition 56 funding. According to CDPH, this will result in a decrease in funding provided to local health jurisdictions in FY 2019-20.
- \$137 million will be directed to existing tobacco prevention and control programs at CDPH.

In addition to the below ACEs and developmental screening proposals, other new notable investments using Proposition 56 funds include:

- **Value-Based Payment Program (VBP)** – \$360 million (\$180 million in Proposition 56 funds) to establish incentive payments to Medi-Cal managed care providers for meeting specific goals and measures aimed at improving care for specified high-cost or high-need populations. These risk-based incentive measures will primarily target areas such as behavioral health integration, prenatal and post-partum care, and chronic disease management.
- **Medi-Cal Family Planning Services** – \$50 million (Proposition 56 funds) will be directed to a Medi-Cal family planning supplemental payment program. These services are eligible for an enhanced federal match, and the Administration anticipates that California's \$50 million investment could result in up to \$500 million in supplemental payments.

Adverse Childhood Experiences (ACEs). Governor Newsom's budget proposal provides \$45 million (\$22.5 million in federal funds and \$22.5 million in Proposition 56 funds) to DHCS for ACEs screenings for children and adults enrolled in Medi-Cal. Under this proposal, ACEs screenings will be required for children and adults under age 65 at least once every three years and additional health and social service referrals are expected based on screening results. DHCS will work with stakeholders to develop a screening tool for children and will continue utilization of an existing adult assessment tool.

Developmental Screening. The budget proposal provides \$60 million (\$30 million in federal funds and \$30 million in Proposition 56 funds) to DHCS to increase developmental screenings for children. These screenings would assess a child's educational, social, and

emotional development and would occur for children at nine months, 18 months, and 30 months of age.

Alzheimer's Disease and Brain Health Task Force. A continuous appropriation of \$3 million (General Fund) is included in the Governor's proposed budget for the CDPH Alzheimer's Disease Program. These funds would support new research grants studying the disproportionate impact of Alzheimer's disease on women and communities of color. The funding would also support the creation and implementation of a new Governor's Task Force on Brain Health.

Cannabis. The Newsom Administration scaled back the cannabis tax revenue estimates in the FY 2018-19 enacted budget from \$630 million to \$355 million for the current fiscal year in an acknowledgement that the industry is still ramping up. Cannabis tax revenues for FY 2019-20 are estimated at \$514 million. Noting the timing on tax receipts, all Proposition 64 program allocations will not be detailed until the May Revision.

Whole Person Care. As part of California 1115 Medicaid Waiver, Whole Person Care is an initiative to coordinate health, behavioral health, and social services of high-cost and high-need Medi-Cal beneficiaries. 25 pilot programs are currently in place throughout the state and are led by local jurisdictions. The Governor's proposed budget includes \$100 million (General Fund) one-time funding for supportive housing services for individuals who are homeless or at risk of becoming homeless. A specific focus will be placed on individuals with mental illness. These funds would be available for expenditure through FY 2024-25. In the Health and Human Services budget stakeholder call, DHCS mentioned they would be working to determine an allocation methodology.

Homelessness. While the Administration and the Legislature were successful in prior efforts to expand permanent supportive housing through the No Place Like Home Act and the Veterans and Affordable Housing Bond Act, and temporary housing through the Homeless Emergency Aid Program and SB 2, Governor Newsom's budget proposal continues to build upon those investments with a one-time General Fund investment of \$500 for jurisdictions that site and build emergency shelters, navigation centers, or supportive housing. Funds would be directed as follows:

- \$300 million would be directed to jurisdictions that establish regional plans, with coordination between cities and counties that must report current funds (including MHSA funds, Realignment funds, and other local dedicated funding sources), to expand or develop shelters and navigation centers.
- \$200 million would be awarded to jurisdictions that show progress toward building/permitting supportive housing units and constructing shelters. Additional investments include streamlining the CEQA process, developing a

statewide policy to use Caltrans airspace for emergency shelters, and continuing to fund the Housing and Disability Advocacy Program. Governor Newsom also announced plans to soon name a homeless czar to oversee this critical area.

Mental Health. Governor Newsom highlighted emerging challenges related to the state's mental health needs, including an increasing homelessness population, workforce development, and early intervention strategies. Among the Administration's most significant mental health-related investments are:

- **Mental Health Workforce** – \$50 million (General Fund) one-time funding to increase training opportunities for mental health workforce programs. Funding will be administered by the Office of Statewide Health Planning and Development (OSHPD) in collaboration with universities, health clinics, and philanthropic organizations.
- **Early Psychosis Research and Treatment** – \$25 million (General Fund) one-time funding to develop better detection and intervention methods for psychosis, particularly among young people. Funding will be dedicated to projects that demonstrate innovative approaches to identify and intervene when a young person has experienced a first episode of psychosis.

Health Care Workforce. Recall, in the 2017-18 Budget, \$100 million for three years was dedicated to OSHPD for health care workforce development initiatives and efforts. Governor Newsom's proposed budget continues support of this health care workforce development initiative with a \$33 million (General Fund) continuing appropriation beginning in 2020-21. This funding is in addition to the funding detailed above in the mental health workforce development section.

Emergency Preparedness and Response. On his first full-day in office, Governor Newsom announced significant actions and investments to protect Californians from the growing threat of wildfires and other natural disasters. In addition to providing General Fund backfill for wildfire property tax revenue losses, waiving local debris removal cost sharing requirements, and substantial proposals to increase fire prevention resources, the 2019-20 budget proposes an additional \$172.3 million to improve the state's emergency response and preparedness capabilities. Proposed outlays to the Office of Emergency Services (OES) include the following:

- A one-time \$60 million investment (\$10 million in FY 2018-19 and \$50 million in 2019-20) to upgrade the California Public Safety Microwave Network from an analog system to a digital system. Legislation will also be proposed to modernize the State Emergency Telephone Number Account (SETNA) fee structure.

- \$16.3 million one-time General Fund appropriation to finish the build-out of the California Earthquake Early Warning System.
- \$25 million in ongoing General Fund for the Mutual Aid System to reposition existing OES and local government resources.
- A one-time \$50 million General Fund appropriation to begin a comprehensive, statewide education campaign on disaster preparedness and safety. Local grants will also be made available through this funding source to address local and regional needs.

Budget Links:

Governor's 2019-20 Proposed Budget:

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

DHCS 2019-20 Governor's Budget Highlights:

https://www.dhcs.ca.gov/Documents/Budget_Highlights/FY2019-20-GB-Highlights.pdf

CDPH 2019-20 Governor's Budget Highlights:

<https://www.cdph.ca.gov/Documents/CDPH%202019-20%20Governor's%20Budget%20Highlights%20FINAL.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 17 and the Assembly on January 29.

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.