



To: CHEAC General Membership

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Date: May 9, 2019

RE: Governor's 2019-20 May Revision

Today, Governor Newsom unveiled his May Revision to the 2019-20 budget proposal, totaling \$213.5 billion (\$147 billion General Fund) and reflecting an increase from the January budget of \$209 billion (\$144 billion General Fund). In his press conference lasting just over 90 minutes, Governor Newsom made sure to highlight the ratio of ongoing and one-time investments compared to January. January's ratio consisted of 86.4 percent one-time and 13.6 percent ongoing; however, the May Revision increases the percentage of one-time investments to 89 percent and decreases percentage of ongoing commitments to 11 percent.

Governor Newsom characterized the budget surplus as a "moving target", estimating a roughly \$500 million surplus for FY 2019-20. This net amount considers \$3.2 billion in additional revenues and the following actions to strengthen California's resiliency and pay down debts:

- An additional \$1.2 billion deposit into the rainy-day reserve, bringing the total reserve to \$16.5 billion in FY 2019-20;
- A \$1.1 billion deposit into Proposition 98; and
- Roughly \$390 million in debt repayments.

In the days leading up to the release of the May Revision, Governor Newsom, alongside First Partner Jennifer Siebel Newsom, previewed his "[Parents Agenda](#)" package of budget proposals, that includes a two-year sales and use tax exemption on diapers and menstrual products, funding to increase subsidized child care access, expanding the earned income-tax credit, and a two-week initial expansion of paid family leave.

Highlights of interest to local health departments are summarized below.

**Infectious Disease Funding.** CHEAC is pleased to see the Governor's May Revision includes a new investment of \$40 million one-time General Fund to local health departments and tribes to slow infectious disease epidemics. The funding would be available over a four-year period for prevention, testing and treatment services. A joint press release issued by CHEAC and HOAC can be viewed [here](#). CHEAC will be working to confirm additional details regarding this funding in the coming weeks.

**Medi-Cal.** In May Revision, the Medi-Cal budget is estimated at \$93.5 billion (\$19.7 billion General Fund) in FY 2018-19 and \$102.2 billion (\$23.0 billion General Fund) in FY 2019-20. This decrease of approximately \$1 billion for FY 2018-19 from the January budget is largely due to shifts in timing for repayments to the federal government. Additionally, the decrease is attributable to increased savings for drug rebates and retroactive managed care payments, as well as changes in fee-for-service caseloads.

The Administration estimates Medi-Cal caseload will decrease by approximately 2.4 percent from FY 2017-18 to 2018-19 and increase by 0.02 percent from FY 2018-19 to 2019-20. Medi-Cal is projected to cover approximately 13 million Californians in FY 2019-20, including 3.8 million in the optional expansion population. The Governor's May Revision reflects an 8.5 percent state share of cost for the optional expansion population and includes \$19.6 billion (\$2.1 billion General Fund) in FY 2019-20 for this population.

**Individual Mandate.** The Governor's May Revision continues his proposal to create a state individual mandate to begin on January 1, 2020. While emphasizing that a mandate is not a tax, the Governor further underscored the intent of the individual mandate to retain a diversified risk pool, which keeps insurance premiums from spiking. The May Revision estimates the individual mandate penalty generating roughly \$317.2 million in FY 2020-21, \$335.9 million in FY 2021-22, and \$352.8 million in FY 2022-23.

**Expanded Subsidies.** Governor Newsom expands upon his January budget proposal to provide subsidies to middle-income Californians by further proposing to offer subsidies to individuals between 200 and 250 percent of the Federal Poverty Limit (FPL). Recall, his January budget proposal would provide new subsidies to individuals with incomes between 400 and 600 percent FPL and increased the subsidy amounts for individuals with incomes between 250 and 400 percent FPL. The May Revision includes General Fund expenditures of \$295.3 million in FY 2019-20, \$330.4 million in FY 2020-21, and \$379.9 million in FY 2021-22 to fund the subsidies, which would later be offset by individual mandate penalty revenues. Subsidies would sunset in three years. The May Revision also provides \$8.2 million ongoing General Fund to the Franchise Tax Board for implementation of the individual mandate and reconciliation of the subsidy payments.

**Full-Scope Medi-Cal Expansion for Undocumented Young Adults.** The Governor's May Revision accounts for a six-month delayed implementation, now set to occur no sooner than January 1, 2020. As a result, the budget proposal provides \$98 million (\$74.3 million General Fund) to expand full-scope Medi-Cal to undocumented young adults ages 19 to 25. The Administration predicts approximately 90,000 undocumented young adults would be served in the first year, with nearly 75 percent of these individuals already being in the Medi-Cal system.

**1991 Health Realignment AB 85 Changes.** The Governor's May Revision, as currently released, maintains the Administration's January proposal to increase the redirection of health realignment for specified counties to 75 percent. The Administration delays start of the

increased redirection by 6 months to align with the implementation of full-scope Medi-Cal to undocumented young adults. In Governor Newsom's press conference, when asked about the impact to specified counties, he indicated the Administration was "taking care of them." Additional information will be forthcoming.

However, the Governor's May Revision proposes to withhold realignment revenues from the CMSP Board until the Board's total reserves reach two years of annual expenditures. At that time, 75 percent of realignment to the CMSP Board would be diverted for AB 85 purposes.

**Proposition 56 – Tobacco Tax Initiative.** Recall, 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. The Governor's January budget estimated Proposition 56 revenues at \$1.45 billion, the bulk of which – \$1.05 billion – was slated for supplemental rate increases for Medi-Cal providers.

The May Revision includes an additional \$263 million in Proposition 56 revenues due to a one-time fund reconciliation. This additional revenue is proposed to be used on the following investments:

- \$120 million additional one-time funding for loan repayments of physicians and dentists who commit to serving Medi-Cal beneficiaries. Combined with amounts allocated in the 2018 Budget Act, the May Revision makes \$340 million available for the program over the next several years.
- \$70 million additional one-time funding for the Value-Based Payment Program (VBP), slated for behavioral health integration. With this additional funding, total funds for the VBP will be \$250 million for 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.
- \$25 million in FY 2019-20, \$20 million in FY 2020-21, and \$15 million in FY 2021-22 (total of \$60 million over three years) for training providers in conducting trauma screenings for adults and children in Medi-Cal as part of the Governor's January Budget proposal.
- \$11.3 million to restore optician and optical laboratory services for adult Medi-Cal beneficiaries.

In a nod to lower projected General Fund revenues over the coming years, as well as potential efforts to overhaul the state's health care system and lower costs, all Proposition 56 investments under the Department of Health Care Services (DHCS) are proposed to sunset on December 31, 2021, and will instead fund growth in Medi-Cal beginning in January 1, 2022.

**Health Care Workforce.** In addition to the proposed investment of \$120 million in Proposition 56 funding for the Medi-Cal loan repayment program, the May Revision also includes \$100 million in MHSA funds (one-time funding available over five years) for the new 2020-25 Workforce Education and Training (WET) Five-Year Plan. This plan will provide a framework of strategies that governmental entities, community partners, educational institutions, and other stakeholders may use to begin to address the shortage of mental health providers in the public mental health system.

**Prescription Drugs.** Governor Newsom's May Revision maintains its proposal to transition pharmacy services from Medi-Cal Managed Care to a fee-for-service (FFS) benefit. The Administration contends this transition will allow the state to secure better prices by allowing California to negotiate with pharmaceutical manufacturers on behalf of a larger population of Medi-Cal beneficiaries. While the transition is scheduled to occur in January 2021, savings will not be immediately realized; savings from the transition are estimated at \$393 million General Fund by FY 2022-23.

**Managed Care Organization Tax.** One item still not included in the Governor's May Revision is the managed care organization (MCO) tax, set to expire June 30, 2019. Despite the tax generating \$1.5 billion in revenue, the Administration reaffirmed their decision to not pursue a renewal and alluded to concerns with securing federal approval.

**Home Visiting.** Governor Newsom continued to tout his Administration's focus on early childhood education and development initiatives and proposed additional investments in the May Revision, including for home visiting activities. Recall, the Governor's January budget included \$23 million in General Fund for the California Home Visiting Program (CHVP). An additional \$22.9 million is reflected in the May Revision from federal Medicaid Title XIX matching funds not previously included in the Governor's January budget.

The Governor's January budget also included \$78.9 million for home visiting services in CalWORKs. An additional \$10.7 million General Fund and federal Temporary Assistance for Needy Families (TANF) block grant funds is reflected in the May Revision, accounting for updated projections of CalWORKs cases eligible for these services. This total funding for FY 2019-20 amounts to approximately \$89.6 million and is expected to serve approximately 18,500 CalWORKs cases.

**Black Infant Health Program.** The Governor's January budget proposed to expand the Black Infant Health (BIH) Program through an additional \$7.5 million General Fund. Similar to the CHVP expansion, BIH and the Perinatal Equity Initiative is slated to receive an additional \$12 million in federal Medicaid Title XIX matching funds not previously included in the January Budget. The Newsom Administration indicates this additional investment will increase and improve participation in the program.

**Whole Person Care.** Recall, the Governor's January budget included \$100 million one-time General Fund for California's Whole Person Care (WPC) Pilots to provide supportive housing services for individuals who are homeless or at risk of becoming homeless, with a priority on individuals with mental illness. The Governor's May Revision maintains the \$100 million investment for WPC Pilots as previously proposed and includes an additional one-time \$20 million investment of Mental Health Services Act (MHSA) funds over five years for counties that do not currently operate WPC Pilots.

With this funding, the Newsom Administration indicates that additional counties will be able to develop and implement programs focused on coordinating health, behavioral health, and critical social services, such as housing. Similar to the initial proposal, priority will be given to individuals with mental illness who are also homeless or at risk of becoming homeless.

**Homelessness.** Governor Newsom spent considerable time discussing his homelessness proposals, which reflect changes from his January budget as a result of his listening sessions with local governments. Recall, the Governor's January budget included a one-time General Fund investment of \$500 million for jurisdictions to construct and expand emergency shelters and navigation centers.

The May Revision increases that amount from \$500 million to \$650 million and modifies the allocation of grants. Under the updated proposal, California's most populous 13 cities will receive \$275 million, counties will receive \$275 million, and Continuums of Care (CoC) entities will receive \$100 million based on the 2019 federal homeless point-in-time count. Funds are contingent on local jurisdictions submitting regional plans to their CoC entities that must ultimately be approved by the state. These additional funds will also be available for more innovative projects, such as hotel and motel conversions, traditional and non-traditional permanent supportive housing, rapid rehousing, and jobs programs.

**Cannabis.** As we pointed out in our January budget memo, the Newsom Administration scaled back cannabis tax revenue estimates as the industry continues to slowly build across the state. The May Revision again significantly adjusts the Administration's cannabis tax revenue estimates decreasing FY 2018-19 from \$355 million down to \$288 million and FY 2019-20 from \$514 million down to \$359 million. Once cannabis funding obligations for state administration, specified law enforcement activities, cannabis research and the Community Reinvestment Grant Program are met, the May Revision anticipates \$198.8 million will be available to fund what CHEAC deems as Tier 3 activities. These activities include youth education, prevention, early intervention and treatment, environmental restoration, and public safety enforcement activities. Funding would be allocated as delineated below:

*Education, Prevention, and Treatment of Youth SUD and School Retention*

- \$12 million to the California Department of Public Health (CDPH) for cannabis surveillance and education activities.

- \$80.5 million to the Department of Education to subsidize childcare for school-aged children or income-eligible families.
- \$21.5 million to DHCS for competitive grants to develop and implement new youth programs including education, prevention, and treatment of substance use disorders. On the May Revision stakeholder conference call hosted by the California Health and Human Services Agency, DHCS stated they would be convening a stakeholder advisory process to help them craft the competitive grant program likely focused on youth prevention and early intervention.
- \$5.3 million to the California Natural Resources Agency to support grants for youth community access to natural or cultural resources with a focus on low-income and disadvantaged communities.

*Clean Up, Remediation, and Enforcement of Environmental Impacts Caused by Illegal Cannabis Cultivation*

- \$23.9 million to the Department of Fish and Wildlife to support clean-up, remediation, and watershed restoration as well as enforcement activities to prevent further environmental degradation.
- \$15.9 million to the Department of Parks and Recreation to survey the impacts and identify unknown areas of cannabis cultivation, remediation and restoration of illegal cultivation on state park land, and to make roads and trails accessible for law enforcement patrol and program assessment.

*Public Safety Activities*

- \$2.6 million to the California Highway Patrol (CHP) for training, research, and policy development related to impaired driving and for administrative support.
- \$11.2 million to the CHP to fund grants to nonprofits and local governments for education, prevention, and enforcement of laws related to driving under the influence of alcohol and other drugs or other traffic safety programs.
- \$26 million to the Board of State and Community Corrections for competitive grants to local governments that have not banned cannabis cultivation or retail activities to assist with health and safety programs focused on youth prevention and intervention programs and to support collaborative enforcement efforts aimed at illegal cannabis cultivation and sales.

The May Revision also includes \$15 million in Proposition 64 funds to provide grants to local governments to assist in the creation and administration of equity programs as well as to support equitable access to the regulated market for individuals through financial and technical assistance.

**Emergency Preparedness and Response.** In the January budget, the Governor proposed \$172.3 million to improve the state's emergency response and preparedness capabilities with

investments in the California Public Safety Microwave Network, building out the California Earthquake Early Warning System, funding for the Mutual Aid System, and funding for a statewide disaster preparedness education campaign. The May Revision expands the Newsom Administration's investment in disaster preparedness and response with an additional \$39.9 million (\$38.6 million General Fund). Those investments include:

- \$5.9 million and 76 positions to the Office of Emergency Services (OES) to enhance OES capacity to respond to future disasters.
- \$2 million to the Department of Housing and Community Development to create a permanent Disaster Response and Recovery Unit.
- \$1 million to the State Water Resources Control Board to improve emergency response capabilities between the State Water Board, regional boards, and other state entities during emergencies.
- \$2.8 million to the Department of Resources Recycling and Recovery establishing a dedicated team to help facilitate timely, safe, and effective debris removal operations.
- \$979,000 (ongoing) to the EMS Authority to increase disaster medical services capacity, including coordination of medical assets and one-time purchases of medical treatment and communications equipment.
- \$959,000 (ongoing) to CDPH to support health care facilities and mass care shelters, including the deployment of infection control teams.
- \$996,000 to the Department of State Hospitals to improve emergency coordination and preparedness to more effectively care for patients and coordinate staff during disasters.
- \$2.9 million (ongoing) to the Department of Social Services (CDSS) to support CDSS's mandated disaster planning, coordination, and training activities as they pertain to mass care and shelter responsibilities.

**Integrated SUD Treatment for CDCR Inmates.** The Governor included in his May Revision a broad proposal to combat alcohol and opioid addiction-related issues within California's 35 state prisons. With an investment of \$71.3 million in General Fund for FY 2019-20 and an ongoing \$161.9 million General Fund beginning in FY 2020-21, CDCR is directed to implement an integrated substance use disorder (SUD) treatment program including the use of medication-assisted treatment (MAT) for inmates with SUDs, a redesign of the current cognitive behavioral treatment curriculum, and the development and management of inmate treatment plans and SUD-specific pre-release transition planning. The MAT proposal would create a statewide treatment program for inmates with opioid use disorders including providing naloxone to inmates slated for release who are deemed at risk.

**Budget Links:**

Governor's 2019-20 May Revision:

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

DHCS 2019-20 May Revision Highlights:

[https://www.dhcs.ca.gov/Documents/Budget\\_Highlights/FY\\_2019-20\\_MR\\_Highlights.pdf](https://www.dhcs.ca.gov/Documents/Budget_Highlights/FY_2019-20_MR_Highlights.pdf)

Assembly Budget Committee May Revision Highlights:

<https://abgt.assembly.ca.gov/sites/abgt.assembly.ca.gov/files/Highlights%20of%20Governors%20Proposed%202019%2020%20May%20Revision.pdf>

**Next Steps.** The Legislature will begin to hear items related to the Governor's May Revision next week and will act on all items previously held open in the coming weeks. Conference Committees will also meet upon Budget Subcommittees concluding their business to reconcile issues where the Senate and Assembly Actions do not align. The Constitutional deadline for the Legislature to pass the budget is June 15.

**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.