



To: CHEAC General Membership

From: [Michelle Gibbons](#), Executive Director  
[Jack Anderson](#), Policy Analyst

Date: January 10, 2020

RE: Governor's 2020-21 Budget Proposal

This morning, Governor Newsom unveiled his \$222.2 billion (\$153.1 billion General Fund) budget plan for 2020-21. In a press conference held this morning, the Governor expressed the budget is not just a statement of values, but also a statement that sets the tone and tenor of prioritization. The nearly three-hour press conference began with the Governor highlighting the successes in our State, which include nearly 118 months of consecutive job growth, a record surplus, paying down unprecedented levels of debts and long-term obligations, leading the nation in start-ups, leading the world in higher education, and ranking number one in manufacturing. He noted his pride in being a Californian, of our state and our budget.

Newsom presented his 2020-21 proposal as a balanced budget through the forecast period (budget year plus three years). He also noted the budget plan continues to add to the state's rainy-day reserve, bringing the total to \$18 billion in the budget year and reaching \$19.4 billion by 2023-24. In addition, the budget proposal maintains a Safety Net Reserve of \$900 million, intended to fund Medi-Cal and CalWORKs in a recession.

The Governor also addressed differences in the Legislative Analyst's Office's estimated budget surplus as compared to the Administration's estimate of \$5.6 billion, largely attributing it to the Administration's exclusion of the state's managed care organization tax and differences in health and human services estimates. However, Newsom did emphasize the Administration's expectation that the MCO tax would be approved, and as a result, would delay the previously slated suspension of various programs by 18 months to July 2023.

The Governor did invoke fiscal prudence, indicating that expansion is not a permanent state and that a contraction of economic growth was evident – going from 3.4 percent to 1.9 percent in 2022-23. According to the Administration, a recession would decrease revenues by \$70 billion over a three-year period; however, the General Fund impact would be \$40 billion.

Newsom touted significant investments in K-14 education, homelessness and Medi-Cal transformation initiatives, among others. Additional details around the Governor's 2020-21 budget proposals of interest to CHEAC Members are detailed below:

**Office of Health Care Affordability.** The Governor's budget proposes to establish an Office of Health Care Affordability under the California Health and Human Services Agency (CHHS) in Spring 2020. This office would be charged with:

- Increasing price and quality transparency;
- Developing strategies and cost targets for sectors of the health care industry and financial penalties for those that fail to meet targets;
- Creating strategies to address hospital cost trends by regions; and
- Establishing evidence-based and value-based payments to physicians, physician groups, and hospitals and advance administrative simplification.

**AB 85 1991 Realignment Diversions.** The Governor's 2020-21 budget proposal estimates \$589.8 million will be redirected in FY 2020-21, which is a decrease of \$13.1 million from 2019-20. The Governor's proposal also estimates a net true-up for FY 2017-18 of \$301.3 million, which includes roughly \$24.3 million owed to counties and \$325.7 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 Revise. AB 85 includes 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](#).

**Medi-Cal.** The budget includes \$105.2 billion (\$23.5 billion General Fund) in 2019-20 and \$107.4 (\$26.4 billion General Fund) in 2020-21. The budget assumes that caseload will decrease approximately 1.3 percent from 2018-19 to 2019-20 and increase .04 percent from 2019-20 to 2020-21. In 2020-21, Medi-Cal is projected to cover one-third of California's population, approximately 12.9 million Californians.

**Medi-Cal Expansion for Undocumented Older Adults.** The Governor's proposed budget includes \$80.5 million (\$64.2 million General Fund) in FY 2020-21 and \$350 million (\$320 million General Fund) in 2022-23 and ongoing to expand eligibility for full-scope Medi-Cal to all persons aged 65 years and older, regardless of immigration status. The expansion is slated to begin no sooner than January 1, 2021 and an estimated 27,000 individuals would receive full scope benefits after the first year of implementation. During his press conference, Governor Newsom

indicated that this expansion is “morally, ethically, and financially” the reasonable thing to do and that he would rather pay for preventive health services such as flu shots and health screenings than have expensive emergency department visits or people suffering on the streets.

Recall, full-scope Medi-Cal benefits were extended to young adults ages 19 through 25 regardless of immigration status through the 2019-20 Budget Act. The Department of Health Care Services (DHCS) is expected to propose trailer bill language (TBL) in the coming weeks for the older adult expansion, which will be dependent on systems changes and network readiness approvals being in place.

**Medi-Cal Healthier California for All (Formerly CalAIM).** The budget includes \$695 million (\$348 million General Fund) in 2020-21 to implement the Administration's ambitious initiative to transform Medi-Cal, effective January 1, 2020. The Governor renamed this effort from CalAIM to Medi-Cal Healthier California for All. The investments increase to \$1.4 billion (\$695 million General Fund) in 2021-22 and 2022-23. This investment is intended to provide for enhanced case management (ECM) and in-lieu of services (ILOS), infrastructure to expand whole person care approaches statewide and build upon existing dental initiatives. In 2023-24, the Administration intends to phase out the incentive funding resulting in an ongoing cost of \$790 million (\$395 million General Fund). Costs associated with the budget year include:

- \$225 million (\$112.5 million General Fund) to implement ECM as a statewide benefit beginning January 2021;
- \$357.5 million (\$178.8 million General Fund) for ILOS and managed care plan incentives. This includes \$57.5 million is to transition services to Medi-Cal managed care and continue them as ILOS, as well as \$300 million is to fund managed care plan incentives to support ILOS and ECM statewide.
- \$112.5 million (\$56.3 million General Fund) to continue elements of the Dental Transformation Initiative that is slated to end December 2020.

**Reducing Prescription Drug Costs.** To control rising health care costs, the budget proposes the following:

- Authorizing DHCS to expand their ability to negotiate for supplemental rebates based on what manufacturers provide to other purchasers in the United States to consider prices offered by manufacturers internationally;
- Leveraging the purchasing power of Medi-Cal to extend the receipt of federally rebates and state-negotiated supplemental rebates purchased for Medi-Cal enrollees to those on behalf of non-Medi-Cal populations; and
- Continuing to expand partnerships with local pharmaceutical purchasers to increase participation in the state's pharmaceutical purchasing program.

The budget summary also alludes to two additional initiatives to be proposed in Spring 2020, which include:

- Establishing a single market for drug pricing in California to enable all drug purchasers to pool their purchasing power; and
- Contracting with one or more generic drug manufacturers to manufacture generic drugs on behalf of the state and participating entities and establishing the state's own generic drug label.

**Medi-Cal Rx.** Under the Governor's Executive order N-01-19 signed last January, DHCS was required to transition the Medi-Cal pharmacy benefit to fee-for-service. However, there was much concern over the impact to 340B providers. The budget captures savings of \$178.3 million (\$69.5 million General Fund). Additional trailer bill will be introduced by DHCS to remove the current six prescription limit in fee-for-service and eliminate existing co-pays for pharmacy services, both effective January 1, 2021.

**Supplemental Payments for Non-Hospital 340B Clinics.** The budget creates a new supplemental payment pool for non-hospital 340B clinics, effective with the Medi-Cal Rx transition date of January 2021. These supplemental payments are intended to mitigate the impact of transitioning pharmacy services to fee-for-service under Medi-Cal Rx on 340B revenue to non-hospital 340B clinics.

**Homelessness.** As previewed in the days leading up to the budget, Governor Newsom dedicated significant resources to address homelessness in California, including:

- \$750 million General Fund to the California Access to Housing and Services Fund (created by Executive Order N-23-20) to go directly to service providers for rental subsidies, increasing affordable housing units and stabilizing board and care facilities. Funds will flow through performance-based contracts between the state and regional administrators with a 10-percent cap on administrative costs. Funds can also be used to negotiate additional units and individual leases, provide tenancy support services and coordinate case management with counties for those receiving rental subsidies.
- A study on the root causes of homelessness in California to be conducted by the CHHS in collaboration with researchers at the University of California, San Francisco and the California Policy Lab.
- \$24.6 million General Fund (\$364.2 million General Fund over six years) to expand community treatment programs for those determined incompetent to stand trial and are experiencing mental illness and homelessness.

**Behavioral Health.** The Governor's 2020-21 budget includes several behavioral health proposals, a priority area for the Administration's effort in addressing homelessness. Proposals include:

- **Mental Health Parity.** The Governor's budget proposal calls for ensuring mental health parity, with a focus on timely access to treatment, network adequacy and benefit design and plan policies. Newsom indicated a lack of accountability in this area to date and that a plan would be forthcoming to ensure entities are held accountable and/or fined.
- **Behavioral Health Task Force.** The Governor proposes the creation of a Behavioral Health Task Force to include representatives from state agencies, counties, advocates, health plans, providers and other relevant stakeholders to review the current system and coordinate changes to prevent and respond to the impacts of behavioral health in California.
- **Proposition 63 Mental Health Services Act (MHSA) Reforms.** The Administration indicated their intent submit a proposal in the Spring regarding proposed reforms to MHSA. Governor Newsom indicated both legislative reforms and/or ballot reforms are all on the table. The Administration will consider updates to ensure MHSA serves people with mental illness experiencing homelessness, justice-involved populations and the early intervention of children.
- **Behavioral Health Quality Improvement.** Governor Newsom includes \$45.1 million General Fund in 2020-21 and \$42 million General Fund in 2021-22 to create a Behavioral Health Quality Improvement Program for county-operated mental health and substance use disorder systems to incentive system changes and improvements to prepare systems for the implementation of Medi-Cal Healthier California for All initiative (CalAIM).
- **Opioid Treatment and Response.** To further combat opioid overdose in California, the Governor's budget includes \$89.2 million in 2019-20 for the Medication Assisted Treatment (MAT) Project, which has added over 650 access points in healthcare and criminal justice systems throughout the state. \$426 million (\$62.6 million General Fund) is also included in the budget proposal to support the Drug Medi-Cal Organized Delivery System (DMC-ODS), which provides expanded substance use disorder treatment for Medi-Cal beneficiaries.
- **Medi-Cal Medication Assisted Treatment Benefit Changes.** The Governor includes \$876,000 (\$40,000 General Fund and \$240,00 County Fund) to add all FDA-approved drugs to treat opioid disorders to the Medi-Cal State Plan. This would expand MAT drug available to Medi-Cal beneficiaries beyond only methadone and naltrexone, which is covered by the State Plan today. DHCS would propose trailer bill language to accomplish this.

**Dental Fee-for-Service.** Though budget neutral, the Governor's January budget proposal seeks to transition all dental benefits into fee-for-service. Currently dental managed care exists in two counties, Sacramento and Los Angeles.

**Hearing Aid Coverage for Non-Medi-Cal Children.** The Governor's budget includes \$10 million General Fund to create a new state-only program to provide hearing aids and related services to children under 18 who are at or below 600 percent of the federal poverty level and do not have other health coverage for these services. Existing Medi-Cal fee-for-service (FFS) enrolled providers and Medi-Cal FFS rates will be used to provide these services. Recall, legislative attempts to similarly provide children's hearing aids fell short in previous years.

**Vaping Tax and Enforcement.** The Governor's budget proposes to establish a new nicotine content-based electronic cigarette tax, which would begin in January 2021. Governor Newsom during his press conference expressed concerns with electronic cigarette products as a parent, indicating that the issue "scares the hell out of me" and that he expects to garner a significant amount of legislative support for his Administration's tax proposal. CHHS Secretary Mark Ghaly on this afternoon's CHHS budget stakeholder call further elaborated on the tax, indicating the Administration views the proposal as a "true public health intervention" particularly in light of the recent e-cigarette or vaping product use-associated lung injury (EVALI) cases both in California and nationwide.

The proposed tax would be \$2.00 for each 40 milligrams of nicotine in the product and would be in addition to all existing taxes on electronic cigarette taxes (presently taxed as tobacco products). Revenues for the new tax are expected to be \$32 million in 2020-21 and would be deposited into a new special fund that would be used for administration, enforcement, youth prevention, and healthcare workforce programs.

Of the expected revenue amount, the budget dedicates \$9.9 million and 10.5 positions to the Department of Tax and Fee Administration (CDTFA) to administer the proposed vaping tax, as well as \$7 million to the California Highway Patrol (CHP) to establish a taskforce with the Department of Justice (DOJ) to combat the underground market for vaping products. For the remaining revenues, a specific spending plan is expected from the Administration in the 2021-22 Governor's Budget.

**Flavored Tobacco Products.** The Governor's budget additionally revealed support for a statewide ban of all flavored nicotine products as of January 1, 2021, indicating that he and his Administration are "all in" in on a statewide ban.

Recall, Senator Jerry Hill has introduced [SB 793](#) to prohibit the sales of all flavored tobacco products statewide with the support of Lieutenant Governor Eleni Kounalakis and 29 coauthors from the Senate and Assembly representing both the Democratic and Republican parties. CHEAC supports the measure and continues to work closely with the sponsorship coalition consisting of

the American Cancer Society Cancer Action Network, American Heart Association, American Lung Association, Campaign for Tobacco-Free Kids, and Common Sense.

**Proposition 56 – Tobacco Tax Initiative.** Proposition 56 was passed 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 2020-21 budget proposal estimates Proposition 56 revenues at \$1.36 billion.

**Department of Youth and Community Restoration.** Recall, the Department of Youth and Community Restoration (formerly the Division of Juvenile Justice under the California Department of Corrections and Rehabilitation) was established within CHHS as part of the 2019-20 Budget Act. The Governor's budget includes \$289.7 million (\$260.8 million General Fund) in 2020-21 and \$295.6 million (\$266.7 million General Fund) in 2021-22 and annually thereafter. The new department will consist of 1,415.9 positions and will be tasked with providing trauma-informed and developmentally appropriate services to youth in California's state juvenile justice system.

**Department of Early Childhood Development.** The Governor's budget proposes to establish the Department of Early Childhood Development under CHHS effective July 1, 2021, to promote a high-quality, affordable, and unified early childhood system that improves program integration and coordination with other major programs serving young children. The new department would consolidate childcare funding streams and programs, create a system of early childhood administration, and maximize investments in high-quality early childhood programs for low-income children, their families, and the workforce. The budget includes \$8.5 million General Fund to establish a CHHS transition team to support the development of the new department.

**California Cognitive Care Coordination Initiative.** The January budget includes \$3.6 million one-time General Fund for the creation of a coordination and training initiative through the California Department of Public Health (CDPH) Alzheimer's Disease Center. The new investment will support the development of a "train the trainer" program to help family caregivers navigate the complexities of the disease and will bridge the gap between the healthcare delivery system and social services. This initiative closely aligns with the Governor's Alzheimer's Disease Preparedness and Prevention Task Force currently being led by former California First Lady Maria Shriver.

**Local Jail Oversight.** Under the Governor's budget proposal, the Board of State and Community Corrections (BSCC) will strengthen the state's oversight of county jails. Newsom indicated BSCC's investigations are being conducted, however lack appropriate follow-up. BSCC is expected to more actively engage counties regarding deficiencies identified as part of its inspections through its public board meeting process and more frequent follow-up inspections.

Additional technical assistance would be provided to counties where issues are identified, and BSCC is expected to ensure its standards are consistent with national best practices.

**Parks for All Initiative.** The Governor's budget proposes a \$65.1 million investment to advance the Parks for All Initiative, building upon the Department of Parks and Recreation's recent reforms to expand the park system and improve access to its many parks. Key components of the initiative are highlighted below:

- **Eliminating Cost as Barriers for Low Income Individuals.** The Department of Parks and Recreation will partner with state and county social and public health programs to increase use of the low-income pass program to increase participation in the program that provides free day-use entry to California's state parks.
- **Improving Access for Underserved Populations.** \$20 million General Fund to fund the Outdoor Equity Grants Program (created under [AB 209](#) in 2019) to enable underserved and at-risk populations to participate in outdoor environmental educational experiences at state parks.
- **Improving Facilities in Urban Areas.** \$8.7 million Proposition 68 funds will be used to expand access to state parks in urban areas and make improvements to parks that serve disadvantaged communities.

**Wildfire and Emergency Preparedness.** The Governor's budget includes an expansive overview of investments made in the 2019-20 Budget and commits to building on the Administration's emergency response and preparedness efforts. Among the most significant investments included in the 2020-21 budget proposal are:

- **Community Power Resiliency.** Citing the expanded public safety power shutoff (PSPS) events employed by several investor-owned utility companies last year, the Governor's budget proposes \$50 million one-time General Fund to support additional preparedness measures to bolster community resiliency. The proposal would support critical services, including schools, county election offices, and food storage reserves, and create a matching grant program to help local governments prepare for, respond to, and mitigate the impacts of power outages.
- **Wildfire Forecast and Threat Intelligence Integration Center.** Pursuant to [SB 209](#) from 2019 which establishes the Wildfire Forecast and Threat Integration Center, the Governor's budget proposes to fund the center with \$9 million (\$8.8 million General Fund) and 22 positions from Cal OES, CAL FIRE, the Military Department, and the Public Utilities Commission (PUC). The center will build accurate, comprehensive, and timely weather impact information and enhance the state's emergency response and recovery capabilities.



- **Wildfire Mitigation Financial Assistance Program.** The Governor's proposes \$110.1 million (\$26.8 million General Fund) to implement the Wildfire Mitigation Financial Assistance Program created by [AB 38](#) in 2019. CAL FIRE and Cal OES will develop a joint powers agreement to administer a \$100 million home hardening program with a focus on homes located in low-income communities of high fire risk.
- **CAL FIRE Investments.** The Governor's budget proposes \$120 million General Fund in 2020-21 (\$150 million ongoing) and 677 positions to be phased in over five fiscal years to provide CAL FIRE additional operational flexibility throughout peak fire season and beyond for personnel, staffing resources, and equipment.
- **Seismic Safety.** The Governor's Budget also proposes \$17.3 million one-time from the California Earthquake Safety Fund, which relies on a \$17.3 million one-time General Fund loan, for operation and maintenance of the California Earthquake Early Warning System. The Administration also proposes to transfer the Alfred E. Alquist Seismic Safety Commission to Cal OES beginning in 2020-21, supported by \$3 million (\$949,000 General Fund) in 2020-21 and \$2.7 million (\$713,000 General Fund) ongoing. The commission would be reduced from 20 members to 15 members and additional entities would be required to provide updates to the commission on earthquake preparedness and seismic safety activities.

**Cannabis.** The Newsom Administration proposes to consolidate responsibilities of the three current licensing entities – the Bureau of Cannabis Control, the Department of Food and Agriculture, and the Department of Public Health – into a single newly-created Department of Cannabis Control by July 2021. This approach, the Administration contends, would improve access to licensing, simplify regulatory oversight of commercial cannabis activity, centralize enforcement, and align critical functions to build a successful legal cannabis market. Additional details on the creation of the department are expected this Spring.

The Governor's budget estimates cannabis excise taxes to generate \$479 million in 2019-20 and \$550 million in 2020-21. The forecast assumes continued growth of more than 15 percent annually as new businesses continue to enter the legal cannabis market, but revenue estimates are subject to significant uncertainty as the market has only recently been established. Relatedly, the Newsom Administration proposes to modify tax administration for cannabis by changing the point of collection of cultivation excise taxes and retail excise taxes.

For the Proposition 64 Cannabis Tax Fund, the Governor's budget estimates \$332.8 million will be available for youth education, prevention, early intervention, and treatment; environmental protection, and public safety-related activities. The structure of the allocations is unchanged from 2019-20, and the amounts are detailed below:

- Education, prevention, and treatment of youth substance use disorders and school retention – 60 percent (\$199.7 million)

- Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation – 20 percent (\$66.6 million)
- Public safety-related activities – 20 percent (\$66.6 million)

**School Nutrition.** The Governor's budget proposes to dedicate \$60 million in Proposition 98 General Fund to increase current funding for school nutrition. Currently, California augments federal funding provided for school nutrition programs by approximately \$173 million in Proposition 98 General Fund.

The Governor's budget also proposes to invest \$10 million in Proposition 98 General Fund to provide training for school food service workers to promote healthier and more nutritious meals. An additional \$10 million in non-Proposition 98 General Fund in 2020-21 and \$1.5 million annually thereafter is proposed to be invested for the California Department of Food and Agriculture (CDFA) to establish a Farm to School Grant Program to support California farmers and expand healthy food access for pupils.

**Animal Shelter Grants.** The Governor's budget includes an increase of \$50 million one-time General Fund to the University of California, Davis Koret Shelter Medicine Program to develop a grant program. The grant program will include interactive group training for approximately 100 shelters, statewide and regional best practice summits, and an online resource library available to all shelters. Over a five-year period, the program will provide expertise, support, and local assistance to achieve the state's longstanding policy goal that no adoptable or treatable dog or cat is euthanized.

**Budget Links:**

Governor's 2020-21 Proposed Budget: <http://www.ebudget.ca.gov/>

CHHS Budget Highlights: <https://www.chhs.ca.gov/wp-content/uploads/2020/01/CONFIDENTIAL-CHHS-Budget-Document-ADA-3.pdf>

DHCS Governor's Budget Highlights: [https://www.dhcs.ca.gov/Documents/Budget\\_Highlights/DHCS-FY-2020-21-Governor%27s-Budget-Highlights.pdf](https://www.dhcs.ca.gov/Documents/Budget_Highlights/DHCS-FY-2020-21-Governor%27s-Budget-Highlights.pdf)

Senate Budget and Fiscal Review Committee Governor's Proposed 2020-21 Budget Summary: <https://sbud.senate.ca.gov/sites/sbud.senate.ca.gov/files/Final%20Summary%20of%20the%20Governors%20Proposed%202020-21%20Budget.pdf>

Assembly Highlights of Governor's Proposed 2020-21 Budget: <https://abqt.assembly.ca.gov/sites/abqt.assembly.ca.gov/files/Highlights%20of%20the%20Governors%20Proposed%202020-21%20Budget.pdf>

**Next Steps.** Over the coming weeks, the Legislature will begin hearing proposed budget items in addition to stakeholder proposals. The Senate Budget and Fiscal Review Committee is scheduled to convene a budget overview hearing on Thursday, January 23. The Assembly Budget Committee's overview hearing has not yet been scheduled but is expected in the coming weeks.

**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.