To: CHEAC General Membership

From: Michelle Gibbons, Executive Director  
Betsy Armstrong, Senior Policy Analyst  
Jack Anderson, Policy Analyst

Date: June 24, 2020

RE: 2020-21 Budget Agreement

Recall last week, the California Legislature passed a state budget blueprint to meet the constitutional deadline of June 15; however, the details of the plan remained undefined. Legislative leaders and many members were wary of the proposed $14 billion in cuts proposed by the Governor in his May Revision. On Monday, it was announced that the Governor and Legislative leaders had reached agreement on a final budget deal. The spending plan would reduce state spending by $12 billion through a combination of cuts including an array of potential trigger cuts if additional federal resources are not realized, cancellation of some tax breaks, and tapping into state budget reserves.

**Federal Funding Trigger.** The budget agreement provides a series of restorations and funding actions if the state receives an additional $14 billion of flexible federal funding by October 15, 2020. If the federal funding is more than $2 billion but less than $14 billion, the amount above $2 billion will be proportionally allocated among the items. Upon receipt of federal funding, restorations and funding actions include:

- $250 million addition to the budget’s $750 million General Fund “backfill” to offset counties’ recent loss of realignment sales tax funding.
- $150 million restoration for the judicial branch budget.
- $45 million restoration for moderate-income housing production funding.
- $203 million restoration of the infill infrastructure grant program at the Department of Housing and Community Development.
- $46 million restoration to child support administration funding.
- $5.8 billion reduction in payment deferrals to K-12 schools.
- $791 million reduction in payment deferrals to community colleges.
- $472 million restoration for the University of California budget.
- $500 million restoration for the California State University budget.
- $88 million restoration for the Golden State Teacher Grant Program at the Student Aid Commission.
• And $2.8 billion deposit to the newly created Employee Compensation Reduction Offset Fund to be used to offset employee compensation reductions in this budget package.

Some key health items in the budget agreement include:

**Realignment Backfill.** The budget agreement provides $750 million to support counties experiencing revenue losses for realigned programs. The allocations will be developed by the Department of Finance (DOF) in consultation with the California State Association of Counties (CSAC). Counties must prioritize funding for health and human services, entitlement programs, and programs serving vulnerable populations. Up to $250 million additional funding is added to the $750 million if sufficient federal funding is received as indicated in the federal trigger section above. Funding to counties is also contingent on the county’s adherence to federal guidance, the state’s stay at home order, and subsequent orders and statutes, as well as state public health orders, directives, and guidance in response to COVID-19. Counties will be required to certify compliance to DOF.

During his press conference earlier today, Governor Newsom noted the roughly $2 billion in funding (CARES and Realignment backfill) that is tied to compliance and indicated funding would not be provided in annual allocations, but instead in monthly allocations as a way to maintain accountability. CHEAC will continue to provide updates as additional details become available.

**CARES Funding.** The budget agreement provides funding from the Coronavirus Aid, Relief and Economic Security (CARES) Act to both cities and counties.

• **County Funding** – $1.289 billion to counties in CARES Act federal funding to be used for homelessness, public health, public safety, and other services to combat COVID-19 pandemic. This will be allocated based on the share of each county’s population relative to the total population of the state while considering prior direct allocation of funding from Federal CARES Act.

• **City Funding** – $500 million to cities to be used for homelessness public health, public safety, and other services to combat the COVID-19 pandemic.
  
  o $225 million will be provided directly to cities with a population of 300,000 or greater that did not receive a direct allocation through the federal CARES ACT allocated based each city’s population relative to the total population of cities in this category.
  
  o $275 million to cities with a population of less than 300,000 to be allocate based on each city’s population relative to the total population in this category. However, a city shall receive at least $50,000.
Homelessness. To address homelessness, the budget agreement includes the following:

- $550 million in federal CARES funds to be administered by the Department of Housing and Community Development for acquisition or acquisition and rehabilitation of motels, hotels, or hostels; master leasing of properties; acquisition of other sites and assets; conversion of units from nonresidential to residential in a structure with a certificate of occupancy as a motel, hotel, or hostel; purchase of affordability covenants and restrictions for units; and the relocation costs for individuals who are being displaced as a result of rehabilitation of existing units. It is the intent of the proposal for counties to build off Project Room Key investments.
- $50 million for Project Room Key for acquisition and operating subsidies.
- An additional $300 million for Round 2 of the Homeless Housing Assistance Prevention (HHAP) program.

AB 85 1991 Realignment Diversions. The budget agreement includes the Governor’s May Revision estimates of $627.8 million to be redirected in FY 2020-21, which is an increase of $38 million from the January estimate.

County Medical Services Program (CMSP). As part of the budget agreement, the Administration rescinded their proposal to shift $50 million from CMSP reserves starting in FY 2020-21 for four years to offset General Fund CalWORKs costs.

STD, HIV, and HCV Prevention Funding. The budget agreement strikes the previous provisional language and instead provides $5 million ongoing General Fund for sexually transmitted disease (STD), HIV, and Hepatitis C prevention programs for a total of $15 million. Recall, these programs were adopted in the 2019-20 Budget Act.

Black Infant Health Program. The agreement rejects the Administration’s May Revise proposal to reduce funding to the Black Infant Health Program by $4.5 million General Fund.

Child Health and Disability Prevention (CHDP) Case Management: The agreement rejects the Administration’s May Revision proposal to eliminate funding for the Child Health and Disability Prevention (CHDP) program case management services provided by local health departments.

CDPH Laboratory Funding. The agreement includes the Governor’s May Revision proposal to allocate $5.9 million General Fund in FY 2020-21 and $4.8 million General Fund in ongoing funding to support emergency response, public health laboratory capacity, and disease surveillance.
**Lead Exposure Investments.** The agreement provides $10.3 million for the Childhood Lead Poisoning Prevention Fund annually to increase interventions and other activities designed to reduce children’s exposure to lead.

**Cognitive Care Initiative.** The agreement sustains the May Revision withdrawal of $3.6 million General Fund for a one-time investment to establish a comprehensive coordinated statewide dementia care program through the CDPH Alzheimer’s Disease Center.

**Women, Infants, and Children (WIC) Program.** The budget agreement adopts the May Revision proposal reflecting a net decrease of $23.2 million in WIC local assistance expenditure authority from the program’s November estimate and a decrease of $5.3 million in WIC local assistance expenditure authority from the program’s May estimate. Please recall, CDPH states the declines are due to decreases in participation in the program along with a decline in California’s projected birth rate.

**Proposition 99 Health Education Account.** The agreement includes an adjustment to Proposition 99 tobacco tax revenue amounts, including a reduction of $3 million in the Health Education Account for FY 2020-21. Please recall, there is no anticipated impact to local lead agencies, however, there will be a decrease of $1 million in competitive grants and $2 million in evaluation funding.

**Proposition 56 – Tobacco Tax.** The agreement rejects the Governor’s May Revision proposal to eliminate supplemental payments to various Medi-Cal providers and instead suspends payments on July 1, 2021 unless specified state fiscal conditions exist. Women’s services are the lone exception to these suspensions. Providers include:

- Physician services - $389 million
- Dental services - $183.8 million
- Women’s health services - $18.7 million
- Family planning - $35.9 million
- Developmental screenings - $20.8 million
- CBAS/ADHC - $6.7 million
- Non-emergency medical transportation - $2.7 million
- Intermediate Care Facilities – Developmental Disabilities (ICF-DD) - $12.4 million
- Hospital-based pediatric physicians - $2 million
- Adverse childhood experiences (ACEs) screening - $7.6 million
- ACEs provider training - $21 million
- Physician and dentist loan repayment program - $297.8 million
- Value-Based Payment Program - $147 million

**Vaping Tax and Flavored Tobacco.** The agreement defers without prejudice the institution of a new nicotine content-based electronic cigarette tax, including deferring a vaping tax trailer bill.
Medi-Cal Overview. Key items related to Medi-Cal in the budget agreement include:

- **Full-Scope Medi-Cal Expansion to Undocumented Older Adults.** The agreement adopts trailer bill language to provide full scope Medi-Cal coverage to this population as a priority for inclusion in next year’s state budget if DOF projects a positive ending balance in the Special Fund for Economic Uncertainties for the next fiscal year and the next three ensuing fiscal years.

- **COVID-19 Costs.** The agreement assumes approximately $8 billion (mostly federal funds) to reflect increased Medi-Cal costs resulting from the COVID-19 pandemic, including increased caseload, suspension of annual redeterminations, increased federal flexibilities and increase in FMAP.

- **Medi-Cal Optional Benefits.** The agreement rejects the Administration’s May Revision proposal to eliminate the partial reduction of the adult dental benefit and the complete elimination of optometry, optician/optical lab, audiology, incontinence creams/washes, pharmacist delivered services, speech therapy, podiatry, acupuncture, nurse anesthetists, occupational therapy, physical therapy, and the Diabetes Prevention Program benefits.

- **Health-Related 2019 Budget Act Reversions.** The agreement rejects the May Revision proposal to revert unspent funds from the 2019 Budget Act augmentations including behavioral health counselors in ERs, Medi-Cal Health Enrollment Navigators, and the Medical Interpreters Pilot Project.

- **Medi-Cal Rx.** The budget agreement provides $1.9 million in 2020-21 to support the carve-out of the Medi-Cal pharmacy benefit to fee-for-service, dubbed Medi-Cal Rx.

- **Non-Hospital 340B Supplemental Payment Pool.** The agreement restores, by rejecting the Administration’s withdrawal of their proposal, payments to non-hospital clinics for 340B pharmacy services. Recall these payments are intended to replace lost revenue from implementation of Medi-Cal Rx, which DHCS intends implement on January 1, 2021. In addition, the agreement adopts trailer bill language to require DHCS to establish a stakeholder process on or before July 15, 2020, to develop and implement the methodology for distribution of payments from the 340B supplemental payment pool, including the eligibility criteria for receipt of payments, the aggregate amount of pool funding, the criteria for apportioning the funding, and timing of payments.

- **Medication Assisted Treatment Services.** The agreement adopts trailer bill language to provide statewide reimbursement to all State Plan Drug Medi-Cal certified providers of MAT services to treat opioid use disorders. The language allows reimbursement for all FDA-approved medications for the treatment of opioid use disorders and counseling...
services and behavioral therapy pursuant to federal requirements. Currently only methadone and naltrexone is permitted.

- **Postpartum Mental Health Expansion**: The budget agreement rejects the Governor’s May Revision proposal to not implement the 2019 Budget Act expansion of Medi-Cal to postpartum individuals who are receiving health care coverage and who are diagnosed with a maternal mental health condition.

- **Medi-Cal Aged, Blind, and Disabled Expansions**. The agreement rejects the May Revision proposal to restore the “senior penalty” in Medi-Cal, thereby continuing to implement the increase in income eligibility for the Aged and Disabled Program to 138 percent of the federal poverty level approved in the 2019 Budget Act. Also rejected was the May Revision proposal to eliminate the Medicare Part B disregard to determine eligibility for the Aged and Disabled program.

- **Hearing Aid Coverage**. The agreement rejects the Administration’s May Revision proposal to withdraw the January proposal to establish a program to provide hearing aids and related services to children up to 600 percent of the federal poverty level. The program would be implemented no sooner than July 1, 2021 and assumes $15 million General Fund ongoing beginning in 2021-22.

- **Medically Tailored Meals Pilot Program**. The agreement approves the stakeholder request to extend the program authority for an additional year, at no additional cost due to the delay in implementation. The program, approved in 2017 Budget Act, included $2 million General Fund expenditure authority to implement a pilot program to deliver medically tailored meals intervention to Medi-Cal beneficiaries with complex and high-cost health conditions.

**CalAIM.** With the announced delays in the implementation of CalAIM, the agreement reflects the following:

- **Enhanced Care Management/In-Lieu-of-Services**. The agreement approves the withdrawal of the Governor’s January budget proposal to provide $347.5 million for enhanced care management benefits and in-lieu-of-services.

- **Behavioral Health Quality Improvement Program**. The agreement reflects the May Revision withdrawal of the January budget proposal to implement a behavioral health quality improvement program incentivizing system changes and improvements in county behavioral health programs as part of the Behavioral Health Payment Reform in CalAIM.

**Managed Care Organization (MCO) Tax.** The budget agreement maintains the Administration’s estimate of net revenue from the Managed Care Organization tax of $1.7 billion, which offsets the
non-federal share of expenditures in the Medi-Cal program, as recently approved by the federal government effective January 1, 2020.

**Office of Health Care Affordability.** The agreement reflects the Administration’s withdrawal of their proposal to establish the Office of Health Care Affordability.

**Adverse Childhood Experiences.** The agreement reflects the Administration’s withdrawal of their proposal to provide $10 million General Fund for the Office of the Surgeon General to develop a cross-sectoral training program and public awareness campaign for Adverse Childhood Experiences.

**CalWORKs Home Visiting.** The agreement includes a $30 million General Fund reduction in FY 2020-21 for the CalWORKs Home Visiting Program, with funding being restored in FY 2021-22. CalWORKs home visiting funding will remain at the same amount in FY 2020-21 as it is in the current budget year. Recall, the Governor’s May Revision had proposed this $30 million reduction ongoing.

**Department of Early Childhood Development.** The agreement approves the May Revision proposal to transfer childcare and child development programs to the California Department of Social Services (CDSS) rather than as proposed in January to create a new Department of Early Childhood Development. The transition would begin July 2021 and would include the appointment of a Deputy Director for Child Development at CDSS.

**Cannabis.** The budget agreement sustains funding from the Proposition 64 Cannabis Tax Fund dedicated to youth education, prevention, and treatment of youth substance use disorders unchanged from the level approved in 2019-20 budget.

- $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.
- $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.

**Wildfire and Emergency Preparedness.** The agreement sustains the Administration’s investments in the following programs:

- $50 million for one-time General Fund support for a local government grant program to prepare, respond and mitigate power shut offs.
• Augments $38.2 million for one-time General Fund for the California Disaster Assistance Act (CDAA) for emergency activities undertaken under a declared state of emergency. Brings total CDAA funding to $100.8 million.
• $17.3 million for the California Earthquake Early Warning Program.
• $7.6 million General Fund for the California Cybersecurity Integration Center.
• $2.5 million to transfer the Seismic Safety Commission to Cal OES.
• $2 million General Fund for the Wildfire Forecast and Threat Intelligence Integration Center.
• Withdrawal of a proposal for $101.8 million for the Wildfire Mitigation Financial Assistance Program, a home hardening program with a focus on homes located in low-income communities of high fire risk.
• Maintains $85.6 million General Fund for permanent firefighting positions at CAL FIRE and $7.6 million General Fund for CAL FIRE’s Innovation Procurement Sprint, a wildfire prediction and modeling technology platform.

The agreement also rejects the Administration’s proposal to provide $9.4 million to enhance the ability of Cal OES to prepare, respond, and assist the state in recovering from disasters.

**Department of Youth and Community Restoration.** The Governor’s May Revision proposed to reform the state’s juvenile justice system by transferring the responsibility of management all youthful offenders to local jurisdictions. The budget agreement sets aside $9.6 million in 2020-21, $24.4 million in 2021-22, $22.9 million in 2022-23, and $12.1 million in 2023-24 to support the realignment of the Division of Juvenile Justice; however, the trailer bill to carry out this action is being deferred until the summer.

**Incompetent to Stand Trial (IST) Initiative.** The agreement approves the Administration’s May Revision proposal to withdraw of the January budget proposal for a six-year pilot program in three counties to provide incentives to treat and serve individuals deemed incompetent to stand trial on felony charges in the community, including $364.2 million General Fund (the full cost of the proposed 6-year program).

**Animal Shelter Grants.** The agreement modifies the Administration’s May Revision proposal to provide $5 million one-time General Fund to support the UC Davis Grant Program for Animal Shelters to now instead allow for a $5 million one-time General Fund appropriation for this purpose on April 1, 2021, if philanthropy funding is not available.

**ABC Responsible Beverage Service Training.** The budget agreement adopts the Governor’s May Revision proposal to delay implementation of responsible beverage service training to July 2022.

**Next Steps.** The amended budget bill must be taken up on both floors of the Legislature and then transmitted to Governor Gavin Newsom. The Senate Budget and Fiscal Review Committee is
convening today, and the Assembly Budget Subcommittee No. 6 on Budget Process, Oversight and Program Evaluation is slated to convene to hear budget trailer bills on Friday. Action on the amended budget bill and trailer bills is anticipated this Friday, June 26. CHEAC will continue to provide updates on forthcoming actions related to the budget bill and relevant trailer bills.

**Questions.** For questions on the items highlighted above or other budget-related inquiries, feel free to contact CHEAC Staff via email at janderson@cheac.org, barmstrong@cheac.org or mgibbons@cheac.org.

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*Updated as of June 24, 2020*