



January 10, 2019

To: Lori Dangberg, Vice President
Alliance of Catholic Health Care

From: Nicette Short, Legislative Advocate
Noteware & Rosa Government Relations

Re: Summary of the Governor's January State Budget Proposal

Today, Governor Gavin Newsom released his first January Budget Proposal, which highlights the balanced nature of the budget and its “robust Rainy-Day Fund....” left to him courtesy of former Governor Jerry Brown. He comments on the need to be fiscally responsible in preparation for “uncertain times.” He wants to focus on paying down unfunded pension liabilities, paying off long-standing budget debts, and continuing to strength the Rainy-Day fund. His budget also makes significant investments in a whole host of programs, including a \$1 billion Working Families Tax Credit, free tuition at Community Colleges, expanding Paid Family Leave, wildfire management, and universal full-day, full-year preschool. This budget proposal is 4% higher – or \$8 billion – more than the current 2018-2019 state budget.

Health Care Funding Philosophy

The Governor's budget comments that a large share of Medi-Cal spending occurs in the first year and the last year of life – and among enrollees with serious mental illness and chronic conditions. He would like to invest in increase prevention services to better address the social determinates of health and improve the availability of care.

DSH Cuts Reflected

For private hospitals, the budget includes a Disproportionate Share Hospital (DSH) payment reduction of \$156 million, a decrease of approximately 26% in fiscal year 2019-2020. This value can change depending on the actual methodology the federal Center for Medicare and Medicaid Services (CMS) chooses to use to determine state specific DSH cuts should Congress decide not to delay the cuts further. The budget notes that the Affordable Care Act requires the aggregate, nationwide reduction of the federal DSH allotments beginning October 1, 2019. Scheduled reductions for each fiscal year are expected to continue through Federal Fiscal Year 2025, unless changes are made at the federal level.

Medi-Cal Spending

- The Governor's budget comments that a large share of Medi-Cal spending occurs in the first year and the last year of life – and among enrollees with serious mental illness and chronic

conditions. He would like to invest in increase prevention services to better address the social determinates of health and improve the availability of care.

- The document notes that the Medi-Cal estimate continues a gradual decline, and Medi-Cal is set to cover 13.2 million Californians, including 3.8 million in the optional expansion population in 2019-2020. The slight reduction in those covered is due to California's low unemployment rate, the increase in the state's minimum wage, and of course the ACA expansion. The total Medi-Cal budget is \$98.5 billion (\$22.9 billion state general fund) for the upcoming fiscal year.
- The budget includes the state's 8.5 percent share of cost for the optional expansion population, which equals \$19.9 billion (\$2.2 billion general fund), reaffirming the new Governor's commitment to the ACA expansion population.
- Proposes to expand full-scope Medi-Cal coverage to eligible young adults aged 19-25 regardless of immigration status, starting no sooner than July 1, 2019. The expansion will cover approximately 138,000 undocumented young adults in the first year. The budget allocates \$260 million (\$196.5 million state general fund) for this purpose.
- \$360 million (\$180 million Prop 56 funds) for a program that encourages Medi-Cal managed care providers to meet goals in critical areas, such as management of chronic disease and behavioral health integration. We hope to get more information on this program in the next few weeks.
- \$3.8 million (\$1.8 million general fund) is allocated to improve the budgeting and management of the Medi-Cal program, including the creation of a drug rebate fund.

Health Care Coverage Affordability

- Increase subsidies through Covered California for individuals with incomes between 250 and 400 percent of the federal poverty level and 400 and 600 percent of the federal poverty level to increase health care coverage and the affordability of that coverage. The specific amount of the subsidy increase is not included in the budget summary document and more information will be forthcoming.
- These subsidies will be funded by revenues generate from establishing a California-specific individual health care mandate, modeled on the federal requirement included in the ACA. Penalties will be levied for those without appropriate health care coverage.

Healthcare Workforce

- \$3.2 billion (\$1.05 billion Prop 56 funds) for supplemental Medi-Cal payments and rate increases for physicians, dentists, family planning services, HIV/AIDS waiver services, Home Health and other new investments.
- \$50 million state general fund to increase training opportunities for mental health workforce programs. The program will be administered by OSHPD. This is one-time funding. The document mentions a "shared investment" with universities, health clinics and philanthropic organizations and more detail will be forthcoming.

- Continues support for residency programs in underserved areas with an allocation of \$33 million.

Prescription Drug Bulk Purchasing Proposal

- The Budget references the Governor’s Executive Order related to a “single payer system for prescription drugs,” but there is no greater level of detail related to implementation included in the proposal. They state, “Such a standardized drug benefit will reduce confusion among beneficiaries.”
- During the press call with the CA Health and Human Services Agency, the Secretary of the Department of Health Care Services, Jennifer Kent, specified that this proposal would not eliminate the 340B program.