

First Look: 2019-20 Budget Includes Balanced Investments, Leaves Opportunities to Improve the Economic Well-Being of More Californians

Budget · July 2019 · By California Budget and Policy Center www.calbudgetcenter.org

Executive Summary

Health

New State Premium Subsidies Created and Medi-Cal Coverage and Benefits Expanded

Building on the federal Affordable Care Act (ACA), California has substantially expanded access to health coverage in recent years. For example, more than 13 million Californians with modest incomes receive free or low-cost health care through Medi-Cal (California's Medicaid program) — several million more than before the ACA took effect. Another 1.1 million Californians with incomes up to 400% of the federal poverty line — \$48,560 for an individual in 2019 — receive federal premium subsidies to reduce the cost of coverage purchased through Covered California, our state's health insurance marketplace. Despite these gains, around 3 million Californians remain uninsured, health care costs continue to rise, and many people face both high monthly premiums and excessive out-of-pocket costs — such as copays and deductibles — when they use health care services.

In order to increase the number of Californians with health care coverage and help make that coverage more affordable, the 2019-20 budget package:

- **Creates state subsidies to reduce the cost of health insurance purchased on the individual market.** The budget provides \$428.6 million General Fund to support “premium assistance subsidies” during the 2020 coverage year for certain households that buy health insurance through Covered California. Of this total funding, about 83% will be used to provide subsidies to two groups of households: 1) those with incomes at or below 138% of the federal poverty line or 2) those with incomes between 400% and 600% of the poverty line. The remaining roughly 17% of the initial funding will go to households with incomes between 200% and 400% of the federal poverty line. Some of the revenue to pay for these subsidies will come from a new state penalty on Californians who do not obtain comprehensive health coverage (see next bullet). These subsidies will remain in effect for three years — coverage years 2020 to 2022 — and the level of funding provided for them will be determined through each year's state budget process.
- **Establishes a state requirement for Californians to carry health insurance or pay a penalty.** The ACA included an “individual mandate” to encourage young and healthy people to buy health insurance. The goal was to create healthier “risk pools” and keep premiums lower than they otherwise would be if only older and sicker people signed up for coverage. With limited exceptions, people who failed to comply with this requirement had to pay a penalty to the federal government. However, Congress and President Trump eliminated the individual mandate penalty as of January 1, 2019. The budget agreement creates an individual mandate at the state level, effective January 1, 2020. Californians, with some exceptions, will be required to obtain comprehensive health care coverage or pay an “Individual Shared Responsibility Penalty.” Revenues from this penalty will be deposited into the state's General Fund.
- **Expands eligibility for comprehensive Medi-Cal coverage to undocumented adults, ages 19 through 25, who otherwise meet the program's requirements.** States are prohibited from using *federal* dollars to provide full-scope Medicaid coverage to undocumented immigrants. States, however, may use their own funds to provide such coverage. In 2016, California expanded full-scope Medi-Cal coverage to undocumented children and youth through age 18 who meet all other eligibility requirements, including income limits. The budget agreement extends this policy to undocumented Californians who are ages 19 through 25, effective no sooner than July 1, 2019.

- **Reforms Medi-Cal’s eligibility rules to eliminate the “senior penalty.”** This action removes the primary obstacle that prevents tens of thousands of low-income adults, age 65 or older, from accessing critical health care services through Medi-Cal at no cost, creating parity between older and younger adults. Specifically, the budget package includes \$124.9 million (\$62.4 million General Fund) to raise Medi-Cal’s eligibility limit to 138% of the federal poverty line for people who are 65 years or older who participate in the Aged and Disabled program.
- **Extends, from 60 days to one year, the duration of Medi-Cal eligibility for postpartum care for women who are diagnosed with a mental health condition.** A maternal mental health condition occurs during pregnancy or after giving birth and includes, but is not limited to, postpartum depression. However, this expansion will be suspended on December 31, 2021 unless the Department of Finance projects that General Fund revenues will reach a certain threshold.
- **Includes funding to support Medi-Cal outreach and enrollment.** The budget provides \$29.8 million (\$14.9 million General Fund) to the state Department of Health Care Services to help boost awareness of Medi-Cal and encourage eligible Californians to sign up for the program.

In addition, the 2019-20 budget agreement:

- **Restores several optional Medi-Cal benefits that were eliminated during the last economic downturn.** The budget agreement restores audiology, speech therapy, and podiatric services as well as incontinence creams and washes as covered Medi-Cal benefits, effective no sooner than January 1, 2020. Optometric and optician services will also be restored on or after that same date — a change was adopted a couple of years ago. The budget package provides \$17.4 million General Fund in 2019-20 and assumes ongoing annual costs of \$40.5 million to restore these benefits. However, these optional benefits will be suspended on December 31, 2021 unless the Department of Finance projects that General Fund revenues will reach a certain threshold.
- **Recasts the “Council on Health Care Delivery Systems” as the “Healthy California for All Commission” and enlarges the commission’s charge to include a focus on single-payer financing.** Created in 2018, the Council on Health Care Delivery Systems was charged with developing, by October 2021, a plan for reforming the health care system, including outlining “steps necessary to achieve a unified financing system.” This council is now called the Healthy California for All Commission, and its charge encompasses consideration of how California can move toward adopting “a single-payer financing system.” Moreover, the commission’s membership has been increased from five to 13: eight appointed by the Governor, two appointed by Senate Rules Committee, two appointed by the Speaker of the Assembly, and the secretary of the California Health and Human Services Agency (who is a gubernatorial appointee). The commission is required to produce two reports, with the first due by July 1, 2020 and the second by February 1, 2021.
- **Allocates \$885.8 million in Proposition 56 revenues for a broad range of payment and rate increases for Medi-Cal providers.** Approved by California voters in 2016, Prop. 56 raised the state’s excise tax on cigarettes by \$2 per pack and triggered an equivalent increase in the state excise tax on other tobacco products. These increases took effect on April 1, 2017. Prop. 56 requires most of the revenues raised by the measure to go to Medi-Cal. The payment and rate increases provided by the 2019-20 budget package will go to a broad range of health providers, including doctors, dentists, facilities that provide services to people with developmental disabilities, women’s health and HIV/AIDS providers, and certain pediatric day health care facilities. In addition, these Prop. 56 dollars will fund “developmental screenings for children, trauma screenings for children and adults, provider training for trauma screenings, and family planning services provided through Medi-Cal.” These investments will be suspended on December 31, 2021 unless the Department of Finance projects that General Fund revenues will reach a certain threshold.
- **Provides \$250 million in Prop. 56 funds to develop value-based payment (VBP) strategies — financial incentives for health care providers — in order to help improve the quality and efficiency of Medi-Cal managed care.** The Department of Health Care services is charged with developing VBP programs that aim to improve 1) behavioral health integration, 2) prenatal and postpartum care, 3) chronic disease management, and 4) quality of care and outcomes for children. The \$250 million allocated for this purpose will be available through June 2022, with \$70 million of this amount dedicated to behavioral health integration. However, these incentive payments will be suspended on December 31, 2021 unless the Department of Finance projects that General Fund revenues will reach a certain threshold.

- **Expresses the Legislature’s intent to enact a managed care organization (MCO) provider tax.** Governor Newsom and state legislators were at odds this year over whether to seek an extension of California’s tax on health insurance plans — or MCOs — which took effect in 2016 and ultimately expired on July 1. The Governor advocated for letting this tax expire, whereas key lawmakers in the Assembly and Senate wanted to extend it. While it was in effect, the MCO tax generated a net General Fund benefit of well over \$1 billion per year, with these freed-up dollars used to boost state support for public systems and services, including health care programs. In the end, the Governor agreed to seek federal approval of an updated MCO tax. However, because the MCO tax is no longer in effect, the 2019-20 budget package does not assume any revenues from it.
- **Establishes the Office of the Surgeon General within the California Health and Human Services Agency.** In January, the Governor issued an executive order creating a state-level position of Surgeon General and named Dr. Nadine Burke Harris as the first person to serve in this role. The budget agreement establishes this position – and its related office – in law and requires that “the appointment of the Surgeon General shall be subject to confirmation by the Senate” effective July 1, 2019.

2019-20 Budget Aims to Increase Access to Behavioral Health Services and Improve Behavioral Health Outcomes

Behavioral health services in the state are primarily provided by counties’ mental health systems, with funding from the state and federal government. These systems confront many challenges, such as shortages of mental health providers and rising homelessness—a substantial share of homeless individuals experiences mental health conditions and/or substance use disorders. The 2019-20 budget includes funding to address these challenges and improve health outcomes. Specifically, the budget:

- **Includes \$110 million for mental health workforce programs.** Of this amount, \$35 million one-time General Fund and \$25 million one-time Mental Health Services Fund will go towards the 2020-25 Workforce Education and Training Five-Year Plan. This program aims to address the shortage of mental health practitioners in the public mental health system. In addition, the budget includes \$50 million one-time General Fund to support mental health workforce development programs, including \$2.65 million for scholarships to primary care doctors to enroll in the University of California Primary Care Psychiatric Fellowship and \$1 million for grants to mental health professionals formerly in the foster care system.
- **Includes funding to hire behavioral health counselors in acute care hospitals.** Specifically, \$20 million one-time General Fund will be allocated to the State Department of Health Care Services to support the hiring of trained behavioral health counselors in emergency departments of acute care hospitals to screen patients and offer referral to mental health or substance use disorder programs.
- **Increases funding to improve mental health outcomes for students.** Specifically, the budget includes \$50 million one-time Mental Health Services Fund in 2019-20 and \$10 million thereafter to encourage collaboration between county mental health or behavioral health departments and K-12 schools. The funds will be awarded through a competitive grant program to facilitate access to mental health services. The budget also includes \$7 million one-time increase in Proposition 63 funds to create a grant program for colleges, in collaboration with county behavioral health departments, to establish or improve access to mental health services and early identification or intervention programs. For more information about student mental health services, please see the [higher education section](#).
- **Allocates funding for early psychosis research and treatment.** Specifically, the budget includes \$20 million one-time Mental Health Services Fund for projects that demonstrate innovative approaches to intervene when a young person has experienced a first episode of psychosis. Early treatment of psychosis increases the chance of a successful recovery.
- **Includes \$100 million one-time General Fund for Whole Person Care Pilot Programs.** These programs, which are administered through the Department of Health Care Services, coordinate health, behavioral health, and social services for individuals, with priority to individuals with mental illness who are homeless or at risk of homelessness. The budget also includes a one-time augmentation of \$20 million General Fund for counties that do not currently operate Whole Person Care Pilot Programs to allow additional counties to provide similar services.

Budget Package Invests in Health Care Workforce Development

Policymakers have become more and more aware of the growing shortage in California's health care providers, which is partially due to the expansion of Medi-Cal and the state's rapidly aging and increasingly diverse population. Within the next 10 years it is estimated that the state will lack 4,100 primary care clinicians, 600,000 home care workers, and will only have two-thirds of the psychiatrists needed, according to the California Future Health Workforce Commission. To address the rising demand, the 2019-20 budget agreement provides:

- \$120 million in Proposition 56 funds to continue the Medi-Cal Physicians and Dentists Loan Repayment Act Program. Physicians and dentists may apply for loan repayment assistance up to \$300,000 if they agree to maintain a patient caseload consisting of at least 30% Medi-Cal beneficiaries for five years.
- \$60 million (\$25 million Mental Health Services Fund and \$35 million General Fund) for the 2020-2025 Workforce Education and Training Programs, which aim to address the shortage of mental health practitioners in the public mental health system. Regional Partnerships who receive the funds are required to provide a 33% local match.
- \$50 million General Fund to increase support for mental health workforce programs to be administered by the Office of Statewide Health Planning and Development. This includes \$2.65 million for a Primary Care Clinician Psychiatry Fellowship Program and \$1 million specifically for mental health professionals previously in the foster care system.
- \$1.3 million from the General Fund to supplement the \$38.7 million Proposition 56 revenue previously allocated to develop residency programs at hospitals throughout the state. This brings the total for these efforts to \$40 million. The funds will be administered and operated by the University of California in partnership with Physicians for a Healthy California.

Funding Increased for Home Visiting and Black Infant Health Programs

In the 2019-20 budget agreement, the state invests a total of \$65.3 million to support infant and maternal well-being. Currently, the California Department of Public Health (CDPH) receives federal funding to administer home visiting programs for pregnant and newly parenting families who are at risk for adverse childhood experiences. The enacted budget allocates \$45.9 million to CDPH to expand home visiting outside of CalWORKs, which represents the state's first financial investment in home visiting for non-CalWORKs families. State policymakers have also invested \$19.4 million to support the Black Infant Health program, which aims to improve black infant and maternal health through group support services and case management. Of that amount, \$13 million may also support the California Perinatal Equity Initiative's work to address racial disparities in infant mortality.