

**TO:** CMA Physician Leaders

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**SUBJ:** Governor Newsom's 2021-2022 January Budget Release

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## Overview

Today, Governor Gavin Newsom released his state budget proposal for fiscal year 2021-2022. Included in the \$164.5 billion total General Fund Budget, is \$34 billion in budget resiliency—including reserves and surplus. Resources available include \$15.6 billion in the Rainy Day Fund, \$2.9 billion in the operating reserve, and another \$12.2 billion in surplus.

Because of the positive revenue picture, the proposed budget delays \$2 billion in programmatic suspensions for 12 months, including Proposition 56 and other significant health care programs. To reiterate, programmatic reductions to Proposition 56.

While the economic outlook has improved since the 2020 enacted Budget, risks to California's budget remain high. Over 4 million Californians remain unemployed and approximately half of the jobs lost during the pandemic have not been recovered. The structural deficit in the out-years lingers, with \$7.6 billion in shortfall in 2022-23 growing to over \$11 billion by 2024-25.

Additionally, it appears likely that the Gann limit will be exceeded, creating a constitutional requirement to split \$102 million in General Fund between schools and taxpayers.

Numerous higher education and workforce proposals are included in the Governor's budget to help COVID-unemployed individuals retrain for new job opportunities, and better link higher education with actual employment options. A total of \$332.9 million General Fund and \$35 million in Proposition 98 will be available for workforce issues, including allied health providers.

## Recovery

A major focus of the budget is a \$14 billion economic recovery package for California. In addition to the immediate/early action items listed below, some other key components include:

- + \$777.5 million jobs initiative;
- + \$353 million for workforce development, including UC programs in medical education and allied health training programs;
- + \$300 million in deferred maintenance, including State Hospitals;
- + \$500 million for housing, specifically infill infrastructure and another \$500 million in tax credits for low-income housing development, and another \$1.75 billion to increase access to housing for the homeless, provide short-term, community-based, mental health facilities, and preserve housing for seniors;

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- + \$385 million for sustainable agriculture; and
- + \$1.5 billion for zero-emission vehicles.

Numerous higher education and workforce proposals also aim to help with recovery by helping COVID-unemployed individuals retrain for new job opportunities, and help better link higher education with actual employment options. A total of \$332.9 million General Fund and \$35 million in Proposition 98 will be available for workforce development programs including \$12.9 million in ongoing General Fund for the UC Programs in Medical Education (PRIME) to support both the existing PRIME programs, and to start a new program focused on Native American Communities and another \$4 million to expand training for allied health roles. Additionally, funding for segment alignment, better linking higher education with employers, expanding work-based learning, connecting student objectives with workforce needs, and a computing talent initiative are included in the workforce development package.

### Immediate/Early Actions

Four immediate priorities that the Administration will seek immediate action on in January include:

- + The Golden State stimulus, a \$600 state payment (\$2.4 billion total) to individuals who were eligible for the earned income tax credit (EITC) in 2019;
- + \$575 million in grant funding for small businesses and non-profits;
- + \$71 million in licensing and fee waivers for COVID-impacted industries such as restaurants and personal services; and
- + \$2 billion to help with the safe reopening of schools for districts that are already open, or intend to return students to campus immediately, is also targeted for this immediate January action.

Additionally, the Administration proposes a larger package of items totalling \$6.5 billion for “early action,” presumably after the immediate January package, but prior to the normal budget cycle ending in July, which includes funding for courts for eviction protections, workforce development, and additional education funding, including higher education.

### COVID-19 Response

The Budget recognizes the reality that the costs of addressing the COVID-19 pandemic are not over and will continue into 2021-22. The Budget reflects pandemic response costs of \$13 billion (\$2.5 GF) total, over the 2019-20, 2020-21, and 2021-22 budget years. Funding specifically included for the 2021-22 budget is \$300 million for vaccine distribution, which includes funding for outreach and public awareness to increase vaccine adoption.

While the budget does not account for the most recent federal relief package, which included additional funds for unemployment and cash payments (including for those individuals in mixed immigration status households), the Administration states an intent to seek further federal relief.

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While the intent of the funding is unclear at this time, the Budget also allocates \$5 million towards deferred maintenance issues in emergency response and preparedness. That funding could be utilized to help rebuild and maintain the state's PPE stockpile, or renew or purchase new field hospitals.

It should be noted that the federal public health emergency has been extended an additional 90 days past the existing January 20, 2020 expiration date, which will allow for certain fiscal benefits such as enhanced Medicaid matching, and telehealth flexibilities, to continue.

The Administration's focus throughout the COVID pandemic, and throughout this budget is on equity issues. The budget includes \$1.7 million General Fund in 2021-22 and \$154,000 General Fund in 2022-23 and ongoing for the California Health and Human Services Agency to conduct an analysis of the intersection of COVID-19, health disparities, and health equity to help inform any future response. Additionally, outside of the COVID response, the Budget includes \$4.1 million (\$3.7 million General Fund) in 2021-22 and \$2.1 million (\$1.6 million General Fund) ongoing for the Health and Human Services Agency to further improve the Administration's effort to identify and address systemic racism, discrimination, and health equity issues through the use of data and the development of an equity dashboard.

As another part of this commitment to equity, this spring, the Administration will propose an investment for the Department of Managed Health Care, in collaboration with other entities, to establish a priority set of standard quality measures for full service and behavioral health plans, including quality and health equity benchmark standards, and to take enforcement actions against non-compliant health plans. This could help reduce the administrative burden on physicians by allowing for more consistency in quality measures.

## **Medi-Cal and Proposition 56**

The Administration remains committed to the health of all Californians, dedicating 24 percent of the total budget (\$39.4 billion) to health expenditures. While expenditures for Medi-Cal decrease by \$1.2 billion (GF) in the current budget year due to reduced caseload, enhanced federal match, and savings from the new Hospital Quality Assurance Fee, the state continues to maintain the goal of increasing access and improving quality of care for Medi-Cal beneficiaries in the proposed 2021-2022 budget. Overall, Medi-Cal General Fund expenditures are projected to grow \$13.5 billion (\$4.3 GF), due to COVID-19 caseload growth, to \$122.2 billion. It is expected that caseload will peak during budget year 2021-22 at 16.1 million beneficiaries.

Suspension of the Proposition 56 payments has been delayed for an additional 12 months, most maintaining funding through July 1 of 2022 (some are preserved through December 31, 2022) and including a total of \$3.2 billion for these programs in 2021-22.

Other key, non-Proposition 56, Medi-Cal related items released in the budget include:

- + Delay of the suspension of Medi-Cal optional benefits to December 31, 2022.
- + Delay of the suspension of post-partum extension of pregnancy-only Medi-Cal benefits to those individuals diagnosed with a maternal mental health condition to December 31, 2022.

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- + Elimination of the suspension for opioids screening and referrals due to a federal change in law so these activities will be fully funded, ongoing.
- + Adding Medi-Cal coverage for continuous glucose monitors for adults with Type 1 diabetes.
- + Implementation of Medi-Cal Rx, requiring \$219.9 million (\$70.2 million GF) in the current, 2020-21 budget year, resulting in a savings of \$612.7 million (\$238.2 million GF) for the 2021-22 budget year. Ultimately, annual ongoing savings are projected to be \$1.2 billion by 2023-24.

## Addressing Health Care Affordability, Access, and Quality

Governor Newsom proposed several initiatives aimed to improve the affordability and quality of health care, and to ensure access to all Californians. The details on these proposals will be fleshed out in the days and weeks to come, but high-level summaries of the goals are as follows:

- + The budget includes \$11.2 million in 2021-22, \$24.5 million in 2022-23, and \$27.3 million in the out years from the Health Data and Planning Fund in order to establish the Office of Health Care Affordability. Additionally, the budget outlines a proposal which will be introduced in Spring, to recast both this office, and the Office of Statewide Health Planning and Development (OSHPD) under a new Department of Healthcare Affordability and Infrastructure.
- + California Advancing and Innovating Medi-Cal (CalAIM) is slated for implementation by January 1, 2022; though implementation dates may be delayed relating to the end date of the public health emergency, for a total cost of \$1.1 billion (\$531 million GF) in 2021-22 better coordinate care for high-needs individuals, which, in turn, decreases costs. By including wrap-around services, such as housing and other social services, it is intended that individuals can avoid costly hospital and nursing home stays.
- + There is a focus on technology connectivity in healthcare with a stated intention of accelerating the utilization and integration of Health Information Exchanges (HIE), funding for remote patient monitoring, and \$94.8 (\$34 million GF) in ongoing funding to continue the existing pandemic-related telehealth flexibilities. DHCS plans to release the entirety of its new telehealth policy and proposal on or before February 1 as trailer bill language and will better articulate their plan after the current public health emergency.
- + Investments to help aging Californians, including creating a new Office of Medicare Innovation and Integration by working with the federal government on Medicare strategies to help provide for long-term services.

## Behavioral Health

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There is a strong focus in the budget on behavioral health. It recognizes the impacts of COVID-19 on the mental health of Californians and funds efforts to combat this through both health and education approaches. The Governor is providing \$400 million in one-time funding to DHCS to help incentivize Medi-Cal managed care plans to better coordinate with schools and county mental health departments on ensuring students are receiving preventative and early intervention behavioral health students. Two other allocations of \$25 million will be available to fund partnerships between county behavioral health departments and schools.

An additional \$750 million in one-time funds are available for grants to counties seeking to expand community behavioral health treatment facilities for crisis intervention.

## Higher Education

In addition to the funding for PRIME mentioned above, the proposed budget increases funding for Graduate Medical Education by approximately \$1 million ongoing General Fund, growing to approximately \$1.8 million General Fund ongoing in the out years, to offset declining Proposition 56 revenues. This funding supports a statewide grant program to maintain \$40 million ongoing for graduate medical residency slots. Additionally, the budget includes one-time funding of \$1.25 million to support the UC San Francisco–Department of Public Health Modeling Consortium.

There is also funding available in all higher education sectors to increase student access to mental health services and technology.

## Next Steps

The budget subcommittees in both the Senate and Assembly will now begin to meet to review and debate the Governor's proposed budget on a tightened timeframe. CMA will continue to advocate for our priorities, including maintaining Proposition 56, fortifying the state's health care workforce, and increasing access to care for all Californians.

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