

A Record Final Budget for California Brings Funding for Medi-Cal Expansion and the Office of Health Care Affordability

California's new fiscal year began on July 1 after the legislature approved a record state budget of \$262.6 billion on June 28. The record budget was made possible by a \$76 billion budget surplus and \$27 billion in federal aid. This year's budget process was especially confusing, as the California constitution requires the state legislature to pass a budget by June 15. This year, however, the legislature passed a placeholder budget on June 15 that allowed the state to spend the record sum, but the budget bill did not provide much detail on how the money should be spent. The details were supplied later through trailer bills that direct the state's departments how to actually spend the money they've been allocated in the budget bill.

Final Budget Brings Big Changes to Medi-Cal

There were a few significant adjustments in the final budget. One of the biggest revisions of the final budget is the allocation of funds to expand Medi-Cal to undocumented adults aged 50 and older, which is set to occur no sooner than May 1, 2022.[\[1\]](#) California will be the first state in the nation to expand healthcare coverage to this population. In the midst of the budget crunch resulting from the COVID-19 pandemic last year, this proposal was deferred and was included in the budget proposal earlier this year, but only for undocumented adults aged 65 and older. The 15-year age drop in the final budget will allow a significant number of older adults living in California to access healthcare for the first time. The measure is expected to extend healthcare benefits to approximately 235,000 California residents.[\[2\]](#)

Another significant change included in the final budget is the expansion and ultimate elimination of the Medi-Cal asset test. Currently, adults are only eligible for Medi-

Cal if they have less than \$2,000 in savings as an individual, or less than \$3,000 as a couple. The budget includes \$394 million in 2022-23 and ongoing to increase the Medi-Cal asset limit to \$130,000 for an individual, plus \$65,000 for each additional household member, no sooner than July 1, 2022.^[3] The test is to be fully eliminated no sooner than January 1, 2024.

Funding for the Office of Health Care Affordability

In our [last issue](#), we discussed the details of the newly proposed Office of Health Care Affordability (the “office”), created by the California Health Care Quality and Affordability Act. Initially included in Newsom’s 2020-2021 budget, the proposal was abandoned and then picked up again this year. The office would be tasked with analyzing health care markets for cost trends and drivers of spending, developing data-informed policies for lowering health care costs for consumers, setting and enforcing cost targets, and creating a state strategy for controlling the cost of health care and ensuring affordability for consumers and purchasers. The office was included in the final budget and was allocated a one-time General Fund sum of \$30 million to establish the office. The final budget outlines a three-year plan for the office, with \$11.2 million in 2021-22, \$24.5 million in 2022-23, and \$27.3 million in 2023-24. Since the office would be established as part of the California Health Care Quality and Affordability Act, which is still pending in the Senate after passing the Assembly, time will tell whether it comes to fruition at the end of the legislative session.

Budget Allows for Continued Telehealth Flexibilities

The final budget also includes \$151.1 million in 2021-22 for the extension of telehealth flexibilities that were allowed during the federal public health emergency due to the COVID-19 pandemic. A health-related trailer bill passed on July 15 requires the Department of Health Care Services (DHCS) to seek federal approvals to extend the approved waiver or flexibility related to the delivery and reimbursement of services via telehealth in the Medi-Cal program. DHCS is then

required to implement these extended waivers or flexibilities from the first day immediately following the last day of the federal COVID-19 public health emergency through December 31, 2022.[\[4\]](#) The goal of this measure is to increase health care access and equity while reducing disparities in the Medi-Cal program, all by preserving these telehealth flexibilities beyond the pandemic.

Below we include a chart that lays out the specifics of the enacted budget for healthcare proposals and initiatives.

Proposal	Goals	Final Budget
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<p style="text-align: center;">Office of Health Care Affordability</p>	<ul style="list-style-type: none"> • Increase transparency on healthcare cost and quality • Develop cost targets for health care industry • Enforce compliance through financial penalties for entities that fail to meet these cost targets • Fill gaps in market oversight of transactions that may adversely impact market competition, prices, quality, access, and the total cost of care • Report quality performance and equity metrics on the entire health care system • Advance payment models that reward high-quality, cost-efficient care • Promote investments in primary care and behavioral health <p style="text-align: center;">Budget includes \$11.2 million in 2021-22, \$24.5 million in 2022-23, and \$27.3 million in 2023-24 for the Office of Health Care Affordability.</p>	<p style="text-align: center;">The final budget includes \$30 million from the General Fund one-time to establish this office.</p>
<p style="text-align: center;">Health Plan Equity and Quality Standards</p>	<ul style="list-style-type: none"> • Establish a priority set of standard quality measures for full service and behavioral health plans, including quality and health equity benchmark standards • Take enforcement actions against non-compliant health plans 	<p style="text-align: center;">The final budget includes \$1.2 million to establish and enforce health equity and quality standards for all Department of Managed Health Care licensed full-service and behavioral health plans.</p>

<p style="text-align: center;">Medicare Innovation and Integration</p>	<ul style="list-style-type: none"> • Explore strategies and models to strengthen and expand low-and middle-income Californians’ access to high-quality services and supports • Develop new partnerships with the federal government <p style="text-align: center;">May Revision: An April 1st proposal included \$602,000 per year ongoing to the Department of Health Care Services, for leadership and expertise to lead new, innovative models for California Medicare beneficiaries.</p>	<p style="text-align: center;">The final budget includes \$602,000 ongoing to provide the Department with focused leadership and expertise to lead innovative models for Medicare beneficiaries in California.</p>
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<p style="text-align: center;">California Advancing and Innovating Med-Cal (CalAIM)</p>	<ul style="list-style-type: none"> • Identify and manage member risk and need through whole person care and addressing social determinants of health • Make Medi-Cal more consistent and seamless by reducing complexity and increasing flexibility • Improve quality outcomes, reduce health disparities, and drive delivery system transformation and innovation through value-based initiatives, modernization of systems, and payment reform <p>Budget includes \$1.1 billion in 2021-22, growing to \$1.5 billion in 2023-24 for CalAIM.</p> <p>May Revision: The May Revision builds on the Medi-Cal CalAIM proposal. The CalAIM proposal intends to focus on a whole-person care approach that targets social determinants of health and reduces health disparities and inequities.</p> <p>The goal is to improve health outcomes for all Californians and will ultimately reduce per-capita costs over time.</p>	<p>The final budget includes \$1.6 billion for the CalAIM initiative. The cost increases in the General Fund to \$1.5 billion by 2023-24 and decreases to \$900 million in 2024-25 and ongoing.</p>
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<p style="text-align: center;">Telehealth Flexibilities in Medi-Cal</p>	<ul style="list-style-type: none"> • Expand and make permanent certain telehealth flexibilities authorized during COVID-19 emergency for Medi-Cal providers • Add remote patient monitoring as a new covered benefit, effective July 1, 2021 • Expand access to preventative services and improve health outcomes, thereby increasing health equity <p>Budget includes \$94.8 million ongoing to expand and make permanent certain telehealth flexibilities authorized during COVID-19 for Medi-Cal providers.</p> <p>May Revision: As noted in the discussion above, the Department of Health Care Services will establish rates for audio-only telehealth that is set at 65% of the Medi-Cal rate for the service rendered in fee-for-service. The Administration wanted to extend telehealth flexibilities relied on during the pandemic, while also assuring appropriate access to in-person care.</p>	<p>The final budget includes \$151.1 million in 2021-22 for the extension of telehealth flexibilities allowed during the COVID-19 public health emergency- including payment parity for audio-only modalities- through December 2022 and coverage of remote patient monitoring.</p>
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<p>Medi-Cal Rx</p>	<ul style="list-style-type: none"> • Utilize state’s purchasing power to get better prescription drug prices <p>Budget includes costs of \$219.9 million in 2020-21 and savings of \$612.7 million in 2021-22. Full annual savings are projected to be approximately \$1.2 billion by 2023-24.</p>	<p>The final budget does not include this proposal, but does include a Drug Rebate Fund Reserve, which is allocated \$222 million in 2020-21 to the Medi-Cal Drug Rebate Fund to maintain a reserve, which is intended to alleviate the General Fund impact related to drug rebate volatility.</p>
<p>Center for Data Insights and Innovations</p>	<ul style="list-style-type: none"> • Leverage data to develop knowledge and insights to improve program delivery and drive system transformation across health and human services • Improve transparency, efficiency, availability, and utilization of data, while also managing the data’s integrity, quality, and strategic use to promote person-centered, data-drive decision making and integrated care and services 	<p>The Center for Data Insights and Innovations was not included in the final budget.</p>

As of July 15, the legislature is on summer recess and is set to return on August 16. More trailer bills will likely be passed to provide further guidance on how to spend the record budget once they return. Also upcoming, September 10 is the last day for legislators to pass bills, which then must be signed or vetoed by the Governor by October 10. For a recap of important healthcare bills this session, check out our California Legislative Beat entries from [March](#) and [April](#). Stay tuned to see which bills pass this session!

[1] Health and Human Services, *Health and Human Services: Enacted Budget - 2021-2022*, State of Cal. pg. 69 (2021).

[2] Farida Jhabvala Romero, 'So Thankful': California to Offer Medi-Cal to 235,000 Undocumented Adults, KQED (June 29, 2021), <https://www.kqed.org/news/11879724/so-thankful-california-to-offer-medi-cal-to-235000-undocumented-californians>.

[3] Health and Human Services, *supra* note 1, at 72.

[4] AB 133, 2021-2022 Assem., Reg. Sess. (Cal. 2021), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB133

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