

California’s 2021-2022 Budget Process Begins with Record High Proposal

Following a tumultuous year that brought about a pandemic-induced recession and consequent budget cuts, California’s 2021-2022 budget year was initiated on January 8th when Governor Gavin Newsom released a \$227 billion spending plan, which is notably the most expensive budget proposal in state history. Right before the May Revise for the 2019-2020 fiscal year was released last year, the Department of Finance projected a deficit of more than \$54 billion in the California state budget as a result of decreased tax revenue and increased demand for social services.[\[1\]](#) Obviously, this projected deficit never materialized and the tax revenues from California’s highest earners made this year’s record high proposal possible.

Some deferred proposals from last January’s State Budget proposal are back on the table, and the central focuses of this year’s State Budget healthcare proposals include quality reform, cost containment and transparency, and health equity. The State Budget Summary affirms, “The COVID-19 pandemic has accentuated the need for health care for all. While responding to the COVID-19 pandemic, the state continues to work on long-term plans to reduce the costs of health care by lowering prescription drug costs; the Budget includes the creation of a new Office of Health Care Affordability...[that] will increase quality and cost transparency, develop cost targets and evaluate consequences for entities that fail to meet the targets.”[\[2\]](#) The table below highlights notable proposals that focus on healthcare cost, transparency, and quality.

Proposal	Goals
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<p>Office of Health Care Affordability[3]</p>	<ul style="list-style-type: none"> • Increase transparency on healthcare cost and quality <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • Advance payment models that reward high-quality, cost-efficient care • Promote investments in primary care and behavioral health <p>Budget includes \$11.2 million in 2021-2, \$24.5 million in 2022-23, and \$27.3 million in 2023-24 for the Office of Health Care Affordability.</p>
<p>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>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 <ul style="list-style-type: none"> • Develop new partnerships with the federal government

<p>California Advancing and Innovating Medi-Cal (CalAIM)[4]</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>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>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 style="text-align: center;">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-driven decision making and integrated care and services
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Notably absent from the budget proposal, however, is the expansion of Medi-Cal to undocumented seniors age 65 and older. Advocates had been hopeful that the deferred proposal from last January would be back on the table this year, as COVID-19 has predominately affected minority populations, and undocumented seniors are particularly vulnerable. In explaining why he didn't include funding for Medi-Cal for undocumented adults, Newsom stated, "While we are enjoying the fruits of a lot of one-time energy and surplus, it's not permanent and we have to be mindful of over-committing."^[5] It is a difficult proposal to table (again) as many undocumented seniors will undoubtedly face the need for healthcare this year. A state fiscal analysis has projected California will face a \$7.6 billion deficit by 2023 due to the state's expenses growing faster than its revenue, prompting Newsom to make these difficult cuts.^[6]

The budget process is just beginning and will pick up speed in May after the Governor releases his May Revise. However, the January State Budget proposal provides a glimpse of what health care policy developments we might expect to see on the horizon. Coming up next, we'll focus on specific healthcare bills introduced for the 2021-2022 legislative session.

^[1] Alexei Koseff, *California coronavirus budget is grim: Deficit tops \$54 billion*, San Francisco Chronicle (May 7, 2020), <https://www.sfchronicle.com/politics/article/California-coronavirus-budget-is-grim-De>

ficit-15253695.php.

[2] Health and Human Services, *Health and Human Services: Governor's Budget Summary - 2021-22*, State of Cal. pg. 95 (2021).

[3] Newsom has acknowledged that establishment of such an office will be "tough." Unsurprisingly, powerful health industry groups expressed concern last year over the proposal.

[4] CalAIM seeks to build on the success of previous waiver demonstration programs, including Whole Person Care, the Coordinated Care Initiative, and Health Homes Program. CalAIM would emphasize mental health care and substance use treatment, in hopes that a larger focus on these areas will divert homeless and other vulnerable people away from more expensive avenues of care, such as emergency room use.

[5] Angela Hart, *California Budget Reflects 'Pandemic-Induced Reality,' Governor Says*, Kaiser Health News (2021), <https://khn.org/news/article/newsom-says-his-budget-reflects-pandemic-induced-reality/>.

[6] Dan Walters, *Newsom budget spends windfall on pandemic victims*, Cal Matters (January 8, 2021), <https://calmatters.org/commentary/2021/01/california-newsom-budget-recall-windfall-deficit-emergency/>.