

# The California Budget During the COVID-19 Pandemic: A Balancing Act

The world in January was a very different place than the world today. The effects of the pandemic-induced recession are clearly reflected in the California budget. In January, California was projected to have a surplus of \$5.6 billion. By the Governor's May Revision, however, the state was facing an estimated deficit of \$54.3 billion.[\[1\]](#) The difference of \$60 billion in four short months was created by the COVID-19 crisis. As a result, legislative priorities from the beginning of the year inevitably shifted, as the Assembly and Senate approved a \$202.1 billion fiscal budget that fell about \$20 billion short of the pre-pandemic budget proposal.[\[2\]](#) Governor Newsom signed the budget on June 29<sup>th</sup>, initiating the start of the new 2020-2021 fiscal year. In this post, we take a look at the before and after state budget in the context of healthcare and discuss what made the cut in this very special budget year. Overall, existing healthcare programs and services targeting California's most vulnerable populations were saved by the legislature and budget balancing; however, most of January's healthcare proposals are either withdrawn or deferred to the next fiscal year.

## COVID-19 Slashes January's High Hopes

In January, we wrote about Governor Newsom's lofty goals for the state of health care in California with a number of healthcare budget proposals aimed to increase health access and lower healthcare cost. Faced with impact from the pandemic, Newsom tried to drastically roll back many healthcare reform measures in his May Revision in an effort to balance the massive budget deficit, deferring or withdrawing many of the initial proposals.

One withdrawn budget proposal from January was the creation of the Office of Healthcare Affordability. The Office was to be charged with increasing price and

quality transparency, developing specific strategies and cost targets for different sectors of the health care industry, and establishing financial consequences for entities that fail to meet these targets.[\[3\]](#) The Office was also to create strategies to address hospital cost trends by region with a focus on cost increases caused by delivery system consolidation.[\[4\]](#)

Another proposal that was withdrawn in the May Revision is the Medi-Cal Healthier California for All Initiative, formerly known as the California Advancing and Innovating Medi-Cal Initiative (CalAIM). Governor Newsom directed the Department of Health Care Services to launch Medi-Cal Healthier California for All to “provide a wider array of services and supports for patients with complex and high needs.”[\[5\]](#) The initiative aimed to improve quality outcomes by transforming delivery systems through value-based initiatives, modernization of systems, and payment reform.[\[6\]](#)

The January State Budget Proposal attempted to take further steps towards universal health care coverage by expanding eligibility for full-scope Medi-Cal benefits to all persons aged 65 years and older, regardless of immigration status, by January 2021. The expansion aimed to provide preventative care to an estimated 27,000 undocumented seniors in the first year.[\[7\]](#) Governor Newsom proposed to withdraw this proposal in the May Revision, and the legislature agreed and indefinitely delayed this measure.[\[8\]](#)

## **Compromise Saves Proposed Deep Cuts to Essential Programs**

The May Budget Revision looked quite different from the January Budget Proposal. Newsom struggled to balance the budget and ended up proposing deep cuts to healthcare services, including Medi-Cal. Fortunately, budget compromises ended up sparing hundreds of millions of dollars for these healthcare programs and public services.

Governor Newsom proposed to withdraw the Medi-Cal Aged, Blind, and Disabled Income Level Expansion, which would expand Medi-Cal eligibility to those individuals with incomes between 123 and 138 percent of the federal poverty level. Medi-Cal currently serves about one in three low-income Californians.[\[9\]](#) This

expansion would provide comprehensive coverage to over 20,000 Californians.[\[10\]](#) Currently, adults in Medi-Cal's Aged and Disabled Program have to either earn under \$15,240 a year or pay a certain amount, essentially a deductible, of their healthcare costs before Medi-Cal coverage kicks in.[\[11\]](#) Depending on the individual's level of income above the eligibility limit, this can be hundreds of dollars a month.[\[12\]](#) According to Linda Nguy, a policy advocate at the Western Center on Law & Poverty, many people end up skipping medical care because they can't pay this deductible.[\[13\]](#)

One of the more controversial proposed budget cuts was the proposed cut to the funding of alternatives to nursing homes, including Community Based Adult Services, Multipurpose Seniors Service Program, and in-home supportive services (IHSS). The May revision proposed a 7% reduction in the number of hours provided to IHSS beneficiaries.[\[14\]](#) IHSS provides help with everyday activities to older adults, which helps them stay in their homes and out of nursing homes. At a time when fatalities from COVID-19 in nursing homes may account for about 42% of COVID-19 deaths nationwide and 47% in California, while nursing home residents account for less than 1% of the United States population,[\[15\]](#) a budget cut that would ultimately lead to more seniors moving into nursing homes is a questionable decision.

Newsom also proposed to withdraw the 340B Supplemental Payment Pool, which would provide payments to non-hospital clinics for 340B pharmacy services. The purpose of the 340B program is to enable providers to stretch scarce federal resources as far as possible, reaching more eligible patients and providing more comprehensive services.[\[16\]](#) The 340B Drug Pricing Program began in 1990 and requires pharmaceutical manufacturers to enter into a pharmaceutical pricing agreement (PPA) with the United States Health and Human Services Secretary, in exchange for having their drugs covered by Medicaid and Medicare Part B.[\[17\]](#) Through the PPA, the manufacturer agrees to provide covered outpatient drugs at significantly reduced prices to providers that care for the low-income population on Medicaid.[\[18\]](#)

Ultimately, budget compromises between the legislature and Governor Newsom saved the Medi-Cal Aged, Blind, and Disabled Income Level Expansion, Community

Based Adult Services, Multipurpose Seniors Service Program, and the 340B Supplemental Payment Pool. The legislature also rejected Newsom’s proposal to cut IHSS hours. In the midst of a pandemic that has highlighted America’s need for a more equitable health care system, California successfully prevented the proposed deep cuts that would have affected the state’s most vulnerable residents.

## Current State of the Budget

Facing a historic \$54.3 billion deficit, Governor Newsom attempted to balance the state budget by cutting out social programs and public services that thousands of Californians rely on. Legislators recognized this as a precarious move and persuaded Newsom to forgo making deep cuts to these programs and instead implement other budget-balancing measures, which include relying on reserve accounts, internal borrowing, and reaching into the state’s \$16 billion rainy-day reserve for the first time.[\[19\]](#) The California budget also was finalized in hopes of a federal bailout.

While health care and social services spending remain relatively intact, changes are likely ahead as the economic impacts of the COVID-19 pandemic become more obvious and as the state receives delayed tax collections, which are due July 15<sup>th</sup>. Healthcare cuts could still be on the table if the state does not receive the revenue needed to sustain these services and programs.

On the other hand, even as many new healthcare proposals were cut under the pandemic, AB 80, a trailer budget bill unveiled on June 22<sup>nd</sup>, could expand healthcare access and provide Medi-Cal benefits for undocumented seniors if the Department of Finance projects a positive ending balance in the Special Fund for Economic Uncertainties for the upcoming fiscal year.[\[20\]](#) Also included in AB 80 are a number of health care proposals, including the Health Care Payments Data System, which replaces the previously proposed Health Care Cost Transparency Database. Coming up, we’ll focus more on this bill and the final status of the state budget.

Proposal	Goals	Status
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Office of Healthcare Affordability	<ul style="list-style-type: none"> <li>• Increase price quality and transparency</li> <li>• Address hospital trends by region, with focus on cost increases driven by delivery system consolidation</li> <li>• Establish standards for evidence-based and value-based payments</li> </ul>	Deferred; proposed cut adopted
Medi-Cal Healthier California for All	<ul style="list-style-type: none"> <li>• Reduce complexity in Medi-Cal</li> <li>• Transform delivery systems through value-based initiatives, modernization of systems, and payment reform</li> </ul>	Delayed; proposed cut adopted
Expand Medi-Cal coverage to undocumented seniors	<ul style="list-style-type: none"> <li>• Expand eligibility for full-scope Medi-Cal benefits to all persons aged 65 years and older regardless of immigration status by January 2021</li> </ul>	Withdrawn; proposed cut adopted and proposal delayed indefinitely but prioritized in the Budget Act for the upcoming fiscal year
Supplemental Payment Pool for Non-Hospital 340B Clinics	<ul style="list-style-type: none"> <li>• Provide payments to non-hospital clinics for 340B pharmacy services</li> </ul>	Passed; proposed cut rejected
IHSS 7% Hours Reduction and cuts to Community Based Adult Services and Multipurpose Senior Services Program	<ul style="list-style-type: none"> <li>• In-home supportive services (IHSS) provides help to older adults with everyday activities</li> <li>• Community Based Adult Services and Multipurpose Seniors Service Program offers services to older adults to maintain their capacity for self-care and delay or prevent inappropriate institutionalization</li> </ul>	Stay as is; proposed cut rejected

Medi-Cal Aged, Blind, and Disabled Income Level Expansion	<ul style="list-style-type: none"> <li>• Expand Medi-Cal eligibility to those individuals with incomes between 123 and 138% of the federal poverty level</li> </ul>	Passed; proposed cut rejected
Medi-Cal Best Price	<ul style="list-style-type: none"> <li>• Expand Department of Health Care Services (DHCS) authority to negotiate state supplemental rebates based on best prices offered by manufacturers internationally rather than other purchases within the United States</li> </ul>	Passed, included in AB 80
Health Care Payments Data Program	<ul style="list-style-type: none"> <li>• Requires the Office of Statewide Health Planning and Development to implement and administer the Health Care Payments System, which would include health care data submitted by health care service plans, health insurers, a city or county and offers self-insured or multiemployer-insured plans, and other specified mandatory and voluntary submitters</li> </ul>	Passed, included in AB 80

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[1] Governor Newsom Signs 2020 Budget Act, Off. of Gov. Gavin Newsom (2020), <https://www.gov.ca.gov/2020/06/29/governor-newsom-signs-2020-budget-act/>.

[2] Jacob Ohara, *Californians: What to know about your new state budget, in 2 minutes*, Cal Matters (July, 1, 2020), <https://calmatters.org/multimedia/video/2020/07/california-new-budget-2-minutes/>

[3] Health and Human Services, *Health and Human Services: Governor's Budget Summary — 2020-21*, State of Cal. pg. 26 (2020)

[4] *Id.*

[5] *Id.* at 33.

[6] *Id.*

[7] Paulette Cha & Shannon McConville, *Medi-Cal Expansion for Undocumented Seniors*, Pub. Pol'y Inst. of Cal. (February 21, 2020), <https://www.ppic.org/blog/medi-cal-expansion-for-undocumented-seniors/>.

[8] *2020 Budget Scorecard Proposed Cuts to Coverage and Care*, Health Access (June 22, 2020), [https://health-access.org/wp-content/uploads/2020/06/Health-Access-2020-Budget-Scorecard\\_6.22.20-1.pdf](https://health-access.org/wp-content/uploads/2020/06/Health-Access-2020-Budget-Scorecard_6.22.20-1.pdf).

[9] John Myers, *A glimpse of some of what's in California's new \$202 billion state budget*, L.A. Times (June 29, 2020) <https://www.latimes.com/california/story/2020-06-29/california-new-state-budget-signed-gavin-newsom-overview>.

[10] *Id.*

[11] Ana B. Ibarra, *New Budget Boosts Health Coverage For Low-Income Californians*, Cal. Healthline (June 24, 2020), <https://californiahealthline.org/news/california-budget-health-care-coverage-low-income-safety-net-medicaid-benefits/>

[12] *Id.*

[13] *Id.*

[14] Health and Human Services, *Health and Human Services: May Revision to the Governor's Budget - 2020-2021*, State of Cal. pg. 66 (2020)

[15] *More Than 40% of U.S. Coronavirus Deaths Are Linked to Nursing Homes*, N.Y. Times (July 7, 2020) <https://www.nytimes.com/interactive/2020/us/coronavirus-nursing-homes.html>.

[16] *Overview of the 340B Drug Pricing Program*, 340B Health, <https://www.340bhealth.org/members/340b-program/overview/>.

[17] *Id.*

[18] *Id.*

[19] Alexei Koseff, *California lawmakers approved coronavirus-era budget that mostly avoids deep cuts*, S.F. Chron. (June 26, 2020), <https://www.sfchronicle.com/politics/article/California-set-to-approve-coronavirus-era-budget-15368628.php>.