

# The May Revise: Budget Surplus Enables Push to Expand Healthcare Coverage

A year ago, Governor Newsom had projected a budget deficit of about \$54.3 billion for California, resulting in a scramble to balance the precarious budget by cutting and deferring proposals. In a complete reversal, the May Revision to the Governor's proposed budget, originally [released in January](#), projected an unprecedented surplus of \$75.7 billion this year. The Legislative Analyst's Office reports that only about half of this surplus, about \$38 billion, will be available for discretionary spending.<sup>[1]</sup> The updated spending plan proposed \$267.8 billion in spending, an increase from \$227 billion proposed in January.

## **Expansion to Medi-Cal and Health Care Access**

Under the backdrop of the COVID-19 pandemic, a central focus of the revised budget is expanding healthcare access to some of the state's most vulnerable groups. The state budget affirms, "As more Californians get vaccinated and case rates and hospitalizations decrease, the May Revision presents a once-in-a-generation opportunity to begin to address the health, economic, and racial inequities that were exacerbated by the pandemic."<sup>[2]</sup>

Medi-Cal, California's version of Medicaid, offers free or low-cost health insurance to lower income individuals in California. The May Revise assumes that Medi-Cal caseload will increase by about 7.1% from fiscal years 2019-20 to 2020-21 and will see another increase of 6.6% from 2020-21 to 2021-22. Based on that assumption, the May Revise estimates the cost of the increase of caseload to be \$4.2 billion in 2020-2021 and \$9.4 billion in 2021-2022.<sup>[3]</sup> In 2021-22, it's projected that the Medi-Cal program will cover over one-third of the California population, or about 14.5 million individuals.<sup>[4]</sup>

In January, we addressed the absence of Medi-Cal expansion to undocumented seniors age 65 and older in the proposed budget. The May Revise brought this proposal back and now proposes to expand Medi-Cal, including the imperative In-Home Supportive Services program, to undocumented adults aged 60 and older, effective no earlier than May 1, 2022. The budget includes \$69 million for this expansion in 2021-2022, and \$1 billion ongoing.<sup>[5]</sup> This expansion would cover approximately 80,000 undocumented adults in California.<sup>[6]</sup>

Prompted by a new federal option that is included in the American Rescue Plan Act of 2021, Newsom also proposed to extend Medi-Cal coverage to postpartum individuals to 12 months following the last day of pregnancy. Previously, Medi-Cal postpartum benefits were only available for 60 days post-birth.

Telehealth flexibilities are also included in the revised budget, which proposes to establish “audio-only” telehealth reimbursement rates, set at 65% of the standard fee-for-service rates. The proposal is an effort to extend the telehealth flexibilities utilized during the COVID-19 pandemic, while also maintaining an incentive to provide in-person care.

### **New Federal Subsidies to Make Healthcare More Affordable**

While not part of the California budget, the American Rescue Plan Act (ARPA) provides new federal subsidies that will open the door for many more Californians to enroll in Covered California, the health insurance marketplace in California. The ARPA provides more generous subsidies than the state’s previous subsidies. The new subsidies will lower premiums for an estimated 3.1 million Californians. Of this 3.1 million, 1.4 million are already enrolled in Covered California and will automatically qualify for reduced premiums, and 1.2 million are uninsured, but will qualify for the reduced premiums if they sign up for a Covered California plan. The May Revision assumes a savings of about \$732.7 million over 2020-21 and 2021-22 combined that result from new federal subsidy levels that replace the state subsidy program.

## **Final Budget Proposal With May Revision Updates**

When Governor Newsom’s January Budget Proposal was released, we outlined the healthcare proposals in an overview chart (see Source [blog post](#)). Most of the original proposals went unaddressed in the May Revision, but some were noted, and the new changes are addressed in the updated chart below.

<b>Proposal</b>	<b>Goals</b>
<b>Office of Health Care Affordability</b> <a href="#">[7]</a>	<ul style="list-style-type: none"><li>• Increase transparency on healthcare cost and quality<ul style="list-style-type: none"><li>• Develop cost targets for health care industry</li><li>• Enforce compliance through financial penalties for entities that fail to meet these cost targets</li></ul></li><li>• Fill gaps in market oversight of transactions that may adversely impact market competition, prices, quality, access, and the total cost of care</li><li>• Report quality performance and equity metrics on the entire health care system<ul style="list-style-type: none"><li>• Advance payment models that reward high-quality, cost-efficient care</li><li>• Promote investments in primary care and behavioral health</li></ul></li></ul> <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>
<b>Health Plan Equity and Quality Standards</b>	<ul style="list-style-type: none"><li>• Establish a priority set of standard quality measures for full service and behavioral health plans, including quality and health equity benchmark standards</li><li>• Take enforcement actions against non-compliant health plans</li></ul>

<p><b>Medicare Innovation and Integration</b></p>	<ul style="list-style-type: none"> <li>• Explore strategies and models to strengthen and expand low-and middle-income Californians’ access to high-quality services and supports</li> <li>• Develop new partnerships with the federal government</li> </ul> <p><b>May Revision:</b> An April 1<sup>st</sup> 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><b>California Advancing and Innovating Medi-Cal (CalAIM)<a href="#">[8]</a></b></p>	<ul style="list-style-type: none"> <li>• Identify and manage member risk and need through whole person care and addressing social determinants of health</li> <li>• Make Medi-Cal more consistent and seamless by reducing complexity and increasing flexibility</li> <li>• Improve quality outcomes, reduce health disparities, and drive delivery system transformation and innovation through value-based initiatives, modernization of systems, and payment reform</li> </ul> <p>Budget includes \$1.1 billion in 2021-22, growing to \$1.5 billion in 2023-24 for CalAIM.</p> <p><b>May Revision:</b> 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. The goal is to improve health outcomes for all Californians and will ultimately reduce per-capita costs over time.</p>

<p style="text-align: center;"><b>Telehealth Flexibilities in Medi-Cal</b></p>	<ul style="list-style-type: none"> <li>• Expand and make permanent certain telehealth flexibilities authorized during COVID-19 emergency for Medi-Cal providers</li> <li>• Add remote patient monitoring as a new covered benefit, effective July 1, 2021</li> <li>• Expand access to preventative services and improve health outcomes, thereby increasing health equity</li> </ul> <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><b>May Revision:</b> 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 style="text-align: center;"><b>Medi-Cal Rx</b></p>	<ul style="list-style-type: none"> <li>• Utilize state’s purchasing power to get better prescription drug prices</li> </ul> <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;"><b>Center for Data Insights and Innovations</b></p>	<ul style="list-style-type: none"> <li>• Leverage data to develop knowledge and insights to improve program delivery and drive system transformation across health and human services</li> <li>• 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</li> </ul>

Next up, the California Legislature must pass the budget by June 15<sup>th</sup>, to be signed by Governor Newsom on June 30<sup>th</sup> which would start the new fiscal year on July 1, 2021. Additionally, “trailer bills,” which provide additional details around how the budget appropriations should be used may be considered and passed through mid-September, when the legislative session ends. Stay tuned to see how the final budget pans out.

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[1] Gabriel Petek, *The 2021-2022 Budget: Initial Comments on the Governor’s May Revision*, Legislative Analyst’s Office, pg. 1 (May 27, 2021).

[2] Health and Human Services, *Health and Human Services: May Revision to the Governor’s Budget - 2021-2022*, State of Cal. pg. 77 (2021).

[3] Katie Heidorn & Marissa Kraynak, *Governor’s Fiscal Year 2021-22 Budget May Revision*, Insure the Uninsured Project (May 28, 2021), <https://www.itup.org/itup-blog-key-highlights-in-the-governors-may-revision/>.

[4] Health and Human Services, *supra* note 2, at 84.

[5] Federal policy currently prohibits federal budget from covering comprehensive health care benefits to undocumented immigrants via the Medicaid program, so these expansions need to come from the state’s own budget.

[6] *First Look: Revised Budget Proposal Lays Foundation for a More Equitable California, Further Action Needed to Create Sustainable Investments*, California Budget & Policy Center (May 2021), <https://calbudgetcenter.org/resources/first-look-revised-budget-proposal-lays-foundation-for-a-more-equitable-california-further-action-needed-to-create-sustainable-investments/>.

[7] Newsom has acknowledged that establishment of such an office will be “tough.” Unsurprisingly, powerful health industry groups expressed concern last year over

the proposal.

[8] 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.