Overview

Today, Governor Gavin Newsom released his updated state budget proposal for fiscal year 2020-21. California began 2020 with a strong economy, historic reserves, a structurally balanced budget, and a projected surplus of $5.6 billion. However, the Governor’s financial analysts now predict revenue declines of $41.2 billion due to job losses and business closures combined with an expected $7.1 billion in caseload increases supporting health and human services programs, and other expenditures of approximately $6 billion (the majority in response to COVID). These updated predictions will result in an overall budget deficit of approximately $54.3 billion, of which $13.4 billion occurs in the current budget year (2019-20) and $40.9 billion in the currently being debated budget year (2020-21). For reference, this overall deficit is nearly 37 percent of the General Fund spending authorized in last year’s budget.

The unprecedented loss of jobs and income due to COVID-19 and the projected deficit as a percent of General Fund spending is modestly smaller than the budget deficits faced by the state in 2003 and 2009. This is due largely to the state’s prudent fiscal management and strong economic recovery since 2011. In order to pass the statutorily required balanced budget by June 15th, the impartial Legislative Analyst’s Office (LAO) advises the use of a mix of tools to bring the budget into balance, including using available reserves, reducing expenditures where possible, increasing revenues, and shifting costs. They also rightfully caution against taking actions that could worsen the public health crisis or compound personal economic challenges facing Californians.

The May Revise assumes that Medi-Cal patient caseload will increase significantly due to the economic conditions associated with the COVID-19 recession. Caseload will peak at 14.5 million in July 2020, about 2 million individuals above what it would have been.

Difficult decisions will have to be made by the Legislature and Governor over the coming month to address the state’s tremendous fiscal challenges. The Governor outlined the elimination of almost all the Proposition 56 tobacco tax funding to address the looming budget deficit. Absent additional federal funds, Governor Newsom proposes making the following program reductions necessary to balance the budget:

- $1.2 billion in Proposition 56 funding from providing supplemental payments for physician, dental, family health services, developmental screenings, and non-emergency medical transportation, value-based payments, and loan repayments for physicians and dentists.
- Adult dental and all optional benefits including audiology, incontinence creams and washes, speech therapy, optician/optical lab, podiatry, acupuncture, optometry, nurse anesthetists services, occupational and physical therapy, pharmacist services, screening, brief intervention...
and referral to treatments for opioids and other illicit drugs in Medi-Cal, and diabetes prevention program services, for a total General Fund savings of $54.7 million.

- The elimination of special carve outs for Federally Qualified Health Centers (FQHC) for a savings of $100 million ($50 million General Fund).
- Other programs totaling over $300 million in savings for budget year 2020-2021.

Other health care related programs proposed in January that are not being carried forward in the May Revise include:

- The expansion of Medi-Cal coverage to include all adults aged 65 or older, regardless of their immigration status (approximately 90,000 adults). It would have built upon the coverage currently offered to children up to age 19, and young adults aged 19-26.
- Discussions surrounding the Office of Health Care Affordability.
- Delayed implementation of the CalAIM initiative, resulting in a General Fund savings of $347.5 million in 2020-21.

Several programs approved in the last budget year have also been reclaimed to help offset the budget deficit and increased caseloads for Medi-Cal:

- $33.3 million ongoing general fund for the continuation of the Song-Brown Healthcare Workforce Training Program.
- Expansion of postpartum mental health services for individuals diagnosed with a maternal mental health condition.
- The placement of behavioral health counselors in emergency departments, Medi-Cal enrollment navigators, and the Medical Interpreters Pilot Project.

**PROPOSITION 56 GME**

The Governor chose to maintain his January proposal, re-committing to an increase of $1.5 million ongoing General Fund to maintain the Proposition 56 Graduate Medical Education Program at an ongoing total of $40 million.

**PROPOSED PHYSICIAN LICENSING FEE INCREASE**

The Governor's May Revise also proposes levying a new tax on those who are putting their life on the line. Thousands of physician practices have had to close their doors during the COVID-19 crisis and many will not be able to reopen at all. The 47% proposed increase is bypassing the normal policy committee process, and is being characterized as a way to provide sufficient funding for operational costs growth at the Medical Board.

**NEXT STEPS**

Beginning Monday of next week, the Budget Subcommittees in both houses of the Legislature will begin their accelerated deliberation process leading up to June 1st when the full Budget Committees will release their respective spending plans. Once each house's spending plan proposals are finalized
the differences will then be reconciled against the Governor’s proposal and a final balanced budget will be voted on and sent to the Governor by June 15th, for his consideration.

CMA will activate to defeat the inclusion of an unprecedented increase to physician licensing fees, and reclaim Proposition 56 tobacco tax revenues to maintain the gains to access for Medi-Cal enrollees over the last three years. Additionally, CMA will work to protect all physician priorities through the tumultuous and exceptionally fast paced budget process ahead.

For additional information or questions, contact Kelli Boehm, Legislative Advocate, Government Relations, kboehm@cmadocs.org.