



LEGISLATIVE REPORT #313

Governor Releasees May Revise - \$54 Billion Deficit

May 14, 2020: This afternoon the Governor released the May revise of the budget. Although tax revenues normally collected on April 15th are delayed until July 15th, the Governor is planning for a \$54 billion deficit. This is a huge change from the budget he proposed in January which included a budget surplus of more than \$5 billion. The massive deficit consists of \$41 billion in lower revenues and the other \$13 billion comprising of increased costs associated with fighting the COVID-19 pandemic and increased numbers of people moving into the Medi-Cal program.

The Governor is estimating the unemployment rate will peak around 18% in July of this year which will result in an additional two million people needing Medic-Cal. Total Medi-Cal enrollment is expected to jump to 14.5 million. The state will benefit from the \$16.5 billion reserves they have accumulated through the last economic recovery but those are expected to be expended over the next three budget years.

To account for the deficit the Governor is proposing a number of actions including:

- Leverage monies sent to state through CARES Act.
- Cancelling program expansions and spending increases including cancelling a number of spending programs from the 2019-2020 budget.
- Reduce state employee salaries by 10%. This would still need to be negotiated with unions.
- Draw funds from reserve funds. \$8.3 billion would be drawn this year.
- Reduce state operating costs by five percent by implementing efficiencies.

- Borrow and transfer funds from other special funds from various departments and boards.
- Temporarily suspend net operating losses and temporarily limit to \$5 million the amount of credits a taxpayer can use in any given tax year.
- Assumes funds from the HEROES Act currently being negotiated in Congress.

There are additional actions being proposed but these are the major ones. A significant portion of Governor Newsom's focus was on the importance of the federal government providing monetary assistance. A number of the cuts are contingent on whether the federal government provides money through the HEROES Act.

Looking more closely at the health-related budget actions, I found there were a few actions worth highlighting including:

- In the January budget the Governor made one of his main priorities to reshape the Medi-Cal program to focus on treating the "whole person". This proposal, called Cal-AIM, would have expanded the types of services offered under the Medi-Cal program to address some of the social determinants of health. This plan is put on hold.
- The proposal to expand Medi-Cal to cover adult undocumented individuals will not be pursued.
- Proposition 56 was passed in 2016 to increase tobacco taxes. A significant portion of the funds have been used to supplement Medi-Cal reimbursement for physicians. \$1.2 billion of these funds will be repurposed to pay for the growth in the Medi-Cal program thus eliminating the supplemental provider reimbursement.
- Medi-Cal Managed Care capitated rates will be reduced by 1.5%.
- Program approved in the 2019-2020 budget for \$20 million to place alcohol and drug counselors in emergency departments was reversed and those funds will be moved into the Medi-Cal budget.
- Proposal to assist with the cost of hearing aids and related services for children without health insurance coverage in low income households was withdrawn.

The mood was very somber during the press conference with the Governor and even more so on the call for advocates with the Secretary of Health and Human Services. Multiple advocates expressed their shock and dismay over the cuts which the Secretary repeatedly empathized with them expressing his struggle with them as well.