

LEGISLATIVE UPDATE



Week of January 7, 2019

State Issues

Governor Newsom: Health Care Actions and Budget Proposal

On Monday, Gavin Newsom was sworn in as California Governor, and immediately took action signing two executive orders and issuing one letter regarding health care – see attached. He signed executive orders to create a state Surgeon General and facilitate state consolidation of the purchase of drugs. He sent a letter to President Trump and Congressional leaders and is reported to be working with Congressman Ro Khanna to develop a new Medicaid waiver to allow for more innovation in the program to help facilitate the state's movement to a single payer health care system.

And on Thursday, Governor Gavin Newsom presented his first state budget proposal for FY 2019-20. Attached is a brief budget overview and highlights of the global health proposals. More details will be forthcoming from our exploratory efforts in the days to come, as well as Budget Subcommittee hearings that are set to begin in the next few weeks.

For more information please contact Lori Dangberg at 1215 K Street, Suite 2000 ■ Sacramento, CA 95814

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FOR IMMEDIATE RELEASE:
Monday, January 7, 2019

Contact: Governor's Press Office
(916) 445-4571

IN FIRST ACT AS GOVERNOR, GAVIN NEWSOM TAKES ON COST OF PRESCRIPTION DRUGS & FIGHTS FOR HEALTH CARE FOR ALL

Governor Newsom signs first-in-the-nation executive order to create the largest single purchaser for prescription drugs and allow private employers to join the state in negotiating drug prices

Governor Newsom's first budget proposes that California move closer to health care for all by becoming the only state in the country to provide coverage to young undocumented adults through Medi-Cal

Under Governor Newsom's proposal, California would be the first state to expand the Affordable Care Act's financial assistance to middle-income families, helping them afford health care premiums

In letter to Congress and White House, Governor Newsom calls for federal legislative changes to allow states to innovate within their health care system -- including creating paths to single-payer

Governor Newsom also signs an executive order to create a California Surgeon General

SACRAMENTO -- In his first act as California's 40th Governor, Governor Gavin Newsom announced a series of major, first-in-the-nation executive actions and budget proposals to lower prescription drug and health care costs for all California families and move California closer to the goal of health care for all.

Governor Newsom's health care proposals are a central pillar of his broader "California for All" agenda. As he laid out in his inaugural speech, the Governor believes that the California Dream should be accessible to everyone -- not just a privileged few. Over his first year in office, he will work with the Legislature and all levels of government to find bold and innovative solutions to confront the cost and affordability crisis that California families are facing.

The rising costs of health care and prescription drugs are chief among those concerns, as California families continue to struggle with rising health care costs. Those buying on the individual market will see an average 9 percent rise in health care costs this year, according to [Covered California](#). American families have seen their prescription drug costs nearly double since the year 2000, according to the [Kaiser Family Foundation](#), and prescription drug pricing is one of the largest drivers of rising health care costs. Just last week, a [Reuters](#) report found thirty drug makers that did business with the State of California planned to raise their prices in January.

Governor Newsom's health care proposal takes those costs head on. Today, Governor Newsom signed first-in-the-nation [executive order that creates the nation's biggest single-purchaser system for drugs](#) and will allow all Californians -- including private employers -- to sit together at the bargaining table across from big drug companies when negotiating prescription drug prices. In his first budget, he will propose expanding financial help that makes it cheaper for families and individuals to buy health coverage and reinforce the Affordable Care Act after recent federal attacks. Governor Newsom's proposal would also bring the state closer toward the goal of health care for all by making it the first state in history to expand Medi-Cal coverage to all eligible undocumented young adults. He also signed an [executive order to establish a California Surgeon General](#) who will be tasked with addressing the root causes of California health challenges and inequities.

"No state has more at stake on the issue of health care. California must lead," said Governor Newsom. "We will use our market power and our moral power to demand fairer prices for prescription drugs. And we will continue to move closer to ensuring health care for every Californian."

Governor Newsom signed the executive orders and letter and [laid out his health care actions](#) today on Facebook Live.

As part of his California for All health care plan, the Governor proposes:

Creating the largest-scale single-purchaser system for prescription

drugs: Governor Newsom signed an executive order to fight the rising prices of prescription drugs by strengthening the state's bargaining power when negotiating drug prices. Today, public and private purchasers of prescription drugs for Medi-Cal, California's largest purchaser of pharmaceutical services, are fragmented, left to

negotiate against drug companies alone. The negotiation for pricing and purchasing of prescription drugs under Medi-Cal will now be conducted by the Department of Health Care Services on behalf of all 13 million Medi-Cal beneficiaries, as opposed to only 2 million currently. Further, the executive order directs state agencies to purchase prescription drugs together, as opposed to negotiating with drug companies one by one; and charts the path to enable all Californians, including private purchasers, to join forces with public purchasers. These reforms will mean that instead of facing big drug companies alone, Californians -- including budget-constrained government agencies and struggling small businesses -- can sit together at the bargaining table across from drug companies when negotiating for life-saving and life-preserving prescription drugs. By working together, we can effectively contain costs and make prescription drugs more affordable for all.

Making California the first state to cover undocumented young adults through

Medi-Cal: Two years ago, California took an important step toward health care for all by covering undocumented youth under the state's Medi-Cal program. In his budget, Governor Newsom will propose California take another major step toward universal coverage, by extending Medi-Cal eligibility to undocumented young adults who otherwise meet the program's eligibility requirements. It will make California the first state in the nation to cover young undocumented adults through a state Medicaid program. The Affordable Care Act allows most young adults to stay on their parents' health plan until age 26. Undocumented young adults should not have to worry about losing their health coverage when they turn 19.

Expanding Obamacare financial help for families & reinforcing the Affordable Care Act after federal attacks:

After a series of federal government attacks on the Affordable Care Act, Governor Newsom announced that his first budget will reinforce the law and expand Obamacare subsidies that help individuals and families afford health care coverage. His budget proposes increasing the size of the subsidies for families who already receive it, and it would make California the first state to make subsidies available to middle income families. Right now, individuals earning more than \$48,000 a year or a family of four earning more than \$98,000 don't qualify for financial help to afford their premiums. The Governor's budget will provide financial assistance to individuals earning up to \$72,840 and families of 4 earning up to \$150,600. California will be the first state in the nation to offer subsidies to individuals and families with income between 400 and 600 percent of the federal poverty level. To pay for increased financial help for families, the budget proposes fighting back against the federal government's attempts to destroy the Affordable Care Act by reinstating the individual mandate at the state level. A [UCLA study](#) recently predicted that the rate of uninsured Californians would increase without state action to counteract the federal government's move, a development that would increase health care premiums across the state even further -- even for families on private insurance.

Calls on the federal government to empower California to truly innovate:

Governor Newsom has long said California should be the national leader in health care innovation. However, instead of cultivating and rewarding good ideas, current federal law hinders truly transformative innovation, such as a single-payer health care system. Governor Newsom sent a [letter today to President Trump and Congressional leaders](#) calling on the federal government to lift these limitations and, instead, empower states like California to enact transformative change that would allow California to develop a single-payer health system to achieve universal coverage, contain costs, and promote quality and affordability.

Establishing the California Surgeon General to focus on root causes: Governor Newsom signed an executive order to establish a California Surgeon General, who will lead all Californians in addressing the root causes of serious health conditions, such as adverse childhood experiences and the social determinants of health. The overwhelming scientific consensus is that there are early signals and causes of many serious health conditions. The Surgeon General will marshal the insights and energy of medical professionals, public health experts, public servants, and everyday Californians to address health inequity as early as possible in all Californians' lives.

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Governor Gavin Newsom

State Capitol Building
Sacramento, CA 95814

EXECUTIVE DEPARTMENT
STATE OF CALIFORNIA

EXECUTIVE ORDER N-01-19

WHEREAS the State's spending on prescription drugs has increased at an unsustainable rate, including hikes of approximately 20% per year since 2012, constituting a substantial fiscal drain; and

WHEREAS a relatively small subset of high-cost drugs account for a disproportionate amount of spending, with the 25 most expensive drugs accounting for approximately half of the State prescription drug expenditures; and

WHEREAS the rising prices of prescription drugs impact not only the State and individuals enrolled in State programs—but all Californians—including small businesses and families, who are forced to make unconscionable sacrifices to access life-saving and life-preserving treatments; and

WHEREAS a major cause of skyrocketing prescription drug prices is bargaining asymmetry, by which the pharmaceutical industry, often wielding monopoly power, is left unchecked, in the absence of a strong counterparty at the bargaining table; and

WHEREAS the State can marshal public and private parties to counterbalance corporate bargaining power, not only to address rising prescription drug prices, but more broadly to promote access to affordable health care for all; and

WHEREAS establishing a single-purchaser for the highest-cost prescription drugs will yield valuable insights into the design of a broader single-payer system, and move the State one step closer to a comprehensive solution for affordable and accessible health care for all; and

WHEREAS there are opportunities to expand the negotiation and purchase of prescription drugs within existing State programs; and

WHEREAS pursuant to Government Code sections 14977 to 14982, the Department of General Services administers the Statewide Pharmaceutical Program, which enables state and local governmental entities to access bulk purchasing contracts for pharmaceuticals; and

WHEREAS the Department of General Services coordinates the California Pharmaceutical Collaborative, which convenes the State's largest public purchasers of prescription drugs, including the California Public Employees' Retirement System (CalPERS), the Department of Corrections and Rehabilitation, the Department of Veterans Affairs, and the Health and Human Services Agency; and

WHEREAS the Department of Health Care Services, which administers the largest Medicaid program in the nation, is the largest purchaser of pharmaceutical services in the State, and currently negotiates supplemental rebates for millions of low-income, disabled, and vulnerable Californians enrolled in Medi-Cal.

NOW, THEREFORE, I, GAVIN NEWSOM, Governor of the State of California, by virtue of the power and authority vested in me by the Constitution and statutes of the State of California, do hereby issue this order to become effective immediately.

IT IS HEREBY ORDERED THAT:

1. The Department of Health Care Services shall take all necessary steps to transition all pharmacy services for Medi-Cal managed care to a fee-for-service benefit by January 2021 in order to create significant negotiating leverage on behalf of over 13 million Californians and generate substantial annual savings.
2. The Department of Health Care Services, in consultation with the Health and Human Services Agency and California Pharmaceutical Collaborative, shall review all State purchasing initiatives and consider additional options to maximize the State's bargaining power, including the Medi-Cal program. The review shall account for and supplement the Department's transition of pharmacy services to a fee-for-service benefit. This review may include recommended changes in state law or current processes for procuring and reimbursing for pharmacy services. The Department shall complete this review by July 12, 2019.
3. The Department of General Services, in consultation with the California Pharmaceutical Collaborative, shall develop a list of prescription drugs that could appropriately be prioritized for future bulk purchasing initiatives or reexamined for potential renegotiation with the manufacturer.
 - a. Prioritization shall be based on criteria that include, among other things, the price of the drug and the extent to which the drug is subject to competition, such as a sole-source drug without a generic or alternative option. In developing the list, the Department shall consider, among others, the 25 highest-cost prescription drugs, which collectively account for approximately half of the State's prescription drug expenditures. To the extent the Department does not recommend prioritization of any of the 25 highest-cost drugs, the Department shall provide a brief rationale.
 - b. The Department shall provide a written report, including the list of prescription drugs recommended for prioritization for future bulk purchasing initiatives and the rationale for excluding any high-cost drugs, to the Governor's Office by March 15, 2019.
4. Based on the prioritized list, the Department of General Services, in consultation with the California Pharmaceutical Collaborative, shall develop and implement bulk purchasing arrangements for high-priority drugs. The Department shall also encourage local governments to participate by, among other things, conducting proactive outreach. The Department shall provide a written status report of this effort to the Governor's Office by April 12, 2019.
5. The Department of General Services, in consultation with the California Pharmaceutical Collaborative, shall develop a

framework for enabling private purchasers to benefit from State bulk pharmaceutical purchasing. This framework should incorporate the opportunity for private purchasers—including small businesses, health plans, and the self-insured—to opt in to a State purchasing program. If appropriate, the Department and Collaborative should recommend legislative changes to make prescription drugs more affordable for all. The Department shall provide a written report to the Governor's Office by May 17, 2019.

6. To the fullest extent permitted under law, all agencies under my direct executive authority shall cooperate with providing data and other information to the Department of General Services to assist the Department in developing a list of prescription drugs that could appropriately be prioritized for future bulk purchasing initiatives. Agencies not under my direct executive authority are requested to do the same.

IT IS FURTHER ORDERED that as soon as hereafter possible, this Order shall be filed with the Office of the Secretary of State and that widespread publicity and notice shall be given to this Order.

This Order is not intended to, and does not, create any rights or benefits, substantive or a procedural, enforceable at law or in equity, against the State of California, its departments, agencies, or other entities, its officers or employees, or any other person.



IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 7th day of January 2019.


GAVIN NEWSOM
Governor of California

ATTEST:


ALEX PADILLA
Secretary of State

**EXECUTIVE DEPARTMENT
STATE OF CALIFORNIA**

EXECUTIVE ORDER N-02-19

WHEREAS California faces serious health challenges rooted in early social determinants of health; and

WHEREAS these challenges are not only serious but inequitable, disproportionately impacting low-income Californians and communities of color; and

WHEREAS some of the most pernicious, but least addressed, health challenges are the upstream factors that eventually become chronic and acute conditions that are far more difficult and expensive to treat; and

WHEREAS the overwhelming scientific consensus is that these upstream factors, including toxic stress and the social determinants of health, are the root causes of many of the most harmful and persistent health challenges facing Californians; and

WHEREAS California is home to many of the world's leading experts on proactively addressing these root causes, including State and local health officials; and

WHEREAS these experts are endeavoring to identify and implement solutions proven successful by our best science; and

WHEREAS medical and policy experts cannot effectively do this work alone—they must leverage the expertise of Californians whose lived experience is critical to the development of working solutions; and

WHEREAS it is time that California appoints a leader who can marshal the insights and energy of medical professionals, public health experts, public servants, and everyday Californians to solve our most pressing health challenges with surgical focus.

NOW, THEREFORE, I, GAVIN NEWSOM, Governor of the State of California, by virtue of the power and authority vested in me by the Constitution and statutes of the State of California, do hereby issue this Order to become effective immediately.

IT IS HEREBY ORDERED that there is established the position of Surgeon General, a public entity within the Governor's direct executive authority.

IT IS FURTHER ORDERED that the Surgeon General shall advise the Governor on a comprehensive approach to addressing health risks and challenges as effectively and as early as possible.

IT IS FURTHER ORDERED that the Surgeon General shall marshal the insights and energy of medical professionals, scientists and other academic experts, public health experts, public servants, and everyday Californians to solve our most pressing public health challenges.

IT IS FURTHER ORDERED that the Surgeon General shall be a key spokesperson on public health issues throughout the State of California by providing Californians with the best medical and scientific evidence

through public health reports and other tools of communicating widely to the public.

IT IS FURTHER ORDERED that the Surgeon General shall have the following qualifications:

- Physician licensed to practice in California;
- Exceptional communicator across multiple platforms, including scientific and community forums, policy-making venues, and traditional and digital media;
- Recognized thought-leader in addressing the root causes of health disparities; and
- Demonstrated commitment to increasing the power and voice of those who are disproportionately experiencing the ill effects of the social determinants of health.

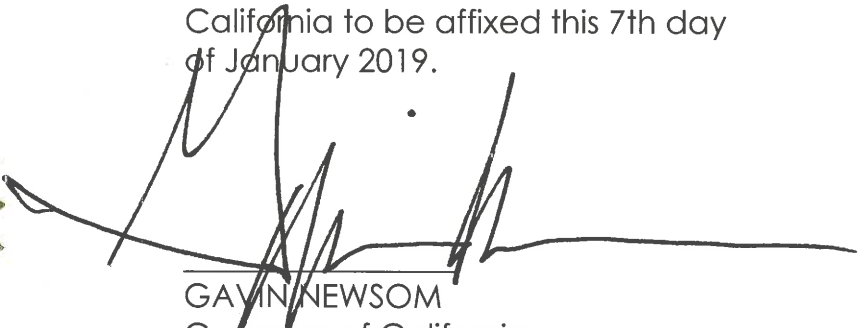
IT IS FURTHER ORDERED that the inaugural Surgeon General shall be appointed by no later than February 1, 2019.

IT IS FURTHER ORDERED that as soon as hereafter possible, this Order shall be filed with the Office of the Secretary of State and that widespread publicity and notice shall be given to this Order.

This Order is not intended to, and does not, create any rights or benefits, substantive or a procedural, enforceable at law or in equity, against the State of California, its departments, agencies, or other entities, its officers or employees, or any other person.



IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 7th day of January 2019.


GAVIN NEWSOM
Governor of California

ATTEST:


ALEX PADILLA
Secretary of State



OFFICE OF THE GOVERNOR

The Honorable Donald J. Trump
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
1236 Longworth House Office Building
Washington, D.C. 20515

The Honorable Mitch McConnell
Majority Leader
United States Senate
317 Russell Office Building
Washington, D.C. 20510

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
2421 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Charles E. Schumer
Minority Leader
United States Senate
322 Hart Senate Office Building
Washington, D.C. 20515

January 7, 2019

Dear President Trump, Majority Leader McConnell, Minority Leader Schumer, Speaker Pelosi, and Minority Leader McCarthy:

On my first day as the Governor of the State of California, I write with a request: empower States like mine to design and implement truly transformative solutions for securing affordable health care for all.

Historically, California has led the nation in designing and executing on innovative policy solutions to help address our most pressing problems. But when it comes to health care, California's spirit of innovation is stifled by federal limits on how we can innovate and experiment.

Existing law permits only limited, piecemeal innovation—not the comprehensive reform necessary to address the myriad challenges that Californians face when navigating today's health care system. California families continue to struggle with rising health care costs. For example, this year alone, some families are expected to see an average 9 percent rise in health care costs,

according to Covered California. We have taken action and will do more to make health care more affordable and available for all Californians.

However, to address this ongoing cost crisis in health care in the most effective way, we must have the federal tools to support California's ability to provide quality healthcare for everyone, financed through a single-payer model like Medicare. We must have the tools to innovate and expand on the Affordable Care Act, even as we build towards a more comprehensive, universal system that works for patients, providers, and taxpayers alike.

I ask that you amend federal law to enable States to apply for and receive Transformational Cost and Universal Coverage Waivers, empowering California to truly innovate and to begin transformative reforms that provide the path to a single-payer health care system. I am eager to take these challenges head-on and—together with my colleagues in the Legislature and with the benefit of federal policies that more fairly promote innovation, quality, and cost-effectiveness—to create an affordable, easy-to-navigate health care system for all Californians.

Within existing federal law, California has done what we can, and will continue to do more. We have made tremendous progress in expanding health care coverage under the Affordable Care Act. For example, in the span of five years, the State's uninsured rate dropped from 17 percent to an historic low of 7 percent.

Our work, however, is far from done. Despite the financial support provided by the Affordable Care Act, our health care system remains too expensive and too complex even for Californians who have insurance. High and rising health care costs mean workers' wages have not increased to the extent they should have, and small businesses struggle to offer coverage to their employees. The rising costs are unsustainable and are exerting immense pressure on the budgets of State and local governments, employers, and families.

In the absence of a bolder transformation, the Affordable Care Act is a strong foundation to build on: the goal of universal coverage; the promise of simplicity and protecting those who are sick or need care; clear limits on health plan profits and assuring premium dollars are spent on needed care; using competition to lower costs not only for those in California's marketplace, but for all the 2.4 million in the individual market. We can and must build on these elements as we go forward.

In doing so, we must create federal and State partnerships that support the positive transformation of health coverage and care throughout our country. We must turn away from making health care political and place our focus on meeting the needs of all Americans.

Building on the Affordable Care Act's solid foundation, I will tackle these challenges head-on. Later this week, I will submit a budget to the Legislature that proposes to, among other things:

- Expand coverage and affordability for Californians, including those in the middle class who currently receive no financial assistance;
- Enact a state Individual Shared Responsibility Provision;

- Provide state-based support for our younger undocumented Californians;
- Implement fixes to better manage care and contain costs; and
- Address rising prescription drug prices by counterbalancing the bargaining power of the pharmaceutical industry.

However, in order for California to achieve a truly comprehensive solution to making health care more affordable and accessible to all, the federal government must act. As I explain below, the federal government should provide for transformational waivers that empower States to truly innovate; build on the successes of the Affordable Care Act; and avoid further changes that erode the gains achieved in the past five years.

Together, these reforms would enable California and other States to finally achieve affordable health care for all.

1. Create New State Transformational Cost and Coverage Waivers

The federal government has given States the flexibility to make innovative changes in health care through the use of waivers. However, the existing State Innovation Waiver is too limited to effectively design and implement comprehensive solutions. Congressional leaders have recognized this fact, proposing legislation last year to expand States' waiver authority to promote universal coverage.

In this spirit, the federal government should enact new law enabling States to apply for Transformational Cost and Universal Coverage Waivers to re-invest federal funding—combined with State funds—to increase coverage, contain costs, and drive improvements in health care quality. Employing such waivers, States could design and tailor their own solutions, and lay the groundwork for more comprehensive solutions, such as a single-payer system.

Under this approach, States would be able to apply to:

- Reallocate funds to best meet the needs of all the State's population;
- Use public exchanges as a platform for portable benefits, leveraging funding from both employers and workers;
- Assure competition by making public plan options available in areas with limited health carriers;
- Support clear, continuous, and seamless coverage as residents move between individual coverage, employer-based insurance, Medicaid, and Medicare;
- Use tools such as all-payer pricing to address rising health care costs;
- Promote improvements to how care is delivered, supporting care coordination and payment systems that reward better quality;
- Integrate critical public health initiatives into the health care delivery system to address emerging and ongoing threats to health, such as conditions precipitated by climate change; and
- Finance locally anchored programs that close health disparities and address underlying social determinants of health.

Unlike the current standards tied to “budget neutrality,” this new waiver would be fiscally aligned with the federal government’s goal of reducing the uninsured, lowering costs, and improving quality. The waivers would serve as the funding mechanism rewarding States that are relatively more successful in achieving these goals. For example, additional funding should be made available for States that are more effective at lowering the rate of the eligible uninsured, containing costs effectively, and promoting quality.

While California and other States look for ways to improve upon the health coverage and care systems currently in place, we need to preserve the national standards that provide vital consumer support and protection, along with much needed access to coverage and care. Federal waivers should focus on meeting the explicit goal of driving positive change in health care, whether through expanded coverage, increased quality, or lowered costs.

By empowering States and tying flexibility to positive outcomes, Transformational Cost and Universal Coverage Waivers would enable States to finally enact comprehensive solutions to securing affordable health care for all.

2. Build on the Successes of the Affordable Care Act

The Affordable Care Act greatly increased the number of Americans with affordable health coverage by expanding Medicaid, setting affordability standards for employer-sponsored coverage, and establishing health benefit exchanges tasked with administering the Act’s premium tax credits and cost-sharing reductions. The federal government should continue to fund and evolve these programs to ensure they continue to meet the needs of Americans. Building on the Affordable Care Act should, among other things, include:

- **Reinstituting the Individual Shared Responsibility Payment to Prevent Coverage Losses and Resulting Premium Increases.** The Congressional Budget Office projects that the repeal of the individual mandate will increase the uninsured by 4 million in 2019 and by 13 million in 2027, with individual market rates increasing by about 10 percent in the next 10 years relative to what they would have been with the provision. The individual mandate is a cost-effective tool to create a virtuous cycle of strong enrollment that holds down annual rate increases.
- **Ensuring Affordable Health Insurance for Middle-Class Americans Who Do Not Receive Financial Help.** Under the Affordable Care Act’s current structure, consumers who earn less than 400 percent of the federal poverty level (FPL) are eligible for tax credits that limit the cost of their premiums to no more than 10 percent of income. However, that financial help stops abruptly when a consumer earns more than 400 percent FPL, or more than \$48,560. This means that an individual who earns \$49,000 a year has no protection from or assistance with premiums costs. This so-called tax credit “cliff” disproportionately impacts older individuals and individuals who live in areas of high health coverage costs. In California today, a couple in their sixties making \$70,000 a year may have to pay upwards of 20 percent of their income for a plan.

Premiums should be capped for all, instead of only those fitting under an arbitrary federal poverty level. In California, this action would benefit the approximately 1 million people

bearing the full cost of coverage today and would incentivize coverage take up among the 500,000 middle-class Californians who are projected to be uninsured in 2020.

- **Expanding Cost-Sharing Subsidies to Ensure Access to Needed Care.** The Affordable Care Act's cost-sharing reduction program lowers copayments and other out-of-pocket costs based on income. For individuals below 200 percent FPL (\$24,280), this subsidy significantly boosts the value of coverage. For individuals earning slightly more money, the cost-sharing subsidy is minimal and it phases out entirely above 250 percent FPL, or above \$30,350. Survey research shows that, even among those who receive significant help, one quarter of enrollees delay or avoid accessing care due to cost. In California today, the average employer-sponsored plan covers more than 80 percent of the cost of care. By contrast, individual market enrollees who choose the lowest level of coverage have only about 60 percent of their health care costs covered by their monthly premiums. Extending eligibility for cost-sharing subsidies to 400 percent FPL would support an additional 600,000 individuals in California with help paying for the care they need.
- **Implementing a Reinsurance Program that Will Reduce Premiums by 10 Percent.** The temporary federal reinsurance program in place between 2014 and 2016 lowered premium costs by 10 percent or more by funding health insurers for certain, defined high-cost claims. A permanent national program should be established, funded at the level needed to reduce rates by 10 percent.

Together, these improvements to the Affordable Care Act would build on the successes of a proven model.

3. Avoid Further Erosion of Progress

Equally important as building on the Affordable Care Act is avoiding steps that would return us to the days of skyrocketing individual market premiums, junk health insurance, and millions denied coverage because of their health history.

The promotion of alternative benefit plans, such as short-term, limited-duration insurance, come with significant drawbacks for consumers, including those with pre-existing conditions. Such plans also fragment the individual market, creating adverse selection and driving up premiums. While we have taken action in California to prohibit the sale of short-term, limited-duration insurance, consumers in many other States could be denied coverage or be left with uncovered medical bills due to limited coverage. Policies such as these contribute to rising health care costs, make meaningful coverage less affordable, and add pressure to our health care system that will ripple across sectors.

A comprehensive solution to affordable health care will require both wisdom and courage, with States and the federal government working together as partners. First and foremost, I ask that you amend federal law to enable States to apply for Transformational Cost and Universal Coverage Waivers, empowering California to pursue transformative health care reform, such as a single-payer system. Further, I ask that you build on the progress of the Affordable Care Act, especially by bolstering the affordability provisions of the law.

Sincerely,



Gavin Newsom, Governor of California



NOTEWARE & ROSA GOVERNMENT RELATIONS

January 10, 2019

To: Lori Dangberg, Vice President
Alliance of Catholic Health Care

From: Nicette Short, Legislative Advocate
Noteware & Rosa Government Relations

Re: Summary of the Governor's January State Budget Proposal

Today, Governor Gavin Newsom released his first January Budget Proposal, which highlights the balanced nature of the budget and its “robust Rainy-Day Fund....” left to him courtesy of former Governor Jerry Brown. He comments on the need to be fiscally responsible in preparation for “uncertain times.” He wants to focus on paying down unfunded pension liabilities, paying off long-standing budget debts, and continuing to strength the Rainy-Day fund. His budget also makes significant investments in a whole host of programs, including a \$1 billion Working Families Tax Credit, free tuition at Community Colleges, expanding Paid Family Leave, wildfire management, and universal full-day, full-year preschool. This budget proposal is 4% higher – or \$8 billion – more than the current 2018-2019 state budget.

Health Care Funding Philosophy

The Governor's budget comments that a large share of Medi-Cal spending occurs in the first year and the last year of life – and among enrollees with serious mental illness and chronic conditions. He would like to invest in increase prevention services to better address the social determinates of health and improve the availability of care.

DSH Cuts Reflected

For private hospitals, the budget includes a Disproportionate Share Hospital (DSH) payment reduction of \$156 million, a decrease of approximately 26% in fiscal year 2019-2020. This value can change depending on the actual methodology the federal Center for Medicare and Medicaid Services (CMS) chooses to use to determine state specific DSH cuts should Congress decide not to delay the cuts further. The budget notes that the Affordable Care Act requires the aggregate, nationwide reduction of the federal DSH allotments beginning October 1, 2019. Scheduled reductions for each fiscal year are expected to continue through Federal Fiscal Year 2025, unless changes are made at the federal level.

Medi-Cal Spending

- The Governor's budget comments that a large share of Medi-Cal spending occurs in the first year and the last year of life – and among enrollees with serious mental illness and chronic

conditions. He would like to invest in increase prevention services to better address the social determinates of health and improve the availability of care.

- The document notes that the Medi-Cal estimate continues a gradual decline, and Medi-Cal is set to cover 13.2 million Californians, including 3.8 million in the optional expansion population in 2019-2020. The slight reduction in those covered is due to California's low unemployment rate, the increase in the state's minimum wage, and of course the ACA expansion. The total Medi-Cal budget is \$98.5 billion (\$22.9 billion state general fund) for the upcoming fiscal year.
- The budget includes the state's 8.5 percent share of cost for the optional expansion population, which equals \$19.9 billion (\$2.2 billion general fund), reaffirming the new Governor's commitment to the ACA expansion population.
- Proposes to expand full-scope Medi-Cal coverage to eligible young adults aged 19-25 regardless of immigration status, starting no sooner than July 1, 2019. The expansion will cover approximately 138,000 undocumented young adults in the first year. The budget allocates \$260 million (\$196.5 million state general fund) for this purpose.
- \$360 million (\$180 million Prop 56 funds) for a program that encourages Medi-Cal managed care providers to meet goals in critical areas, such as management of chronic disease and behavioral health integration. We hope to get more information on this program in the next few weeks.
- \$3.8 million (\$1.8 million general fund) is allocated to improve the budgeting and management of the Medi-Cal program, including the creation of a drug rebate fund.

Health Care Coverage Affordability

- Increase subsidies through Covered California for individuals with incomes between 250 and 400 percent of the federal poverty level and 400 and 600 percent of the federal poverty level to increase health care coverage and the affordability of that coverage. The specific amount of the subsidy increase is not included in the budget summary document and more information will be forthcoming.
- These subsidies will be funded by revenues generate from establishing a California-specific individual health care mandate, modeled on the federal requirement included in the ACA. Penalties will be levied for those without appropriate health care coverage.

Healthcare Workforce

- \$3.2 billion (\$1.05 billion Prop 56 funds) for supplemental Medi-Cal payments and rate increases for physicians, dentists, family planning services, HIV/AIDS waiver services, Home Health and other new investments.
- \$50 million state general fund to increase training opportunities for mental health workforce programs. The program will be administered by OSHPD. This is one-time funding. The document mentions a "shared investment" with universities, health clinics and philanthropic organizations and more detail will be forthcoming.

- Continues support for residency programs in underserved areas with an allocation of \$33 million.

Prescription Drug Bulk Purchasing Proposal

- The Budget references the Governor's Executive Order related to a "single payer system for prescription drugs," but there is no greater level of detail related to implementation included in the proposal. They state, "Such a standardized drug benefit will reduce confusion among beneficiaries."
- During the press call with the CA Health and Human Services Agency, the Secretary of the Department of Health Care Services, Jennifer Kent, specified that this proposal would not eliminate the 340B program.