# Client Alert: Priority Legislation Update: California's Experiment – Massive Healthcare Expansion

**Priority Legislation Update:** California's Experiment: Massive Healthcare Expansion
In early July, Governor Gavin Newsom approved a $308 billion state budget for the 2022-2023 fiscal year. The spending bill increased spending 17.5% ($48 billion) from the prior year's budget. Its size alone garnered national attention. By comparison, Texas, the second largest state by population, has a *biannual* budget of $248 billion. The considerable increase in California's spending follows news of a $97.5 billion revenue surplus collected for the previous tax year. Governor Newsom described the amount of discretionary revenue available as "simply without precedent."At the same time that California has unprecedented financial capacity, the legislature's freedom to allocate the surplus funds has been circumscribed by multiple voter initiatives. Thanks to Proposition 98, for example, half of any California tax surplus must be directed toward education. In addition to formal constraints, many observers have noted that the state's progressive tax system is sensitive to boom and bust economic cycles; its disproportionate reliance on capital gains collections can translates to big surpluses when the economy heats up, followed by gaping budget deficits in subsequent periods of economic stagnation.

Acting cautiously, the State set aside $37.2 billion for budgetary reserves and early debt extinguishment. Despite these significant outlays, the new budget still directs billions of dollars toward new healthcare initiatives and investments. These allocations reflect ambitious objectives, and give us insight into overriding public health priorities.

**Behavioral Health & Homelessness**
In response to the state's homeless crisis, California is committing $1.5 billion to establishing a state-level " Behavioral Health Bridge Housing" program. Its purpose is to support the creation of clinically enhanced housing settings for people experiencing homelessness while suffering from serious behavioral health disorders. There is also funding for additional beds in county mental health hospitals as well as significant funding to expand community-based mobile crises services. Another initiative, dubbed the Community Assistance, Recovery and Empowerment court ("CARE Court") is designed to assist individuals living with untreated schizophrenia or other psychotic disorders as they make their way through the court system. Over $1.1 billion is appropriated as part of the State's ongoing Behavioral Health Continuum Infrastructure Program (BHCIP). Last year, this included over $150 million to support the development of mobile crisis units. These ambulatory teams provide emergency response and intervention services targeted specifically to mental and behavioral health crisis. Where available, they can be sent by 911 dispatchers as well as via the new 988 Suicide and Crisis Lifeline. There has been growing political pressure to advance the development of "Crisis Stabilization Units," which are short-term, community-based clinics that provide immediate care for mental health or substance use emergencies. A bill to provide state-level support for the creation of adolescent-specific mental health clinics was vetoed last October. Although the new budget generally targets expanding the state's mental health infrastructure, it is not clear what impact this will have on existing grant & lending programs that have been backed by the California Health Facilities Financing Authority (CHFFA) and the California Department of Corrections and Rehabilitation (CDCR).

**Behavioral Health & Children**
Roughly $2 billion in general fund expenditures was approved as part of a multiyear Children and Behavioral Health Initiative. In California, 13% of children aged 3-17 years of age are estimated to have at least one mental, emotional, or developmental health problem. According to 2018 report, two-thirds of California adolescents with major depressive episodes do not receive treatment. During the Covid-19 pandemic, 'stay-at-home' orders and remote schooling exacerbated and made more common behavioral health issues facing children. The new initiative sets out to create more comprehensive, "stigma-free," mental healthcare systems that can integrate with early childhood and K-12 educational institutions. In addition, there are funding grants intended to expand services connected to youth suicide prevention and crisis response, which will bolster currently available programs.

**Medi-Cal Coverage for Undocumented Residents**
Historically, eligibility for Medi-Cal coverage included undocumented persons below the age of 26, or above the age of 49. Meanwhile, those in the middle category were excluded. The new budget provides funding to remove this exclusion. Once effective, California will be the first state in the country to provide universal access to healthcare coverage for all income-eligible residents regardless of their immigration status. Implementation is set to

occur before the end of 2023.

**Reducing Healthcare Costs**
To tackle rising healthcare costs, California is launching a new sub-agency, the Office of Health Care Affordability, which will operate under the aegis of the Department of Healthcare Access and Information (HCAI). The long-term purpose of the newly created office is to track and study healthcare costs and trends, and then propose a statewide strategy for improving affordability for consumers and reducing expenditures for health payers. Though specific dates and details are tentative, publicly, there are plans to impose new data reporting requirements upon healthcare payers beginning in 2023. Meanwhile, the launch of the "CalRX Biosimilar Insulin Initiative" has garnered more visible media attention. The $100.7 million endeavor seeks to lower the costs of insulin biosimilars. Nearly half of the funding is committed toward building an insulin manufacturing facility in California.

**Opioid Crisis**
In 2021, 10,300 Californians died from drug overdoses. But developing new tools to address opioid crisis requires navigation of complex political challenges. In early August, the Governor vetoed a plan to create supervised drug injection sites, a decision that many view as political positioning in the thick of Newsom's contemplation of running for president. Meanwhile, the Budget allocates a $126.6 million General Fund for 2022-23 to expand the Integrated Substance Use Disorder Treatment Program (ISUDT). To enhance the Department's (DHCS) ability to treat individuals with substance use disorders, there are plans to create more access points for Medication Assisted Treatment (MAT)/Medication for Opioid Use Disorder (MOUD), boost Naloxone distribution and access, and improve both patient screening and aftercare. There are multiple initiatives to further support Rehabilitation and Reentry, including $120 million designated to increasing Reentry Beds and $37 million to expand the state's in-prison rehabilitation programs.

**Reproductive Health**
In response to the Supreme Court's decision declaring that there is no constitutional right to abortion, California, among other Pro-Choice states, has sought to boost access and strengthen legal protections for women seeking abortion care. The Budget provides over "$200 million to expand access to reproductive healthcare services, improve clinical infrastructure, and expand the workforce in reproductive healthcare services."

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These initiatives reflect a commendable, serious effort by the State to address longstanding healthcare challenges, many shared nationally (including the rising incidence of behavioral health challenges across the population and limitations on behavioral health access particularly for the uninsured, underinsured, and Medicaid populations) and some particular to California. Over the coming year and beyond, it will be important to measure the extent to which the new funding leads to meaningful inroads at gaps in California healthcare. Will California serve as a national model of the investments necessary to overcome our most difficult healthcare challenges? Alternatively, will California be an example of the limits of government problem-solving without engagement of community stakeholders, such as faith communities and employers? Either way, the lessons from California's investment in healthcare reform will be instructive.

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