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State Budget and Tax Considerations of Key Health Policy Proposals

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A PRESENTATION TO:

USC CENTER FOR HEALTH JOURNALISM

COLLABORATIVE GATHERING

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Key Facts About California's State Budget

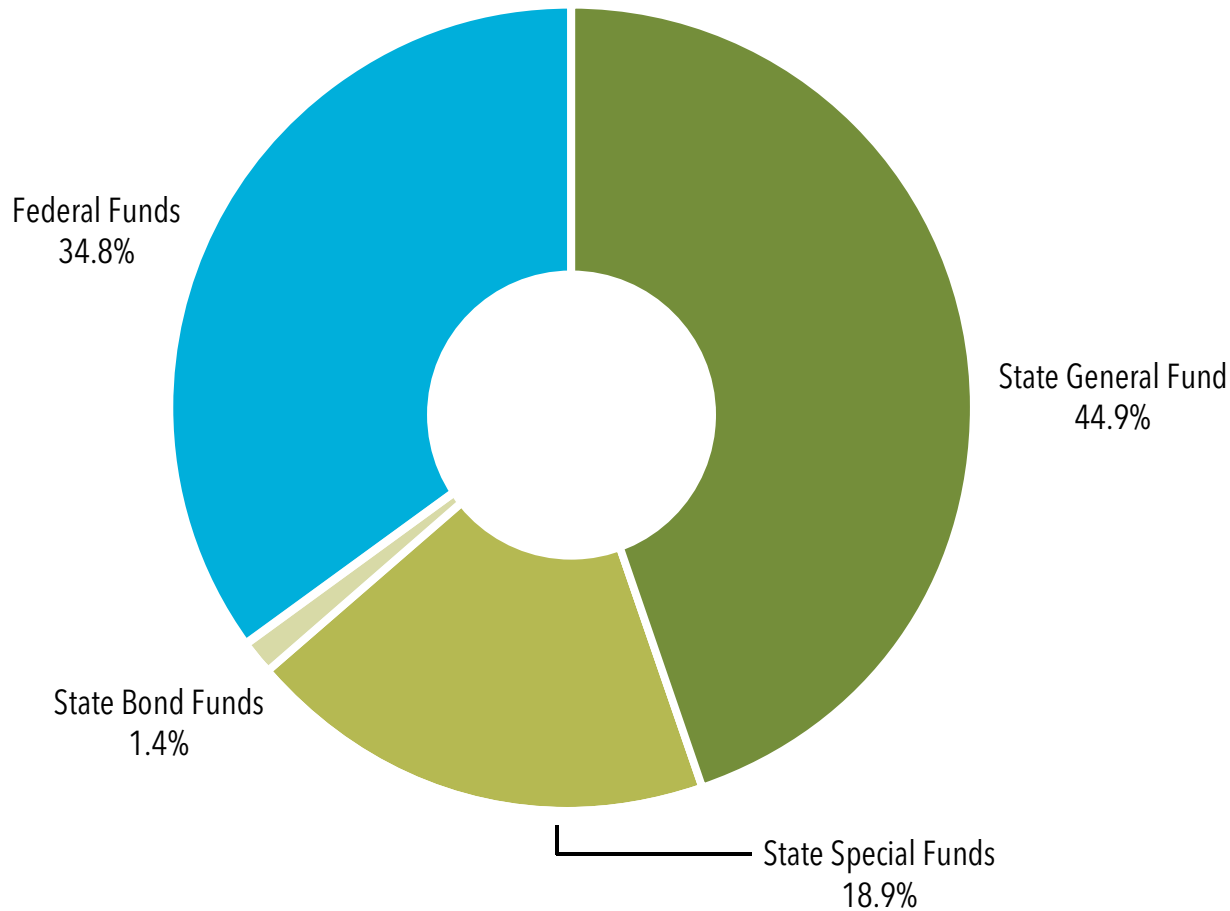


**The state budget =
state funds + federal funds.**



State Funds Account for Nearly Two-Thirds of California's State Budget

Total Enacted 2018-19 Expenditures = \$308.8 Billion



Source: Department of Finance

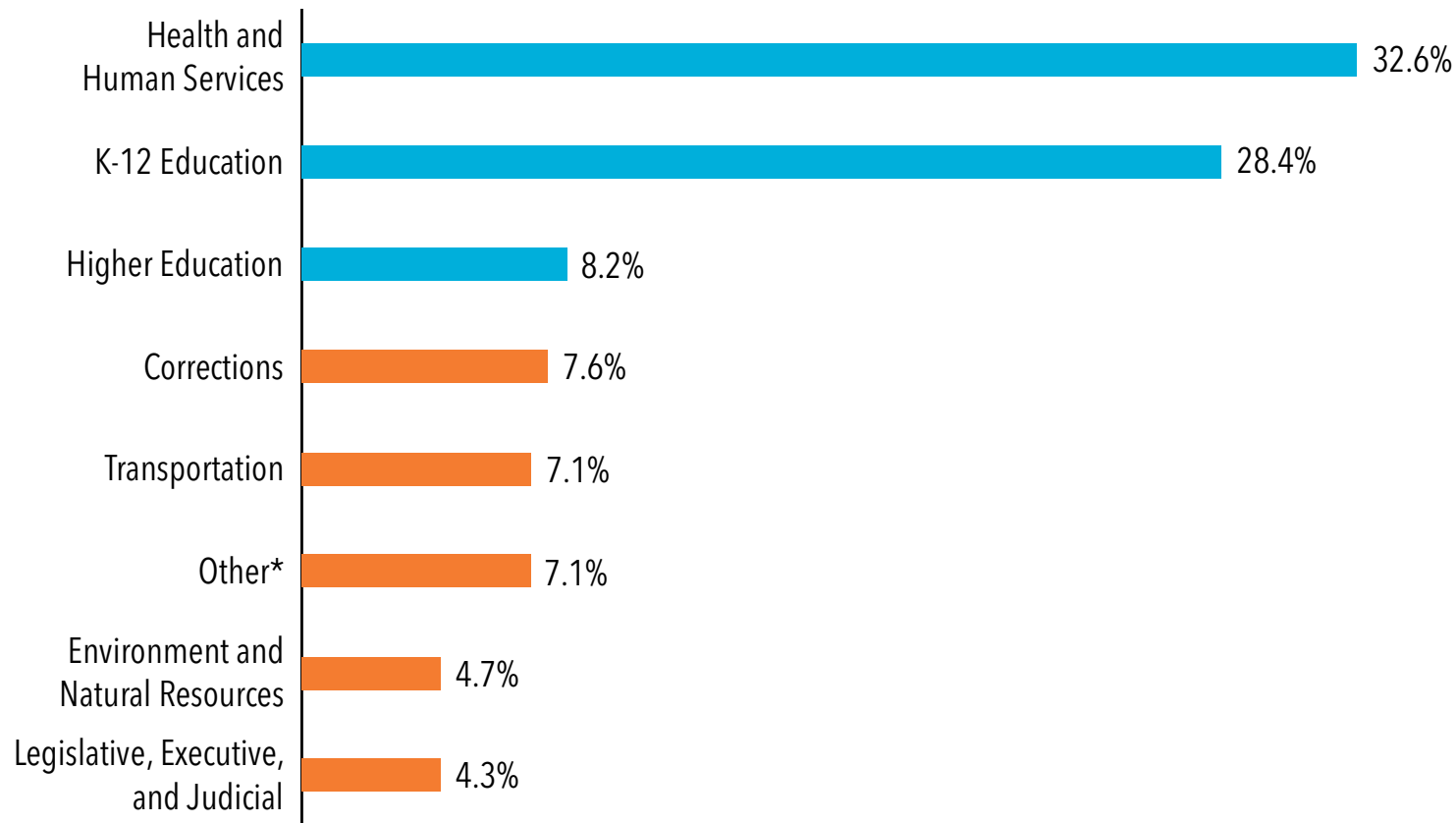


The state budget supports a broad range of public services and systems.



More Than Two-Thirds of State Dollars Support Health and Human Services or Education

Enacted 2018-19 General Fund and Special Fund Expenditures = \$197.2 Billion

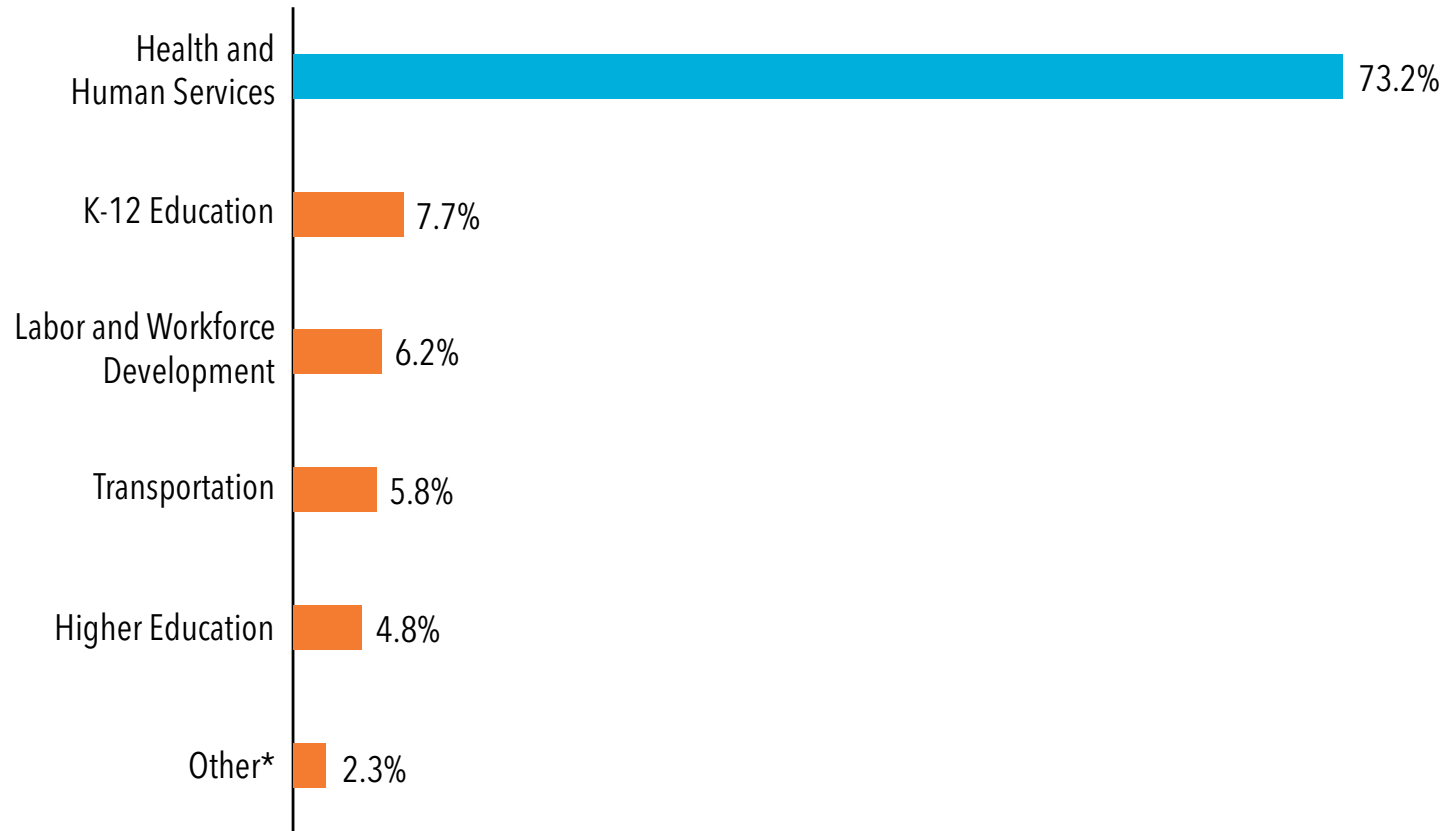


* Includes Business, Consumer Services, and Housing; Labor and Workforce Development; Government Operations; and General Government.
Source: Department of Finance



More Than 7 in 10 Federal Dollars Spent Through the State Budget Support Health and Human Services

Federal Funds Estimated to Be Spent Through the State Budget in 2018-19 = \$107.5 Billion



* Includes Environmental Protection; Legislative, Judicial, and Executive; Corrections and Rehabilitation; and other state budget categories that account for relatively small shares of federal funds.

Source: Department of Finance



The State Budget Process: Key Rules of the Road



California's Constitution Includes Several Rules Related to the Budget Process

- There are two constitutional **budget-related deadlines**: January 10 and June 15.
- The budget bill and most “trailer” bills can be passed by a **simple majority vote** of each house of the Legislature.
- A **two-thirds vote** of each house is needed for certain actions, including **raising taxes** or placing a **constitutional amendment** on the statewide ballot.



Democrats Control More Than Two-Thirds of the Seats in Each House of the Legislature

ASSEMBLY

80 SEATS
2/3 SUPERMAJORITY = 54
61 DEMOCRATS
19 REPUBLICANS



SENATE

40 SEATS
2/3 SUPERMAJORITY = 27
29 DEMOCRATS
11 REPUBLICANS



Key Health Policy Proposals and Their Projected Fiscal Impacts



Generally Speaking, Health Policy Proposals Come in a Variety of “Flavors”

- Encourage or require people to enroll in health coverage for which they are eligible
- Ensure timely access to quality care
- Expand access to health coverage
- Improve affordability of health coverage
- Control health system cost growth
- Restructure the health system



Key Health Policy Changes in Governor Newsom's Proposed 2019-20 Budget

- Allow **undocumented immigrant adults ages 19 to 25** to enroll in “full-scope” Medi-Cal
- Create **state subsidies** to lower the cost of “non-group” health insurance for people with incomes from 250% to 600% of the federal poverty line (roughly \$31,000 to \$75,000 per year for an individual)
- Require Californians to **carry health insurance or pay a penalty** (“individual mandate”)



Fiscal Impacts of Key Health Policy Changes

Possible State Policy Change	Affected Population	Projected New Annual State Cost	Source
Expand access to full-scope Medi-Cal (v. 1)	Undocumented immigrants ages 19 and up (1.2 million)	\$3B	Legislative Analyst's Office (LAO), 2018



Fiscal Impacts of Key Health Policy Changes

Possible State Policy Change	Affected Population	Projected New Annual State Cost	Source
Expand access to full-scope Medi-Cal (v. 1)	Undocumented immigrants ages 19 and up (1.2 million)	\$3B	Legislative Analyst's Office (LAO), 2018
Expand access to full-scope Medi-Cal (v. 2)	Undocumented immigrants ages 19 to 25 (138,000)	\$194M	Department of Finance, 2019



Fiscal Impacts of Key Health Policy Changes

Possible State Policy Change	Affected Population	Projected New Annual State Cost	Source
Expand access to full-scope Medi-Cal (v. 1)	Undocumented immigrants ages 19 and up (1.2 million)	\$3B	Legislative Analyst's Office (LAO), 2018
Expand access to full-scope Medi-Cal (v. 2)	Undocumented immigrants ages 19 to 25 (138,000)	\$194M	Department of Finance, 2019
Improve affordability of insurance purchased through the individual market	Varies, but could include households with incomes ranging from 200% to 600% of the poverty line	\$500M to \$2B+	Covered California, 2019



Fiscal Impacts of Key Health Policy Changes

Possible State Policy Change	Affected Population	Projected New Annual State Cost	Source
Expand access to full-scope Medi-Cal (v. 1)	Undocumented immigrants ages 19 and up (1.2 million)	\$3B	Legislative Analyst's Office (LAO), 2018
Expand access to full-scope Medi-Cal (v. 2)	Undocumented immigrants ages 19 to 25 (138,000)	\$194M	Department of Finance, 2019
Improve affordability of insurance purchased through the individual market	Varies, but could include households with incomes ranging from 200% to 600% of the poverty line	\$500M to \$2B+	Covered California, 2019
Establish a single-payer system	All 40 million Californians	\$100B to \$200B	LAO, 2018; UMass Amherst, 2017



Options for Funding Health Policy Proposals



Some Health Policy Proposals Can Be Paid for With Existing State Revenues

- Policymakers may decide to fund the ongoing cost of a new policy with revenues from the state's existing General Fund tax base, **without a tax increase**. Key recent examples:
 - **Medi-Cal "optional" expansion:** Net state costs have risen from a few hundred million in 2016-17 to around \$1 billion in 2018-19.
 - **Extension of full-scope Medi-Cal to undocumented youth:** Ongoing state costs are roughly \$300 million per year.



Other Health Policy Proposals May Require a New Source of Revenues

- Policymakers may decide that new revenues are needed to fund a proposal, **particularly if costs are large and cannot be phased in.**
- **Possible revenue sources that generally rise over time:** Personal income tax; sales tax; corporation tax.
- **Possible revenue sources that generally decline over time:** Tobacco tax; penalty for failing to carry health insurance.



Fiscal Impacts of Key Health Policy Changes

Possible State Policy Change	Affected Population	Projected New Annual State Cost	State Funding Options
Expand access to full-scope Medi-Cal (v. 1)	Undocumented immigrants ages 19 and up (1.2 million)	\$3B	Likely requires new state taxes
Expand access to full-scope Medi-Cal (v. 2)	Undocumented immigrants ages 19 to 25 (138,000)	\$194M	Current General Fund revenues
Improve affordability of insurance purchased through the individual market	Varies, but could include households with incomes ranging from 200% to 600% of the poverty line	\$500M to \$2B+	Current General Fund revenues and/or new state taxes/penalty
Establish a single-payer system	All 40 million Californians	\$100B to \$200B	Requires new state taxes



A Few Thoughts About the Single-Payer Approach to Health Care Financing

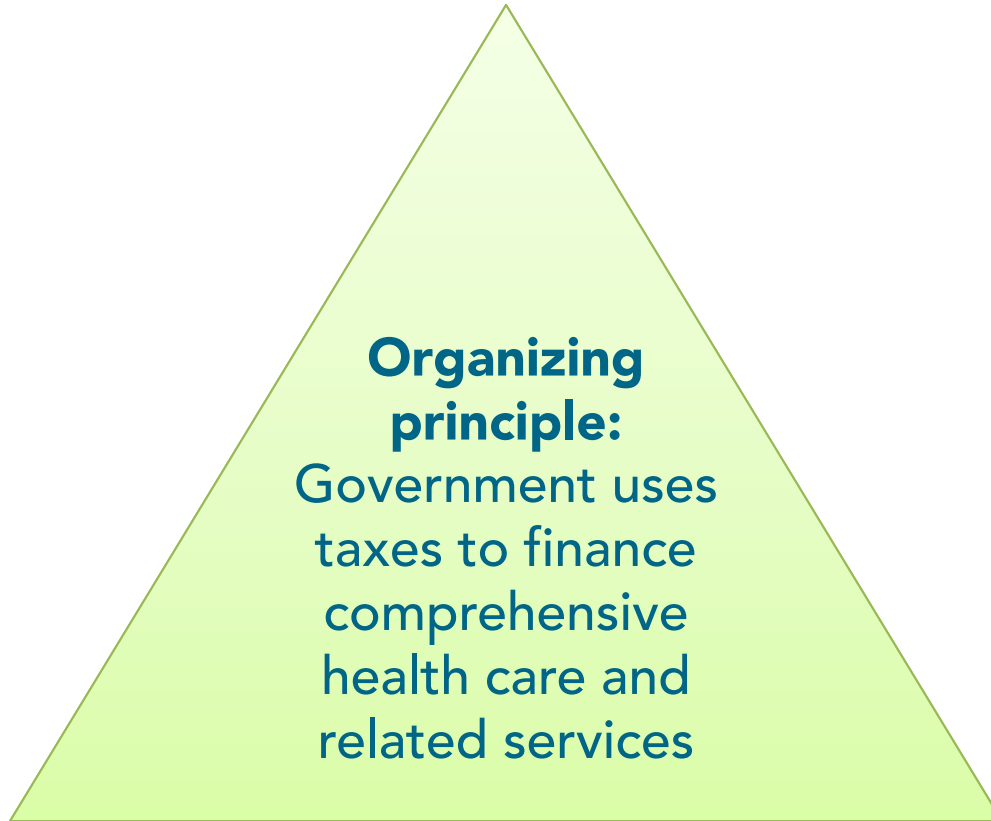


Single-payer takes a “big bang” approach to solving the problems of our health care system.



Key Goals of the Single-Payer Approach

Cover everyone



Eliminate wasteful health care spending and control cost growth

Eliminate profit motive from the health care system



**Other health care policies
and financing approaches can
achieve many of the goals of
a single-payer system.**



Single-Payer Is One Way to Achieve Many Goals of Health System Change

Goals	Single-Payer	Multi-Payer
Provide universal coverage	✓	✓
Reduce wasteful spending and constrain cost growth	✓	✓
Improve quality of care	✓	✓
Improve health outcomes	✓	✓
Eliminate or significantly reduce premiums and cost-sharing	✓	Reductions more likely than full elimination
Eliminate the profit motive from the health system	✓	Possible, but not likely with multiple payers in the US context



The Single-Payer Approach Would Encounter Challenges

- **Financing challenges:**

The Legislature or voters would need to approve a tax increase of over \$100 billion. New revenues would have to keep up with annual increases in health care spending.

- **Federal approval challenges:**

Federal waivers and changes in federal law would be needed to fold existing federal health care funding into a state-run system of unified financing.



The Single-Payer Approach Would Encounter Challenges (cont.)

- **State constitutional challenges:**
Proposition 4 (1979) and Prop. 98 (1988) restrict policymakers' ability to raise revenues and prioritize expenditures.
- **Implementation challenges:**
Single-payer could not be "turned on" with the flip of a switch. What challenges would arise? The new state Council on Health Care Delivery Systems is looking into this and will issue a plan by October 2021.





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