



LHPC

Local Health Plans of California

To: Board of Directors & Plan Staff

From: Katie Andrew, Director of Government Affairs, Quality & Behavioral Health

Subject: UPDATED Highlights from Governor's Budget May Revision for 2024-25

Date: May 15, 2024

This memo includes highlights from Governor Newsom's Budget May Revision for 2024-25, specifically health and human services proposals of relevance to local plans. This memo is an update from the memo shared on Friday, May 10, 2024, that includes additional detail released by the Department of Finance and the Department of Health Care Services on Tuesday, May 14, 2024. See the [Governor's Budget May Revision Summary, 2023-2025 May Revision DHCS Highlights](#), and [May 2024 Medi-Cal Local Assistance Estimate, 2023-2024 and 2024-2025](#). LHPC will continue to monitor additional budget developments, including released draft trailer bill language, that will impact local plans and provide additional information as it becomes available. Please contact Katie Andrew (kandrew@lhpc.org) or Rebecca Sullivan (rsullivan@lhpc.org) with any questions.

One important omission from the May Revision is how the administration plans to address the healthcare worker minimum wage passed into law through SB 525 (Durazo). During the May Revision press conference Governor Newsom indicated that negotiations are ongoing and more would be revealed over the course of the next few weeks of the budget process.

While we wait for additional detail, more information can be found in the [Department of Finance Budget Solutions](#) document.

State Budget Overview

The 2024-2025 May Revision looks beyond the current fiscal year and attempts to address anticipated budget shortfalls in FY 2024-2025 and FY 2025-2026 FY. The following highlights provide a snapshot of California's overall State Budget:

- **Total May Revised Budget:** \$288.1 billion total fund (\$200.9 billion General Fund) in 2024-25 (Summary Chart, p. 23)
 - May Revision proposes a total of \$164.1 billion to support DHCS programs and services (\$1.4 billion to support DHCS operations; \$162.7 billion to support local assistance), including \$36.3 billion General Fund.
 - Reference: [2024-2025 May Revision DHCS Highlights](#), p. 3
 - **Medi-Cal Estimate:** \$157.3 billion total funds (37.2 billion General Fund) in 2023-2024; \$159.1 billion total funds (\$35.6 billion General Fund) in 2024-2025, a \$2.5 billion (1.6%) increase in total spending and a \$0.3 billion (0.9% decrease in General Fund compared to the November 2023 Estimate.

- Year-over-Year Change from FY 2023-2024 to FY 2024-2025: Projected increase of \$1.8 billion (1.1%) in total spending and \$1.6 billion (4.2%) decrease in General Fund spending.

Reference: [2023-2025 May Revision DHCS Highlights](#), p. 12-14; [May 2024 Medi-Cal Local Assistance Estimate, 2023-2024 and 2024-2025](#)

- **Reduced Revenues and Budget Shortfall**: In January, the Governor's proposed budget estimated a \$37.9 billion budget deficit for FY 2024-2025. The administration and legislature addressed \$17.3 billion of the estimated deficit through an early action budget package. However, revenues continued to come in below projections, increasing the deficit by an estimated \$7 billion for a total of \$27.6 billion; however, the May Revision includes budget solutions to address a total deficit of \$28.4 billion, accounting for an additional \$1.2 billion that was not fully addressed through the proposed January budget solutions. The budget solutions include spending cuts to government operations, reductions to programs, and pauses new investments. Below is a snapshot of the budget solutions in the May Revision to address the total budget deficit:
 - *Reserves (\$22.8 billion of reserves remaining)*
 - Withdrawal BSA Balance (\$3.3 billion for FY 2024-2025; \$8.9 billion FY 2025-2026)
 - Withdrawal from the Safety Net Reserve (\$900 million)
 - *Revenue/Borrowing--\$7.7 billion (additional \$2 billion in May Revise)*
 - **Additional Managed Care Organization (MCO) Tax (Medicare Revenue)**: Increase the MCO Tax to achieve additional net state benefit of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27 by including health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax.
 - *Reductions and Fund Shifts—\$26.5 billion*
 - \$19.2 billion in reductions (additional \$10.7 billion in May Revise)
 - **Children Youth Behavioral Health Initiative**: A reduction of one-time \$72.3 million General Fund in 2023-24, \$348.6 million General Fund in 2024-25, and \$5 million General Fund in 2025-26.
 - \$7.3 billion in fund shifts (additional \$3.9 billion in May Revise)
 - *Delays and Deferrals—\$7.7 billion*
 - \$5.6 billion in delays (additional \$520 million in May Revise)
 - \$2.1 billion in deferrals
 - May Revision includes \$8.4 billion withdrawal from the Public School System Stabilization Account.

Reference: [Governor's Budget May Revision Summary](#), pp. 5-6

Significant Medi-Cal Budget Items

- **Medi-Cal Caseload Reductions Due to Redeterminations**—The projected rate of Medi-Cal discontinuances been slower than originally anticipated, resulting in an

estimated additional General Fund costs of \$482.9 million in 2023-2024 and \$1.4 billion in 2024-2025 compared to the Governor's January Budget.

- **Total Estimated Average Monthly Members Year over Year Change**
 - FY 2022-23 to FY 2023-2024: -.0.66%
 - FY 2023-2024 to FY 2024-2025: -4.38%
- **Quality Sanctions to Support Medi-Cal Program**—May Revision proposes to use Medi-Cal managed care quality sanction dollars to support current costs of the Medi-Cal program, estimated at \$1 million in 2024-2025. Trailer bill language forthcoming.
- **Managed Care Organization (MCO) Tax**—While the Governor's January budget and subsequently the early action budget agreement (SB 136) proposed to modify the MCO tax model to generate an additional \$1.5 billion over the remaining life of the tax (still pending CMS approval), the May Revision proposes an additional amendment to the MCO Tax to include health plan Medicare revenue in the total revenue limit calculation. This modification increases the allowable size of the tax resulting in an additional net state benefit of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27. Overall, the May Revision includes an additional \$9.7 billion in MCO Tax funds over multiple years to support the Medi-Cal program.
 - **Maintain 2024 Targeted Rate Increases**—The May Revision continues to include \$725 million (\$291 million from the Medi-Cal Provider Payment Reserve Fund) to increase provider rates from primary care, non-specialty mental health services, and obstetric care (including doulas) services to at least 87.5 percent of Medicare rates.
 - **Eliminate MCO Tax investments from the Governor's January Budget**—While the May Revision maintains targeted rate increases for providers implemented in 2024, it proposes to eliminate other MCO tax investments proposed in the Governor's January budget to support existing Medi-Cal costs. Specifically, the May Revision eliminates previously proposed additional targeted provider rates increases and Graduate Medical Education (GME) and Workforce Pool Funding, reducing \$6.7 billion over multiple years. Trailer bill language forthcoming. The proposed cuts to rate increases are outlined in Attachment 1. In total, the May Revision proposal will mean \$2.6 billion (total funds) of MCO Tax dollars will backfill the General Fund instead of going to previously agreed upon targeted provider rate increases. The rate increases included in the Governor's January Budget would have gone into effect mid-fiscal year (January 2025), so the savings scored in the May Revision represents approximately half that amount, plus additional revenue anticipated from increasing the MCO tax and the \$75 million from the GME elimination budgeted in FY 2023-24 that will also support the General Fund.
- **Children's Hospital Directed Payments**—The May Revision proposed to \$230 million annually to support new directed payments to Children's Hospitals, with half the costs funded by federal funds and half from the Medi-Cal Provider Payment Reserve Fund derived from the MCO tax.
- **Proposition 56 Backfill**—The May Revision proposed to use \$145.4 million from the MCO Tax to support Medi-Cal Family Planning, Women's Health, and Physician Services supplemental Proposition 56 payments in 2024-2025, as well as \$64 million

General Fund in 2024-2025 to fully fund Dental services supplemental payments funded through Proposition 56.

- **Equity and Practice Transformation Payments to Providers**—Eliminating \$280 million one-time General Fund costs over multiple years (\$43.8 million in 2024-2025) for grants to Medi-Cal providers for quality, health equity, and primary care infrastructure. \$140 million total funds (\$70 million General Fund) that was appropriated in the Budget Act of 2022 remains to support Cohort 1. Cohort 1 EPT program and/or milestones for Cohort 1 will be revised to reflect funding reduction.
- **In-Home Supportive Services for Undocumented Individuals**—Reducing \$94.7 million ongoing by eliminating the In-Home Supportive Services (IHSS) undocumented expansion coverage for all ages.
- **Children and Youth Behavioral Health Initiative**—Reducing \$72.3 million one-time in 2023-24, \$348.6 million in 2024-25, and \$5 million in 2025-26 for school-linked health partnerships and capacity grants for higher education institutions, behavioral health services and supports platform, evidence-based and community-defined grants, public education and change campaign, and youth suicide reporting and crisis response pilot.
 - The May Revision continues to include \$10 million from the Behavioral Health Services Fund but updates the expected timing of expenditures.
 - School-Linked Health Partnership and Capacity Grants (Community Colleges): Eliminates \$100 million in grants for community colleges (including \$30 million in 2023-24 and \$70 million in 2024-25).
 - School-Linked Health Partnership and Capacity Grants (CSUs and UCs): Eliminates \$50 million in other higher education grants in 2024-25.
 - Evidence-Based and Community-Defined Behavioral Health Program Grants: Reduces grant funding by \$47.1 million in 2024-25.
 - 2024-25 Funding for Behavioral Health Services and Supports Platform: Reduces previously planned funding for the CYBHI Platform by \$140 million General Fund in 2024-25, due to a utilization based tiered payment contract structure. Proposed outyear funding allocations will still be needed to support ongoing operations.
- **Behavioral Health Continuum Infrastructure Program**—Eliminating \$450.7 million one-time from the last round of the Behavioral Health Continuum Infrastructure Program, while maintaining \$30 million one-time General Fund in 2024-25.
- **Behavioral Health Bridge Housing Program**—Reducing \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for the Behavioral Health Bridge Housing Program, while maintaining \$132.5 million General Fund in 2024-25 and \$117.5 million (\$90 million Mental Health Services Fund and \$27.5 million General Fund) in 2025-26.
- **Foster Care Permanent Rate Structure**—Including statutory language that would make the proposed foster care rate structure subject to a trigger-on, based on the availability of General Fund in spring 2026.
- **Proposition 1: Behavioral Health Transformation (BHT)**
 - Behavioral health Infrastructure Bond Act: Approximately \$4.4 billion in bonds for DHCS to support new behavioral health treatment beds and increase outpatient capacity to serve tens of thousands of people annually (additionally \$2

billion in bonds for Department of Housing and Community Development to support permanent supportive housing units).

- **Initial Funding for State and County Implementation:** \$126.9 million (\$16.9 General Fund) to support implementation of BHT; \$85 million (\$50 million General Fund) for County Behavioral Health Departments to administer functions under BHT.
 - Reference: [2024-2025 May Revision DHCS Highlights](#), p.4
- **Increase Directed Payments to Public Hospitals**—The May Revision proposed to increase directed payments to public hospitals through the Enhanced Payment Program (EPP) and Quality Incentive Pool (QIP), as well as create an administrative fee on intergovernmental transfers targeting the directed payment programs. This is expected to result in General Fund reimbursements of \$37 million in 2024-2025 and \$74 million in 2025-2026 and ongoing. Trailer bill language forthcoming.

Other Areas of Interest Impacted

- **Healthcare Workforce Reduction**—Eliminating \$300.9 million in 2023-24, \$302.7 million in 2024-25, \$216 million in 2025-26, \$19 million in 2026-27, and \$16 million in 2027-28 for various healthcare workforce initiatives including community health workers, nursing, social work, Song-Brown residencies, Health Professions Career Opportunity Program, and California Medicine Scholars Program. The May Revision also eliminates \$189.4 million Mental Health Services Fund for programs proposed to be delayed to 2025-26 at Governor's Budget.
- **Elimination of Public Health Funding**—Eliminating \$52.5 million in 2023-24 and \$300 million ongoing for state and local public health.
- **California Food Assistance Program Expansion**—Delaying for two years the California Food Assistance Program expansion automation to begin in 2026-27 with benefits beginning in 2027-28.
- **CalWORKs Home Visiting Program**—Reducing \$47.1 million ongoing for the CalWORKs Home Visiting Program.
- **CalWORKs Mental Health and Substance Abuse Services**—Reducing \$126.6 million ongoing for the CalWORKs Mental Health and Substance Abuse Services.

Relevant Trailer Bill Language to Support May Revise Budget Proposals

The following list outlines trailer bill language of interest to local plans. LHPC will be monitoring for additional trailer bill language in the coming weeks and will share more information as available:

- [CYBHI Fee Schedule MCP Health Plan Fee](#)

Forthcoming trailer bill language:

- MCO Tax Amendment (Inclusion of Medicare Revenue)
- Update to Managed Care Organization Tax Expenditures
- Quality Sanctions Penalties to Support Medi-Cal Program
- Behavioral Health Services Act Clean-Up

Attachment 1: MCO Tax Term Sheet – Provider Rate Increases and Workforce Investments Proposed to be Supported by MCO Tax in Governor’s January Budget that is Proposed to be Eliminated in May Revision.

Spending Plan: Calendar Year 2024 through Fiscal Year (FY) 2027-28

Category²	Estimated MPPRF (\$millions) ₃	% of Annual Spend
Primary Care and Specialty Care		62%
Primary Care, Maternal Care, and Mental Health ⁴ (started 1/1/24)	\$291	11%
Physician and Non-Physician Health Professional Services ⁵	\$975	37%
Community and Hospital Outpatient Procedures and Services	\$245	9%
Abortion and Family Planning Access	\$90	3%
Services and Supports for FQHCs and RHCs	\$50	2%
Emergency and Inpatient Care		21%
Emergency Department (ED) (Facility and Physician) Services	\$355	13%
Designated Public Hospitals	\$150	6%
Ground Emergency Medical Transportation	\$50	2%
Behavioral Health		11%
Behavioral Health Throughput (starts 7/1/25)	\$300	11%
Healthcare Workforce		6%
Graduate Medical Education (started 1/1/2024)	\$75	3%
Medi-Cal Workforce Pool – Labor-Management Committee	\$75	3%
Total	\$2,656	100%
Distressed Hospital Loan Program (one-time: FY 2023-24)	\$150	
Small and Rural Hospital Relief for Seismic Assessment and Construction (one time: FY 2023-24)	\$50	

Reference: [Medi-Cal Targeted Rate Increases Policy Paper](#)