



**LHPC**  
Local Health Plans *of California*

To: Board of Directors & Plan Staff  
From: LHPC Staff  
Subject: Highlights from Governor's Proposed Budget for 2025-26  
Date: January 10, 2025

This memo includes highlights from Governor Newsom's Proposed Budget for 2025-26, specifically health and human services proposals of relevance to local plans. See the [Governor's Budget Summary](#), [DHCS Budget Highlights](#), and the [DHCS Medi-Cal Estimate](#) for additional details (references and page numbers are provided throughout the memo). LHPC will continue to review and analyze Budget proposals impacting local plans and provide additional information as it becomes available. Please contact Rebecca Sullivan at [rsullivan@lhpc.org](mailto:rsullivan@lhpc.org), Katie Andrew [kandrew@lhpc.org](mailto:kandrew@lhpc.org) or Beau Bouchard [bbouchard@lhpc.org](mailto:bbouchard@lhpc.org) with any questions.

### State Budget Overview

The following highlights provide a snapshot of California's overall State Budget:

- **Total Budget:** \$322.3 billion total fund (\$228.9 billion General Fund) in FY 2025-26 (Summary Chart, p. 14).
- **Reduced Revenues and Budget Shortfall:** The FY 2025-26 budget anticipates a surplus of \$16.5 billion compared to the FY 2024-25 budget. The Governor presented a balanced budget by proposing the following:
  - *Reserves* —\$17 billion
    - \$10.9 billion in Budget Stabilization Account (BSA)
    - \$4.5 billion in the Special Fund for Economic Uncertainties (SFEU)
    - \$1.5 billion in the Public School System Stabilization Account
  - Continuing to withdraw \$7.1 billion from the BSA

The Governor noted that there are several risk factors that could negatively affect the states revenues, including the stated policy changes by the incoming federal administration. The Governor also cautioned that although the budget anticipates significant reserves, the budget anticipates shortfalls in subsequent fiscal years that are being driven by expenditures that are outpacing revenues.

Reference: Governor's Budget Summary, pp. 1-5

**Significant Medi-Cal Budget Items**

**Overall Medi-Cal Budget**

- *2025-26 Budget estimate:* \$188.1 billion (\$42.1 billion General Fund) (DHCS Budget Highlights, p.12).
- *Total projected enrollment:* The FY 2025-26 projected average monthly caseload is 14.5 million, a decrease of 3.09% from FY 2024-2025. (DHCS Budget Highlights, p. 8)

Reference: DHCS Medi-Cal Estimate, p. 5; DHCS Budget Highlights, p. 12

**Caseload Impacts of Redetermination**

For the Governor's Budget, DHCS projects that Medi-Cal enrollment will be higher than assumed in the 2024 Budget Act, resulting in approximately \$3 billion (\$1.1 billion General Fund) increased cost in 2024-25.

The budget reflects a caseload of 15 million for the Medi-Cal program in 2024-2025, which represents an increase of 450,000 from the 2024 Budget Act, and projects 14.5 million for 2024-2025. The Governor's Budget projects that caseloads will remain relatively stable or only slight decline through the remainder of 2024-25 while the unwinding flexibilities remain in place through June 30, 2025. After that date, the budget assumes elimination of thirteen unwinding flexibilities, including waiver of income verification. The elimination of these flexibilities are projected to result in a steeper caseload decline from August 2025- June 2026.

Reference: DHCS Budget Highlights, pp. 5-9; Governor's Budget Summary, p. 49

**Medi-Cal Eligibility Expansion**

The Governor's Budget assumes no changes to Medi-Cal eligibility expansion for those with unsatisfactory immigration status. The budget assumes an approximately \$2.7 billion increase in cost for this population, primarily driven by higher than anticipated enrollment and increased pharmacy costs.

Reference: DHCS Budget Highlights, p. 12

**Increase in Pharmacy Expenditures**

The budget includes an increase of \$1.6 billion (\$1.3 billion General Fund) in 2024-25 and a year-over-year increase of \$1.2 billion (\$215.2 million General Fund) in 2025-26 due to projected growth in Medi-Cal pharmacy expenditures.

Reference: Governor's Budget Summary, pp. 48-49, 52

**CalAIM**

The Governor's Budget estimates \$1.2 billion in expenditures for CalAIM ECM and Community Supports, a reduction of \$491.1 million from FY 2024-25. This reduction is due to the completion of plan incentive payments but is offset by the increase in ECM expenditures and the addition of Transitional Rent Costs.

	<b>Total Fund</b>	<b>General Fund</b>	<b>Federal Funds</b>
<b>Community Supports</b>	\$231,000,000	\$89,797,000	\$141,203,000
<b>Enhanced Care Management</b>	\$955,686,000	\$374,369,000	\$581,317,000
<b>Transitional Rent</b>	\$31,276,000	\$10,947,000	\$20,329,000
<b>Total for FY 2025-26</b>	\$1,217,962,000	\$475,114,000	\$742,848,000

Reference: DHCS Medi-Cal Local Assistance Estimate, p. 144

**Proposition (Prop) 35 - Managed Care Organization (MCO) Tax**

Prop 35 was approved by the voters in November 2024 and requires DHCS to see federal renewal and reauthorization of the MCO Tax to permanently continue the tax. It specifies permissible uses of the tax revenues, starting with the 2025 tax year. The provider payment increases and investments that were newly authorized in the 2024 Budget Act are repealed as of January 1, 2025. In addition, DHCS must consult with a stakeholder advisory committee to develop and implement the program. For FY 2025-26, the budget reflects \$4.4 billion in MCO Tax revenue, a decrease of \$2.2 billion from the FY 2024-25 budget and \$3.3 billion for FY 2026-27, a decrease of \$1.8 billion from FY 2024-25. The amendments to the MCO Tax were approved by the federal government on December 20, 2024 and can be found [here](#).

The budget reflects Prop 35 expenditures for calendar years 2025 and 2026 only. It also includes the provider rates increases for primary care, maternal care, and non-specialty mental health services that were implemented in the 2024 targeted rate increases; however the final spending plan is subject to the consultation with the aforementioned stakeholder advisory committee.

Reference: Governor’s Budget Summary, p. 48, DHCS Budget Highlights, p. 4

**Senate Bill (SB) 525 Health Care Minimum Wage Impacts**

On October 16, 2024, the health care minimum wage increases went into effect as DHCS notified the Joint Legislative Budget Committee of the data retrieval process that was necessary to trigger the implementation of the increase to the Hospital Quality Assurance Fee (HQAF) beginning January 1, 2025. Also on December 11, 2024, DHCS submitted a request to CMS in order to significantly increase the Private Hospital Directed Payment Program by roughly \$6 billion total funds, beginning January 1, 2025 for services rendered in 2025.

LHPC would like to highlight that within DHCS’ budget summary, they message that with the large increases to both the HQAF and PHDP programs, they believe it partially mitigates the cost pressures on managed care plans from the health care minimum wage increases as hospitals will have significant new revenue available. DHCS also notes that because of these large increases and the assumed reduced cost pressures to managed care plans, Mercer significantly discounted the impact of SB 525 in 2025 rates. This information may be useful in plan-hospital contract negotiations, and LHPC continues to seek the detailed pre-prints that DHCS submitted to CMS that include the totals for each directed payment program, including PHDP.

Reference: DHCS Budget Highlights, pp. 5-6

### **Behavioral Health**

- *Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Demonstration*—DHCS received federal approval for \$8 billion for the BH-CONNECT demonstration in December 2024, effective January 1, 2025 through December 31, 2029. The proposed budget includes a total of \$29.5 million (\$655,000 GF) for FY 2024-2025 and \$784.3 million (\$31.6 million GF) for FY 2025-2026.

Reference: Governors Budget Summary, pp. 52; DHCS Budget Highlights, pp. 4-5; DHCS Medi-Cal Estimate, pp. 119-120

- *Behavioral Health Transformation*—The budget previously included \$85 million (\$50 million GF) in 2024-2025. The Governor's proposed budget includes an additional \$93.5 million (\$55 million GF) in 2025-2026 in Local Assistance for counties to administer BHSA.

Reference: DHCS Budget Highlights, pp. 6; DHCS Medi-Cal Estimate, pp. 50-51

### **Other Human Services Proposals**

**Diaper Initiative**—The budget proposes up to \$7.4 million General Fund in 2025-26 and \$12 million General Fund in 2026-27 for the provision of a three-month supply of free diapers for families with newborn babies via hospital systems. This program will be administered by Health Care Access and Information.

Reference: Governor's Budget Summary p. 52

### **Housing and Homelessness**

#### **Creating the California Housing and Homelessness Agency**

The Administration is proposing to establish a new California Housing and Homelessness Agency to create a more integrated and effective administrative framework for addressing the state's housing and homelessness challenges. It is unclear from the Governor's Budget and companion press release the scope or authority of this new Agency or whether the intent is to create new programs or coordinate amongst the existing programs. However, more details will come out this spring through a Reorganization Plan submitted to the Little Hoover Commission.

Reference: Governor's Budget Summary, p. 56

#### **TBL Section**

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

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- Program of All-Inclusive Care for the Elderly (PACE) Fees
- Dementia Care Aware
- Hospital Financing
- Behavioral Health Services Act Revenue and Stability (to effectuate the forthcoming report to be submitted pursuant to WIC § 5892.3(e))