

# California Legislative Beat: Final State Budget for 2023-2024 Fiscal Year

After much debate fueled by disagreement over California's \$31.5 billion deficit, lawmakers and Governor Newsom have finalized the state's 2023-2024 budget. The final budget bill outlines a \$310 billion spending plan that includes \$248.1 billion for Health and Human Services programs,[\[1\]](#) up from \$245.69 billion in the May Revision.[\[2\]](#) Stakeholders can breathe a sigh of relief: core health programs will not face budget cuts, and California's commitment to health care generally, and Medi-Cal in particular, remains strong. Consistent with the proposed budget in the May Revision, California continues to move towards making Medi-Cal available for all income-eligible residents, regardless of immigration status. The bill also includes provisions that will lower the cost of care for Covered California enrollees.

The enacted budget follows through on multiple proposals in the May Revision that we discussed in an [earlier post](#). For example, CalRX, an effort by the state to produce low-cost pharmaceuticals, will see \$30 million for development of naloxone (brand name Narcan) and an optional \$2 million for development of abortion-inducing drugs.[\[3\]](#) Additionally, to help balance the budget, the enacted budget bill will move forward with the depletion of the [Medi-Cal Drug Rebate Fund](#), originally created to hold state-negotiated rebates that accompany federal Medicaid drug rebate programs.

Along with the budget bill, several trailer bills (bills that accompany the budget and make statutory changes required to

implement it) have been passed that address issues related to health care pricing.

### **Assembly Bill No. 119, Managed Care Organization Provider Tax**

Perhaps the biggest health-related takeaway from California's recent budget news is AB 119's reinstatement of the Managed Care Organization tax. After passing unanimously in both the Senate and Assembly, AB 119 was signed into law by Governor Newsom on June 29, 2023. The tax applies retroactively to April 1, 2023, through December 2026 and is projected to bring in \$19.4 billion in funding over its lifetime.[\[4\]](#) AB 119 requires managed care plans operating in California to pay up to \$192.50 per enrollee per month of enrollment. [\[5\]](#) These funds will be used to help balance the deficit as well as expand and improve Medi-Cal, aid struggling hospitals, and support recruitment and training for health care workers.[\[6\]](#)

### **Assembly Bill No. 112, Distressed Hospital Loan Program**

As noted in our [post](#) on the May Revision, Newsom signed trailer bill AB 112 on May 15, 2023. AB 112 creates the Distressed Hospital Loan Program, effective upon the bill's enactment through January 1, 2032. In 2023-2024 alone, the bill provides for up to \$150 million in funds from the MCO tax for the loan program. The loan program will provide interest-free loans to support nonprofit or public hospitals in financial distress, particularly those that serve areas with poor access to care.[\[7\]](#) This policy effort is a response to outcry over the [closure of Madera Community Hospital](#) and growing concern for similar hospitals that serve low-income communities and face risk of closure.

**Assembly Bill No. 118, Budget Act of 2023: Health**

AB 118 creates the Medi-Cal Provider Payment Reserve Fund and allocates \$11.1 billion in from the MCO tax for the fund, which will be used to increase Medi-Cal reimbursement rates. [\[8\]](#) Specifically, AB 118 requires that Medi-Cal reimbursement rates for primary care, obstetric care, doula services, and non-specialty outpatient mental health services must be at least 87.5% of the lowest maximum allowance established by the federal Medicare Program.[\[9\]](#) The rate increases will go into effect on January 1, 2024. Currently, Medi-Cal reimbursement rates can be as low as 60% of Medicare’s rates.[\[10\]](#) By increasing reimbursement rates, the state hopes to address access issues caused by a shortage of doctors willing to accept Medi-Cal patients.[\[11\]](#)

Starting January 1, 2024, AB 118 also authorizes use of \$82.5 million in 2023-2024 and \$165 million annually thereafter to lower copays and deductibles for Covered California plans.[\[12\]](#)

Below we include a chart that lays out the specifics of the enacted budget for healthcare proposals and initiatives.

Proposal	Goals	Enacted Budget and Related Bills
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<b>Expand Medi-Cal and improve access</b>	<ul style="list-style-type: none"> <li>• Make Medi-Cal available to all income-eligible people, regardless of immigration status <ul style="list-style-type: none"> <li>• Advance access, quality, and equity for Medi-Cal beneficiaries and promote provider participation in the Medi-Cal program</li> </ul> </li> <li>• Increase number of physicians willing to treat Medi-Cal patients</li> </ul>	<ul style="list-style-type: none"> <li>• <u>AB 119</u>: Renewal of Managed Care Organization Provider Tax; \$19.4 billion in revenue between April 2023 and December 2026</li> <li>• <u>AB 118</u>: Creation of Medi-Cal Provider Payment Reserve Fund and increase in reimbursement rates; \$11.1 billion from January 2024 through December 2026</li> </ul>
<b>Support struggling hospitals</b>	<ul style="list-style-type: none"> <li>• Prevent closure through financial aid</li> </ul>	<ul style="list-style-type: none"> <li>• <u>AB 112</u>: Creation of Distressed Hospital Loan Program; \$150 million for 2023-2024</li> </ul>
<b>State-developed pharmaceuticals</b>	<ul style="list-style-type: none"> <li>• Provide low-cost options to ensure accessibility of care</li> </ul>	<ul style="list-style-type: none"> <li>• \$30 million for naloxone</li> <li>• Optional \$2 million for reproductive care</li> </ul>
<b>Improve access to care through Covered California</b>	<ul style="list-style-type: none"> <li>• Reduce cost of co-payments and deductibles</li> </ul>	<ul style="list-style-type: none"> <li>• <u>AB 118</u>: \$82.5 million for Covered California in 2024 and \$165 million for subsequent years</li> </ul>

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[\[1\]](https://ebudget.ca.gov/2023-24/pdf/Enacted/BudgetSummary/FullBudgetSummary.pdf) St. of Cal., Enacted Budget Summary (June 27, 2023), <https://ebudget.ca.gov/2023-24/pdf/Enacted/BudgetSummary/FullBudgetSummary.pdf>.

[\[2\]](https://ebudget.ca.gov/2023-24/pdf/Revised/BudgetSummary/FullBudgetSummary.pdf) St. of Cal., Revised Budget Summary (May 12, 2023), <https://ebudget.ca.gov/2023-24/pdf/Revised/BudgetSummary/FullBudgetSummary.pdf>.

[\[3\]](#) Enacted Budget Summary, *supra* note 1.

[\[4\]](#) *Id.*

[5] Cal. Legis. Info., *AB-119 Medi-Cal: managed care organization provider tax* (June 29, 2023), [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202320240AB119](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240AB119).

[6] Enacted Budget Summary, *supra* note 1.

[7] Cal. Legis. Info., *AB-112 Distressed Hospital Loan Program* (May 15, 2023), [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202320240AB112](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240AB112).

[8] Enacted Budget Summary, *supra* note 1.

[9] Cal. Legis. Info., *AB-118 Budget Act of 2023: health*, (July 10, 2023), [https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill\\_id=202320240AB118](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240AB118).

[10] Sameea Kamal, Alexi Koseff, *What you need to know on the California budget deal*, Cal Matters (June 27, 2023), <https://calmatters.org/politics/2023/06/california-budget-deal-what-you-need-to-know/>.

[11] Enacted Budget Summary, *supra* note 1.

[12] *AB-118 Budget Act of 2023*, *supra* note 7.