

Governor Newsom's Healthcare Budget Proposal for 2023-2024

On January 10, California Governor Gavin Newsom released his proposed budget of \$296.9 billion in total state funds for the 2023-2024 fiscal year.[\[1\]](#) Even with the anticipated \$22.5 billion shortfall in the budget and 7% decrease in last year's implemented and revised budget, the Governor did not propose any cuts towards health care coverage for all Californians. The proposed budget sought to maintain Medi-Cal expansion, reduce prescription drug costs, and bolster mental and behavioral health services as key healthcare priorities for the state.[\[2\]](#)

Health and Human Services expenditures were the second largest spending category of the general fund, but the largest spending category of total state funds. 23.2% of the total budget is allocated to health-related expenditures. Within these expenditures, the Department of Health Care Access and Information (HCAI) received a total of \$338 million, some of which will be used to fund the new Office of Health Care Affordability. The Department of Health Care Services (DHCS), which finances and administers health care plans, including Medi-Cal, received the largest amount of funding at \$18.6 billion.

Additional Funding for the Office of Health Care Affordability (OHCA)

Established as part of the 2022-2023 budget, the Office of Health Care Affordability (OHCA) is California's health care cost commission designed to set and enforce cost growth benchmarks to control the rising costs of health care. OHCA is given the authority to request broad health care data that were not previously shared publicly from providers and analyze for trends to set standards for affordability. Additionally, OHCA will be monitoring health care consolidation as a major driver for the increasing costs by conducting a cost and market impact review (CMIR), to assist the Attorney General in the review of healthcare transactions.

In addition to the previous allocation of \$30 million in 2022, the Governor has

allocated \$13 million and 100 positions to OHCA for the next fiscal year. The funding will be used to prepare OHCA to begin accepting transaction notices starting January 2024, with reviews to begin on April 1, 2024. Using the data collected from 2024, the first annual report concerning health care spending and price trends will be released by June 1, 2026.

Restructuring Funding to Expand the State's Health Care Workforce

A large chunk of the \$338 million allocated to HCAI is \$200 million to fund the Health Care Workforce Program. In the 2022 Budget Act, \$1.5 billion from the General Fund was allocated to increasing the number of state health care workers, including nurses, primary care providers, and community health workers. As the national shortage of health care workers continues, California aims to strengthen and expand its healthcare workforce while increasing diversity amongst the workforce. Governor Newsom views supporting “the next generation of health care workers” as “crucial investments [...] to bring the state’s health care system into the 21st century.”[\[3\]](#) Although the initial investment has remained the same, the timeline has changed. The proposed budget defers \$68 million from 2022-2023 and \$329.4 million from 2023-2024 to be reallocated as \$198.7 million in 2024-2025 and 2025-2026.

Funding to Support Medi-Cal Expansion

As part of the Governor’s larger goal of achieving a single payer healthcare system, in 2019, the Governor signed SB 75 which provided full Medi-Cal coverage to eligible people under 26, regardless of immigration status. In 2022, AB 133 expanded Medi-Cal to eligible adults 50 or over, regardless of immigration status. SB 184 will close the final coverage gap of eligible adults between 26 and 49 on January 1, 2024. California is the first state to offer all eligible people healthcare regardless of age or immigration status. To further strengthen Medi-Cal and address outstanding issues around access, equity and outcomes, the state has launched the California Advancing and Innovating Medi-Cal (Cal-AIM) program, to transition to a

population health approach.

Medi-Cal Expansion to All Low-Income Eligible Californians

Funding for Medi-Cal had a modest increase to account for the expansion to an estimated 700,000 adults. In total, Medi-Cal provides coverage to an estimated 14.4 million Californians, or about one third of the state's population, which is an enormous task. The Governor has allocated \$138.9 billion to Medi-Cal with \$844.5 million specifically going to Medi-Cal expansion for 2023-2024. Looking forward, the Governor proposed to allocate another \$2.1 billion for 2024-2025 and approximately 2.5 billion for 2025-2026. Furthermore, there is continued investment in efforts to lower the cost of prescription drugs, through CalRX, and expand covered services to include community health workers and doulas.[\[4\]](#) Altogether, the expansion of Medi-Cal has been a priority for the Governor, and he has contributed to making Medi-Cal one of the most comprehensive and accessible health care plans in the country.

Launch of CalAIM to Improve Care and Health Outcomes of Medi-Cal Services

Medi-Cal, however, is not perfect, as there are still gaps in access, equity, and health outcomes. Recognizing the need for improvement, on December 29, 2021, the Centers for Medicare and Medicaid Services (CMS) approved California's federal waiver and State Plan Amendments, which culminated in the Cal-AIM program. Under the Department of Health Care Services (DCHS), Cal-AIM focuses on the people with the most complex needs by looking at the upstream determinants of health and providing "whole person care".[\[5\]](#) It goes beyond the typical reform to include enhanced care management within the home or in shelters, community support (such as housing assistance, caregiver funding, food insecurity), and transforming the state's managed care delivery systems.

Due to the sheer size and innovative nature of Cal-AIM, the Governor's proposed budget includes \$10 billion for Cal-AIM's implementation and additional funding for the variety of projects necessary for the program's future success. Over five years,

\$6.1 billion is allocated to local treatment services and short-term stays in treatment facilities. Other funded programs include a Transitional Rent Benefit (\$117 million total funds), Reproductive Health Services Demonstration (\$200 million total funds), and funds to support transitioning from a cost-based reimbursement to a fee schedule (\$375 million total funds).

Reinstatement of the Managed Care Organization Tax

With all these important initiatives, the DCHS proposes the reinstatement of the Managed Care Organization Tax from 2024 to 2026 to help offset some of the costs. The proposed tax is modeled after the previous tax authorized in AB 115 with minor adjustments to reflect the current health care system. Based on that model, the proposal would tax most of California's Managed Care Organizations (MCOs) on a per-member basis and be applicable to both its Medi-Cal and non-Medi-Cal businesses on a tiered basis. The proposed tax would generate an estimated \$6.5 billion in General Fund spending. There has also been consideration of increasing the tax to provide further support to Medi-Cal.

Notable Reductions in Funding: COVID-19 Outreach and Individual Mandate Penalty

While the COVID-19 pandemic remains a public health concern, the Governor's budget reflects an on-going perception that the world is returning to normal. The California Emergency Relief Fund was reduced from \$1.8 billion in 2022 to a proposed \$614 million in 2023. The current budget includes funding for the state's SMARTER plan, which is meant for addressing both COVID-19 and future emergencies through initiatives like maintaining a stock of personal protective equipment and quickly deploying vaccines. Organizations like California Pan-Ethnic Health Network expressed concerns that the decreased funding will impact vulnerable communities due to a combination of less public health outreach and increasing COVID-19 trends.[\[6\]](#)

Similarly, the Governor proposes transferring \$333.4 million from the Health Care Affordability Reserve Fund, designed to offset the cost of the individual mandate penalty, to other budget priorities such as Medi-Cal expansion and Cal-AIM. This fund was originally intended to eliminate deductibles, reduce cost-sharing, and cap out-of-pocket costs to increase health care affordability in California. The January budget proposal defunds this assistance through 2025, but the administration is optimistic that funding could be returned as early as 2025-2026.

Next Steps in the Budget Process

In accordance with the California Constitution, the Governor has included a Budget Bill with his proposed budget for legislative review. The Budget Bill is now in the Senate Budget and Fiscal Review Committee and the Assembly Budget Committee where they will divide the items within the bill to various subcommittees. In late February, budget hearings within the various committees will begin and the Legislative Analyst will issue the “Analysis of the Budget Bill” that provides a nonpartisan analysis and recommendations to the Governor’s Budget. The Department of Finance will also issue its recommendations. Based on these various inputs, the Governor will put out a May Revision with necessary adjustments by May 14. Stay tuned to the California Legislative Beat for upcoming budget proposal updates.

[1] *California’s 2023-2024 Governor’s Budget*, Cal. Governor (Jan. 10, 2023), <https://ebudget.ca.gov/budget/2023-24/#/Home>.

[2] *2023-24 State Budget Invests in Californians while Safeguarding State’s Future*, Cal. Governor (Jan. 10, 2023), <https://www.gov.ca.gov/2023/01/10/2023-24-state-budget-invests-in-californians-while-safeguarding-states-future/>

[3] *ICYMI: California Announced \$400+ Million in Grants to Invest in Health Care*

Workforce & Infrastructure, Cal. Governor (Feb. 5, 2023), <https://www.gov.ca.gov/2023/02/05/icymi-california-announced-400-million-in-grants-to-invest-in-health-care-workforce-infrastructure/>.

[4] *Governor's Budget 2023-2024 Fact Sheet*, Cal. Governor, https://www.gov.ca.gov/wp-content/uploads/2023/01/FACT-SHEET_-_Governors-Budget-2023-24.pdf?emrc=63e1c263c9db2 (last visited Feb. 13, 2023).

[5] *CalAIM Explained: A Five-Year Plan to Transform Medi-Cal*, Cal. Health Care Foundation (July 26, 2021) <https://www.chcf.org/publication/calaim-explained-five-year-plan-transform-medi-cal/#what-is-calaim>.

[6] *State Budget Update*, Cal. Pan-Ethnic Health Network (Jan. 10, 2023), <https://cpehn.org/what-we-do-2/state-budget-update/>.