

Governor Newsom's Healthcare Budget Proposal for 2024-25

On January 10, 2024, Governor Gavin Newsom released his proposed [California state budget](#) for 2024-2025. In a year where the state was expected to struggle financially, the Legislative Analyst's Office had originally predicted that the budget deficit could extend [upwards of \\$68 billion](#) due to 2023's seven month tax filing extension, steep stock market declines, and economic dampening from the Federal Reserve's interest rate hikes. However, to the surprise of many, the released budget projected a [significantly smaller budgetary shortfall at \\$38 billion](#). The Governor announced plans to close this gap by dipping into California's reserves, delaying and deferring authorized spending from previous years, and bringing new spending cuts in a variety of sectors.

While budget cuts are always concerning, the 2024-25 budget made no significant cuts to healthcare access or coverage. Nevertheless, low-income communities and communities of color are expected to be disproportionately affected due to changes in many other sectors including support services, housing, and workforce supports. When it comes to healthcare spending, the budget is anticipated to [continue maintaining CalAIM and MediCal](#) coverage alongside subsidies for purchasing coverage on Covered California. Overall, the 2024-25 budget looks like it will protect investments from prior years without proposing any significant tax changes to increase revenues in the near-term.

Coverage-Related Changes (Medi-Cal

and Covered California)

The 2024-25 budget continues to protect major healthcare investments from the past in relation to Medi-Cal and coverage accessibility by [improving benefits, rates, access, and eligibility, regardless of age or immigration status.](#) Specifically, the new proposed budget maintains its [commitment to expand Medi-Cal eligibility](#) to undocumented immigrants, aged 26 to 49 (which began on January 1, 2024), and seeks to eliminate the Medi-Cal asset test for seniors and people with disabilities.

Medi-Cal

Medi-Cal is California's version of Medicaid and aims to ensure people who have low-incomes and/or other eligibility factors such as age, disability status, or pregnancy receive health coverage. The program is currently estimated to be used by and more than half of California's school-age children. Presently, due to their income and immigration status. Moreover, [almost one million Californians lost Medi-Cal coverage](#) during the processing of Medi-Cal renewals beginning during the pandemic. In recent years, immigrants, older adults, and people with disabilities have been at a higher risk of losing healthcare coverage. The new budget accounts for these changes by [expanding full-scope Medi-Cal coverage](#) to all Californians with incomes under 138% of the federal poverty level regardless of immigration status and with no need to count assets. To account for these changes, the budget has made an assumption that the Medi-Cal caseload will increase by 583,000 individuals from the 2023 Budget Act and subsequently allocating an addition [\\$2.3 billion](#) (of which almost \$500 million will come from the General Fund) to cover those costs. It is estimated that [approximately 14 million Californians](#) from qualifying incomes will receive free or low-cost healthcare through Medi-Cal in the 2024-25

period. Moving forward, the California Budget Center has [recommended](#) that the government extend investments towards health navigators and pause procedural terminations to ensure more eligible Californians do not lose their Medi-Cal coverage.

CalAIM

The budget also looks to sustain ambitious Medi-Cal reforms through the California Advancing and Innovating Medi-Cal program (CalAIM). The CalAIM program was first introduced in 2019, and signifies California's long-term commitment to transforming Medi-Cal into a more "[equitable, coordinated, and person-centered](#)" program to maximize health and life outcomes. The Governor's budget maintains an [allocation of \\$2.4 billion](#), of which \$811.1 million will come from the General Fund, for CalAIM. At full implementation, the ambitious program will allow upwards of six months of rent or temporary housing to eligible unhoused people or people at risk of homelessness (e.g., individuals transitioning out of institutions or foster care, individuals in need of emergency care).

Covered California

Governor Newsom's proposed budget also continues to focus on [lowering out-of-pocket costs](#) for the Covered California program, which has already contributed to increased enrolment by 18% in 2024 compared to the prior year. Covered California is [California's health insurance marketplace](#), where individuals can shop for health insurance plans and apply for subsidies during the open enrollment period. The amount of help someone receives is dependent upon their annual income. The 2024-25 proposal makes [no changes to prior plans](#) to lower out-of-pocket health care costs by continuing to eliminate deductibles and cut co-pays for Californians who purchase their care through Covered California and earn under 250% of the federal poverty level.

Maintained Funding for Behavioral Health Initiatives

The newly proposed budget has had a mixed effect on behavioral health initiatives by both maintaining a variety of fundings plans while delaying others. Specifically, the Governor's 2024-25 budget proposal planned to [maintain over \\$8 billion in funds](#) allocated across the Department of Health and Human Services to expand behavioral health treatments while improving the overall system and infrastructure to provide expanded services to children and youth. Services to youth include the Wellness Coach Medi-Cal benefit which will [provide wellness education, screening, support coordination, and crisis management](#) in schools and other health settings. The budget also invests in expanded mental health services for all Medi-Cal members through the Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT Demonstration). The program currently has \$7.6 billion allocated towards it comprised of \$350.4 million from the General Fund, \$87.5 million from the Mental Health Services Fund, and \$2.6 billion from the Medi-Cal County Behavioral Health Fund. The program also anticipates the receipt of \$4.6 billion in federal funds, but this is contingent on the availability and federal approval of such funds.

The budget also incorporated [some delays in funding plans](#) for other behavioral health programs due to the deficit. Specifically, there will be delays in the amounts of: \$235 million for the Behavioral Health Bridge Housing Program for 2024-2026; \$189.4 million for improving the behavioral health workforce; and \$140.4 million for the Behavioral Health Continuum Infrastructure Program.

Managed Care Organization Tax

The Governor has also demonstrated a desire to receive federal approval to increase the Managed Care Organization (MCO) tax – a provider tax that is imposed by states on healthcare services to reduce or offset state spending from the General Fund on programs like Medi-Cal. Specifically, the Governor’s proposal requests early Legislative action to ask the federal government to approve an additional [\\$1.5 billion increase](#) from the amount that was approved by the federal government most recently in December 2023. If the increase is approved, California’s MCO tax revenue would [total \\$20.9 billion](#) in funding to the state over three years. Of that amount, an estimated \$12.9 billion would be allocated for Medi-Cal, and \$8 billion would support provider rate increases to incentivize greater provider participation in Medi-Cal. The proposed increase has received support from the [California Association of Health Plans](#), who has voiced hope that the tax revenue will be used to fund improvements to the Medi-Cal program.

Health Care Worker Minimum Wage “Trigger”

Last year, the Legislature [passed SB 525](#), a bill which sought to incrementally raise healthcare minimum wage to \$25/hour by June 2028. The bill which will begin its first pay increases of \$18/hour in June 2024 is expected to affect approximately 500,000 health care workers. However, in an effort to close the budget shortfall, Governor Newsom’s new budget seeks to receive early legislative action to supplement the bill with [an annual trigger](#) that would make the wage increases subject to the availability of General Fund revenue. It remains to be seen what kind of effect this could have on the healthcare market should

this change be accepted.

Reproductive Health Services Waiver

Despite financial challenges, the budget has retained a one-time allocation of [\\$200 million \(of which \\$100 million will come from the General Fund\)](#) to fund the California Reproductive Health Access Demonstration Waiver. The proposed waiver would support [access to reproductive health services](#) including contraceptive care, sexually transmitted infection prevention and treatment, obstetrical care, and abortion services beginning no later than July 1, 2024.

Next Steps in Budget Process

Following with [previous years and the California Constitution](#), Governor Newsom has included the Budget Bill with the proposed budget for legislative review. The Bill will now go to the Senate Budget and Fiscal Review Committee and the Assembly Budget Committee, where budgetary items will be discussed in their designated sub-committees. In late February, budget hearings within the various committees will begin and the Legislative Analyst's Office will issue a non-partisan analysis of the budget bill. At this point, the Legislative Analyst's Office and the Department of Finance will also issue their recommendations for the Governor's Budget. Following the discussion and recommendation period, a May Revision to the budget with adjustments will be released by the governor on or before May 14. Finally, the [Legislature is required to pass a budget bill](#) for the upcoming fiscal year by midnight on June 15, which will go into effect for the period of July 2024 to June 2025.

In the coming months, the Source will continue to report on developments in the California budget process.