# Governor Newsom's May Revision to California 2023-2024 State Budget

On May 12, California Governor Gavin Newsom released the May Revision to his January proposal for California's 2023-2024 budget. The so-called "May Revise" lays out a $306.5 billion budget for total state funds,[1] up from $296.9 billion in January's proposal.[2] The higher budget also includes a higher deficit due to unexpectedly low tax revenues:[3] the plan now anticipates a $31.5 billion shortfall,[4] about $10 billion more than predicted in January.[5] Despite the deficit, the revised budget proposal avoids cuts for core health programs and services,[6] as the Governor continues to emphasize that health care is a primary concern.

Health and Human Services is the largest spending category for both state fund expenditures and total fund expenditures (which includes federal funds, reimbursements, and funds from non-government sources).[7] The May proposal includes $245.69 billion in total funds for Health and Human Services, a 7.13% increase from the January proposal.[8] Of this, a projected $111.89 billion will come from state funds, a 9.48% increase from the January proposal.[9]

**Department of Health Care Access and Information (HCAI)**

HCAI directs initiatives related to health care workers and facilities, as well as health care data. The May Revision proposes $371.6 million to fund HCAI's work in 2023-2024.

Loan Program for Struggling Hospitals

As part of the overall budget package, Governor Newsom signed trailer bill AB 112 on May 15 to create the Distressed Hospital Loan Program, effective immediately through December 31, 2031.[10] The legislation authorizes the Department of Finance to transfer up to $150 million into the fund, which would provide interest-free loans to non-profit and public hospitals in financial distress, or to government entities representing a closed hospital.

The bill and corresponding budget allocation in the May Revise are responses to the controversy over the closing of Madera Community Hospital, which was the only general hospital in Madera County and the only place that residents could go for emergency services. The community it served in the Central Valley is majority-Latino, and one-fifth of residents live in poverty.[11] After the closure, community members must drive twenty miles or more to get to the nearest hospital, which is located in Fresno. Fresno emergency rooms struggled to keep up with the influx of patients.

Hospitals that serve predominantly low-income patients are often underfunded, in part because they rely heavily on Medicare and Medicaid, which set payment rates below the cost of providing care.[12] As a result, other communities in California could face similar circumstances soon, and politicians, advocates and community members have been raising the alarm. The purpose of the newly established fund is to prevent hospital closure or aid in reopening closed hospital.[13] AB 112 would require hospitals seeking loans to submit proposals detailing their strategies for regaining financial viability. The lending criteria includes considerations of whether the hospital is in an area with unmet demand and whether closure would significantly impact access to care. The bill provides for an application and approval process for loan forgiveness or adjustment to the terms of the loan, including delayed repayment.

CalRx

The May Revision includes notable additions to CalRx, the governor's initiative to develop lower cost insulin. The budget adds $30 million to HCAI's CalRx Naloxone Access Initiative from the Opioid Settlement Fund to support the development of a generic version of naloxone, which is sold under the brand name Narcan.[14] Additionally, the budget proposes statutory changes and $2 million for CalRx to be able to provide reproductive health care drugs, including medical abortion drugs as needed.[15]

**Medi-Cal**

Medi-Cal will receive the bulk of total Health and Human Services spending: $151.2 billion, or 62%.[16] Compared to January's proposed budget, the May Revise provides an 8% increase in funds for the State Department of Health Care Services (DHCS), which administers Medi-Cal. This increase reflects Newsom's continued commitment to expanding full-scope Medi-Cal eligibility to undocumented residents ages 26-49 and accommodates the loss of federal Medi-Cal assistance after the pandemic.[17] The May Revision also proposes increases for Medi-Cal expansions for adults 50 and older.[18] The Governor's budget summary notes that Medi-Cal is anticipated to cover over one-third of the state's population in 2023-2024.

Reinstatement of the Managed Care Organization Tax

Originally introduced in the January proposal, the May Revision confirms the renewal of the Managed Care Organization Tax, which expired late last year, as a method to balance the budget shortfall.[19] The May Revision mirrors the Managed Care Organization Provider Tax trailer bill language that DHCS released on May 8, 2023.[20] The tax would be effective April 1, 2023 through December 31, 2026. This start date is earlier than the January budget's proposed start date of January 1, 2024. The earlier start would result in an estimated $3.7 billion additional revenue,[21] with a total of $19.4 billion. The Governor proposes to use these funds to support Medi-Cal expansion and improve access while reducing the risk of reductions to the program. Additionally, the Administration proposes that the tax revenue would support annual investments to increase Medi-Cal reimbursement rates to at least 87.5 percent of Medicare rates for primary care, obstetric care, and non-specialty mental health services.[22] The goal of the rate increase is to promote access and growth in provider participation in Medi-Cal.[23]

The Governor's summary also expresses intent to analyze which payment reforms would provide the greatest benefits for the Medi-Cal program and develop a proposal for 2024-2025 regarding these reforms.

Depletion of Medi-Cal Drug Rebate Fund

In an effort to help control the deficit, the May Revision adds $222 million to the General Fund by depleting the Medi-Cal Drug Rebate Fund. The Medi-Cal Drug Rebate Fund was created to hold the state's portion of drug rebate revenues. Usually, a reserve of about $200 million has been maintained to accommodate rebate fluctuations and reduce instability.

**Next Steps in the Budget Process**

Next in the budget process, the Assembly Budget Committee and Senate Budget & Fiscal Review Committee will review and revise the May proposal. Both houses will then finalize their versions of the budget and pass the final budget before Governor Newsom signs it. The California constitution requires the budget bill to be signed by June 15. However, in recent years, lawmakers have passed a placeholder budget to maintain the constitutional

requirement while still allowing time for negotiation and revision before the state's fiscal year begins on July 1, 2023. This year is no different. Debates—and changes to the budget—are expected to
continue past the June 15 deadline.

---

[1] St. of Cal., May Rev. Budget Detail (May 12, 2023), https://ebudget.ca.gov/budget/2023-24MR/#/BudgetDetail.

[2] St. of Cal., Governor's Budget (Jan. 10, 2023), https://ebudget.ca.gov/budget/2023-24/#/Home.

[3] Alexei Koseff, *Balancing Act: Newsom's Plan To Cover California's Ballooning Budget Deficit*, Cal Matters (May 12, 2023), https://calmatters.org/politics/2023/05/california-budget-deficit-newsom/.

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

[5] St. of Cal., Governor's Budget Summary (Jan. 10, 2023) https://ebudget.ca.gov/2023-24/pdf/BudgetSummary/FullBudgetSummary.pdf.

[6] Ben Johnson, *Governor Releases Revised 2023-24 St. Budget Proposal*, Cal. Hosp. Ass'n (May 15, 2023), https://calhospital.org/governor-releases-revised-2023-24-state-budget-proposal/.

[7] May Rev. Budget Detail, *supra* note 1.

[8] *Id*.

[9] *Id*.

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

[11] Ana B. Ibarra, Nicole Foy, *After Madera's Hospital Closure, Could Others Follow*?, Cal Matters (Jan. 20, 2023), https://calmatters.org/health/2023/01/hospital-closure/

[12] *Id*.

[13] AB-112 Distressed Hospital Loan Program, *supra* note 10.

[14] Ben Johnson, *supra* note 6.

[15] St. of Cal, Health and Hum. Serv. (May 12, 2023), https://ebudget.ca.gov/budget/2023-24MR/#/Agency/4000.

[16] *Id*.

[17] McKay S. Carney, et al., *Newsom's Updated Budget Proposal Safeguards Health Care Funds Amid Growing Deficit,* JD Supra (May 23, 2023),

https://www.jdsupra.com/legalnews/newsom-s-updated-budget-proposal-9941187/.

[18] *Analysis Of Governor Newsom's 2023-2024 May Revision Budget*, W. Ctr. on Law & Poverty (May 12, 2023), https://wclp.org/analysis-of-governor-newsoms-2023-2024-may-revision/.

[19] Health and Hum. Serv., *supra* note 15.

[20] *DHCS Stakeholder News – Updated Managed Care Organization (MCO) Provider Tax Proposal*, Cal. Dept. of Health Care Serv. (May 9, 2023),

https://www.dhcs.ca.gov/Pages/DHCSStakeholderNewsDHCSUpdatedMCOProviderTaxProposal.aspx.

[21] *Id*.

[22] Health and Hum. Serv., *supra* note 15.

[23] *Proposed Trailer Bill Legislation: Medi-Cal Provider Rate Increase Fact Sheet*, Cal. Dept. of Health Care Serv., https://www.dhcs.ca.gov/Documents/LGA/TBL-5-16-23/DHCS-TBL-Medi-Cal-Provider-Payment-Increase-Fact-Sheet.pdf.