

LEGISLATIVE UPDATE



Week of January 6, 2025

State Issues

Proposed 2025-26 State Budget

Today, Governor Newsom released the Administration's 2025-2026 proposed budget. While at the end of last year, the Administration was predicting a small deficit in the State's budget, revenue collections have been rolling in and the State now has roughly \$17 billion *more* than projected.

While the revenue picture is much sunnier than expected – and much sunnier than last year – Newsom notes that the State's fiscal outlook is uncertain, in part due to the State's positing itself as the center of the Trump Resistance. Whether those financial hits come from the State needing funds to sue the Trump Administration or the Federal government withholding funding like federal disaster aid, the State is looking at an unsteady relationship with the leaders in Washington, DC that will likely have an impact on our budget process.

Specifically, regarding the health care budget, there are *no* major cuts or program changes that are newly introduced in the budget document.

This is despite the fact that on Monday the Governor made statements previewing the budget that made it seem as though major health changes were on the horizon. At a press conference on Monday, he noted that while California has done a great job at expanding access to health care coverage, now the Administration intends to focus on holding down the cost of care, and he wants health care providers to focus on increasing their efficiency and effectiveness. But nothing reflecting these wishes is included in the budget document. We should still expect some policy proposals to come in the form of Budget Trailer Language, or regulator changes at the Office of Health Care Affordability, in the weeks to come.

The health budget summary simply highlights a few details of the current program:

Size of the current Medi-Cal program: The Budget includes increased Medi-Cal expenditures of approximately \$2.8 billion General Fund in 2024-25. In addition, the Budget reflects Medi-Cal caseload of 15 million in 2024-25, an increase of approximately 450,000 compared to the 2024 Budget Act.

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Hospital Quality Assurance Fee: Included in the DHCS budget summary document, which provides some more details on the health budget, is a reference that the Administration has submitted for the previously reported increase in Directed Payments, beginning January 1, 2025, pending final federal approval. While the full CY2025 HQAF program package is not anticipated to be submitted to CMS until the end of February, we still anticipate that the net benefit would increase by \$2.5B dollars (\$6 billion total), which is an increase of more than 45% over prior years. You can access the DHCS Budget Summary [here](#).

Medi-Cal DSH Cuts: The State budget includes ACA Medicaid DSH cuts of 52% (\$392 million), which would become effective if Congress does not further delay those cuts. The Continuing Resolution passed by Congress in December delayed the implementation of those cuts until April 1, 2025, and PEACH continues to lobby at the federal level to defer their implementation. Please note that DHCS intends to pay out the normal DSH payments in February, but those would be subject to recoupment without further Congressional action to delay, defer, or eliminate those cuts.

Pharmacy Expenditures: Similar to other state Medicaid programs, California's Medi-Cal program has experienced a notable increase in overall pharmacy expenditures. The Budget includes an increase of \$1.6 billion in 2024-2025 and an increase of \$1.2 billion in 2025-26 due to projected growth in Medi-Cal pharmacy expenditures. According to the Administration, in recent years increased utilization of high-cost anti-obesity drugs, also referred to as GLP-1s, have significantly contributed to rising pharmacy costs.

Prescription Drug Affordability: Without any specific budget implications noted, the Administration stated that it will continue to evaluate the key drivers of prescription drug cost growth, including the impact of pharmacy benefit managers. Building on the goals of the Office of Health Care Affordability and CalRx, the Administration is exploring approaches to increase transparency in the pharmacy supply chain and improve the affordability of prescription drugs in California.

Public Health Emergency Unwinding Flexibilities: The Budget includes the continuation of eligibility redetermination flexibilities through June 30, 2025, resulting in increased costs of approximately \$3 billion in 2024-25 compared to the 2024 Budget Act.

Diaper Initiative: Up to \$7.4 million General Fund in 2025-26 and \$12.5 million General Fund in 2026-27 for the Department of Health Care Access and Information to contract for the provision of a three-month supply of diapers at no cost to California families with newborn babies via hospital systems to improve maternal and newborn health outcomes.

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Behavioral Health: BH-CONNECT Demonstration: In December 2024, the Federal government approved approximately \$8 billion (state, local, and federal funds) for the BH-CONNECT Demonstration effective January 1, 2025, through December 31, 2029. The Demonstration includes statewide and county opt-in components to expand and strengthen the behavioral health continuum for Medi-Cal members living with significant behavioral health conditions, with a focus on children and youth, individuals experiencing or at risk of homelessness, and justice-involved individuals.

AIDS Drug Assistance Program (ADAP): \$8.5 million in 2025-26 and ongoing from the AIDS Drug Assistance Program Special Fund for enhancements to ADAP and the Pre-Exposure Prophylaxis Assistance Program, effective January 2025.

More information on all of these programs will be forthcoming. Budget hearings and Budget subcommittee hearings will be scheduled over the next few months.

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