

# LEGISLATIVE UPDATE



Week of May 8, 2023

## State Issues

<p>Governor Releases May Revise</p>	<p>Today, Governor Newsom released his May Revision to his January Budget proposal for the state’s 2023-2024 fiscal year. In his press conference, he highlighted the increased budget shortfall and need for ongoing fiscal prudence. He praised the state for its planning and preparation for an economic downturn in previous years, including paying down debts, using one time revenue for one time funding, and creating numerous reserve funds.</p> <p>He also noted the state has an additional \$9.5 billion in shortfall from the January proposal – bringing the budget shortfall up to \$31.5 billion. In the press conference he also mentioned that there remains a growing economic risk, and that the state needs to be prepared for a potential mild to moderate recession in the coming years – referring to the potential economic fallout from a federal debt limit impasse, higher interest rates and uncertainty in financial institutions. He also referenced the delayed tax receipts that continue to cause some immediate uncertainty in our budgeting process.</p> <p>The Governor’s budget still includes a 40% reduction in Disproportionate Share Hospital (DSH) Replacement Payments for state FY 2023-24 consistent with current federal law. Stakeholders are supporting H.R. 2665, the Supporting Safety-Net Hospitals Act, which would postpone implementation of the Medicaid DSH cut until 2026.</p>
<p>May Revise Major Health Proposals</p>	<p><b>Managed Care Organization (MCO) Tax.</b> The May Revision includes \$19.4 billion from the Managed Care Organization tax. The Governor noted details of the MCO tax need to be worked out with the Legislature. The May Revision includes the renewal of the MCO tax, via trailer bill language (TBL), effective April 1, 2023, nine months earlier than planned at Governor’s Budget. This earlier start results in approximately \$3.7 billion in additional General Fund revenue in calendar year 2023. Effective January 1, 2024, the Department of Health Care Services proposes to increase rates to at least 87.5 percent of Medicare for Primary Care (inclusive of Nurse Practitioners and Physician Assistants), Maternity Care (inclusive of OB/GYN and doulas), and nonspecialty mental health services. Negotiating points for stakeholders include the need for the funds to be dedicated solely to health care programs, not supplant any current funding, and have some funding dedicated to the safety net providers, which the Governor’s proposal does not include at this time.</p> <p><b>Taping into Reserves.</b> The May Revision also includes the withdrawal of \$450 million from the Safety Net Reserve. This represents half of the funds available in the reserve, leaving a balance of \$450 million. The Governor noted these funds will be to support Medi-Cal as well as CalWORKs.</p>

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May Revise Major Health Proposals  
(continued)

**Borrowing from Various Health Funds.** The Governor also seeks to borrow \$150 million from the hospital building reserve fund and \$15 million from the California Health Data Planning reserve fund. The May Revise also seeks to borrow \$400 million from the AIDS Drug Assistance Program to support the General Fund.

**Distressed Hospital Loan Program.** The May Revise takes into account the \$150 million earmarked for interest-free loans to financially distressed hospitals with the policy included in AB 112 that is awaiting action on the Governor's desk.

**Medi-Cal Payments to the Federal Government.** The budget includes \$37.6 billion to provide a onetime repayment to the federal government for "state-only" populations covered by Medi-Cal, including undocumented Californians.

**Cal Rx.** Includes \$2 million state general fund and \$20 million from other funds to provide flexibility to the Cal Rx program to procure various drugs, including Mifepristone or Misoprostol if necessary to address emerging reproductive health needs.

**Care Court.** The Governor recommitted to the Care Court program with \$67.3 million in 2023-2024 to support county behavioral health programs with more dedicated in the out years.

**Opioid and Fentanyl Response.** Additional \$141.3 million over four years from the Opioid Settlement Fund to DHCS to support the Naloxone Distribution Programs. The plan also includes \$30 million to support the development of a lower cost, generic naloxone nasal spray.

**Suicide and Crisis Lifeline.** \$1.5 million to support a 988-call center for behavioral health crisis services.

**Public Health.** The May Revise maintains \$300 million to modernize state and local public health infrastructure. And \$49.8 over four years for public health workforce.

**Older Adult Behavioral Health.** \$20 million is newly dedicated to support the Older Adult Friendship Line.

**Innovation Accelerator.** The May Revise includes \$10 million at Health and Human Services Agency to establish a public-private partnership to develop solutions to the greatest health challenges facing California.

For more information, please contact Lori Dangberg at 1215 K Street, Suite 2000 ■ Sacramento, CA 95814  
916.591.3991 or e-mail: [ldangberg@thealliance.net](mailto:ldangberg@thealliance.net)