

LEGISLATIVE UPDATE



Week of June 12, 2023

State Issues

State Budget Update

The Legislature passed a state budget this week, meeting its June 15 Constitutional deadline. SB 101 is on its way to Governor Newsom's desk. The Governor needs to sign (or veto) the budget before the beginning of the State fiscal year on July 1. There have been rumors of the Governor vetoing this budget if it does not reflect his expectations, but that is a pretty common tactic during the last few days of negotiations.

As expected, there are still many details left unresolved, and we expect to see many budget trailer bills and budget bill juniors in the weeks to come. One key health care item that is only semi-settled is the Managed Care Organization (MCO) tax. The MCO tax is set to bring in \$19.4 billion over the life of the program, which is through 2026. The Governor secured a major win, with \$3.4 billion going to backfill the State General Fund in this budget year and a total of \$8.3 billion for the General Fund over the course of the program. The win for health care in this deal so far is that the program is expected to allocate its funding over a three- to four-year period instead of the Governor's plan of over an eight- to ten-year period, which will ensure a larger influx of funding into the health care system in a shorter period of time.

The Administration and Senate are coming very close to an agreement, but a true three-party deal is not yet finalized. In broad terms, the majority of funding will go to primary and specialty care, through increase in reimbursement rates for primary care physicians, specialty care, and obstetric services. Additional funds will be spent on outpatient hospital based and community clinics and family planning services. Emergency room services and acute hospital care, public hospitals and ground transportation are expected to receive approximately 20 percent of the revenue. Behavioral health services, including acute mental health care, will secure another 10 percent of the funding. Graduate Medical Education and Medi-Cal workforce that abide by certain labor/management agreements can get around 6 percent. Additional funding is also expected to support the distressed hospital loan program passed earlier this year. The additional funding continues to be discussed but is expected to be more than \$100 million – in addition to the \$150 million already provided.

The Administration is committed to getting the MCO Tax plan to the federal government for approval before June 30, in order to make it retroactive to April 1 for certain primary care services. While the spending plan does not need to be reviewed or approved by the federal CMS, the Legislature is not willing to approve the tax plan until they finalize negotiations on how the funding will be spent.

We expect the introduction of two trailer bills – one covering the tax and one covering the spending plan – to be introduced sometime in the coming week, and more details to emerge as they get finalized.