

2024-25 Governor's Budget

Department of Health Care Services Highlights

January 10, 2024

**Governor Gavin Newsom
State of California**

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This document provides a summary of the Department of Health Care Services (DHCS) proposed fiscal year (FY) 2024-25 budget, including related statutory changes. The Department’s budget builds on the Administration’s previous investments and enables DHCS to continue to transform Medi-Cal and Behavioral Health to operate more effectively and efficiently for its millions of members and California as a whole. The proposed budget supports the Department’s purpose to provide equitable access to quality health care leading to a healthy California for all.

GENERAL BUDGET OVERVIEW

For 2024-25, the Governor’s Budget proposes a total of \$161.1 billion and 4,649.5 positions for the support of DHCS programs and services. Of that amount, \$1.3 billion funds state operations (DHCS operations), while \$159.8 billion supports local assistance (funding for program costs, partners, and administration). The position count for 2024-25 includes the changes requested via budget change proposals.

Total DHCS Budget

(Includes non-Budget Act appropriations)

Fund Source*	FY 2023-24	FY 2023-24	FY 2024-25
	Enacted Budget	Revised Budget	Proposed Budget
Local Assistance (LA)			
LA General Fund	\$ 37,909,465	\$ 37,757,229	\$ 36,254,679
LA Federal Funds	\$ 90,872,402	\$ 96,521,890	\$ 97,883,230
LA Special Funds	\$ 24,535,692	\$ 24,615,531	\$ 23,449,303
LA Reimbursements	\$ 1,979,491	\$ 2,182,912	\$ 2,246,344
Total Local Assistance	\$ 155,297,050	\$ 161,077,562	\$ 159,833,556
State Operations (SO)			
SO General Fund	\$ 356,427	\$ 553,313	\$ 372,373
SO Federal Funds	\$ 619,778	\$ 680,002	\$ 579,550
SO Special Funds	\$ 339,383	\$ 392,981	\$ 319,408
SO Reimbursements	\$ 25,612	\$ 26,190	\$ 24,529
Total State Operations	\$ 1,341,200	\$ 1,652,486	\$ 1,295,860
Total Funds			
Total General Fund	\$ 38,265,892	\$ 38,310,542	\$ 36,627,052
Total Federal Funds	\$ 91,492,180	\$ 97,201,892	\$ 98,462,780
Total Special Funds	\$ 24,875,075	\$ 25,008,512	\$ 23,768,711
Total Reimbursements	\$ 2,005,103	\$ 2,209,102	\$ 2,270,873
Total Funds	\$ 156,638,250	\$ 162,730,048	\$ 161,129,416

* Dollars in Thousands

MAJOR BUDGET ISSUES AND PROPOSALS

Full Scope Adult Expansion

The Budget includes \$1.4 billion total funds (\$1.2 billion General Fund) in 2023-24 and \$3.4 billion total funds (\$2.9 billion General Fund) in 2024-25 to maintain the expansion of full-scope Medi-Cal coverage to all adults regardless of immigration status effective January 1, 2024. Of these amounts, \$1.4 billion total funds (\$1.2 billion General Fund) in 2023-24 and \$3.3 billion total funds (\$2.9 billion General Fund) in 2024-25 are included in the Medi-Cal Estimate. Remaining estimated costs are for In-Home Supportive Services (IHSS) costs and are budgeted in the California Department of Social Services budget.

Managed Care Organization (MCO) Tax and Medi-Cal Provider Rate Increases

In December 2023, the federal government approved California's Managed Care Organization Provider Tax (MCO Tax) effective April 1, 2023, through December 31, 2026. Given the projected budget shortfall, the Administration is seeking early action by the Legislature to request the federal government approve an amendment to increase the tax to achieve \$20.9 billion in total funding to the state, an increase of \$1.5 billion compared to the approved MCO Tax. The Budget proposes \$12.9 billion to support the Medi-Cal program and maintain a balanced budget, and \$8 billion for targeted rate increases and investments. As proposed, the MCO Tax helps maintain existing services in the Medi-Cal program and minimizes the need for reductions in the program. The Budget proposes \$2.8 billion (\$1.2 billion Medi-Cal Provider Payment Reserve Fund) in 2024-25 and approximately \$6.5 billion (\$2.7 billion Medi-Cal Provider Payment Reserve Fund) in 2025-26 for targeted rate increases and investments consistent with the 2023 Budget Act, of which \$727 million (\$291 million Medi-Cal Provider Payment Reserve Fund) annually is for rate increases effective January 1, 2024.

Asset Limit Elimination

The Budget includes \$101.1 million total funds (\$50.5 million General Fund) in 2023-24 and \$195.4 million total funds (\$97.7 million General Fund) in 2024-25 for the previously implemented increase, and January 1, 2024 elimination, of the Medi-Cal asset limit. The Budget also includes \$6.1 million in 2024-25 to reimburse county behavioral health departments for estimated increased behavioral health costs related to this policy.

Children and Youth Behavioral Health Initiative (CYBHI) Wellness Coach Benefit

The Budget proposes to establish the wellness coach benefit in Medi-Cal, effective January 1, 2025, in accordance with the build out of the CYBHI plan. Wellness Coaches will primarily serve children and youth and operate as part of a care team, including in school-linked settings; however, Wellness Coaches could be deployed across the Medi-Cal behavioral health delivery system. Wellness Coaches will offer six core services, including: 1) wellness promotion and education; 2) screening; 3) care coordination; 4)

individual support; 5) group support; and 6) crisis referral. Implementation is expected to phase-in over several years with estimated costs of \$9.5 million total funds (\$4.1 million General Fund) starting in 2024-25.

Assisted Living Waiver (ALW) Slot Increase

The Budget includes an additional \$2.1 million total funds (-\$0.5 million General Fund) in 2023-24 and -\$14.1 million total funds (-\$7 million General Fund) in 2024-25 to increase the number of slots for the ALW as the Waiver will reach capacity in 2024-25. This change would increase enrollment into the ALW, generating additional Waiver costs. However, to the extent that new enrollment is from individuals leaving institutional settings, there would be offsetting savings in future years. Additionally, this proposal would result in new costs of \$84,000 total funds (\$42,000 General Fund) in 2023-24 and \$2.1 million total funds (\$1 million General Fund) in 2024-25 related to minimum wage impacts for ALW providers.

Home and Community Based Alternatives (HCBA) Waiver Slot Increase

The Budget assumes an increase in slot allocations for the HCBA Waiver. As some members will be transitioning from Skilled Nursing Facilities, a savings of \$1.7 million total funds (\$866,000 General Fund) in 2023-24 and \$12.9 million total funds (\$6.4 million General Fund) in 2024-25 are estimated to be realized. Additionally, there would be an increase in administrative costs of \$335,000 total funds (\$167,000 General Fund) in 2023-24 and \$3.3 million total funds (\$1.6 million General Fund) in 2024-25.

Reproductive Health Access Demonstration 1115 Waiver

The Budget includes \$200 million total funds (\$100 million General Fund) in 2024-25 to provide funding for the California's Reproductive Health Access Demonstration (CalRHAD). By 2026-27, \$85 million of the General Fund cost will be offset by the Designated State Health Programs (DSHP) federal funding stream. CalRHAD is pending CMS approval with program operations to begin no sooner than July 1, 2024. CalRHAD will promote the following objectives:

- Support access to family planning and related services for Medi-Cal members, as well as other individuals who may face barriers to access.
- Support the capacity and sustainability of California's reproductive-health safety net.
- Promote system transformation for California's reproductive-health safety net.

Respiratory Syncytial Virus (RSV) Vaccine Impacts

The federal Food and Drug Administration (FDA) and Centers for Disease Control and Prevention (CDC) approved two RSV vaccines and one injectable drug to protect against RSV. The vaccines are targeted to older adults and pregnant individuals. Healthy children have the option of the injectable drug. The RSV vaccines and

injectable drugs were available starting in October 2023, and costs are estimated to be \$138.7 million total funds (\$61.4 million General Fund) in 2023-24 and \$215.8 million total fund (\$95.5 million General Fund) in 2024-25.

Updated Timeline for Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Implementation

Based on timelines to submit federal waiver applications, the BH-CONNECT demonstration is now anticipated to begin January 1, 2025. As a result, costs previously estimated for 2023-24 have shifted to 2024-25. The Budget includes \$40.6 million total funds (\$762,000 General Fund) in 2024-25 for BH-CONNECT.

Caseload Impacts of Redeterminations

Following the end of the COVID-19 public health emergency continuous enrollment requirement, the Medi-Cal caseload peaked in June 2023 and began declining in July 2023, consistent with the resumption of eligibility redeterminations. Redeterminations are estimated to reduce Medi-Cal spending by \$3.1 billion total funds (\$1.2 billion General Fund) in 2023-24.

Budget Solutions

The Budget includes some adjustments to reduce General Fund costs in light of the state's overall General Fund condition:

- **Withdrawal from Safety Net Reserve.** The Governor's Budget assumes the withdrawal of \$900 million from the Safety Net Reserve in 2024-25 to maintain existing program benefits and services for the Medi-Cal and CalWORKs programs.
- **Proposition 56 Funding Reduction.** Due to declining Proposition 56 revenues and the General Fund condition, the Governor's Budget reduces funding for Proposition 56 supplemental payments for physician services by \$193.4 million (\$77.1 million Proposition 56 funding).
- **Delay Behavioral Health Continuum Infrastructure Program (BHCIP) Payments.** The Governor's Budget assumes that \$140.4 million General Fund associated with Round 6 in the BHCIP program is delayed from 2024-25 to 2025-26.
- **Delay Behavioral Health Bridge Housing (BHBH) Payments.** The Governor's Budget delays \$265 million from the Mental Health Services Fund (MHSF) in 2023-24 to 2024-25 and replaces it with General Fund, addressing a reduction in the amount of MHSF projected to be available. Additionally, the Budget delays the remaining \$235 million General Fund appropriation originally intended for 2024-25 to 2025-26.

- **Reduce Medi-Cal Drug Rebate Fund Reserve.** Typically, the Department targets a reserve of approximately \$220 million in the Medi-Cal Drug Rebate Fund to cushion against volatility in drug rebate collections that otherwise would be deposited in the General Fund. The Governor's Budget allows the full amount of projected drug rebate collections to flow to the General Fund, instead of maintaining rebate transfers at 2023 Budget Act levels in 2023-24 and targeting a \$220 million reserve in 2024-25. This results in General Fund savings of \$135.1 million in 2023-24 and \$27.6 million in 2024-25.
- **Withdraw Buyback of Two-Week Checkwrite Hold.** The 2023 Budget Act deferred until 2024-25 the planned buy-back of an existing two-week hold on fee-for-service Medi-Cal payments each June until the following fiscal year. The Governor's Budget withdraws the proposed buy-back, resulting in an estimated General Fund savings of \$532.5 million in 2024-25.
- **Forego Transfer of Remaining Clinic Workforce Stabilization Retention Payment Funding to Department of Health Care Access and Information (HCAI).** The Budget Act of 2022 provided \$70 million for these payments, with any unspent funds to be transferred to HCAI for workforce purposes. The Governor's Budget foregoes the transfer of an estimated \$14.9 million in unspent funds.
- **Defer Chaptered Legislation Local Assistance Impact.** The Governor's Budget defers the consideration of resource requests associated with recently chaptered legislation to the May Revision, including: AB 425 (Chapter 329, Statutes of 2023) related to pharmacogenomic testing; AB 1163 (Chapter 832, Statutes of 2023) related to lesbian, gay, bisexual, and transgender disparities reduction; SB 311 (Chapter 707, Statutes of 2023) related to Medicare Part A buy-in; and SB 496 (Chapter 496, Statutes of 2023) related to biomarker testing.

CASELOAD UPDATES

Medi-Cal Program

This section provides an overview of caseload projections for Medi-Cal reflected in the Estimate. Projected caseload levels are summarized in the tables below:

Estimated Average Monthly Certified Eligible Members					
November 2023 Estimate					
	<u>Members</u>			<u>Year over Year Change Percent</u>	
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2022-23 to FY 2023-24	FY 2023-24 to FY 2024-25
Seniors	1,203,200	1,218,900	1,209,900	1.30%	-0.74%
Persons with Disabilities	1,087,100	1,062,900	1,044,200	-2.23%	-1.76%
Families and Children	7,835,000	7,492,000	6,950,100	-4.38%	-7.23%
Optional Expansion	5,085,400	4,925,300	4,493,100	-3.15%	-8.78%
Miscellaneous	63,300	64,700	64,100	2.21%	-0.93%
Total	15,274,000	14,763,800	13,761,400	-3.34%	-6.79%
Change from May 2023 Estimate					
	<u>Members</u>		<u>Percent</u>		
	FY 2022-23	FY 2023-24	FY 2022-23	FY 2023-24	
Seniors	2,700	1,700	0.22%	0.14%	
Persons with Disabilities	1,600	(24,700)	0.15%	-2.27%	
Families and Children	(3,300)	216,400	-0.04%	2.97%	
Optional Expansion	1,200	390,800	0.02%	8.62%	
Miscellaneous	-	(600)	0.00%	-0.92%	
Total	2,200	583,600	0.01%	4.12%	

The Medi-Cal caseload has started to decline due to the resumption of eligibility redeterminations. Based on very initial data, the Estimate projects that the Medi-Cal caseload will fall to an estimated 13.8 million members following the redetermination period. This projection is highly uncertain and will be refined for the May Revision for 2024-25 as more data is available.

Family Health Programs

This section provides an overview of caseload projections for the Family Health programs. Projected caseload levels are summarized below.

California Children's Services (CCS)

CCS State Only	PY	CY	BY	Change from	
	FY 2022-23	FY 2023-24	FY 2024-25	PY to CY	CY to BY
November 2023	9,670	11,978	14,142	23.87%	18.06%
May 2023	9,682	12,134			
Change from May 2023	(12)	(156)			
% Change from May 2023	-0.12%	-1.28%			

- CCS caseload is based on average quarterly members.
- Members began shifting to Medi-Cal in late 2019-20 due to the economic impact of the COVID-19 public health emergency and continued to shift through the end of 2020-21. Additional months of enrollment have remained relatively flat through June 2023.
 - November 2023 state only base caseload projections reflect actual COVID-19 impacts through June 2023.
 - The ongoing impact from the public health emergency is estimated in the CCS COVID-19 Caseload Impact policy change and included in the counts shown above.
- The projected increase between fiscal years is due to the approval of the Consolidated Appropriations Act, 2023 ending the continuous coverage requirement on March 31, 2023. The resumption of eligibility redeterminations assumes members returning to the state only program one month earlier than in the prior estimate.

Genetically Handicapped Persons Program (GHPP)

GHPP State Only	PY	CY	BY	Change from	
	FY 2022-23	FY 2023-24	FY 2024-25	PY to CY	CY to BY
November 2023	668	676	675	1.20%	-0.15%
May 2023	668	674			
Change from May 2023	0	2			
% Change from May 2023	0.00%	0.30%			

- GHPP caseload is based on average monthly members.
- Caseload projections are expected to remain relatively flat from the prior estimate and between fiscal years.

Every Woman Counts (EWC)

EWC	PY	CY	BY	Change from	
	FY 2022-23	FY 2023-24	FY 2024-25	PY to CY	CY to BY
November 2023	20,326	17,683	17,868	-13.00%	1.05%
May 2023	19,835	20,561			
Change from May 2023	491	(2,878)			
% Change from May 2023	2.47%	-14.00%			

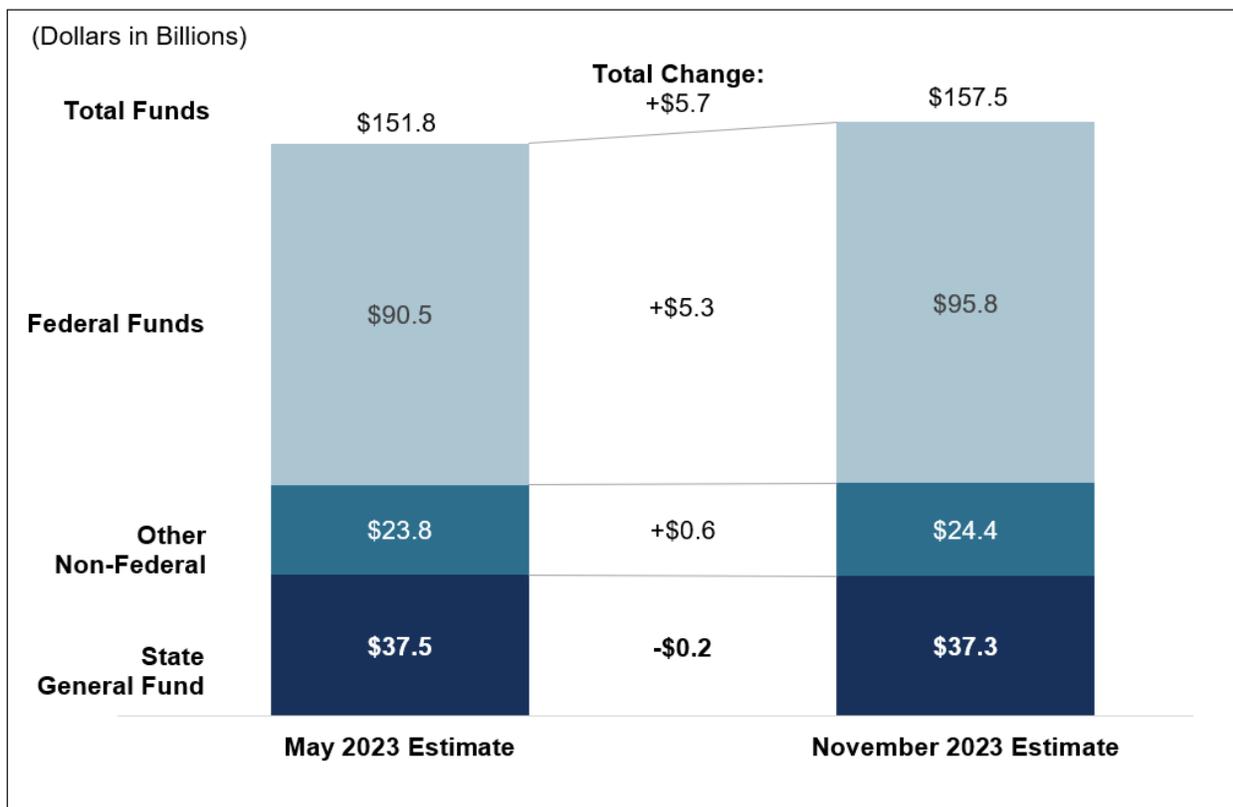
- EWC caseload is based on average monthly users by date of payment. Caseload has been declining steadily since June 2022.
- The 2023-24 base caseload projections decreased from the prior Estimate due to the continued population decline beginning in June 2022.
- The caseload increase between fiscal years is due to historical trends.
- There was an Erroneous Payment Correction (EPC) in February 2023 for Digital Breast Tomosynthesis (DBT) code resubmissions, but the impact was excluded from these projections.

SUMMARY OF MEDI-CAL LOCAL ASSISTANCE ESTIMATE INFORMATION

Funding in the Medi-Cal Estimate makes up the vast majority of local assistance spending in the Department’s budget. Other local assistance funding includes support for programs in the Family Health Estimate (described in the next section), Mental Health Services Act funding, and a number of other local assistance items primarily consisting of federal behavioral health grants.

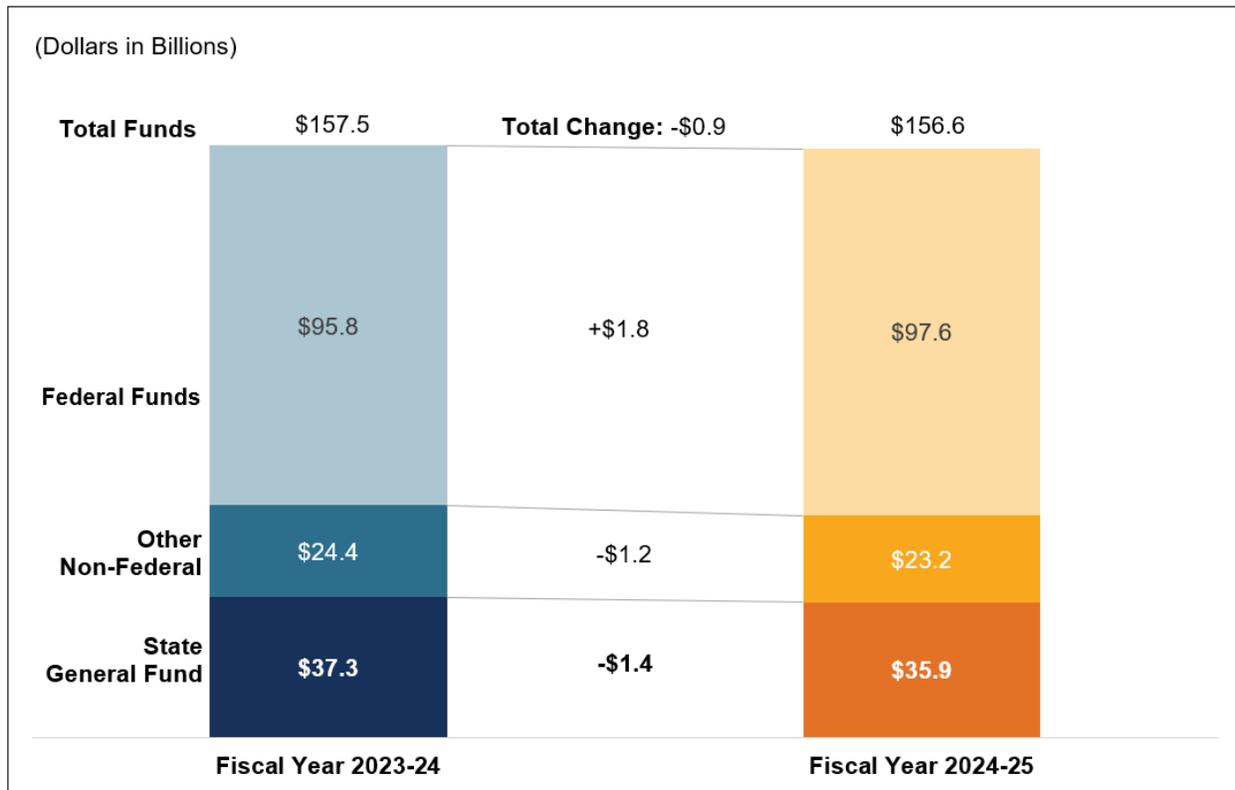
The Department estimates Medi-Cal spending to be \$157.5 billion total funds (\$37.3 billion General Fund) in 2023-24 and \$151.8 billion total funds (\$37.5 billion General Fund) in 2023-24. This does not include Certified Public Expenditures of local governments or General Fund expenditures in other state departments.

FY 2023-24 Comparison



The November 2023 Estimate for 2023-24 projects a \$5.7 billion, or 3.7 percent, increase in total spending and a \$0.2 billion, or 0.5 percent, decrease in General Fund spending compared to the May 2023 Estimate. For more information on the major drivers of changes in estimated General Fund spending in 2023-24, see the November 2023 Medi-Cal Local Assistance Estimate available on the DHCS website.

Year Over Year Change from FY 2023-24 to FY 2024-25



After the adjustments described previously, the Medi-Cal Estimate projects that total spending will decrease by \$0.9 billion (0.5 percent) and General Fund spending will decrease by \$1.4 billion (3.8 percent) between 2023-24 and 2024-25. For information on the major drivers of changes in estimated General Fund spending from 2023-24 to 2024-25, see the November 2023 Medi-Cal Local Assistance Estimate available on the DHCS website.

SUMMARY OF FAMILY HEALTH LOCAL ASSISTANCE ESTIMATE INFORMATION

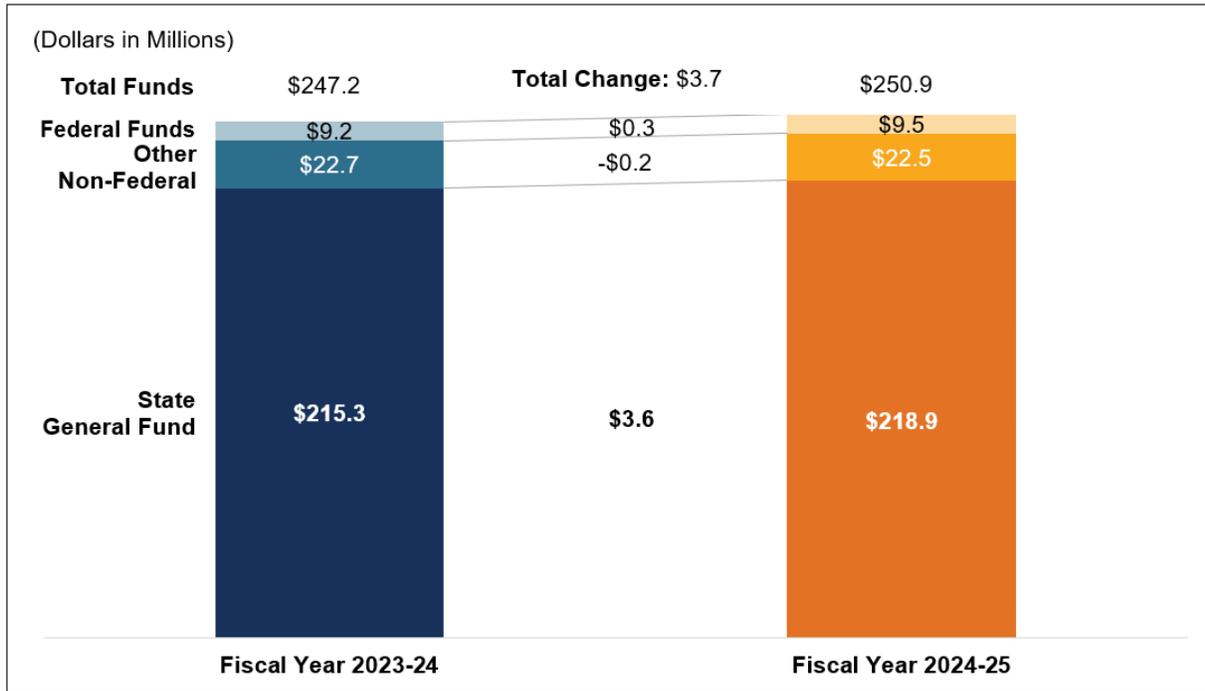
The Department estimates Family Health spending to be \$247.2 million total funds (\$215.8 million General Fund) in 2023-24 and \$250.9 million total funds (\$219.5 million General Fund) in 2024-25. This does not include Certified Public Expenditures of local governments or General Fund expenditures in other state departments.

FY 2023-24 Comparison



The November 2023 Estimate for 2023-24 projects a \$6 million, or 2.4 percent, decrease in total spending and a \$4.7 million, or 2.3 percent, decrease in General Fund spending compared to the May 2023 Estimate. For more information, see the November 2023 Family Health Estimate available on the DHCS website.

Year Over Year Change from FY 2023-24 to FY 2024-25



The November 2023 Estimate projects that total spending will increase by \$3.7 million, or 1.5 percent, and General Fund spending will increase by \$3.6 million, or 1.7 percent, between 2023-24 and 2024-25. For more information, see the November 2023 Family Health Estimate available on the DHCS website.

STATE OPERATIONS AND NON-ESTIMATE LOCAL ASSISTANCE BUDGET ADJUSTMENTS

The Budget includes additional expenditure authority of \$12.6 million total funds (\$3.5 million General Fund) for 32 positions (31 Permanent, 1 limited-term (LT) to Permanent).

Detailed budget change proposal narratives can be found on the Department of Finance website at [link](#). To view Department requests, select the appropriate budget year (2024-25) and search for org code 4260 in the search bar located in the middle of the website.

Budget Change Proposal Title	Budget Change Proposal Number	Positions	Total Funds**	General Fund**
Funding Transition to State Operations for California Advancing and Innovating Medi-Cal (CalAIM) Managed Long-Term Services and Supports and Dual Eligible Special Needs Plan Integration Activities	4260-056-BCP-2024-GB		\$6.6	\$3.3
Managed Care Capitation Payment Systems Support	4260-058-BCP-2024-GB	5 Perm	\$0.9	\$0.2
Medi-Cal Targeted Provider Rate Increases & Investments Workload	4260-069-BCP-2024-GB	26 Perm 1.0 LT to Perm	\$4.6	
Narcotic Treatment Program Licensing Trust Fund	4260-063-BCP-2024-GB		\$0.5	
	Total*	31.0 Perm 1.0 LT to Perm	\$12.6	\$3.5

*Chart totals may differ from the BCP totals within an individual BCP due to rounding.

**Dollars in millions.

Funding Transition to State Operations for California Advancing and Innovating Medi-Cal (CalAIM) Managed Long-Term Services and Supports and Dual Eligible Special Needs Plan Integration Activities requests expenditure authority to shift funding from the Medi-Cal Local Assistance Estimate to state operations to align with the budget structure for other technical assistance contracts DHCS has engaged in contractor project management, technical assistance, and stakeholder engagement. This proposal would result in no new General Fund costs above the 2023-24 Budget level for these activities.

Managed Care Capitation Payment Systems Support requests resources and expenditure authority to support the critical Capitation Payment Management System and Electronic Accounting Management Interface systems. DHCS needs dedicated resources to meet the demands as policies are shifting members from Fee-for-Service to Managed Care Plans.

Medi-Cal Targeted Provider Rate Increases & Investments Workload requests resources and expenditure authority to support new and ongoing workload related to the Medi-Cal Targeted Provider Rate Increases & Investments funded by the Managed Care Organization Tax.

Narcotic Treatment Program Licensing Trust Fund requests expenditure authority to support the existing licensing and compliance monitoring activities of narcotic treatment programs. Increasing the expenditure authority allows the Department to appropriately utilize the funds in the Narcotic Treatment Program Licensing Trust Fund rather than seek relief from the General Fund.