

## Brief CHA Summary of the Governor's Proposed 2025-26 Budget

On Friday, Jan. 10, Gov. Gavin Newsom formally released his 2025-26 state budget proposal after providing a preview earlier in the week.

**Governor Proposes Balanced Budget Without Significant Spending Cuts.** The \$322 billion budget proposal features improved expectations around the state's fiscal condition, with revenues projected to be \$16.5 billion higher than previously estimated. The budget includes a small surplus thanks to higher projected revenues, budget cuts and other solutions adopted in prior years, and the use of reserves. While the proposed budget is balanced through 2025-26, a flagging economy or loss of federal funding from Washington, D.C. could cause the budget to fall into the red, potentially necessitating cuts before the budget is finalized in June. Moreover, state projections show the budget falling into a deficit in the long run. To help protect against future deficits, the Governor reiterated an intent to pursue a ballot initiative that will increase the state's budgetary reserves.

**Key Proposals Are in the Medi-Cal Program.** Overall, Medi-Cal spending is projected to grow to \$188 billion total funds (\$42 billion state General Fund) in 2025-26. These higher expenditures are attributable to higher enrollment and increases in pharmacy spending. Below are the two major proposals affecting hospitals.

- **Managed Care Organization (MCO) Tax Allocations for 2025 and 2026 Provider Payment Increases Appear Consistent with Proposition 35.** Prop. 35, approved by the voters in November 2024, dedicates funding from the MCO tax to various Medi-Cal provider payment increases, including for hospitals. The budget includes specified funding for Prop. 35 provider payment increases for calendar years 2025 and 2026. However, the proposal provides no detail and defers decisions on specific payment methodologies to the stakeholder advisory committee required by Prop. 35.
- **Resources to Evaluate Hospital Reimbursement.** The budget includes state staffing resources to evaluate long term hospital financing structures in the Medi-Cal program. The proposal was not available at the time of budget release, however the Department of Health Care Services has committed to work with CHA and has indicated that the proposal aims to protect federal funding, reduce administrative complexity, and improve Medi-Cal payments.

**New Hospital-Based Diaper Initiative.** The budget includes \$7.4 million in 2026-27 and \$12.5 million in 2026-27 to the Department of Health Care Access to establish a new program that will provide a three-month supply of diapers at no cost to California families. Distribution of the diapers would be based out of hospital systems. According to the administration, hospital participation in the program would be voluntary.