

LEGISLATIVE UPDATE



Week of May 12, 2025

State Issues

Governor Releases May Revise

This week, Governor Newsom released the May Revise to his 2025-2026 budget proposal, and it proposes substantial cuts to California's health care safety net in order to help the state cover a nearly \$12 billion budget shortfall. We are still learning about many of these proposals, and more information should be forthcoming in the weeks ahead. You can access the full May Revise document from the Department of Finance [here](#). Also, included [here](#) is the link to the DHCS budget summary document. You can access a document on the MCO [here](#). And the Assembly has released their summary [here](#).

State's Fiscal Picture. The Governor noted the dramatic changes in the state's fiscal picture since the sunny picture he delivered in his January Budget proposal. While the budget in January was "basically" balanced without any dramatic cuts, he outlined a much different picture. The state is now experiencing an \$11.95 billion shortfall that covers the 2025-2026 state budget – and he points to increased costs in Medi-Cal as the main driver of the shortfall. With a serious reduction in capital gains taxes and weaker corporate profits, the Governor is pointing to the slowing economy as a major contributor to the State's budget troubles. He is calling it the "Trump Slump."

Federal Cuts. While there are billions in proposed Medi-Cal cuts on the table in Congress, the Governor does not assume any of those potential cuts in this budget proposal. If/when federal Medicaid cuts come to fruition, the State will need to renew budget discussions and make adjustments as necessary.

May Revise Detail: The May Revise proposes some significant changes in the health budget.

Undocumented Californians. Freezes enrollment for new adult undocumented Californians in January 2026, but continues coverage for those who currently are enrolled. Undocumented children will still be able to enroll. Increases the cost-sharing requirements for undocumented enrollees receiving Medi-Cal to \$100 per month beginning in January 2027. Eliminates funding for Federally Qualified Health Centers to serve undocumented Californians. Eliminates dental benefits and long-term care benefits for undocumented Californians.

Managed Care Organization (MCO) Tax. The status of the funds from MCO Tax remains murky. However, it appears that the majority of the funds are being used to backfill the Medi-Cal program – as opposed to the increase in provider reimbursement rates as approved on the Statewide ballot initiative. Some allocations will continue, including \$75 million for Graduate Medical Education, \$90 million for reproductive health, \$300 million for behavioral health administrative functions, and \$75 million for Medi-Cal workforce initiatives. Some details [here](#). More information about the MCO allocation will be forthcoming as we examine the specifics over the next few days. The MCO document does note that some of the MCO funds will go to "increasing hospitals' net benefit," but there are no details and the MCO coalition is suspicious.

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Governor Releases
May Revise
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Drug Coverage/Prescription Drugs. Implements a rebate aggregator to secure state drug rebates for individuals with unsatisfactory immigration status. Eliminates over the counter drug coverage for certain medications. Implements prior authorization, utilization management and step therapy for prescription drugs. Eliminates the continuing care status for pharmacy benefits under Medi-Cal Rx. The policy will require members to obtain drugs no longer on or removed from the Medi-Cal Rx contracted drug list (CDL) through the prior authorization process.

Other Key Programs Changes

- Implements prior authorization for hospice services.
- Eliminates Prop 56 supplemental payments for dental, family planning, and women's health providers and eliminates the Prop 56 loan repayment program.
- Reinstates the Medi-Cal asset limit.
- Increases the Medi-Cal Managed Care plans medical loss ratio.
- In addition to a proposal to add fees for PACE Providers, the budget proposal seeks to limit provider payments to the midpoint of actuarial rate ranges.
- Eliminates certain funding for skilled nursing facilities but also suspends the requirement that they maintain backup power system.
- Eliminates acupuncture as an optional Medi-Cal benefit.
- Eliminates coverage for GLP-1 medications.

New Pharmacy Proposal. The Governor also announced a plan that he hopes will lower the cost of drug prices, increases transparency of pharmacy benefit managers, and expands the state's ability to access medication abortion drugs. You can access the Governor's press release [here](#).

Next Steps: Budget Subcommittees have been scheduled for early next week.

- Monday: Assembly Budget Sub 1 at 2:30pm
- Tuesday: Senate Budget Sub 3 at 9:00am

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