FARRAGUT SQUARE GROUP

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Farragut's Five Things to Know About Key State Budget Healthcare Investments in SFY 2025

July marks the beginning of the state fiscal year (SFY) for the majority of states across the country, and state legislatures have been actively engaged in balancing budgets and making deals with their respective governors to secure funding for critical healthcare policies. In many states, once the budget is passed, the legislature adjourns unless called to return for a special session by the governor. Farragut has been closely monitoring state budget developments through the spring and summer. As states continue to navigate post-pandemic recovery, recently enacted budgets highlight key investments in healthcare, with a key focus on expanding Medicaid coverage, addressing healthcare workforce shortages, enhancing behavioral health services, and supporting vulnerable populations - reflecting ongoing commitments to strengthen and adapt their public health systems in response to evolving needs.

Below are five things to know about key state healthcare investments in FY 2025 for California, Colorado, Florida, North Carolina, Ohio, and Texas:

1. California's 2025 budget enforces revenue-raising strategies, to close the state's budgetary shortfall and support Governor Gavin Newsom's efforts to expand Medi-Cal coverage and bolster behavioral health initiatives.

2. North Carolina's biennial budget, which implemented the ACA Medicaid expansion and provided historic mental health funding, is facing renewed debate following Governor Roy Cooper's proposal for a $3.6 billion increase in funding and the NCDHHS' $500 million "rebase" request.

3. Colorado's 2025 budget will increase General Fund spending to finance sign-on bonuses and rate increases, both aimed at addressing the state's depleted workforce, and plans to expand Medicaid funding despite widespread post-pandemic disenrollment.

4. Florida's budget builds on healthcare investments, expanding behavioral health services, cancer research, and comprehensive care for vulnerable populations, all while maintaining healthy reserves.

5. Ohio and Texas, two states operating on biennial budgets, maintained their enacted SFY 2024 – SFY 2025 budgets, and continued investments in skilled nursing providers and enhancements in nursing care quality.

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Further Discussion:

1. California's 2025 budget enforces revenue-raising strategies, to close the state's budgetary shortfall and support Governor Gavin Newsom's efforts to expand Medi-Cal coverage and bolster behavioral health initiatives.

California's budget will address an estimated $37.9 billion budgetary shortfall through enforcing the Managed Care Organization Provider Tax (MCO Tax). The MCO Tax, which will be in effect until December 31, 2026, will generate between an estimated $6 and $9 billion annually. It taxes qualifying MCOs on a per-member-served basis and varies in rates, based on whether a provider is a Medi-Cal MCO. MCO Tax-generated revenue, which the federal government will match, will contribute to California's effort to increase Medi-Cal payment rates. These rate increases will benefit Medi-Cal MCOs, meaning the MCO Tax should have no net impact on them.

Recently, Governor Newsom proposed an amendment to the MCO Tax that would raise total revenue from $19.4 billion to a projected $20.9 billion. He proposes using $12.9 billion for the Medi-Cal program and to balance the state's budget, while the remaining $8 billion would support targeted Medi-Cal provider rate increases. This spending proposal has faced criticism from those who believe Governor Newsom is not sufficiently prioritizing Medi-Cal rate increases, and has resulted in the creation of Proposition 35, known as the "MCO Tax Initiative." Proposition 35 would institute a permanent tax on MCOs and limit lawmakers' ability to reroute MCO Tax funds from rate increases, a change that industry experts believe will allow Medi-Cal providers to "expand the patient population" served and "expand the services they provide." California voters will have the opportunity to vote on Proposition 35 in November.

California's budget also supports efforts to expand Medi-Cal. For instance, part of the $7.10 billion will expand Medi-Cal to cover all income-eligible adults from ages 26-49, including those without legal status. Previously, only income-eligible children, young adults, and people over fifty were granted Medi-Cal coverage regardless of their immigration status. The state is anticipating a 583,000 person increase under Medi-Cal following eligibility redeterminations, and the budget will allocate $2.30 billion to the program in accordance with that change. In all, about 14.5 million individuals will be on Medi-Cal in 2024-2025 (over a third of the state's population) and, to support the program's continuing growth, the state's budget will provide $3.3 billion in funding for 2024-2025, and $3.4 billion ongoing.

The budget demonstrates a commitment to behavioral healthcare with $8 billion for infrastructure and increased services for children and youth. It also allocates $9.5 million for the Medi-Cal Wellness Coach Benefit and $7.60 billion for the BH-CONNECT Demonstration. Additionally, $6.4 billion will fund the Behavioral Health Infrastructure Bond Act, creating new treatment beds, increasing outpatient capacity, and establishing supportive housing for those with behavioral health needs, including veterans.

2. North Carolina's biennial budget, which implemented the ACA Medicaid expansion and provided historic mental healthcare funding, is facing renewed debate following Governor Roy Cooper's proposal for $3.6 billion increase in funding and the NCDHHS' $500 million "rebase" request.

North Carolina's 2024-2025 biennial budget allocated $11.3 billion for the Division of Health Benefits. The budget also implemented Medicaid expansion, dramatically increasing Medicaid coverage in the state. From July 2023 to November 2023, in accordance with the national post-pandemic surge in unwinding rates, 181,375 Medicaid patients were disenrolled in North Carolina, including many who no longer met the FPL threshold. However, due to Medicaid expansion, North Carolina's Medicaid program covers nearly all nonelderly adults with incomes up to 138% of FPL and is estimated to benefit 600,000 people. As of August 5, 2024, 520,667 people have received North Carolina expansion coverage. This data reveals that in the past year, there has been about a 340,000-person net increase in Medicaid enrollment.

North Carolina's budget allocates $620 million for mental healthcare efforts. Of this, $99 million will support partnerships between law enforcement, counties, and behavioral health providers to establish arrest-prevention and post-incarceration community re-entrance programs. The budget also provides $80 million to create new mobile crisis teams and respite facilities, and another $80 million to support families and caregivers of children with behavioral health challenges and other special needs. To combat workforce shortages, $40 million will fund sign-on and retention bonuses for employees of state mental health facilities, and an additional $50 million will expand the NC Loan Repayment program to recruit and retain healthcare providers in rural or underserved areas.

Rising Medicaid costs and reduced federal funding have prompted North Carolina's Department of Health and Human Services (NCDHHS) to request an additional $500 million, termed a "rebase." North Carolina's Senate and House of Representatives have yet to address this request. The state's deputy Medicaid director for NCDHHS confirmed that the state legislature's failure will not hinder Medicaid expansion efforts. Instead, DHHS plans to cut spending by reducing administrative costs, such as terminating large contracts or delaying IT infrastructure development, while committed to avoiding changes that affect Medicaid patients' access to services.

On April 24th, the Cooper Administration proposed increasing the state's budget from $30.9 billion to $34.5 billion in the second year. Governor Cooper's proposal is facing the expected pushback from the GOP, the state's majority party. Senate Leader Phil Berger (R) criticized the plan, stating that Governor Cooper "always wants to spend more, tax more" and that Senate Republicans "do not intend to go down that path." However, Rep. Jason Saine (R) believes that some of Cooper's spending proposals will receive Republican support, noting that "there's always room to meet somewhere in the middle." Rep. Saine's assertion suggests that a bipartisan solution is possible, and that certain departments, including NCDHHS, may benefit from additional funding this year.

3. Colorado's 2025 budget will increase General Fund spending to finance sign-on bonuses and rate increases, both aimed at addressing the state's depleted workforce, and plans to expand Medicaid funding despite widespread post-pandemic disenrollment.

Colorado's budget, known as the Long Appropriations Bill, increases General Fund spending by 7% compared to last year, totaling at $42.9 billion, despite the state's slowing economic growth and flattening post-pandemic tax collection. The Department of Health Care Policy and Financing (HCPF), which administers Medicaid and other public health services, accounts for about half of this General Fund growth. Specifically, the budget will allocate $512 million more to HCPF than the previous year, an 11.5% increase. There will also be a $204 million increase in funding for the Department of Human Services (DHS), which oversees social services such as behavioral health and child welfare programs.

Colorado's plan includes rate increases and signing bonuses, among other strategies, to strengthen the state's depleted healthcare workforce. Governor Polis announced that the state is investing $65 million to ensure that Home and Community-Based Service (HCBS) workers earn a minimum wage of at least $16.55/hour statewide. Additionally, Colorado's budget will allocate $9.6 million for signing bonuses worth $25,000 each to address widespread healthcare workforce vacancies, specifically in the Department of Corrections and DHS. However, state politicians, including Rep. Shannon Bird (D), argue that these bonuses will serve as a "Band-Aid" rather than a sustainable solution. Rep. Bird's claim implies that long-term strategies and funding are necessary to sufficiently address the state's workforce crisis. Accordingly, the budget is introducing rate increases costing over $135 million to the General Fund. In addition, a 2% increase will combat private sector healthcare worker shortages and clinic closures, and $61.5 million in targeted rate increases will support medical specialties, such as autism treatment and dentistry.

Colorado's Medicaid spending will increase by $325 million in 2025, despite an estimated enrollment decline from 1.4 million to 1.3 million people. This 100,000-person decrease is due to a post-pandemic, statewide disenrollment trend that has placed Colorado among the top ten states with the highest "unwinding" rates. This outcome is unexpected given that Colorado has adopted policies, such as an automatic renewal-processing system, to prevent mass disenrollment. Many believe that Colorado's large disenrollment is due to low automatic renewal rates and the state's outdated eligibility database. In fact, 500,000 people, or about 9% of the state's population, were disenrolled due to procedural reasons.

According to the state, robust pandemic-era Medicaid enrollment and Colorado's strong economy are responsible for disenrollment. Kim Bimestefer, leader of HCPF, asserted that Colorado's "really stellar" unemployment rate has reduced the number of people who need safety-net programs like Medicaid. However, Bureau of Labor Statistics data reveals that while Colorado's unemployment rate is lower than the national average, it remains higher than it was pre-pandemic. Furthermore, in the eleven counties where unemployment stagnated or increased from January 2020 to April 2024, the share of the population with Medicaid declined. As of July, 58% of those disenrolled have returned to Medicaid or obtained new insurance, while the status of the remaining 42% is unknown.

4. Florida's budget builds on healthcare investments, expanding behavioral health services, cancer research, and comprehensive care for vulnerable populations, all while maintaining healthy reserves.

On June 12th, 2024, Florida Governor Ron DeSantis (R) signed the SFY 2025 budget totaling $116.5 billion, after a $949.6 million spending veto. Although the SFY 2025 budget reflects a reduction in overall state spending, it continues investments initiated in the previous year, resulting in $17 billion for the state's budgetary reserves, of which 25.9%, or $4.4 billion, is allocated to the state's rainy day fund. Florida maintains healthy reserves while investing in education, the environment, housing, and other programs focused on strengthening the public health system.

Investments in Health and Human Services largely focus on supporting the state's vulnerable populations, including cancer research, women's and children's health, behavioral health and substance use issues, the child welfare system, and senior citizens and caregivers. Key allocations Farragut believes are notable include:

- $456.5 million to support the health of pregnant women, mothers, and children, including funding for the Florida KidCare Program;
- $442.0 million for behavioral health services, including improving access to mobile response services, increasing provider reimbursement rates, expanding the behavioral health workforce, and fostering collaboration between primary care and behavioral health providers;
- $232.0 million for cancer research, with $127.5 million for the Casey DeSantis Cancer Research Program;
- $179.4 million for the Office of Opioid Recovery, targeting the expansion of psychiatric residency programs and supporting education, treatment, and prevention initiatives for substance use disorders, and;
- $93.2 million for the child welfare system, supporting foster parents and caregivers.

5. Ohio and Texas, two states operating on biennial budgets, maintained their enacted SFY2024–SFY2025 budgets and continued investments in skilled nursing providers and enhancements in nursing care quality.

Last year, 16 states enacted biennial budgets for SFY 2024 and SFY 2025, and most states will look at amendments in the second year. However, Ohio and Texas are among a handful of notable exceptions where governors did not submit any amendments to their enacted SFY 2024 – SFY 2025 budgets

Last summer, both Ohio and Texas enacted biennial budgets for SFY 2024 – SFY 2025. Ohio, after issuing 44 line-item vetoes, enacted a $190.7 billion budget, allocating $75.5 billion to the Department of Medicaid—a ~6% increase from the previous biennium. Ohio focused healthcare investments on enhancing nursing care quality, including:

- Requiring each nursing facility's base rate to include only 40% of the increase in its rates for direct care costs and ancillary and support costs resulting from rebasing, totaling a $715 million increase over the biennium;
- Increasing the rate of nursing facility cost center rebasing to once every two years starting in FY 2024, and;
- Establishing a $30/day private room payment rate beginning in FY 2024 for services provided to residents in private rooms of nursing facilities, with the opportunity for rate increases in following FYs.

Similarly, Governor Greg Abbott (R) signed Texas' $321.2 billion biennial budget for SFY 2024 – SFY 2025—a 29.2% increase over the previous biennium. The budget allocates $102 billion to Health and Human Services (HHS), with Texas investing $900 million for Medicaid rate increases for skilled nursing providers—marking the first substantial increase in a decade.

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