

## Summary of the LAO Report on Fiscal Outlook for 2023-24

November 16, 2022

### [REPORT](#)

#### Summary:

Reflecting the threat of a recession, LAO revenue estimates represent the weakest performance the state has experienced since the Great Recession – Projected shortfall is \$25 B due to lower expected revenue

#### LAO recommends:

- Save reserves for recession; should a recession occur – revenue could be \$30-\$50 B below their revenue outlook - reserves are sufficient to cover budget deficit but not if recession occurs
- Legislature should identify recent augmentations to reassess, pause or delay
- Legislature keep in mind the programmatic impacts of inflation as it considers budget solutions to address the deficit

#### How we got here:

- Pandemic stimulus triggered rapid expansion of the economy from mid-2020 through 2021 but it was unsustainable, and businesses were under stress causing supply chain issues and labor challenges
- Result - consumer prices have risen 8% over the last year, more than three times the norm of the last three decades
- To combat inflation the Federal Reserve is raising interest rates which increases costs for consumers all leading to lower spending which means less state tax revenue

#### Factors affecting spending growth:

- Growth in Medi-Cal and IHSS is offset by lower spending in resources, transportation, housing

## Summary of the 2023-24 Budget: Medi-Cal Fiscal Outlook

November 16, 2022

### [REPORT](#)

#### Summary:

Overview of fiscal outlook for Medi-Cal, the major factors that we expect to drive changes in General Fund spending in Medi-Cal, and key uncertainties of LAO's projections

- Medi-Cal General Fund (GF) spending will be \$35.5 billion in 2022-23, a decline of around \$900 million compared to the 2022-23 Budget Act estimate. This adjustment is driven by the extension of the COVID-19 public health emergency (PHE) into January 2023, which (among other impacts) provides Medi-Cal more federal funding to offset GF costs than anticipated at budget act.

- Short-term decline in General Funding spending on Medi-Cal due to reductions in limited-term funding on behavioral health initiatives
- Projected long-term growth – Medi-Cal spending will increase due to caseload growth, continued growth in underlying per-enrollee utilization and service costs, and expanded health coverage for income-eligible undocumented persons
- Additional federal funding in 2022-23 due to extension of public health emergency (PHE) and people not losing Medi-Cal benefits (Congress approved a 6.2 percentage point increase in the federal government’s share of cost for most Medicaid services for the duration of the PHE)
- Medi-Cal caseload growth will be concentrated among the Affordable Care Act optional expansion population, as well as seniors and persons with disabilities - which is projected to be 15% - 18% of Medi-Cal caseload over the outlook period through 2027
- Short-term decline in caseload due to eligibility redeterminations, LAO projects the Medi-Cal caseload and associated costs to rise beginning in 2024-25