

Delicate labor-industry deal in flux as Newsom revisits \$25 minimum health wage

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Gov. Gavin Newsom is revisiting California's phase-in of a nation-leading \$25 minimum wage for health workers in the face of a projected \$38 billion deficit, less than three months after he approved the measure.

But renegotiating wages could threaten a delicate compromise between unions and the health industry.

Newsom, whose administration initially opposed the wage deal as too costly, signed the bill, SB 525, into law without knowing the final price tag. His Democratic administration now projects the first-year cost to be \$4 billion, though that number has been questioned by labor leaders.

Citing data from the U.S. Bureau of Labor Statistics, finance officials said the law would boost wages for at least 500,000 workers who directly provide [health](#) care, not including related employees like janitors, groundskeepers, and security staff who also are covered under the law.

According to the Department of Finance, it would also increase wages for state employees and boost the cost of health services by increasing Medi-Cal managed care payments. About half that cost is expected to be paid by California taxpayers and the rest covered by federal payments to Medi-Cal providers.

The governor's latest budget asks the [state legislature](#) to add an annual trigger making the [minimum wage](#) increases contingent on state revenues and to clarify which state employees are included, citing "the significant fiscal impact" of the law. Newsom acknowledged that negotiations are ongoing, a month after his office said talks would begin.

"We continue to work to land that," he said, adding he hoped for legislation in a matter of weeks.

The governor insisted he had reservations all along and pledged to work with fellow Democrats, who control the legislature, to make the law more affordable. But the bill he signed did not include built-in triggers, such as those used by his predecessor, Democratic Gov. Jerry Brown, that could have delayed the increase in the face of a budgetary downturn.

Newsom did, however, reject a number of spending bills last year.

"We had a commitment on the trigger," even though it wasn't in the bill, Newsom said in response to reporters' questioning on Jan. 10. "We're confident all parties that committed to that agreement are going to meet it and do so very shortly."

David Huerta, president of Service Employees International Union California and SEIU United Service Workers West, said in a statement Jan. 10 that the union looks forward to working with the administration and the legislature "to ensure that these critically needed workforce investments are implemented while maximizing federal funds and holding the health care industry accountable for investing their resources in their workers and in patient care."

Yet last month, SEIU-United Health care Workers West President Dave Regan asserted the state must "hold fast to its commitment." SEIU-UHW is a local affiliate of SEIU California.

Assembly Speaker Robert Rivas, who helped negotiate the earlier deal, wouldn't comment on reopening the negotiations, and State Sen. María Elena Durazo, the Los Angeles Democrat who introduced the bill, also declined comment.

The law currently phases in the wage boosts, with large health facilities and dialysis clinics reaching the \$25 hourly minimum in 2026; community clinics in 2027; and other health facilities in 2028. The \$25 minimum would not take effect until 2033 for hospitals with a high percentage of patients covered by Medicare or Medicaid, rural independent hospitals, and small county facilities.

The phase-ins are set to start in June, giving state officials time to roll them back before the new fiscal year.

"I just don't understand how the governor signed the bill to begin with. I don't know why anyone thought it was going to be relatively cheap for the government," said Michael Genest, now a private consultant after serving as former Republican Gov. Arnold Schwarzenegger's finance director. "Does he think the unions care so much about him that they will go back to the table on something they've already won? That would be incredibly naive."

Proponents of the law say it covers about 3,000 employees in the state departments of Corrections and Rehabilitation, Veterans Affairs, and Developmental Services because they operate facilities licensed as hospitals, clinics, or nursing homes.

But undoing one portion of the law threatens to unravel the entire intricate compromise between labor and the health industry.

For instance, as part of the deal United Health care Workers West agreed in a separate memorandum of understanding to halt for four years its repeated attempts to impose regulations on dialysis clinics.

The union also previously advocated for health worker minimum [wage increases](#) in several California cities. The compromise banned such local boosts for 10 years, a big relief to the California Hospital Association.

Regan, of SEIU-UHW, said the administration's cost estimate "has been severely overstated."

Nearly half of [health workers](#) who would see wage increases, or a family member, currently rely on safety-net programs such as Medi-Cal, CalFresh, and CalWORKs, said Laurel Lucia, director of the Health Care Program at the University of California-Berkeley Labor Center. So increasing their income would reduce their reliance on those tax-funded programs.

"We're estimating that the [health care](#) minimum wage impact on the state budget could be up to \$300 million in the first year, but it's possible that it could be substantially less than that" depending on how and when the state adjusts Medi-Cal payments to hospitals and clinics, Lucia said.

Genest put the cost to the state's general fund at about \$1.2 billion in an August calculation for the [health industry](#) when it opposed the bill before the last-minute compromise.

Finance Department spokesperson H.D. Palmer acknowledged the administration's calculation did not include offsets such as a reduction in the number of lower-income workers relying on Medi-Cal.

Lucia estimated the \$25 minimum [wage](#) law would raise wages for about 450,000 health workers, both those providing direct care and those in related occupations—at least 50,000 fewer than the administration's estimate.

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