



CALIFORNIA STRATEGIES
& ADVOCACY, LLC

MEMORANDUM

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To: Dr. Angelo Williams | Chief Deputy Director | First 5 California

From: John Benton, Monique Ramos, Lily Mackay, Jonathan Muñoz | California Strategies & Advocacy, LLC

Subject: Budget Act of 2024

Over the weekend, Governor Gavin Newsom, Senate President pro Tempore Mike McGuire (D-Healdsburg), and Assembly Speaker Robert Rivas (D-Hollister) agreed on a state budget. The **Budget Act of 2024** includes \$211.5 billion of General Fund (GF) spending, \$86.4 billion of spending from other state funds, and \$153 billion from federal funds flowing through the state treasury.

The agreement “balances” the budgets for 2024-25 and 2025-26, closing projected budget deficits of roughly \$45 billion in 2024-25, and \$30 billion in 2025-26. To achieve this, the budget contains a total of \$46.8 billion in “solutions” for 2024-25, with these primarily coming from program reductions (\$16 billion) and revenues (\$13.6 billion). The remaining shortfall is closed with a mix of reserves, fund shifts, delays, and deferrals.

The Budget Act of 2024 maintains a \$3.5 billion balance in the Special Fund for Economic Uncertainties and over \$22 billion in total reserves. For 2025-26, the agreement contemplates a \$1.5 billion balance in the Special Fund for Economic Uncertainties and over \$13 billion in total reserves.

To achieve a balanced budget, the final budget agreement implemented several tax suspensions and reductions, as well as a total drawdown of the Safety Net Reserve.

These include:

- Suspension of the Net Operating Loss (NOL) deductions and tax credits for three years for medium-sized and large businesses starting in 2024.
- Elimination of oil and gas subsidies
- Full withdrawal of the \$900 million balance from the Safety Net Reserve Fund

While reducing some of the fund sweeps included in the Governor’s May Revise program, the Legislature did agree with many of the Governor’s proposals to sweep unused and unallocated funds from Health and Human Services programs. However,

the legislature was also able to preserve all or a portion of funds for several Health and Human Service programs, as outlined in the summaries below.

While unfortunate, these difficult decisions were inevitable given the state's fiscal situation. As the budget process moves forward, the Cal Strat team will continue to review budget trailer bill language and report any major findings.

Reserves

In the 2023-24 Budget Act, the state had a total of \$37.8 billion across its reserve accounts:

- Budget Stabilization Account (BSA) or Rainy-Day Fund – \$22.3 billion
- Public School System Stabilization Account (PSSSA) – \$10.8 billion
- Safety Net Reserve – \$900 million
- Special Fund for Economic Uncertainties – \$3.8 billion

The May Revision maintained the Governor's Budget withdrawal of the following:

- Approximately \$12.2 billion from the BSA.
 - o To spread out over two fiscal years
 - \$3.3 billion in FY 2024-25 and \$8.9 billion in FY 2025-26
- The complete balance of the Safety Net Reserve: \$900 million

The May Revision included withdrawals from the Public School System Stabilization Account – approximately \$8.4 billion – to maintain predictable support for local educational agencies and community college districts.

The Budget Act of 2024 includes the following reserve balances:

- Special Fund for Economic Uncertainties: \$3.5 billion
- Safety Net Reserve Fund: \$0
- Proposition 98 Reserve: \$1.05 billion
- Budget Stabilization Account (Rainy Day Fund): \$17.6 billion

The reserve balances for 2025-26 are as follows:

- Special Fund for Economic Uncertainties: \$1.5 billion
 - Safety Net Reserve: \$0
 - Proposition 98 Reserve: \$1.05 billion
 - Budget Stabilization Account (Rainy Day Fund): \$10.5 billion
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Early Care and Education

Child Care: The **May Revision** included the delay of the \$550 million investment for the California Preschool, Transitional Kindergarten (TK), and Full-Day Facilities Grant Program (FDK Program which resulted in a revenue gain of \$489 million in 2024-25 and \$951 million in 2025-26. The May Revision also adopted a delay of \$10 million for the Preschool Inclusion Grant Program.

Budget Act of 2024 – *The budget includes the following child care investments:*

- *Codifies the 2021-22 Budget Year agreement to grow the state-subsidized child care system by over 200,000 new children served, with a new 2028 goal timeline to reflect the May Revision “pause” proposal.*
- *Fully funds all 11,000 awarded expansion slots from existing child care appropriations and provides a GF offset for new ongoing \$48 million federal fund award, in addition to the May Revision offset proposals.*
- *Requires Department of Social Services reporting through January 2026 on the Alternative Methodology implementation progress, and requires a hold harmless policy in the Alternative Methodology to 2024-25 all child care and preschool rates, inclusive of one-time cost of care plus payments.*
- *Require annual reporting on proposed federal child care quality set-aside expenditure plan to be submitted to the Joint Legislative Budget Committee on or before May 14.*
- *Sweeps \$143 million GF and \$206.3 million Prop 98 in one-time State Preschool savings, as proposed in the May Revision.*
- *Eliminates the planned growth in the California State Preschool Program inclusive set-aside for the 2025-26 and 2026-27, capping the set-aside at 5%.*
- *Restores \$100 million for the Inclusive Early Education Expansion Program.*
- *Replaces the preschool Environmental Rating Scale with the Classroom Assessment Scoring System for transitional kindergarten classrooms.*
- *Expands California State Preschool Program eligibility to children ages 24 to 35 months, until 2027.*
- *Authorizes contract expansion streamlining for the Departments of Social Services and Education for child care and preschool awards to existing contractors.*

Health and Human Services

Medi-Cal Program: The May Revision proposal contemplates removing the 2022 triggers for several Medi-Cal programs, including eliminating funding for Continuous Eligibility for Children Aged 0-4.

Budget Act of 2024 - *Includes funding to implement 0-5 continuous Medi-Cal eligibility, effective January 1, 2026.*

Managed Care Organization (MCO) Provider Tax: The **May Revision** adopted a proposal from the January Budget which proposed a \$1.5 billion increase in total funding coming to the state under the recently enacted MCO tax. It was estimated to bring \$20.9 billion in total funding to the state. Per changes that were made to the MCO tax earlier this year, the January budget projected an additional \$3.8 billion being available to cover costs under the Medi-Cal budget. California Health and Human Services Secretary Dr. Mark Ghaly characterized these changes to the MCO Tax as merely moving dollars forward from out-years to fund this year's Medi-Cal obligations. Furthermore, the negotiated provider increases in last year's MCO tax deal with the Legislature would not be impacted by the January budget.

Additionally, the **May Revision** proposes an amendment to the MCO Tax to include health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax resulting in an additional net state benefit of \$689.9 million GF in 2024-25, \$950 million GF in 2025-26, and \$1.3 billion GF in 2026-27. Additionally, the May Revision reduces \$6.7 billion over multiple years from the Medi-Cal provider rate increases planned for January 1, 2025. The changes add an additional \$9.7 billion to the MCO Tax that will be used over multiple years to support the Medi-Cal program.

Budget Act of 2024 - *The Governor and legislature agreed to raise the MCO tax rate for Tier 2 Medi-Cal managed care plans—those with between 1.25M and 4M enrollees—from \$205 per enrollees to \$274 per enrollees. This will be applied for tax years 2024, 2025 and 2026. Assuming federal CMS approves this increase, the additional revenues will be used to fund the provider rate increases in 2025 and 2026, as well as other investments agreed to in the budget deal. This does not apply to Commercial plans or Medicare-only plans, just to Medi-Cal managed care plans.*

The final agreement preserves funding for existing provider rate increases adopted in the 2023-24 budget to begin January 1, 2024. Those provider rate codes will remain unchanged for 2025 and 2026. However, the legislature and Governor also agreed to expand the categories of providers and other entities receiving rate augmentations or funding, as follows:

- *Includes \$133 million in 2024-25, \$728 million in 2025-26, and growing to \$1.2 billion in 2026-27 for new targeted Medi-Cal provider rate increases and investments from the MCO Tax. This is in addition to the approximately \$300 million in provider rate increases that became effective January 1, 2024.*
- *Provides the following Medi-Cal rate increases, **effective January 1, 2025:***
 - *Abortion and Family Planning Services.*
 - *Physician Emergency Department Services.*
 - *Ground Emergency Transportation.*
 - *Air Ambulances.*
 - *Community-Based Adult Services.*
 - *Community Health Workers.*
 - *Congregate Living Health Facilities.*
 - *Pediatric Day Health Centers.*
- *Provides the following Medi-Cal rate increase, **effective January 1, 2026:***

- *Evaluation & Management Codes for Primary Care and Specialist Office Visits, Preventative Services, and Care Management (95 percent of Medicare).*
 - *Obstetric Services (95 percent of Medicare).*
 - *Non-Specialty Mental Health Services (87.5 percent of Medicare).*
 - *Vaccine Administration (87.5 percent of Medicare).*
 - *Vision (Optometric) Services (87.5 percent of Medicare).*
 - *Other Evaluation & Management codes (80 percent of Medicare).*
 - *Other Procedure Codes commonly utilized by Primary Care, Specialist, and ED Providers (80 percent of Medicare).*
 - *Federally Qualified Health Centers/Rural Health Clinics.*
 - *Private Duty Nursing.*
 - *Non-Emergency Medical Transportation.*
- *Includes funding to implement 0-5 continuous Medi-Cal eligibility, **effective January 1, 2026.***
 - *Contains language to make the rate increases in the budget inoperable if a measure on the November 2024 ballot related to Managed Care Organization taxes is approved.*
 - *Provides \$40 million in 2026-27 for Medi-Cal Workforce Pool, Labor Management Committees.*
 - *Reflects \$3.8 billion in General Fund savings from the extension of the MCO tax and the drawdown of reserve funds in the budget year, as adopted in Early Action.*

Equity and Practice Transformation Payments to Providers – The May Revision maintained \$70 million included in the 2022 Budget Act for one-time for grants to Medi-Cal providers for quality, health equity, and primary care infrastructure. However, the remaining \$280 million allocated for this program in future years was eliminated in the May Revision.

Budget Act of 2024 – *The legislature agreed to eliminate the remaining \$280 million in funding for this program, effectively eliminating the program altogether.*

Children and Youth Behavioral Health Initiative (CYBHI) Wellness Coach Benefit: The **May Revision** included cuts of \$72.3 million in 2023-24, \$348.6 million in 2024-25, and \$5 million in 2025-26, in programs relating to school-linked health partnerships, capacity grants to higher education, behavioral health supports platform, evidence-based and community defined grants, public education, and your suicide reporting and crisis response.

Budget Act of 2024 – *Reappropriations \$1 million of expenditure authority from the Mental Health Services Fund, previously authorized in the 2021 Budget Act, until June 30, 2026, to support the Mental Health Wellness Program. Includes provisional language to require wellness coaches use evidence-based best practices and sets goals for implementation of the program with reporting.*

Updated Timeline for Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Implementation: The **May Revision** adopted \$40.6 million total funds – \$762,000 GF – in 2024-25 for BH-CONNECT.

Budget Act of 2024 – Approves the Governor's May Revision Budget Bill Language Proposal: Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BHCONNECT) Reappropriation.

Delay Behavioral Health Continuum Infrastructure Program (BHCIP) Payments: The **May Revision** eliminated \$450.7 million one-time from the last round of the Behavioral Health Continuum Infrastructure Program. The May Revision, however, maintains \$30 million one-time in 2024-25.

Budget Act of 2024 – Delays General Fund expenditures for the Behavioral Health Continuum Infrastructure Program, using Proposition 1 funding instead in the budget year. The net result of this delay is \$326 million in the budget year and \$709.8 million in 2025-26.

Early Budget Action in June included the following: Delays \$140.4 million for Behavioral Continuum Infrastructure by one year, from 2024-25 until 2025-26.

Delayed Behavioral Health Bridge Housing (BHBH) Payments: The **May Revision** reduced \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for the Behavioral Health Bridge Housing Program but maintains \$132.5 million in 2024-25 and \$117.5 million – \$90 million Mental Health Services Fund and \$27.5 million General Fund – in 2025-26.

Budget Act of 2024 – Maintains the reductions included in the May Revision.

Third Party Billing for Schools: Adopts trailer bill language to allow school districts to use a third party for billing related to the Children and Youth Behavioral Health Initiative fee schedule. (adopted in Budget Act of 2024)

Proposition 56 (Prop 56) Funding Reduction: The **May Revision** adopted a reduction in funding for Prop 56 supplemental payments for physician services by \$193.4 million – \$77.1 million Prop 56 funding.

Budget Act of 2024 – Uses \$145.4 million in General Fund savings by using MCO tax revenue for the Proposition 56 backfill in lieu of General Fund. Eliminates the Proposition 56 Oral Health General Fund backfill, saving \$4.6 million per year. Lastly, the budget approves the May Revision proposal to cut \$13.5 million ongoing General Fund to backfill lowered Proposition 56 funds to support graduate medical education.

California Food Assistance Program – The May Revision delays for two years the California Food Assistance Program expansion to begin in 2026-27 with benefits beginning in 2027-28.

Budget Act of 2024 – Maintains the two-year delay that was included in the May Revision.

Other Health and Human Services investments in the Budget Act of 2024 include:

- *Delays implementation of required wage increases for health care workers (SB 525, 2023) until one of two conditions are met: 1) state cash receipts during the first quarter of the fiscal year exceed 3% of the projected revenues, or 2) the Department of Health Care Services begins data collection necessary to implement a January 1, 2025, Hospital Quality Assurance Fee waiver with the federal government.*
- *Includes an appropriation of \$115 million per year for supplemental payments to Children's Hospitals, effective July 1, 2024.*
- *Suspends the County Medi-Cal Cost of Doing Business increase for counties until 2027-28 budget year.*
- *Subject to appropriation, the budget requires CDPH develop a Syndromic Surveillances System that would allow medical providers and hospitals to access, post and share data related to potential disease outbreaks.*
- *Requires CDPH to develop a system for online shopping and food delivery for eligible recipients of California Special Supplemental Nutrition Food Program for Woman, Infants and Children (WIC).*

Developmental Services

Provider Rate Increase Delay: The May Revision adopted a return to full implementation of service provider rate reform – \$1 billion total funds (\$612.5 million GF) – to the original timeline of July 1, 2025.

Budget Act of 2024 - *Reduces proposed 12-month delay of Developmental Services rate increase to six months, resulting in the rate increase starting in January 1, 2025.*

Preschool Inclusion Grants: The **May Revision** eliminated the requirement at California State Preschool Programs (CSPP) service at least 10% of students with disabilities by 2026-27 but retains the requirement that providers service at least 5% of students with disabilities. This policy changes saves \$47.9 million in 2025-26 and \$97.9 million in on-going started in 2026-27.

Budget Act of 2024 – *The Early Action Budget Agreement delayed funding of \$10 million annually for Preschool Inclusion Grants to 2026-27, which were intended to enable preschool programs to include more children with exceptional needs. The budget eliminates the planned growth in the California State Preschool Program inclusive set-aside for the 2025-26 and 2026-27, capping the set-aside at 5%.*

Master Plan for Developmental Services: The May Revision adopted a proposal included in the January budget which directed the Department of Developmental Services (DDS) to Master Plan for Developmental Services to establish a more quality-

driven and consumer-friendly experience for individuals and families receiving developmental services.

Budget Act of 2024 – Requires the Secretary of California Health and Human Services, in coordination with DDS, to lead the development of the implementation of the master plan for developmental services. Requires the Secretary to solicit input from individuals with intellectual and developmental disabilities and their families, professionals in the developmental services field, and a broad range of subject matter experts. Requires the Secretary and DDS to submit an initial report of the master plan to the Legislature and Governor by March 15, 2025. Requires the Secretary and DDS to work with various state agencies and departments to implement the master plan. Requires the Secretary to submit regular master plan updates to the Governor and Legislature beginning March 15, 2026.

Department of Social Services

CalWORKs: The **May Revise** reduced \$47.1 million ongoing for the CalWORKs Home Visiting Program as well as \$126.6 million ongoing from CalWORKs Mental Health and Substance Abuse Services.

Budget Act of 2024 – Adopts the CalWORKs Home Visiting Programs reduction of \$30 million in 2023-22, and temporarily reduces up to \$25 million in 2024-25 and 2025-26 to more closely align to actual program utilization. The budget also adopts the CalWORKs Mental Health and Substance Abuse Services reduction of up to \$30 million in 2023-24, up to \$37 million in 2024-25, and up to \$26 million in 2025-26 to more closely align to actual program utilization.

Bringing Families Home and Housing Support Program: The **May Revision** extended the expenditure deadline to June 30, 2025, for the one-time funding for the Bringing Families Home (BFH) and Housing Support Program (HSP).

Budget Act of 2024 - Modifies the Governor's revised proposal for the Bringing Families Home Program, accepting the \$80 million delay to 2025-26 and then reducing the amount by \$40 million in 2025-26 and moving this \$40 million into 2026-27, broadening the timeline for the delay. Includes trailer bill to modify extend local match exemption through 2027 for any remaining amount of funds for this purpose.

Rejects the Governor's May Revision reduction, of \$65 million GF for the Home Safe Program. Approves trailer bill language to extend the match waiver for the funds. Reappropriates up to \$92.5 million GF from 2022-23 to be available for encumbrance or expenditure until June 30, 2026.

Approves the Governor's trailer bill: Data Sharing to Quantify the Impacts of the Safety Net on the Whole Californian with modifications to include intent language about reporting of state information on housing instability and homelessness for families served by safety net programs, including the CalWORKs program.

Foster Care Rate Reform: The **May Revision** proposed a statutory trigger to implement the new rate structure based on available General Funds in spring 2026.

Budget Act of 2024 – *Establishes the Tiered Rate Structure, beginning July 1, 2027. Establishes an entry rate for new entries into foster care. Provides CDSS with the authority to implement the Tiered Rate Structure via written guidance until the adoption of regulations, no later than January 1, 2030.*

Eliminate the Los Angeles County Child Welfare Services Public Health Nursing Program with a reduction of \$8.3 million GF in 2024-25 and on-going. Additionally reverts \$7.25 million of unspent funds from the current fiscal year to the GF.

Environment

Outdoor Equity Grants: The **May Revision** reduced \$50 million one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program. Approximately \$40 million has already been committed for this purpose.

Budget Act of 2024 - *Cuts \$75 million from the Outdoor Equity Grants Program.*

Vulnerable Community Toxic Clean-up: The **May Revision** reduces \$136 million in 2023-24 – \$268.5 million over four years – for the Department of Toxic Substances Control’s Cleanup in Vulnerable Communities Initiative Program. By shifting funds to the Greenhouse Gas Reduction, the May Revision maintains \$65 million – \$107.5 million over three years – for this program.

Budget Act of 2024 - *Appropriates \$553.9 million from the General Fund, Greenhouse Gas Reduction Fund, and Toxic Substances Control Account, and revises the allocation period over 2021–22, 2022–23, 2023–24, 2024–25, and 2026–27 fiscal years for specified activities, such as discovery, cleanup, and investigation of contaminated properties.*

Other Environmental investments in the Budget Act of 2024 include:

- *Restores but delays until 25-26 \$10 million for Redondo Beach Wetlands Restoration*
- *Cuts \$19.9 million GF from the Urban Greening Program (Extreme Heat Package)*
- *Approves \$165,000 for YMCA of Metropolitan Los Angeles, North Valley YMCA Renovations.*
- *Provides \$152,000 from available California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection (Proposition 40) bond funds (Public*

Resources Code Section 5096.610(a)) for the working drawing phase of the continuing R.H. Meyer Memorial State Beach: Parking Expansion, Facility and Site Modifications project in Los Angeles County.

- *Provides \$14,928,000 one-time from the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Fund (Proposition 40) to address deferred maintenance projects and/or other bond eligible projects that are deemed critical to the mission and goals of the Department.*
-