



To: CHEAC General Membership

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RE: Governor’s 2023-24 May Revision

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Overview

Today, Governor Gavin Newsom released his May Revision to the 2023-24 proposed budget, reflecting a total budget of \$306 billion (\$224 billion General Fund). Despite the increased total budget, the projected budget deficit also increased since January from \$22.5 billion to \$31.5 billion. While the May Revision does not project a recession, it outlines several increased risks to the budget that could change the fiscal trajectory of the state in the near term. The risks include economic fallout from the federal debt limit impasse, the increased interest rates by the Federal Reserve in early May, uncertainty in financial institutions, and delayed tax receipts.

To balance the shortfall, the May Revision includes a range of budget solution strategies. These include additional spending reductions and pullbacks across fiscal years 2021-22 through 2023-24, maintenance of most of the trigger reductions proposed in January, delays in planned spending, shifts from General Funds to other funds, new revenues from the MCO tax and borrowing from additional special funds, and a withdrawal from the Safety Net Reserve.

Relative to budgetary reserves, the May Revision includes \$37.2 billion in reserve savings that include:

- \$22.3 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund), bringing the account to its constitutional maximum, requiring \$2.3 billion to be dedicated to infrastructure investments;
- \$10.7 billion in the Public School System Stabilization Account;
- \$450 million in the Safety Net Reserve; and
- \$3.8 billion in the state's operating reserve.

Additional proposals of interest are highlighted below. **As a reminder, the May Revision only includes proposals that have changed since January.** If the May Revision is silent on a January budget proposal, it means that proposal still stands. The CHEAC January Budget Memo can be referenced [here](#).

Public Health Workforce Development and Training

Future of Public Health. The Governor's May Revision maintains the \$300 million ongoing General Fund investment to modernize and strengthen state and local public health infrastructure and workforce. \$200 million General Fund remains available to local health departments for public health staffing, with the remaining \$100 million General Fund available to the California Department of Public Health (CDPH) on an annual basis.

The Administration notes that over 800 new public health staff were hired at state and local levels over the past year, with hundreds more positions actively under recruitment. CDPH has also established new systems to strengthen department capacity to address current and emerging public health issues, including the CDPH Office of Policy & Planning and the Regional Public Health Office, according to the Administration.

Public Health Workforce Development & Training Programs. CHEAC is pleased to report that the Governor's May Revision Budget rescinds the Administration's January proposal to cut \$49.8 million in funding for public health workforce development and training programs. Recall, CHEAC secured \$75.6 million in Public Health Equity & Readiness Opportunity (Public HERO) Initiative through the 2022 Budget Act. The Governor in January proposed to slash this one-time investment by nearly \$50 million; however, his May Revision restores the funding to those programs.

Public HERO investments are detailed below. CHEAC and the California Can't Wait Coalition [applaud the Newsom Administration](#) for restoring the funding to support California's critical public health workforce.

Investment	2022-23 Enacted Budget Agreement	2023-24 January Budget Proposal	2023-24 May Revision Proposal
Waive Public Health Nurse Certification Fees (3 years)	\$9,999,000	Maintained	Maintained
California Public Health Pathways Training Corps (3 years)	\$24,000,000	\$15.8 million maintained in FY 2022-23 across these five programs; \$49.8 million in outyear	\$24,000,000
Incumbent Worker Upskill Training (4 years)	\$12,800,000		\$12,800,000

Investment	2022-23 Enacted Budget Agreement	2023-24 January Budget Proposal	2023-24 May Revision Proposal
California Microbiologist Training (3 years)	\$9,600,000	resources proposed for state reversion	\$9,600,000
California Lab Aspire (3 years)	\$9,600,000		\$9,600,000
California Epidemiologic Investigation Services (Cal-EIS) Training (3 years)	\$9,600,000		\$9,600,000

COVID-19

COVID-19 Ramp-Down. The Governor's May Revision proposal discusses the ramp down of COVID-19 response efforts upon the expiration of federal and state emergency declarations. The Administration notes that CDPH will continue to rely on science and data to ramp down response activities while maintaining a steady state of emergency preparedness. The Administration indicates that many response activities will be integrated into the health care delivery system, and recent investments in public health infrastructure will serve as the foundation for improving the state's response to future public health emergencies.

2023-24 COVID-19 Response. The Newsom Administration proposes to reduce resources for COVID-19 response by \$50 million General Fund in the upcoming fiscal year. These funds were intended as a contingency for unanticipated COVID-19 response activities, and the reduction is driven by a ramp down of emergency response activities throughout the state, consistent with the end of emergency declarations due to COVID-19. The May Revision maintains \$51.3 million General Fund to continue to support California's vulnerable communities.

Realignment

1991 Realignment. The Governor's May Revision projects state sales tax and vehicle license fees to increase by 3.1 percent from 2021-22 to 2022-23 and 0.1 percent from 2022-23 to 2023-24. 1991 Realignment estimates included in the Governor's budget proposal can be [viewed here](#).

AB 85 1991 Realignment Diversions. The Governor's May Revision updated the estimated redirection for 2023-24 budget proposal. It now estimates \$689.5 million will be redirected in 2023-24, which is an increase from \$675.1 million estimated in January. No update to the estimated net true-up for 2020-21 was provided at May Revision; the Department of Finance (DOF) is anticipated to issue these figures this summer. The January budget estimates a net true up of \$22.9 million.

As a brief background, after the passage of the Affordable Care Act and Medi-Cal expansion, the State anticipated counties would be spending less on indigent care, given more individuals would qualify for insurance through Medi-Cal or Covered California. Under this assumption, the State enacted AB 85 (Chapter 24, Statutes of 2013), which diverted health realignment dollars from the counties to the State. The State diverted either: 1) 60 percent of health realignment funding received in a given year; or 2) a specified amount of health realignment funding based on a formula that considered county revenues and costs. The State estimates the redirection in the Governor's January budget proposal and updates those revisions in the May Revision.

AB 85 includes a true-up mechanism two years after the close of the fiscal year to determine what the actual county diversion should have been, based on updated county data.

The county-by-county 2023-24 interim redirection figures are [available here](#).

Public Health Programs

Maternal, Child, and Adolescent Health (MCAH) Federal Match. The Governor's May Revision includes \$28.3 million in 2022-23 and \$102.9 million in 2023-24 in federal matching funds to be provided to CDPH for Maternal, Child, and Adolescent Health Programs, including Black Infant Health, Comprehensive Perinatal Services Program and Prenatal Care Guidance, Adolescent Family Life Program, and the California Home Visiting Program. CHEAC will engage with CDPH and the Department of Health Care Services (DHCS) to better understand how local health departments can leverage those federal funds in the administration of those programs.

Childhood Lead Poisoning Prevention Program (CLPPP). The Administration's May Revision seeks an increase of two positions and \$9.7 million in expenditure authority of the Childhood Lead Poisoning Prevention (CLPP) Fund. \$9.5 million in Local Assistance is anticipated to provide services to children with blood lead levels that meet or exceed the updated blood lead reference value and support new primary prevention activities required by the CLPPP 2023-26 Scope of Work.

AIDS Drug Assistance Program (ADAP) Estimate. The Newsom Administration anticipates a decrease of \$68.2 million in Local Assistance, including a decrease of \$582,000 in the Federal Trust Fund and a decrease of \$67.7 million in the ADAP Rebate Fund, in 2022-23. For 2023-24, CDPH anticipates a decrease of \$42.1 million in Local Assistance, including a decrease of \$583,000 in the Federal Trust Fund and a decrease of \$42.7 million in the ADAP Rebate Fund. The decreases are primarily due to lower medication expenditures and premiums than previously estimated as clients transition to Medi-Cal through recent expansion policies.

ADAP Rebate Fund. The Governor's May Revision proposes a loan of \$400 million from the AIDS Drug Assistance Program Rebate Fund to the General Fund as a solution to address the state's budget problem. A budgetary loan for the ADAP Rebate Fund is proposed from idle resources not required for currently projected operational or programmatic purposes.

Proposition 99 Health Education Account. The May Revision reflects an increase of \$5.3 million in Proposition 99 Health Education Account, including an increase of \$3.4 million in State Operations and an increase of \$1.9 million in Competitive Grants (Local Assistance) as a result of updated Proposition 99 revenue projections. This increase includes \$1.4 million in Media Campaign, \$1.9 million in Competitive Grants (Local Assistance), and \$1.2 million in Evaluation (State Operations), as well as a decrease of \$425,000 in Competitive Grants (State Operations).

Proposition 56 State Dental Program. The May Revision reflects a decrease of \$817,000 in State Dental Program Account Local Assistance as a result of updated Proposition 56 revenue projections. The funds support the state dental program, including local oral health programs throughout the state.

Proposition 56 Tobacco Prevention & Control Programs. The May Revision reflects a decrease of \$5.8 million in Tobacco Prevention and Control Programs, including a decrease of \$7.6 million in State Operations and an increase of \$1.8 million in Local Assistance based on updated revenue projections. This adjustment includes a decrease of \$800,000 in State Administration, \$4.6 million in Media Campaign, \$3.25 million in Competitive Grants (State Operations), \$125,000 in Competitive Grants (Local Assistance), and an increase of \$1.9 million in Local Lead Agencies, and \$1.1 million in Evaluation. These resources support California's comprehensive statewide tobacco control program.

WIC Program. The Newsom Administration anticipates increases in the WIC program for the current and upcoming fiscal years. For 2022-23, the May Revision reflects an increase of \$16.2 million in food expenditures, including an increase of \$36.6 million in the Federal Trust Fund and a decrease of \$20.4 million in the WIC Manufacturer Rebate Fund. For 2023-24, the May Revision reflects an increase of \$59.7 million in WIC food expenditures, including an increase of \$64.3 million in the Federal Trust Fund and a decrease of \$46 million in the WIC Manufacturer Rebate Fund. These overall increases are driven by an increase in the estimated cost for the fruit and vegetable benefit increase, an increase in participation projections, and increases in food inflation.

Medi-Cal & Health Care Programs

California Children's Services (CCS) Program. The Governor's May Revision reflects an anticipated caseload increase in the CCS Program, largely as a result of the unwinding of the COVID-19 public health emergency (PHE). DHCS notes that CCS enrollees began shifting into Medi-Cal in late 2019-20 due to the PHE and continued to shift into Medi-Cal through the end of 2020-21. Updated caseload projections reflect the resumption of Medi-Cal eligibility redeterminations and assume an earlier return to state-only CCS compared to previous estimates.

CCS Whole Child Model Expansion Proposal. The Governor's May Revision updates its previous proposal to expand the CCS Whole Child Model (WCM) into additional counties by removing the three Single Plan counties – Alameda, Contra Costa, and Imperial – from its WCM implementation proposal. The WCM expansion proposal now includes only jurisdictions that will be transitioning to a County Organized Health System (COHS) model, including those moving to Partnership Health Plan and Central California Alliance for Health.

Medi-Cal Estimates. Medi-Cal caseload estimates are anticipated to continue to grow through June 2023, consistent with the resumption of Medi-Cal redetermination activities. The May Revision reflects Medi-Cal expenditures of approximately \$135.4 billion (\$30.9 billion General Fund) in 2022-23, which is \$1.4 billion General Fund lower compared to the January budget. The decrease is due primarily to revised implementation updates of the Child & Youth Behavioral Health Initiative, the Behavioral Health Continuum Infrastructure Program, and the Behavioral Health Bridge Housing Program.

For the upcoming fiscal year (2023-24), the May Revision projects Medi-Cal expenditures of \$151.2 billion (\$37.6 billion General Fund). This reflects an increase of \$6.7 billion General Fund compared to revised 2022-23 expenditures. The increase is primarily due to increases in state-only populations, assumed loss of increased federal funding due to the end of the COVID-19 PHE, and implementation of Medi-Cal expansion to undocumented adults ages 26-49.

Managed Care Organization (MCO) Tax. The Newsom Administration continues to propose a renewal of the Managed Care Organization (MCO) tax, but pushes up the effective date to April 1, 2023, through December 31, 2026. Recall, the January budget proposal set the MCO tax effective date to January 1, 2024. This proposal is now anticipated to result in \$19.4 billion in funding to support the Medi-Cal program and its services. By moving up the effective date of the tax, California is anticipated to realize increased revenues not previously accounted. To accomplish this, however, California must submit its MCO tax proposal to the U.S. Centers for Medicare & Medicaid Services (CMS) by June 30, 2023.

The Administration proposes to allocate MCO tax revenues across the following:

- **Medi-Cal Program Support:** \$8.3 billion of the total anticipated \$19.4 billion is proposed to support net General Fund offset to support the Medi-Cal program and achieve a balanced budget. The May Revision includes \$3.4 billion in net General Fund offset on a cash basis in 2023-24, which reflects an additional \$2.5 billion compared to the Governor's January Budget by moving up the effective date of the tax to April 1, 2023.
- **Provider Rate Increases:** Of the remaining \$11.1 billion, the Newsom Administration proposes to support investments to improve access, quality, and equity in the Medi-Cal program over the next decade. Effective January 1, 2024, the May Revision proposes \$237 million (\$98 million General Fund) in 2023-24 and \$580 million (\$240 million General Fund) annually thereafter to increase rates to at least 87.5 percent of Medicare rates for primary care, maternity care (including doula services), and non-specialty mental health services. This amount is inclusive of the Governor's January budget proposal to increase rates as a condition of federal approval of the Designated State Health Program (DSHP). These rate increases will include the elimination of the historical AB 97 reduction and account for Proposition 56 supplemental payments for applicable services. DHCS will direct Medi-Cal managed care plans to pay providers at least the base Fee-for-Service (FFS) rates including in capitated provider arrangements.
- **Set Aside for Future Investment:** The May Revision sets aside the remaining \$10.3 billion, including \$922.7 million in 2023-24, for future consideration during next year's state budget process. According to DHCS, the Administration will explore additional augmentations to various providers to support equitable service delivery to residents enrolled in Medi-Cal. DHCS is anticipated to return with a proposed set of investments and augmentations to be detailed in the Governor's January budget for fiscal year 2024-25.

Distressed Hospital Loan Program. The May Revision includes up to \$150 million one-time General Fund over the 2022-23 and 2023-24 fiscal years for the Distressed Hospital Loan Program. The program intends to provide interest-free cashflow loans to not-for-profit hospitals and public hospitals in significant financial distress or to governmental entities representing a closed hospital facility. Funding from the program is from statewide General Fund savings at the May Revision and will not require new spending above the Governor's January budget. Recall, the California Senate and Assembly last week approved and sent to Governor Newsom [AB 112](#) as an early action budget item to establish the Distressed Hospital Loan Program.

Medi-Cal Expansion to Undocumented Residents. The Governor's May Revision maintains \$1.4 billion (\$1.2 billion General Fund) in 2023-24 and \$3.4 billion (\$3.1 billion General Fund) at

full implementation, including of In-Home Supportive Services (IHSS) costs, to expand full-scope Medi-Cal eligibility to all income-eligible adults ages 26-49, regardless of immigration status, effective January 1, 2024.

The May Revision reflects increased spending of \$1.6 billion General Fund in 2023-24 and \$2.4 billion General Fund annually compared to the Governor's January budget to support the state's two most recent coverage expansions to undocumented adults ages 50 and over, as well as the forthcoming expansion to undocumented adults ages 26-49. According to DHCS, these increases are a result of updated managed care rates, higher shares of state-only costs, higher caseloads due to the COVID-19 continuous coverage requirement, and higher acuity of members based on actual experience.

CalRx Reappropriation. The Governor's May Revision includes a \$2 million one-time General Fund reappropriation from the Capital Infrastructure Security Program and allows the use of these funds for reproductive health care purposes, if necessary. These funds are available from the one-time \$20 million General Fund Capital Infrastructure Security Program enacted through the 2022 Budget Act. This proposal includes statutory changes to provide flexibility for the CalRx Program to procure various pharmaceutical products, such as Mifepristone or Misoprostol, to address urgent and emerging reproductive health care needs.

Safety Net Reserve Drawdown. The Governor's May Revision assumes the Safety Net Reserve is used to support health and social services programs in 2023-24, resulting in savings of \$450 million General Fund in 2023-24. Drawing down \$450 million from the Safety Net Reserve will leave approximately \$450 million remaining in the account.

HCBS Spending Plan Extension. The Governor's May Revision reflects an update to the Home- and Community-Based Services (HCBS) spending plan timeline for certain initiatives included in the state's spending plan. These timeline updates will allow for additional time to fully expend funds and complete initiative objectives. Initiatives with an extended implementation timeframe include those in the Department of Aging, Department of Social Services, Department of Developmental Services, and Department of Health Care Services.

Doula Services Implementation Evaluation. The Newsom Administration proposes to extend the timelines for the state's doula services workgroup to examine the implementation of the doula benefit in the Medi-Cal program from April 1, 2022, until December 31, 2023, to April 1, 2023, until June 30, 2025. This modification would align implementation of the benefit with the associated evaluation report and sunset date.

Medical Interpreter Pilot Program. DHCS proposes to extend expenditure authority for the Medical Interpreter Pilot Project for a period of 12 months from June 30, 2024, to June 30, 2025. The inoperative date of the program would also be extended by one year.

Substance Use Disorders

Opioid & Fentanyl Response. The Governor's May Revision proposes an additional \$141.3 million in Opioid Settlement Funds over the next four years to DHCS to support the Naloxone Distribution Project, for a total of \$220.3 million over four years.

Additionally, the May Revision proposes \$30 million in one-time Opioid Settlement Funds in 2023-24 to support the development of a lower cost, generic version of a naloxone nasal spray product through the CalRx Naloxone Access Initiative within the Department of Health Care Access & Information (HCAI). This CalRx partnership, according to the Administration, will enable the state to make naloxone more accessible statewide.

Climate Health

Extreme Heat & Community Resilience. The Newsom Administration continues to prioritize climate change-related investments, including those related to extreme heat and community resilience. The Newsom Administration further indicates its commitment to engaging the Legislature in pursuing a climate bond over the coming months. Due to lower than anticipated revenue projections and an increasing budget problem, the May Revision includes \$1.1 billion in funding shifts to a future climate bond proposal.

The May Revision maintains \$444 million (68 percent) in investments over multiple years and programs and projects to address the threats of extreme heat. Additionally, the May Revision maintains \$1.6 billion (85 percent) in investments over multiple years in programs to promote community resilience, including established Community Resilience Centers and sheltering during natural disasters and events.

Other Programs & Initiatives

HHS Innovation Accelerator Initiative. The Governor's May Revision augments by \$9 million General Fund (\$10 million in total) for California Health & Human Services Agency's (CalHHS) HHS Innovation Accelerator Initiative. The initiative seeks to establish new public-private partnerships to create the environment for researchers and developers to create solutions to the greatest health challenges facing residents, including diabetes-related morbidity and mortality, addressing disparities in maternal and infant morbidity and mortality, and preventing and mitigating infectious disease.

Southern Border Response Efforts. The Newsom Administration discusses its extensive investments and activities to support humanitarian efforts at California's southern border with Mexico, especially in light of the expiration of the federal Title 42 rule. With the end of the COVID-19 emergency, the Administration proposes to transfer funding for border operations from CDPH to the California Department of Social Services. The May Revision includes a one-time investment of \$150 million General Fund in 2023-24 for the Rapid Response Program for continued humanitarian efforts in partnership with local jurisdictions and service providers.

The Administration, pointing to the federal government who is responsible for immigration policies, expresses its support for a permanent federal investment by Congress for migrant sheltering operations and immigration processing.

California Food Assistance Program (CFAP). The Newsom Administration proposes a \$40 million one-time General Fund augmentation for automation and outreach efforts related to the CFAP expansion to income-eligible individuals ages 55 and older, regardless of immigration status. The January budget indicated the program may begin issuing food benefits in January

2027. Automation of systems is anticipated to begin in July 2023, and food benefits are now anticipated to begin in October 2025.

Firearm Buy-Back Program. The 2022 Budget Act established \$25 million General Fund local law enforcement gun buyback grant program, seeking to reduce firearm violence. The Newsom Administration expresses concerns with the continued increase in firearm-related morbidity and mortality both in California and the U.S. and indicates the nature of the competitive grant program is not conducive to addressing gun violence. Therefore, the Administration proposes to reallocate the \$25 million to the Office of Emergency Services (OES) to work directly with local law enforcement agencies to expedite targeted, coordinated gun buyback efforts.

Cannabis. The May Revision estimates \$567.4 million will be available for its “Allocation 3” programs using cannabis tax revenues. The \$567.4 million includes \$150 million General Fund to backfill estimated declines in revenue. This amount reflects a total decrease of \$102.2 million from the Governor’s January budget. Revenues are proposed to be allocated as follows:

Account	2023-24 January Budget Proposal	2023-24 May Revision Proposal
Education, prevention, and treatment of youth substance use disorders and school retention (60 percent)	\$401.8 million	\$340.4 million
Clean up, remediation, and enforcement of environmental impacts (20 percent)	\$133.9 million	\$113.5 million
Public safety activities (20 percent)	\$133.9 million	\$113.5 million

Budget Resources

Budget Background:

For additional information on the state budget process, we encourage CHEAC Members to view the California Budget & Policy Center (CBPC) “Dollars & Democracy: A Guide to the State Budget Process.” This primer provides a succinct overview of key processes, dates, and participants in the California state budget. The resource can be [viewed here](#).

Budget Links:

Governor’s 2023-24 May Revision: <http://www.ebudget.ca.gov/>

Governor’s May Revision Press Release: <https://www.gov.ca.gov/2023/05/12/governor-newsom-releases-balanced-revised-budget-plan/>

Governor’s Presentation Video: <https://www.youtube.com/watch?v=ZbEZKZzZmNw>

Governor’s Presentation Slides: <https://cheac.org/wp-content/uploads/2023/05/2023-34-May-Revise-Slides-FINAL.pdf>

CDPH Governor's May Revision Budget Highlights:

https://www.cdph.ca.gov/Documents/CDPH-2023-24_MR-Highlights_5-12-23.pdf

DHCS Governor's May Revision Budget Highlights:

<https://www.dhcs.ca.gov/Documents/Budget-Highlights/DHCS-FY-2023-24-MR-Highlights.pdf>

Assembly Highlights of Governor's May Revision Budget:

<https://abgt.assembly.ca.gov/sites/abgt.assembly.ca.gov/files/Highlights%20of%20Governors%20Proposed%202023-24%20May%20Revision.pdf>

Next Steps. Beginning next week, the Legislature will convene hearings to review new and updated proposed budget items included in the May Revision. The Constitutional deadline for the Legislature to pass the budget is June 15. CHEAC Staff will continue to keep Members apprised of significant budget-related activities during this time.

Questions. For questions on the items highlighted above or other budget-related inquiries, please feel free to contact your CHEAC Staff via email.