



To: CHEAC General Membership

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Date: April 11, 2024

RE: Early Action Budget Package (AB 106)

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## Overview

Late last week, the Governor and Legislature announced agreement on an Early Action Budget Package to reduce the shortfall by roughly \$17 billion through a various solutions including reductions (\$3.6 billion), revenue/borrowing (\$5.2 billion), delays (\$3.1 billion), fund shifts (\$3.4 billion) and deferrals (\$2.1 billion). The agreement represents about two-thirds of the budget solutions (excluding reserves) that the Governor proposed in January as the shortfall is estimated at \$38 to \$73 billion.

The agreement includes a requirement for the Director of Finance to submit a letter to the Joint Legislative Budget Committee to memorialize elements of the early action package, including 2024-25 items that cannot be reflected in the April 2024 “Budget Bill Jr.” and legislative intent to use rainy day funds in 2024 consistent with the Governor’s January proposal. The letter should also reflect the intent of the Legislature to avoid using all reserves and leave a substantial amount after 2024. The early action can be modified, changed, or added to as the revenue picture changes.

This memo highlights specific actions of interest to CHEAC Members and California local health departments:

## Public Health Programs

**Clinical Dental Rotations Shift.** Approves the Governor’s budget proposal to shift of \$9.7 million General Fund to the Proposition 56 State Dental Program Account for clinical dental rotations for 2023-24. According to the Administration, clinical dental rotations are consistent with the State Dental Program Account’s allowable activities. The Governor’s January Budget proposed shifting these funds to the State Dental Program Account on an ongoing basis. The early action agreement addresses the current fiscal year only; shifts in out-years are anticipated to be included in the final budget agreement this summer.

**ADAP Rebate Fund Loan.** Approves the proposed budgetary loan of \$500 million from the ADAP Rebate Fund to the General Fund with agreement for new program commitments from available funds as part of the 2024 Budget Act. The Governor’s January budget proposal did not project funds to be used for operational or programmatic purposes.

## COVID-19

**COVID-19 Website.** Approves the Governor’s January budget proposal to eliminate \$900,000 General Fund each in 2023-24 and 2024-25, for a total of \$1.8 million, for the security and maintenance of the state’s COVID-19 website.

**CDCR COVID-19 Current Year Savings.** Approves the Governor’s January budget proposal to revert \$38.8 million General Fund from the Department of Corrections and Rehabilitation in 2023-24 to reflect current year savings for COVID-19 prevention, mitigation, and response activities.

## Climate Health

**Climate & Health Surveillance Program.** Approves the Governor’s January budget proposal to revert \$3.1 million in General Fund State Operations in 2023-24 for the Climate and Health Surveillance Program. This reversion, per CDPH, is due to anticipated savings from the program.

**Regional Climate Collaboratives.** Approves the Governor’s budget proposal to revert \$9.8 million General Fund for Regional Climate Collaboratives Program at the Strategic Growth Council within the Office of Planning and Research. Despite this reversion, the budget retains the \$10 million previously allocated to this program.

**Climate Adaptation and Resilience Planning Grants.** Approves the Governor’s budget proposal to reduce \$5 million General Fund in 2023-24 for the Climate Adaptation and Resilience Planning Grants program at the Office of Planning and Research. Despite this reversion, the Administration noted in the January budget proposal that the \$20 million (\$10 million already

committed and \$10 million uncommitted) previously allocated to this program will remain available. The program is intended to fill local, regional, and tribal planning needs relative to climate resilience and infrastructure readiness.

## Medi-Cal & Health Care Programs

**Managed Care Organization (MCO) Tax.** In addressing the state’s significant budget deficit, the Legislature passed, and Governor Gavin Newsom signed into law [SB 136](#) (Chapter 6, Statutes of 2024) in March 2024. The measure authorized amendments to the state’s existing managed care organization (MCO) tax that was initially approved as part of the 2023 Budget Act.

SB 136 increased the tax amount imposed on MCOs for the duration of the operative period of the tax through December 31, 2026. The increased MCO tax is anticipated to bring in approximately \$1.5 billion in new revenue through 2026 to help the state maintain and improve the Medi-Cal program.

The MCO tax is scored as an early budget action as increased revenues from the tax are anticipated to help address the state’s budget problem. Additional discussions related to the MCO tax and distribution of its revenues are anticipated to occur over the coming months leading up to the final 2024 Budget Act this summer.

**Medi-Cal Drug Rebate Fund Reserve Reduction.** Approves the Governor’s proposal to shift \$162.7 million (\$135.1 million in 2023-24 and \$27.6 million in 2024-25) in Medi-Cal Drug Rebate Special Fund to the General Fund. Typically, DHCS targets a reserve of approximately \$220 million in the Medi-Cal Drug Rebate Fund to cushion against drug rebate collection volatility that would otherwise be deposited in the state General Fund. The early action allows the full amount of projected drug rebate collections to flow to the General Fund, instead of maintaining rebate transfers at the 2023-24 levels.

**Managed Care Fund Loan.** Approves the Governor’s budget proposal to utilize a \$22.9 million budgetary loan from the Managed Care Fund to the state General Fund for 2024-25 from resources not currently projected to be used for operational or programmatic purposes.

## Behavioral Health

**Behavioral Health Continuum Infrastructure Program.** Approves the Governor’s budget proposal to delay \$140.4 million from 2024-25 to 2025-26, for a total of \$380.7 million for the final round of [Behavioral Health Infrastructure Program](#) grants in 2025-26.

**Behavioral Health Bridge Housing.** Approves the Governor’s January budget proposal to delay \$235 million General Fund originally planned for 2024-25 to 2025-26.

## Other Programs & Initiatives

**HHS Accelerator Initiative.** Approves the Governor’s budget proposal to delay \$74 million General Fund for the Health and Human Services Innovation Accelerator Initiative approved in the 2023 Budget Act until 2025-26. Recall, the 2023 Budget Act provided \$42 million in 2023-24 and \$32 million in 2024-25 in one-time General Fund to CalHHS to address major health challenges, such as the diabetes-related morbidity and mortality, disparities in maternal and infant mortality, and preventing and mitigating infectious disease.

**Healthier at Home Pilot Reversion.** Approves the Governor’s budget proposal to revert \$11.9 million General Fund in 2023-24 for the Healthier at Home Pilot Program at the California Department of Aging (CDA), canceling the pilot. Recall, \$12.5 million was included in the 2022 Budget Act to establish and evaluate aging in place pilots in Contra Costa, Fresno, Orange, Riverside, Sacramento, San Diego, Shasta, and Sonoma counties through the deployment of community health workers and registered nurses.

**Office of Community Partnerships and Strategic Communications.** Approves the Governor’s budget proposal to revert \$5 million in 2023-24 and reduce \$8 million in 2024-25. The budget maintains \$60 million in 2023-24 and \$57 million in 2024-25 and 2025-26 to continue the Office’s work. Recall, the Newsom Administration established the Office of Community Partnerships and Strategic Communications within the Governor’s Office of Planning and Research (OPR) as part of the 2022 Budget Act to support public awareness and community engagement campaigns related to COVID-19, weather-related climate impacts, and other priority topics.

## Related Bills

Budget and Trailer bills of interest to local health departments are detailed below:

2024-25 Budget Bills of Interest		
Early Action Budget Bill Jr. (Budget Acts of 2022 & 2023)	<a href="#">CHEAC Summary</a>	<a href="#">AB 106</a>
Managed Care Organization Tax		<a href="#">SB 136</a>
<i>Updated as of April 11, 2024</i>		

## 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 Early Action Agreement Overview: <https://www.gov.ca.gov/wp-content/uploads/2024/04/Early-Action-Agreement-Overview-.pdf>

Assembly Early Action Summary: <https://abgt.assembly.ca.gov/system/files/2024-04/early-action-summary-thursday-april-4-2024.pdf>

Senate Early Action Summary:

<https://sbud.senate.ca.gov/sites/sbud.senate.ca.gov/files/Shrink%20the%20Shortfall%20Agreement%20Details%20Final.pdf>

**Next Steps.** Over the coming weeks, the Legislature will continue hearing items from the Governor’s January budget proposal. Next month, the Governor is anticipated to release his May Revision to the January budget proposal and the Legislature will convene hearings on those items soon after. The Legislature may identify alternative cuts to balance the budget, including considering whether cuts to ongoing programs will be needed to address the structural deficit in the outyear. As a reminder, the statutory deadline for the Legislature to pass the budget is June 15.

**Questions.** For questions on the items highlighted above or other budget-related inquiries, please feel free to contact Michelle Gibbons (mgibbons@cheac.org) and Jack Anderson (janderson@cheac.org) via email.