



To: CHEAC General Membership

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Date: May 10, 2024

RE: Governor’s 2024-25 May Revision Budget
NOTE: This memo is superseded by the 2024-25 May Revision Budget Memo Addendum issued on May 17, 2024; the addendum is [available here](#).

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Overview

Today, Governor Gavin Newsom unveiled a summary of his Administration’s May Revision budget proposal, updating state revenue projections and offering additional budget actions to address the state’s significant budget deficit. Notably, the \$288.1 billion balanced budget proposal reflects an anticipated remaining budget shortfall of \$27.6 billion. This \$27.6 billion figure has increased by approximately \$7 billion due to lower than expected revenue receipts since the Governor’s January Budget proposal and accounts for a [\\$17 billion reduction](#) to the deficit amount from early budget action enacted last month.

During the press conference unveiling his Administration’s updated proposal, the Governor discussed approaching structural budget challenges by accounting for the coming budget year and the following year. The Governor’s proposal claims to eliminate the anticipated 2024-25 deficit of \$27.6 billion, as well as the projected deficit for 2025-26 of \$28.4 billion. The Governor framed

his May Revision as making difficult decisions now to set the state on a more financially sound path, ultimately projecting a positive operating reserve balance over the next two fiscal years.

The Administration proposes a series of solutions to address the state's deficit, including but not limited to cuts to one-time spending (\$19.1 billion) and ongoing spending (\$13.7 billion) through 2025-26, a 7.95 percent cut to state agency and department operations, and elimination of 10,000 vacant state positions. The Governor's seeks to make "government more efficient, leaner, and modern" by saving costs by streamlining procurement, cutting bureaucratic red tape, and reducing redundancies. Moreover, the Administration notes that the budget proposal maintains service levels for key housing, food, health care, and other assistance programs without proposing new taxes or utilizing additional budgetary reserves. The Administration issued a fact sheet outlining top-line proposed actions included in the May Revision [available here](#).

Please note, additional May Revision details are anticipated to be issued by Tuesday, May 14. CHEAC will publish an addendum to this memo outlining additional details of interest to CHEAC Members and local health departments next week.

Public Health Workforce & Infrastructure

Future of Public Health (FoPH). Much to our dismay, the Governor proposes eliminating the \$300 million ongoing General Fund investment to rebuild state and local public health workforce and infrastructure, including the \$200 million General Fund allocation to local health departments. The Governor's proposal seeks to additionally eliminate \$52.5 million in the current fiscal year (2023-24) of Future of Public Health funding. It is unclear whether the \$52.5 million reduction in the current year is to state funding or whether it also impacts local funding.

CHEAC and the California Can't Wait Coalition [express strong opposition](#) to the Administration's proposal which puts at risk over 1,200 local positions created with the funding, with over 900 positions already hired. Now is not the time to turn back the clock on public health readiness and forget the painful lessons learned from the COVID-19 pandemic.

At the time of this writing, CHEAC has been told that Public HERO Initiative workforce development and training programs are not included in the proposed cuts. However, CHEAC will confirm once the budget details are released next week.

Public Health Programs

CalWORKs Home Visiting Program. The Governor's May Revision proposes to reduce \$47.1 million ongoing for the CalWORKs Home Visiting Program.

Nutrition Programs

California Food Assistance Program Expansion. The Governor proposes delaying for two years the planned California Food Assistance Program expansion automation to begin 2026-27 and benefits beginning in 2027-28.

Medi-Cal & Health Care Programs

Managed Care Organization (MCO) Tax. Recall, in March, the Governor signed into law a revised managed care organization tax, increasing the tax amount levied against managed care plans. The Governor's May Revision proposes to reduce \$6.7 billion over multiple years from Medi-Cal provider rate increases planned for January 1, 2025, as well as graduate medical education and Medi-Cal labor workforce initiatives.

The May Revision proposes to again amend the MCO tax to include health plan Medicare revenue in the total revenue limit calculation, increasing the allowable size of the tax and providing an additional net state benefit of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27. In total, the May Revision reflects an additional \$9.7 billion in MCO tax funds over multiple years to support the Medi-Cal program.

2022 Trigger Items. Recall, in the 2022 Budget Act, numerous budget items included trigger provisions specifying investments for certain programs would be included in the 2024 Budget Act if the Department of Finance determined that estimated General Fund resources reflected in the 2024 May Revision could support such ongoing increases over the multiyear period. Given the state's significant budget deficit, the following investments that will not be funded by this trigger include but are not limited to:

- Medi-Cal Share of Cost Reform
- Continuous Medi-Cal Coverage for Children Aged 0-4

IHSS for Undocumented Individuals. The Governor's May Revision proposes to reduce \$94.7 million ongoing by eliminating the In-Home Supportive Services (IHSS) undocumented expansion for IHSS coverage for all ages. Despite the IHSS elimination, the May Revision maintains expansion of full-scope Medi-Cal to all residents regardless of immigration status. The elimination of the IHSS benefit results in General Fund savings of approximately \$433 million, consisting of \$338 million related to lower-than-expected utilization and \$95 million of actual utilization that would be reduced upon elimination of the benefit entirely.

Health Workforce Investments

Health Care Workforce Reductions. The Governor's May Revision proposes to eliminate \$300.9 million in 2023-24, \$302.7 million in 2024-25, \$216 million in 2025-26, \$19 million in 2026-27, and \$16 million in 2027-28 for various health care workforce development initiatives, including community health workers (CHWs), nursing, social work, medical residencies, Health Professions Career Opportunity Program, and California Medicine Scholars program. The May Revision additionally eliminates \$189.4 million Mental Health

Services Fund for programs proposes to be delayed to 2025-26 compared to the Governor's January budget.

Equity and Practice Transformation Payments to Providers. The Governor proposes eliminating \$280 million one-time over multiple years for grants to Medi-Cal providers for quality, health equity, and primary care infrastructure. The May Revision maintains \$70 million General Fund included in the 2022 Budget Act.

Behavioral Health

Children and Youth Behavioral Health Initiative (CYBHI). The Governor's May Revision proposes to reduce \$72.3 million one-time in 2023-24, \$348.6 million in 2024-25, and \$5 million in 2025-26 for school-linked health partnerships and capacity grants for higher education institutions, behavioral health services and supports platform, evidence-based and community-defined grants, and public education and change campaign. According to the Senate highlights, the May Revision also includes a reduction in expenditure authority for the dyadic services benefit in Medi-Cal based on lower-than-expected utilization.

Of note, the May Revision proposes to eliminate the CDPH Youth Suicide Reporting and Crisis Response Pilot program, operated in conjunction with local health departments. Recall, this investment was enacted through the 2022 Budget Act and funded 10 jurisdictions: Alameda, El Dorado, Humboldt, Kern, Los Angeles, Riverside, Sacramento, San Diego, San Joaquin, and Solano.

Behavioral Health Continuum Infrastructure Program. The Governor proposes to eliminate \$450.7 million one-time from the last round of the Behavioral Health Continuum Infrastructure Program while maintaining \$30 million one-time General Fund in 2024-25.

Behavioral Health Bridge Housing Program. The Governor's May Revision proposes to reduce \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for the Behavioral Health Bridge Housing Program. Despite the proposed reductions, the Governor would maintain \$132.5 million General Fund in 2024-25 and \$117.5 million (\$90 million Mental Health Services Fund and \$27.5 million General Fund) in 2025-26.

CalWORKs Mental Health and Substance Abuse Services. The Governor proposes to reduce \$126.6 million ongoing for the CalWORKs Mental Health and Substance Abuse Services.

Medication Assisted Treatment Grants. The Governor's May Revision proposes to reduce \$10.5 million in 2023-24 for competitive grants to counties to use for various purposes related to the treatment of substance use disorders and provision of medication-assisted treatment.

Housing and Homelessness

Homeless Housing, Assistance, and Prevention Program (HHAP). The Governor proposes to reduce \$260 million one-time in 2025-26 for HHAP Round 5 supplemental grant funding. Recall, the Governor's January budget proposal sought to delay the \$260 million disbursement until 2025-26; the May Revision now proposes to eliminate this amount instead.

Additionally, while the 2023 Budget Act expressed intent to fund a sixth round of HHAP, a sixth round of funding for this program is not included in the May Revision.

Multifamily Housing Program. The May Revision proposes to eliminate \$75 million in 2023-24, as well as retracts the \$250 million proposed in the Governor's January budget, for this program.

State Administration & Budget Management

Vacant Position Funding Reduction and Position Elimination. Early budget action enacted last month via Chapter 9, Statutes of 2024 (AB 106), adopted the Governor's January budget proposal to reduce departmental budgets in 2024-25 by \$1.5 billion (\$762.5 million General Fund) for savings associated with vacant positions. The May Revision proposes making this reduction permanent, eliminating approximately 10,000 positions starting in 2025-26 and ongoing. Per the Administration, the Department of Finance will work with agencies and departments in the fall on appropriate budget reductions beginning in 2024-25.

Ongoing Reductions to State Operations. The Governor proposes an across-the-board reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all departmental budgets. The planned reduction involves all categories, including personnel, operating costs, and contracting. The Department of Finance will work with agencies and departments in the fall on the appropriate budget reductions.

Budget Stabilization Account (BSA). The Governor's May Revision proposes shifting \$8.9 billion of the \$12.2 billion proposed BSA withdrawal from fiscal year 2024-25 to 2025-26. Recall, the Governor's January budget proposed withdrawing \$12.2 billion from the BSA in 2024-25. The May Revision proposes to withdraw \$3.3 billion from the BSA in 2024-25 and \$8.9 billion in 2025-26.

Savings During Economic Upswings. During the press conference today, the Governor discussed the significant volatility of the state's revenues and the need to save more funds during economic upswings. As such, the Governor is proposing legislation that would require the state to set aside a portion of anticipated surplus funds to be allocated in a subsequent budget act. This approach is intended to prevent the state from committing certain amounts of future anticipated revenues until such revenues have been realized. The Administration's proposal does not replace the need to explore modifications to Proposition 2 (2014) to allow increased deposits into the state's Budget Stabilization Account (BSA).

Other Programs & Initiatives

HHS Innovation Accelerator Initiative. According to the Senate highlights linked below, the Governor's May Revision eliminates General Fund investments of \$42 million in 2023-24 and \$32 million in 2024-25 to address major health challenges, such as diabetes-related morbidity and mortality, disparities in maternal and infant mortality, and preventing and mitigating infectious disease. Early budget action taken last month approved the Governor's January Budget proposal to delay the \$74 million in funds until 2025-26.

Outdoor Equity Grants. The Governor's May Revision proposes to reduce \$50 million one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program, pursuant to Chapter 675, Statutes of 2019 (AB 209). According to the Administration, approximately \$40 million has already been committed for this program.

Active Transportation Program. The Governor's May Revision proposes to reduce \$300 million in 2025-26 and \$99 million in 2026-27 for funds appropriated for the state's active transportation grants.

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 found at <https://www.cbpc.org/dollars-and-democracy-a-guide-to-the-state-budget-process>.

Budget Links:

Governor's 2024-25 May Revision Budget: <http://www.ebudget.ca.gov/>

Senate Budget & Fiscal Review Highlights of Governor's 2024-25 May Revision Budget: <https://sbud.senate.ca.gov/sites/sbud.senate.ca.gov/files/Overview%20of%20the%20Governors%202024-25%20May%20Revision.pdf>

Assembly Preliminary Highlights of Governor's 2024-25 May Revision Budget: <https://abgt.assembly.ca.gov/system/files/2024-05/preliminary-summary-of-governor-s-2024-25-may-revision.pdf>

Next Steps. Additional details outlining proposed budget actions are anticipated to be released by next Tuesday, May 14. CHEAC will continue to monitor relevant developments and issue an addendum to this memo, as applicable.

Over the coming weeks, the Legislature will convene budget hearings to consider updated proposals set forth in the Administration's May Revision. The Legislature must pass a budget bill by June 15, and the Governor, Senate President pro Tempore, and Assembly Speaker will begin negotiations as the parties work to finalize a state budget by the beginning of the new fiscal year on July 1.

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.