

# LEGISLATIVE UPDATE



Week of May 6, 2024

## State Issues

Governor Releases  
May Revise Budget

Today Governor Newsom released his May Revise budget – updating his proposal from January for the 2024-25 state budget. You can access the Summary document [here](#).

Despite making early action budget adjustments, eliminating more than \$17 billion in the State’s budget deficit, the Governor’s Department of Finance is estimating the State still has a deficit of \$27.6 billion. The Governor is proposing solutions and a plan that would cover two budget years: 2024-25 and 2025-26. In his press conference, the Governor said that core services are being preserved, but there are some cuts that must be included.

The May Revision maintains the Governor’s Budget withdrawal of approximately \$12.2 billion from the state’s “rainy day fund” (Budget Stabilization Account), as well as all \$900 million from the Safety Net Reserve. However, the May Revision spreads the use of the rainy-day fund over two fiscal years, utilizing \$3.3 billion in the 2024-25 fiscal year and \$8.9 billion in the 2025-26 fiscal year. The Governor will also propose legislation that allows the State to save more in years with positive revenues to increase our rainy-day fund moving forward.

**Health Care Minimum Wage.** One highly anticipated policy update that is **not** included in the May Revise is a pause in the Health Care Minimum Wage (SB 525, 2023). Because no changes have been made, the minimum wage is set to increase on June 1. The Governor has for the last several months been indicating that the State cannot afford the minimum wage given our budget deficit, and he was going to be making changes to the plan. However, there is nothing in the May Revise regarding implementation of SB 525. During his press conference, he was pressed for an explanation. He indicated they were still working on some potential changes, but he would not sign a budget without the increase included. Potential changes could include the ability to pause the year-over-year automatic increases if the State General Fund cannot afford it.

In the Revise, the Governor is proposing several key budget and policy changes that will impact the health budget.

**Managed Care Organization (MCO) Tax**—The proposal eliminates \$6.7 billion over multiple years from the Medi-Cal provider rate increases planned for January 1, 2025, mostly to hospitals, as well as Graduate Medical Education and Medi-Cal labor workforce. Overall, the May Revision includes an additional \$9.7 billion in MCO Tax funds over multiple years. The Governor committed to maintaining rate increases that already went into effect for certain providers for certain services and will use some of the MCO funding to backfill Prop 56 Tobacco Tax Medi-Cal provider rates. The plan also seeks to increase the total revenue from the MCO tax by having health plans include new revenue based on their Medicare funding – not just their Medi-Cal spend.

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Governor Releases  
May Revise Budget  
(continued)

**Healthcare Workforce Reduction**—Eliminates more than \$850 million over several years for various healthcare workforce initiatives including community health workers, nursing, social work, Song-Brown residencies, Health Professions Career Opportunity Program, and California Medicine Scholars Program. The May Revision also eliminates \$189.4 million Mental Health Services Fund for programs proposed to be delayed to 2025-26 at Governor's Budget. The Director of Finance noted that this proposal should not result in any loss of jobs.

**Children and Youth Behavioral Health Initiative**—Cuts more than \$425 million planned for school-linked health partnerships, behavioral health services and supports platform, evidence-based and community-defined grants, public education campaign, and youth suicide reporting and crisis response pilot.

**Behavioral Health Continuum Infrastructure Program**—Eliminates \$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**—Cuts \$339 million over several years for the Behavioral Health Bridge Housing Program, while maintaining \$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.

**Equity and Practice Transformation Payments to Providers**—Eliminates \$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.

**Elimination of Public Health Funding**—Cuts \$52.5 million in 2023-24 and \$300 million ongoing for state and local public health.

**Health and Human Services Innovation Accelerator Initiative.** Cuts \$42 million in 2023-24 and \$32 million in 2024-25 that had been proposed for delay in the Governor's January budget.

**Post-Pandemic Public Health Infrastructure Funding.** Eliminates \$52.5 million in 2023-24 and \$300 million annually thereafter to support state and local public health departments' investments in additional staff, infrastructure, prevention, infectious disease control, population, health, and emergency preparedness.

The Governor is expected to produce Budget Trailer Bill language to effectuate these proposed policy changes, and they should be released starting today through next Tuesday. Both the Assembly and Senate Budget Subcommittees on Health are set to hear the Governor's May Revise health proposals next Wednesday at 9:30am.

The Legislature has a deadline of June 15 to vote on a balanced budget plan, and the Governor has until June 27 to sign it, ahead of the July 1 state fiscal year.