

*Established in 1991, UCC serves as the representative voice for state legislative advocacy for high-population counties in California. Initially composed of seven counties, the association has grown to 14 today. Just over 80 percent of the state's population reside in UCC counties. Consequently, urban counties carry out critical programs and services to the state's most vulnerable populations. For more information, including details on our Board of Directors, please visit [our website](#).*

**June 25, 2024**

## **Special Budget Update: 2024-25 Budget Finalized (Well, Sort Of...)**

Over the weekend, Governor Gavin Newsom, Senate President pro Tempore Mike McGuire, and Assembly Speaker Robert Rivas, [announced](#) that they had reached [agreement](#) on the 2024-25 state budget. The agreement incorporates a multi-year balanced budget approach across the budget year and 2025-26 based on current revenue and expenditure projections and closes a budget deficit of about \$45 billion and \$30 billion, respectively. (Both houses have issued summaries of the budget agreement: [Senate](#) | [Assembly](#)).

As proposed, the Budget Act of 2024 contains a total of \$46.8 billion in solutions for 2024-25, outlined as follows:

<b>Category</b>	<b>2024-25 Amounts (in billions)</b>
Reductions	\$16.0
Revenues	\$13.6
Reserves	\$6.0
Fund Shifts	\$6.0
Delays/Pauses	\$3.1
Deferrals	\$2.1
<b>Total</b>	<b>\$46.8</b>

The agreement assumes withdrawals from the Budget Stabilization Account (Rainy Day Fund) over the next two fiscal years, using \$5.1 billion in 2024-25 and \$7.1 billion in 2025-26, maintaining \$22.2 billion in total reserves at the end of the 2024-25 fiscal year. The 2024-25 state budget also includes a withdrawal of \$900 million from the Safety Net Reserve.

The budget plan includes the Governor's proposal to reduce state departments' General Fund budgets by 7.95 percent and sweeps funding associated with many vacant positions of about \$1.5 billion. These generally ongoing reductions collectively total about 10 percent of General Fund state operations costs and about \$3 billion of 2024-25 savings, including significant reductions to the California Department of Corrections and Rehabilitation (CDCR).

Interestingly, the budget includes \$12 million for 2024-25 to begin to implement reparations legislation that has not yet been signed into law. The Director of Finance may augment one or more departmental items in the budget with this funding.

Also, the budget contains provisions that require consultation between the legislative and executive branches of state government on artificial intelligence (AI) activities in state government. If added resources are needed to implement or procure certain generative AI projects, the Government Operations Agency is directed to support departmental efforts to submit requests for added resources in the annual budget process.

A few other highlights on budget items of note:

- Homelessness: The final budget agreement adds \$150 million for additional Encampment Resolution Grants and maintains the \$1 billion for round 6 of the Homeless Housing, Assistance and Prevention (HHAP) that was previously prioritized in the legislature's budget plan. Additionally, new HHAP accountability measures are included in SB/AB 166, as discussed in the trailer bill table below.
- Local public safety: The final budget agreement sustains restoration of \$40 million in one-time funding for the final year of the Public Defense Pilot Project and appropriates \$103 million in one-time funding to the Office of Emergency Services to support various victims' services programs in recognition of reductions in federal Victims of Crime Act (VOCA) funding.
- State corrections: The final budget plan reduces the Department of Corrections and Rehabilitation's budget by \$750 million over the three-year budget window (2022-23, 2023-24, and 2024-25), along with ongoing reductions of approximately \$560 million annually.
- Diaper Banks: The final budget agreement appropriates \$9 million for 11 local diaper banks to distribute free diapers to low-income families with infants and toddlers.

The Governor and the Legislature have prioritized reforms to the state's constitutional budgeting obligations. While details are still under discussion, the parties intend to enact legislation later this year, as follows:

- Updating the state's Rainy Day Fund via a constitutional amendment slated for 2026:

- Increase the size of the Rainy Day Fund from 10 percent of the state budget to 20 percent.
- Exclude deposits into the Rainy Day Fund from the state appropriations limit (Gann Limit) so that lawmakers may instead deposit funds into budget reserves to protect against future downturns.
- Creating a new “Projected Surplus Temporary Holding Account”:
  - Under this reform, a portion of any projected surplus will be deposited into Projected Surplus Temporary Holding Account where they will be held until a future year once it is clear whether the projected surplus of revenues actually materialized.

Finally, because health and human services programs and funding were the target of considerable reductions in the May Revision, we are providing a more comprehensive summary of the final resolution for these budget items in the final budget agreement.

Health	
<b>Managed Care Organization (MCO) Tax</b>	<ul style="list-style-type: none"> <li>- Expands the MCO tax to Medicare providers, generating an additional \$689 million in General Fund savings in the budget year, \$950 million in 2025-26, and \$1.3 billion in 2026-27.</li> <li>- 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.</li> <li>- The new rate increases being funded by the MCO tax in the budget differ from the Administration’s targeted rate increases related in January and from the MCO tax ballot measure. The budget proposal eliminates funding for hospitals, decreases funding for physicians and includes new provider types and services.</li> <li>- Provides the following Medi-Cal rate increases, effective <b>January 1, 2025</b>: 1) Abortion and Family Planning Services; 2) Physician Emergency Department Services; 3) Ground Emergency Transportation; 4) Air Ambulances; 5) Community-Based Adult Services; 6) Community Health Workers; 7) Congregate Living Health Facilities; and 8) Pediatric Day Health Centers.</li> <li>- Provides the following Medi-Cal rate increase, effective <b>January 1, 2026</b>: 1) Evaluation &amp; Management Codes for Primary Care and Specialist Office Visits, Preventative Services, and Care Management (95 percent of Medicare); 2) Obstetric Services (95 percent of Medicare); 3) Non-</li> </ul>

	<p>Specialty Mental Health Services (87.5 percent of Medicare); 4) Vaccine Administration (87.5 percent of Medicare); 5) Vision (Optometric) Services (87.5 percent of Medicare); 6) Other Evaluation &amp; Management codes (80 percent of Medicare); 7) Other Procedure Codes commonly utilized by Primary Care, Specialist, and ED Providers (80 percent of Medicare); 8) Federally Qualified Health Centers/Rural Health Clinics; 9) Private Duty Nursing; and 10) Non-Emergency Medical Transportation.</p> <ul style="list-style-type: none"> <li>- Includes funding to implement 0-5 continuous Medi-Cal eligibility, effective January 1, 2026.</li> <li>- Contains language to make the rate increases in the budget inoperable if the MCO tax measure on the November 2024 ballot is approved.</li> <li>- Provides \$40 million in 2026-27 for Medi-Cal Workforce Pool, Labor Management Committees.</li> </ul>
<b>Public Health</b>	<ul style="list-style-type: none"> <li>- Rejects the May Revision’s proposed complete elimination of recent funding increases for Public Health programs, instead contains a modest cut of just under eight percent. Retains \$276.1 million annually for public health investments at the local (\$184.1 million) and state level (\$92 million). Reverts \$41.1 million in prior year unspent state operations funding.</li> <li>- Includes federal funds to continue the operations of the CalCONNECT IT system for the budget year.</li> </ul>
<b>SB 525 Implementation</b>	<ul style="list-style-type: none"> <li>- The health care minimum wage created by SB 525 (Statutes of 2023) will not go into effect under trailer bill language until one of two triggers are met: 1) if the state has enough revenue in the first quarter of the fiscal year to pay for at least 3 percent of the projected cost of the wage; if that occurs the wage increase would go into effect October 1, 2025, or 2) the Department of Health Care Services begins data retrieval necessary to implement a January 1, 2025 Hospital Quality Assurance Fee waiver with the federal government. DHCS would notify providers of the data retrieval and the wage would go into effect 30 days later.</li> </ul>
<b>Department of Health Care Services</b>	<ul style="list-style-type: none"> <li>- Adopts, until July 1, 2028, a freeze in the cost of doing business adjustments for local county administration allocations for Medi-Cal eligibility. This freeze results in a \$20.4 million savings, growing to \$88.8 million in 2027-28.</li> <li>- Includes \$111 million in savings from the Intergovernmental Transfer Administration Fee for Enhanced Payment Program (EPP) and Quality Incentive Pool (QIP), which impacts public hospitals. Please note</li> </ul>

	<p>that the budget deal assumes submission of substantial rate increases to the EPP and the QIP over 2024 rates.</p> <ul style="list-style-type: none"> <li>- Includes \$115 million for the Children’s Hospital New Directed Payment.</li> <li>- Eliminates funding for Equity and Practice Transformation Payments by \$111.3 million.</li> <li>- Retains the Indian Health Clinic Program at the existing \$23 million annual ongoing appropriation.</li> <li>- Retains \$8 million provided for Health Enrollment Navigators at Clinics.</li> <li>- Cuts \$18 million for Health Enrollment Navigators.</li> <li>- Retains \$2 million annually for the Free Clinic Augmentation.</li> <li>- Retains the acupuncture optional Medi-Cal benefit.</li> <li>- The budget bill includes language that allows for up to \$25 million in total funds, including eligible federal matching funds, for additional reimbursement to the Martin Luther King Jr. Community Hospital, provided that the Legislature first passes additional legislation providing for use of these funds in this manner.</li> </ul>
<b>Behavioral Health</b>	<ul style="list-style-type: none"> <li>- 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.</li> <li>- Reduces funding Behavioral Health Bridge Housing Program \$340 million, \$132.5 million in fiscal year 2024-25 and \$207.5 million in fiscal year 2025-26.</li> <li>- Provides \$50 million General Fund for County Behavioral Health Departments for Proposition 1/Behavioral Health transformation implementation.</li> </ul>
<b>Workforce Funding</b>	<ul style="list-style-type: none"> <li>- Reduces the budget for health care workforce training by \$746 million over five years, retaining \$108.9 million to allow programs that are underway to continue without disruption. This action retains funding for the Song-Brown Primary Care Residency program, the Song-Brown Nursing program, the Health Professionals Career Opportunity Program, and the California Medicine Scholars Program.</li> <li>- Ends the Proposition 56 backfill of \$40 million a year for Graduate Medical Education (GME) programs. As a result, the University of California anticipates a \$13.5M deficit for the existing GME program in 2024-25, which will result in an immediate reduction of grant support to GME programs across the state that train physicians in underserved areas. In 2023-24, UC funded 217 residency positions with the full</li> </ul>

\$40M, and an estimated 89 residency positions will not be funded in 2024-25 because of the loss of General Fund backfill, a 41% decrease from the previous year. Additionally, none of the MCO tax revenues are being used for graduate medical education programs.

**Human Services**

**CalWORKs**

- Rejects the Governor’s January proposal for an on-going annual reduction of \$40.8 million General Fund from the CalWORKs Single Allocation. Also rejects the May Revision proposal to additionally cut \$272 million one-time from the Single Allocation in 2024-25.
- Rejects the Governor’s proposal to eliminate the CalWORKs Family Stabilization program, with a proposed cut of \$71.2 million General Fund beginning in 2024-25 and ongoing.
- Approves the Governor’s January proposal to eliminate the CalWORKs Employment Services Intensive Case Management, with a reduction of \$47 million General Fund beginning in 2024-25 and growing slightly ongoing, which will result in counties not reaching the expected 10 hours per case standard that was funded in a prior budget. Additionally, adopts trailer bill language to effectuate this reduction, but without statutory changes that will remove the requirement for counties to fund what is currently being implemented for CalWORKs case management, which is a minimum of 8.75 hours. Makes the increase to 10 hours subject to an appropriation by the Legislature.
- Rejects the Governor’s proposal to eliminate the CalWORKs Expanded Subsidized Employment program with a reduction of \$134.1 million General Fund in 2024-25 and ongoing. Instead, modifies to reduce funding on a short-term basis, by up to \$30 million in 2023-24 and up to \$37 million in 2024-25, to hold funding to approximate 2022-23 spending level. This limited-term reduction is intended to more closely align funds to actual utilization in the program and avoid adverse impacts for working participants. Additionally, the Legislature will adopt trailer bill language to require reporting on subsidized employers and employment outcomes in participating counties.
- Rejects the Governor’s May Revision on-going reduction of \$126 million General Fund, starting in 2024-25, for the CalWORKs Mental Health and Substance Abuse Services Program (MH/SA), and instead modifies the action to reduce funding by up to \$30 million in 2023-24, up to \$37 million in 2024-25, and up to \$26 million in 2025-26. This

	<p>limited-term reduction is intended to more closely align funds to actual utilization in the program and avoid adverse impacts for parents and families served.</p> <ul style="list-style-type: none"> <li>- Rejects the Governor’s May Revision on-going reduction of \$47.1 million General Fund, starting in 2024-25 for the CalWORKs Home Visiting Program (HVP), and instead modifies the action to reduce funding for the CalWORKs HVP by up to \$30 million in 2023-24, and temporarily reduce by up to \$25 million in 2024-24 and 2025-26. This limited-term reduction is intended to more closely align funds to actual utilization in the program and avoid adverse impacts for families and children served.</li> <li>- Approves the May Revision request for Budget Bill Language/provisional authority for spending of up to \$2.4 million General Fund for the CalWORKs program to participate in the federal Pilot Projects for Promoting Accountability by Measuring Work Outcomes program pursuant to the federal Fiscal Responsibility Act of 2023.</li> </ul>
<p><b>Foster Care and Child Welfare</b></p>	<ul style="list-style-type: none"> <li>- Rejects the Governor’s January proposed elimination of \$30 million General Fund in 2024-25 and on-going for the Family Urgent Response System (FURS).</li> <li>- Rejects the Governor’s May Revision proposal for an on-going reduction of \$50 million General Fund, starting in 2024-25, for the Foster Care Caregiver Approvals Program.</li> <li>- Rejects the Governor’s May Revision proposal for an on-going reduction of \$34.8 million General Fund, starting in 2024-25, for the Emergency Child Care Bridge program. Instead, adopts budget bill language to reappropriate a total of \$47 million from 2023-24 into 2024-25, generating General Fund savings for 2024-25 only for this program. Total General Fund levels for Emergency Child Care Bridge remain at \$83.4 million ongoing.</li> <li>- Approves the Governor’s January proposal to eliminate \$195,000 in 2024-25 and \$25.5 million (\$18.8 million General Fund) in 2025-26 and on-going for Housing Supplements for Foster Youth in Supervised Independent Living Placements (SILPs). SILP rates are increased in the Foster Care Permanent Rate Structure adopted trailer bill language.</li> <li>- Approves an adjusted \$13.3 million General Fund (\$20.5 million total funds) in resources for automation of the pending Foster Care Permanent Rate Structure. Adopts trailer bill language, with changes to provide for a cost of living adjustment (COLA) for the administrative rate for certain providers, includes regular reporting to the</li> </ul>

	<p>Legislature, and other changes to reflect stakeholder feedback. The implementation date in the trailer bill is set for July 1, 2027. This action also assumes rejection of the General Fund trigger as proposed in the May Revision. The new rate system for foster care placements is intended to focus on the child’s individual level of needs and strengths, rather than the placement type.</p>
<b>In-Home Supportive Services (IHSS)</b>	<ul style="list-style-type: none"> <li>- Rejects the Governor’s May Revision proposal for an on-going reduction of \$94.7 million General Fund, starting in 2024-25, to eliminate the In-Home Supportive Services (IHSS) benefit for Undocumented Individuals.</li> <li>- Rejects the Governor’s May Revision proposed elimination of the IHSS Backup provider system, however, reduces up to \$3 million in 2024-25 to account for lower utilization. The elimination proposal called for an on-going reduction of \$11.6 million General Fund, starting in 2024-25.</li> <li>- Approves trailer bill language for the updating of the budgeting methodology used to determine the annual funding for county administration for the IHSS program.</li> </ul>
<b>Adult Protective Services</b>	<ul style="list-style-type: none"> <li>- Rejects the Governor’s May Revision proposal for an on-going reduction of \$40 million General Fund, starting in 2024-25, for the Adult Protective Services (APS) Expansion.</li> <li>- Rejects the Governor’s May Revision proposal for an on-going reduction of \$4.8 million General Fund, starting in 2024-25, for the Adult Protective Services Training program.</li> </ul>
<b>Child Support</b>	<ul style="list-style-type: none"> <li>- Includes a \$29.4 million reduction in funding for California’s local child support agencies (LCSA). This cut represents \$10 million from the state General Fund and \$19.4 million in Federal Financial Participation (FFP).</li> <li>- Additionally, budget bill language (AB 108/SB 108) notes that the reduction is intended “to align budgeted resources, on a temporary basis, with recent trends in annual expenditures. This program in recent years has had savings that generally materialize at the end of the fiscal year due to challenges in the labor market, staff attrition, and the timeline necessary for local agencies to process recruitments. Rather than wait until the savings revert to the General Fund, and due to the State’s current fiscal situation, the state budget captures these dollars up front. The State does not intend for the identification of these savings at the outset of the fiscal year, rather than at the end, to have an adverse impact on service delivery at the local level or result in staffing reductions or layoffs.”</li> </ul>



<b>Immigration and Humanitarian Services</b>	<ul style="list-style-type: none"> <li>- Rejects the Governor’s January proposed elimination of the Temporary Protected Status (TPS) Services program, which had proposed a cut of \$10 million General Fund in 2024-25 and ongoing.</li> <li>- Rejects the Governor’s January proposed reduction in funding of \$5.2 million General Fund in 2024-25 and ongoing for the California State University Legal Services program. Full funding of \$7 million General Fund is maintained for this program.</li> <li>- Rejects the Governor’s May Revision proposal for a \$29 million General Fund one-time reduction to the Rapid Response dollars. Additionally, adopts budget bill language to re-appropriate Rapid Response program funding from 2023-24 into 2024-25.</li> </ul>
<b>Child Care Slot</b>	<ul style="list-style-type: none"> <li>- Includes a new timeline to expand the number of subsidized child care slots by over 200,000 in 2028 instead the 2026-27 fiscal year deadline in previous legislation, thereby enacting a two-year pause.</li> <li>- Continues to fund 11,038 General Child Care slots for which award letters were issued in Spring 2024, consistent with the Legislature’s two-party budget agreement.</li> </ul>

The full budget committees will meet to review the package of budget and trailer bills these bills on Tuesday, June 25 (Assembly) and Wednesday, June 26 (Senate). At this [document](#), we provide a more detailed summary of the 22-bill package to carry out the final budget agreement. We expect action on the budget and trailer bills later this week.

While this substantive action on the budget will allow the state to begin its fiscal year with a budget in place, we anticipate additional budget activity when the Legislature returns to Sacramento from its summer recess. As always, we remain available to answer any questions you may have!

