



Executive Director Report – January 25, 2024

This report provides programmatic and administrative updates about key activities First 5 California (F5CA) staff have engaged in since the December 14, 2023, Commission Meeting. Program updates include relevant highlights, rather than a summary of all staff work, and are framed by the [Strategic Priority Areas](#) and [Theory of Change System Levers](#).

Please note: Items that will be presented as Action or Information Items during the January 25, 2024, Commission Meeting will not be included in the report below.

1. Child Health, Education, and Care Summit: Stronger Starts – 25 Years of First 5
Priority Area: Child Development, Child Health, Family Support
System Lever: Convener

The Summit is March 25–27, 2024, and will be held at the Oakland Marriott City Center. The registration and the hotel reservation portals are both open. For more information, please visit the Summit webpage at [First 5 California Summit](#).

2. Building Equitable Early Learning Systems
Priority Area: Child Development, Child Health, Family Support
System Lever: Catalyst and Convener

The Program Innovation and Evaluation Division has executed a \$12.3 million dollar contract with WestEd as of January 1, 2024, for building equitable early learning systems. This contract focuses on the tri-agency collaboration of Quality Counts California (QCC), which includes funds from F5CA's IMPACT Legacy investment. The goal of the contract includes:

- A. Early Learning and Care (ELC) Workforce Supports and Technical Assistance – the Contractor shall increase the development of and access to more equitable learning opportunities and resources for the ELC Workforce, specifically, coaches, trainers, and providers. In addition, the Contractor shall lead outreach and collaborative partnerships with institutions of higher education and key state partners to ensure ongoing communication and joint efforts in supporting workforce capacity building.
- B. Transforming Equitable Systems – the Contractor, in partnership with F5CA and local/regional communities, will co-design equity building efforts that flexibly support the evolving needs of the QCC system and position F5CA as a leader in responding to the call for dismantling barriers to access. These efforts will leverage the collaborative strengths of the First 5 system to advance First 5's whole child/family focus while supporting the state's strategic priorities for ELC

and aligning with the Master Plan for Early Learning and Care. This will help local and state leaders and agencies to transition to an equitable ELC system that balances statewide cohesiveness and efficiency with local context and needs.

3. Public Policy

Priority Area: Child Development, Child Health, Family Support

Lever: Catalyst, Convener

On January 10, 2024, Governor Newsom presented his Budget Proposal for 2024 –25 that will soon begin to be vetted by the California State Legislature. The proposed budget includes \$295.1 billion in total spending, but with a \$37.8 billion projected shortfall that will need to be closed to meet the “balanced budget” requirements in the California State Constitution. To close this projected shortfall, the Governor’s Budget is proposing:

- Drawing down \$13.1 billion from existing reserve accounts.
- Reductions totaling \$8.5 billion in current programs.
- Revenue adjustments - \$3.8 billion – to the Managed Care Organization (MCL) Provider Tax to increase funds available to close the budget gap.
- Internal borrowing totaled – \$1.9 billion.
- Delaying funding – \$5.1B for some programs over the next three budget cycles
- Fund shifts totaling \$3.4 billion.
- Deferrals totaling \$2.1 billion, including June to July Payroll and funding for University of California (UC) and California State University (CSU) higher education systems.

Governor Newsom stated that his budget proposal maintains “promises” made in prior budgets to key priorities of his Administration and the Legislature, including investments in Homelessness, Mental Health, Public Safety, TK-16 education, Climate Change, and Economic growth and “dominance”.

The Governor’s Budget estimates a \$37.8 billion shortfall which is in stark contrast to the recent estimate of the Legislative Analyst’s Office (LAO) of a \$68 billion shortfall. This contrast is due to a fundamental difference between the Department of Finance (DOF) and LAO’s projections over the next three years. The LAO’s projections include a recession within the next three years and a slower recovery. DOF believes the current deficit was a combination of a stock market correction (thereby slashing capital gains taxes) coupled with a post-COVID return to normal levels of capital gains with an underlying delay in tax collection, resulting in the state not having a clear picture of revenue until November of last year. Additionally, the Governor’s budget assumes \$8 billion in savings from state workload reductions that were not built into the LAO’s estimate. Hopefully, we will have a clearer picture at May Revise. The Governor contended that this discrepancy is largely driven by 1.) the federal delay in 2023 tax filings to November 2023, rather than April, as was historically the filing date; and 2.) state workload reductions, totaling \$8 billion, that were unknown to the LAO. The Governor also acknowledged that while his Administration’s short-term revenue

estimates are rosier than the LAO's, his Administration's longer term revenue estimates over the next several budget cycles are more severe. As point of reference, the LAO is projecting future-year budget shortfalls of \$30 billion, over the next three budget cycles.

The California Legislature is required to send a "balanced budget" to the Governor by June 15, 2024, and the Governor will need to sign the 2024–25 final budget package before the new fiscal year starts on July 1, 2024.

Reserves

In the 2023–24 Budget Act, the state had a total of \$37.8 billion across its reserve accounts:

- Budget Stabilization Account (BSA) or Rainy-Day Fund – \$22.3 billion
- Public School System Stabilization Account (PSSSA) – \$10.8 billion
- Safety Net Reserve – \$900 million
- Special Fund for Economic Uncertainties – \$3.8 billion

In his 2024–25 budget proposal, Governor Newsom stated that his budget would withdraw \$13.1 billion from the state's reserve accounts. The Governor's Budget details how much the Administration plans to withdraw amounts from the following accounts:

- \$10.4 billion from the Mandatory BSA Balance and Transfer Suspension
- \$1.8 billion from the Discretionary BSA Balance
- \$900 million from the Safety Net Reserve

Additionally, the Governor's Budget intends to borrow \$5.7 billion from other revenue sources and special funds – \$3.8 billion from the Managed Care Organization (MCO) tax and \$300 million by conforming to the Tax Cuts and Jobs Act Net Operating Loss Limitation

The total remaining balance of the state's reserves amount to roughly \$18.4 billion:

- BSA (Rainy-Day Fund) - \$11.1 billion
- PSSSA – \$3.9 billion
- Special Fund for Economic Uncertainty – \$3.4 billion

Early Care and Education: The Governor's Budget maintains the 2021 multiyear plan to expand access to subsidized childcare slots, and includes \$2.1 billion for the Department of Social Services (DSS) to continue funding roughly 146,000 subsidized child care slots expected to be filled by FY 2024–25, working towards the goal of creating over 200,000 new slots by 2026–27.

The Governor's Budget includes \$6.6 billion – \$4.6 billion GF – for child care and

development programs. The budget maintains funding to implement the current memorandum of understanding (MOU) between the state and Child Care Providers United – California (CCPUC) and the parity provisions for non-represented providers pursuant to SB 140 (2023) – \$723.8 million GF. The agreement and SB 140 also outline the continued work towards a single rate structure and an alternative methodology for estimating the costs of care. In accordance with the agreement and SB 140, by July 2024, the State of California will submit a state plan to the Federal Administration for Children and Families for approval of an alternative methodology.

As mentioned above, the \$550 million GF investment for the California Preschool, Transitional Kindergarten (TK), and Full-Day Facilities Grant Program (FDK Program) is part of the \$5.1 billion in delays that was outlined in the Governor’s Budget response to the budget shortfall. The budget delays funding for multiple items and spreads it across a three-year period, beginning in 2025–26 and without reducing the total amount of funding through this period. In addition to the FDK Program, the \$10 million GF for the Preschool Inclusion Grant Program was also included in the budget delays.

Finally, the budget proposes an increase of \$65 million ongoing Prop 98 to reflect a 0.76-percent cost-of-living adjustment (COLA) for specified categorical programs and the LCFF Equity Multiplier, including State Preschool.

Health and Human Services

Medi-Cal Program: Due to the resumption of eligibility redeterminations, the Medi-Cal caseload has started to decline. Based on very initial data, the Medi-Cal Estimate (Estimate) projects that the Medi-Cal caseload will fall to an estimated 13.8 million members following the redetermination period. This projection is highly uncertain and will be refined for the May Revision for 2024–25 as more data is available. The Department of Health Care Services (DCHS) estimates Medi-Cal spending to be \$157.5 billion total funds – \$37.3 billion GF in 2023–24 and \$156.6 billion total funds – \$35.9 billion GF in 2024–25.

Additionally, the proposed budget includes \$1.4 billion total funds – \$1.2 billion GF in 2023–24 and \$3.4 billion total funds – \$2.9 billion GF in 2024–25 to maintain the expansion of full-scope Medi-Cal coverage to all adults regardless of immigration status effective January 1, 2024. Of these amounts, \$1.4 billion total funds – \$1.2 billion GF in 2023–24 and \$3.3 billion total funds – \$2.9 billion GF in 2024–25 is included in Estimate.

Managed Care Organization (MCO) Provider Tax: The Governor’s Budget is proposing a \$1.5 billion increase in the total funding coming to the state under the recently enacted Center for Medicare Services (CMS) approved MCO tax. This is estimated to bring \$20.9 billion in total funding to the state. With this increase, the Governor is projecting an additional \$3.8 billion being available to cover costs under the Medi-Cal budget. The Governor is also funding the provider rate increases that were negotiated in the original MCO tax package. California Health and Human Services

Secretary Dr. Mark Ghaly characterized these changes to the MCO Tax as merely moving dollars forward from out-years to fund this year's Medi-Cal obligations. Furthermore, he said that the negotiated provider increases in last year's MCO tax deal with the Legislature will not be impacted by the proposed budget, which will require CMS approval.

Reproductive Health Access Demonstration 1115 Waiver: The proposed budget includes \$200 million total funds in 2024–25 to provide funding for the California's Reproductive Health Access Demonstration (CalRHAD). By 2026–27, \$85 million GF cost will be offset by the Designated State Health Programs (DSHP) federal funding stream. CalRHAD is pending CMS approval with program operations to begin no sooner than July 1, 2024. CalRHAD will promote the following objectives:

- Support access to family planning and related services for Medi-Cal members, as well as other individuals who may face barriers to access.
- Support the capacity and sustainability of California's reproductive-health safety net.
- Promote system transformation for California's reproductive-health safety net.

Children and Youth Behavioral Health Initiative (CYBHI) Wellness Coach Benefit: The proposed budget includes plans to establish the wellness coach benefit in Medi-Cal, effective January 1, 2025, in accordance with the build out of the CYBHI plan. Wellness Coaches will primarily serve children and youth and operate as part of a care team, including in school-linked settings; however, Wellness Coaches could be deployed across the Medi-Cal behavioral health delivery system. Wellness Coaches will offer six core services:

- Wellness promotion and education
- Screening
- Care coordination
- Individual support
- Group support
- Crisis referral

Implementation is expected to phase-in over several years with estimated costs of \$9.5 million total funds – \$4.1 million starting in 2024–25.

Updated Timeline for Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Implementation: Based on timelines to submit federal waiver applications, the BH-CONNECT demonstration is now anticipated to begin January 1, 2025. As a result, costs previously estimated for 2023–24 have shifted to 2024–25. The proposed budget includes \$40.6 million total funds – \$762,000 GF in 2024–25 for BH-CONNECT.

Delay Behavioral Health Continuum Infrastructure Program (BHCIP) Payments:

The Governor's Budget assumes that \$140.4 million GF associated with Round 6 in the BHCIP program is delayed from 2024–25 to 2025–26.

Delayed Behavioral Health Bridge Housing (BHBH) Payments: The Governor's Budget delays \$265 million from the Mental Health Services Fund (MHSF) in 2023–24 to 2024–25 and replaces it with GF, addressing a reduction in the amount of MHSF projected to be available. Additionally, the proposed budget delays the remaining \$235 million GF appropriation originally intended for 2024–25 to 2025–26.

Proposition 56 (Prop 56) Funding Reduction: Due to declining Prop 56 revenues and the GF condition, the Governor's Budget reduces funding for Prop 56 supplemental payments for physician services by \$193.4 million – \$77.1 million Prop 56 funding.

Proposition 99 (Prop 99) Health Education Account: The Governor's Budget reflects a decrease of \$3.9 million in Prop 99 Health Education Account (Fund 0231), including a decrease of \$1.9 million in State Operations and a decrease of \$1.9 million in Local Assistance as a result of the updated Prop 99 revenue projections. The decrease includes \$9,000 in State Administration, \$1.9 million in Competitive Grants (Local Assistance), \$1.3 million in Evaluation, \$1.1 million in Media Campaign and is offset by an increase of \$501,000 in Competitive Grants (State Operations).

The revenues support a comprehensive statewide tobacco control program and reducing illness and premature death attributable to the use of tobacco products. The funds are provided to state and local government agencies, tribes, universities, colleges, community-based organizations, and other qualified agencies for the implementation, evaluation, and dissemination of evidence-based health promotion and health communication activities.

Proposition 56 (Prop 56) State Dental Program Account: The Governor's Budget reflects a decrease of \$7.5 million in the State Dental Program Account, including a decrease of \$1.8 million in State Operations and a decrease of \$5.7 million in Local Assistance as a result of updated Prop 56 revenue projections. The funds are used for the state dental program for the purpose and goal of educating about, preventing, and treating dental disease, including dental diseases caused by use of cigarettes and other tobacco products.

Proposition 56 (Prop 56) Tobacco Prevention and Control Programs Account: The Governor's Budget reflects an increase of \$15.4 million in Tobacco Prevention and Control Programs Account. This is an increase of \$4.7 million in State Operations and an increase of \$10.7 million in Local Assistance as a result of updated Prop 56 revenue projections. The increase includes \$1.1 million in Media Campaign, \$14.6 million in Competitive Grants (Local Assistance), \$1.8 million in State Administration, \$1.6 million in Evaluation, and \$24,000 in Competitive Grants and is offset by a decrease of \$3.9 million in Local Lead Agencies.

The revenues are used for a comprehensive statewide tobacco control program and reducing illness and premature death attributable to the use of tobacco products. The funds are provided to state and local government agencies, tribes, universities, colleges, community-based organizations, and other qualified agencies for the implementation, evaluation, and dissemination of evidence-based health promotion and health communication activities.

Women Infants and Children (WIC) Program Estimate: The Governor's Budget reflects an increase of \$63.5 million in Local Assistance expenditure authority. This includes an increase of \$90.4 million in the Federal Trust Fund and a decrease of \$26.9 million in the WIC Manufacturer Rebate Fund. Higher expenditure levels are driven by an increase in current and budget year participation projections, a food inflation rate of 1.40 percent, and a mandated increase to the fruits and vegetables benefit levels. The decrease in rebate expenditures is due to lower projected rebate per can following the transition to a new infant formula contractor.

Proposition 56 (Prop 56) Tobacco Law Enforcement Account: The Governor's Budget reflects a decrease of \$576,000 in Tobacco Law Enforcement Account State Operations as a result of updated Prop 56 revenue projections. This funding supports the enforcement of state and local laws related to the illegal sales of tobacco to minors.

Developmental Services

The Department of Developmental Services (DDS) forecasts an increase of 28,775 consumers compared to the updated current year. The Governor's Budget includes \$15.3 billion total funds for 2024–25; a net increase of \$1.6 billion total funds over the updated budget for 2023–24, which is an 11.7 percent total funds increase.

Provider Rate Increase Delay: Due to resource availability, the Governor's Budget returns full implementation of service provider rate reform – \$1 billion total funds (\$612.5 million GF) – to the original timeline of July 1, 2025, while maintaining focus on improving outcomes and quality of services through the Quality Incentive Program.

Preschool Inclusion Grants: The Governor's Budget delays \$10 million GF for the Preschool Grant Program from 2024–25 through 2026–27.

Direct Service Professional Workforce Training: The proposed budget decreases \$8.9 million in total funds – \$5.9 million GF for Direct Service Professional Workforce Training to reflect an updated implementation timeline.

Additionally, the Governor's Budget makes the following policy updates:

- ***Reduced Caseload Ratio for Children through Age Five:*** Increase of \$16.3 million total funds – \$10.7 million GF – based upon the anticipated caseload.

- **Lanterman Act Provisional Eligibility Ages 0 through 4:** Increase of \$6.5 million GF based upon anticipated caseload.

Department of Social Services

CalWORKs Assistance and Maximum Aid Payment (MAP) Increase: A MAP increase of approximately 0.8 percent is projected for October 1, 2024, based on the projection available. The current projected increase would bring the non-exempt MAP level from \$1,171 to \$1,180 per month for an assistance unit of three residing in a high-cost county, which is a nine dollar increase from the current level and equates to 57.0 percent of the 2023 Federal Poverty Level. A determination and update of the projected grant increase will be made in the May Revision.

Bringing Families Home and Housing Support Program: The Governor's Budget extends the expenditure deadline to June 30, 2025, for the one-time funding for the Bringing Families Home (BFH) and Housing Support Program (HSP). These programs have seen a significant increase in new grantees, many of which represent rural, tribal, or underserved communities with limited resources. This additional year of expenditure authority will allow new grantees to effectively scale and develop their programs, and for existing grantees to continue investing in client enrollment.

Foster Care Rate Reform: The proposed budget includes \$12 million GF in 2024–25 to make automation changes for a reformed foster care payment structure, with full implementation anticipated as early as 2026–27. The new rate system for foster care placements will focus on the child's individual level of needs and strengths, rather than the placement type.

4. Media Campaign Update

Priority Area: Child Development, Child Health

System Lever: Broadcaster

In December, F5CA completed the second wave of the toxic stress-focused spots for television. These ads will start airing in spring 2024 along with new radio, web, and social media.

F5CA has also launched its experiential tour. Over the next several months, the tour will stop at public events throughout the state to engage with families directly and provide resources and information on toxic stress.

Personnel Update

- Sara Bachez resigned from her position as the Deputy Director of External and Governmental Affairs at F5CA to join Children Now as the Director of Education Policy & Advocacy with a focus on TK-12 issues. Her last day was Tuesday, January 9, 2024.
- The following positions are in the process of being filled:

1. Information Technology Manager I
2. Research Data Specialist II
3. Chief Counsel
4. Administrative Assistant, a new position within F5CA
5. Education Administrator I
6. Research Scientist II, a new position within F5CA