



HURST+BROOKS+ESPINOSA

May 14, 2025

To: HBE Clients

From: Hurst Brooks Espinosa, LLC

Re: Summary of Governor's 2025-26 May Revision

This morning, Governor Gavin Newsom released his second-to-last May Revision to the proposed 2025-26 state budget. He began his [presentation](#) by touting California's *bona fides* while placing much of the blame for the state's significant budget deficit on the disproportionate impact of tariffs implemented by President Trump on California, now the fourth largest economy in the world. Using the pejorative "Trump Slump" to describe the economic impact of tariffs and other directives from the federal government, Governor Newsom highlighted the various effects on the 2025-26 state budget, as estimated by the Department of Finance: \$10 billion in reduced capital gains, \$2.5 billion in weaker corporate tax profits, \$2 billion in lower wages/income tax withholding, and \$1.5 billion reduced personal income tax revenue.

While the Governor's January budget proposal noted a meager \$343 million surplus, and state revenues have come in well above Administration expectations, the May Revision estimates a \$12 billion budget deficit for 2025-26, without taking into account any effect of the federal cuts currently under consideration by Congress.

Tariffs impact state revenues in a few different ways, in large part due to the state's reliance on high income earners, as follows: (1) significantly reduced stock prices of the largest California-based technology companies; the May Revision assumes stock-based compensation to their employees will decrease in 2025 as a result; (2) personal income tax revenues from capital gains will decrease significantly due to the stock market decline; (3) state corporate taxable profit growth is downgraded from an estimated 4 percent growth to a 2 percent decline. In total, despite the significant increase in state revenues through April, General Fund revenues are estimated to decline by \$5.2 billion through 2025-26.

The May Revision does not forecast a traditional recession but instead reflects changing national conditions that economists consider a "growth recession" – a substantial slowdown in Gross Domestic Product (GDP) growth combined with lower job growth and higher unemployment. This "growth recession" is driven by higher tariffs and is

reflected in the downward revision of economic indicators that the Administration uses to develop the forecast.

The Governor's May Revision is available [online](#) now; please be mindful before you print, as the document is 130 pages. Note that both houses have released their respective summaries of the Governor's May Revision: [Senate](#) | [Assembly](#).

May Revision Overview

The Governor's May Revision proposes a variety of solutions to close the budget gap. Proposed reductions, totaling about \$5 billion, are as follows:

- **Enrollment freeze for full-scope Medi-Cal expansion for undocumented adults, adults 19 and older.** \$86.5 million in 2025-26, growing to \$3.3 billion in 2028-29.
- **Medi-Cal premiums, adults 19 and older.** Implementation costs of \$30 million in 2025-26, growing to savings of \$2.1 billion in 2028-29 for certain individuals.
- **Medi-Cal Asset Test limits.** \$68.6 million in 2025-26, growing to \$765.2 million in 2028-29 for certain individuals.
- **Elimination of long-term care benefits, adults 19 and older.** \$333.3 million in 2025-26, growing to \$800 million in 2026-27 for certain individuals.
- **Prospective payment system payments to Federally Qualified Health Centers and Rural Health Clinics.** \$452.5 million in 2025-26, growing to \$1.1 billion in 2026-27
- **Specialty drug coverage for weight loss.** \$85 million in 2025-26, growing to \$680 million in 2028-29.
- **Cap on In-Home Supportive Services (IHSS) overtime and travel hours at 50 hours.** \$707.5 million in 2025-26, growing to \$893.4 million in 2028-29.
- **Required provider mandates for Quality Incentive Payment Incentive Eligibility.** \$221.7 million ongoing beginning in 2026-27.

In the Health and Human Services section that follows, we provide additional details on the reductions described above.

The May Revision includes a total of \$5.3 billion in new revenue and borrowing solutions in 2025-26, as follows:

- **Proposition 35 support for Medi-Cal rate increases.** \$1.3 billion in 2025-26 and \$263.7 million in 2026-27.

- **Medical Providers Interim Payment Fund loan.** \$3.4 billion due to extending the repayment deadline.
- **Unfair Competition Law Fund loan.** \$150 million in 2025-26.
- **Labor and Workforce Development Fund loan.** \$400 million in 2025-26.

The May Revision also includes \$1.7 billion in fund shifts in 2025-26, as follows:

- **Greenhouse Gas Reduction Fund for CAL FIRE operations.** \$1.5 billion in 2025-26, growing to \$1.9 billion in 2028-29

Finally, the May Revision also includes triggers for two future spending commitments totaling \$456.1 million. These commitments are proposed to trigger **on** in 2027-28 contingent upon sufficient resources to support them:

- **California Food Assistance Program expansion.** \$117.2 million in 2027-28, growing to \$163.2 million in 2028-29.
- **Foster Care Tiered Rate Structure trigger.** \$338.9 million in 2027-28, growing to 522.1 million in 2028-29.

Regarding reserves, the May Revision maintains the planned withdrawal of approximately \$7.1 billion from the Budget Stabilization Account (BSA) and maintains a prudent level of reserves for future economic uncertainties. Accounting for withdrawals, the budget reflects total reserve balances of approximately \$15.7 billion at the end of 2025-26, with \$11.2 billion in the BSA and \$4.5 billion in the Special Fund for Economic Uncertainties.

Recall that the Governor's May Revision amends the January budget proposal, so – unless otherwise indicated – the May Revision represents additional proposals to those contained in the January budget.

TK-12 Education

The May Revision notes that revised estimates of General Fund revenues result in considerable adjustments to the Proposition 98 guarantee. The revised guarantee for TK-14 schools is calculated to be \$98.5 billion in 2023-24, \$118.9 billion in 2024-25, and \$114.6 billion in 2025-26. These revised estimates represent an increase of approximately \$2.9 billion over the three-year period relative to the 2024 Budget Act, and a decrease of approximately \$4.6 billion from the January budget.

Due to the uncertainty of General Fund revenues, the Administration is proposing to appropriate the 2024-25 guarantee at \$117.6 billion, instead of the currently calculated level of \$118.9 billion. The guarantee is in a Test 2 for 2023-24 and continues to be in a Test 1 for 2024-25 and 2025-26. This means the funding level for 2024-25 and 2025-26 is equal to roughly 40 percent of General Fund revenues, plus local property taxes.

Finally, the May Revision maintains the withdrawal of the full \$8.4 billion balance in the Public School System Stabilization Account in 2023-24.

Higher Education

Both the University of California and California State University are slated for a revised ongoing base funding reduction of about 3 percent (down from 8 percent as proposed in January) for each, as well as maintaining the deferral of the Compact investment for each.

General Government

California State Library

In April, the California State Library received a notice from the federal Institute of Museum and Library Service (IMLS) informing them that their federal grant was terminated. As a result of this mid-year action, the State Library was forced to forego \$3.4 million of an expected \$15.7 million in federal grant support for 2024-25, as well as those federal grant funds expected in 2025-26. As a result, the May Revision removes the ongoing authority for expenditure of these funds beginning in 2025-26. Further, the May Revision reallocates \$4.3 million one-time General Fund from a 2022 budget allocation for the Comprehensive Digitization Strategy Initiative to augment resources for State Library personnel in 2024-25 and 2025-26 to support federally funded positions.

2026 World Cup and LA28 Olympics

The May Revision includes authorization to CalOES to leverage existing and applicable authorities to provide assets through working with state agencies and to facilitate the acquisition of appropriate local or specialized resources, in support of objectives set forth by the Host Committees of the 2026 World Cup. For the LA28 Olympics, the Administration is including funding of \$17.6 million and statutory changes to support planning and preparation for the 2028 Olympic and Paralympic Games in Los Angeles.

Cannabis

The May Revision proposes [statutory changes](#) that shift the Department of Cannabis Control's illicit enforcement funding from the Cannabis Control Fund to the Cannabis Tax Fund and authorizes the department to seal an unlicensed premises when it is involved in illicit commercial cannabis activities. This action will help sustain existing enforcement activities without imposing significant fee increases on existing licensees.

The May Revision also includes funding to support additional inspections and other departmental activities by adding 27 staff over the next three years.

Finally, the May Revision includes [statutory changes](#) authorizing the Board of State and Community Corrections (BSCC) to award Proposition 64 grants to local governments that prohibit cannabis cultivation if they authorize retail cannabis sales and prioritizes grants for local illicit cannabis enforcement efforts.

Health

Medi-Cal

Expenditures in the Medi-Cal program have increased significantly and continue to outpace revenues. In Spring 2025, a cash flow loan of \$3.4 billion was executed and an additional \$2.8 billion General Fund was appropriated to support Medi-Cal expenditures of \$37.6 billion General Fund in 2024-25. The major drivers of these increases are higher overall enrollment, pharmacy costs, and higher managed care costs.

From 2014-15 to 2024-25, Medi-Cal General Fund costs increased from \$17.1 billion to \$37.6 billion. Medi-Cal caseload has increased from 12.7 million in 2019-20 to 15 million in 2024-25 at the May Revision. Some of the most significant contributing factors to this growth are the COVID-19 continuous coverage requirement and the implementation of major policy changes, such as the full elimination of the asset test for older adults and the full-scope expansion to all income-eligible Californians, regardless of immigration status.

Furthermore, expenditure increases are anticipated to continue through 2025-26. The May Revision includes several proposals to address Medi-Cal growth. Without the May Revision's proposals to contain expenditure growth, General Fund Medi-Cal costs would be roughly \$10 billion higher across 2024-25 and 2025-26 compared to the Governor's Budget and contribute significantly to the structural imbalance in future years.

PROPOSALS TO ADDRESS MEDI-CAL COSTS

► **Reductions to Benefits and Services for Adults with Unsatisfactory Immigration Status, Aged 19 and Older**

- *Enrollment Freeze for Full-Scope Medi-Cal Expansion for Adults, Age 19 and Older.* Implement a freeze on new enrollment to full-scope state-only coverage for otherwise eligible undocumented individuals, aged 19 and older, and who do not have satisfactory immigration status or are unable to establish satisfactory immigration, excluding Qualified Non-Citizens (also referred to as "Newly Qualified Immigrants") under the five-year bar, individuals claiming Permanently Residing Under Color of Law and pregnant individuals. The policy is effective no sooner than January 1, 2026. Estimated General Fund savings are \$86.5 million in 2025-26, growing to \$3.3 billion in 2028-29.
- *Medi-Cal Premiums, Adults 19 and Older.* Implement state-only \$100 monthly premiums for individuals with unsatisfactory immigration status aged 19 and older, effective January 1, 2027. Estimated General Fund savings are \$1.1 billion in 2026-27, increasing to \$2.1 billion by 2028-29. Implementation cost of \$30 million in 2025-26.
- *Prospective Payment System Payments to Federally Qualified Health Centers and Rural Health Clinics.* Elimination of Prospective Payment System (PPS) rates to clinics for individuals with unsatisfactory immigration status. Clinics would receive reimbursement at the applicable Medi-Cal fee-for-service rate and at the Medi-Cal managed care negotiated rate. Estimated General Fund savings are \$452.5 million in 2025-26 and \$1.1 billion in 2026-27 and ongoing.
- *Elimination of Long-Term Care.* Elimination of long-term care benefits for individuals aged 19 and older with unsatisfactory immigration status, effective January 1, 2026. Estimated General Fund savings are \$333 million in 2025-26 and \$800 million in 2026-27 and ongoing.
- *Elimination of Dental Benefits, Adults 19 and Older.* Elimination of full-scope dental coverage for Medi-Cal members with unsatisfactory immigration status aged 19 and over, effective July 1, 2026. This population will continue to have access to restricted-scope, emergency dental coverage. Estimated General Fund savings are \$308 million in 2026-27 and \$336 million in 2028-29 and ongoing.
- *IHSS for Full-Scope Medi-Cal Expansion Adults 19 and Older.* A reduction of \$158.8 million General Fund in 2025-26 and ongoing to eliminate IHSS benefits for individuals, regardless of immigration status, aged 19 and older.

► **Medi-Cal Asset Test Limits**

The May Revision reinstates the Medi-Cal asset limit for seniors and disabled adults of \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2026. Estimated General Fund savings are \$94 million in 2025-26, \$540 million in 2026-27 and \$791 million ongoing, inclusive of IHSS impacts.

► **Elimination of Acupuncture Optional Medi-Cal Benefit**

The May Revision proposes to eliminate acupuncture as an optional benefit resulting in estimated General Fund savings of \$5.4 million in 2025-26 and \$13.1 million ongoing.

► **Medical Providers Interim Payment Fund Loan**

The May Revision proposes to utilize \$2.1 billion of the cash loan in 2024-25 and \$1.3 billion in 2025-26 and begin repayment of the loan in 2027-28.

► **Medi-Cal Minimum Medical Loss Ratio**

The May Revision proposes to increase the minimum medical loss ratio for managed care plans, commencing January 1, 2026, resulting in projected General Fund savings of \$200 million in 2028-29 and ongoing.

► **Skilled Nursing Facilities**

The May Revision proposes to eliminate the Workforce and Quality Incentive Program and suspension of the requirement to maintain a backup power system for no fewer than 96 hours, resulting in General Fund savings of \$168.2 million in 2025-26 and \$140 million ongoing.

► **Program of All-Inclusive Care of the Elderly (PACE) Organization Capitation Payments**

The May Revision proposes to limit the payments for PACE providers to the midpoint of actuarial rate ranges, except for newly enrolled providers receiving enhanced rates for the first two years. General Fund savings are \$13 million in 2025-26 (\$26 million total funds) and \$30 million ongoing.

► **Utilization Management Efficiencies**

The May Revision proposes to implement prior authorization requirements for hospice services, resulting in estimated General Fund savings of \$25 million in 2025-26 and \$50 million ongoing.

► **Pharmacy**

- *Specialty Drug Coverage for Weight Loss.* Elimination of coverage for Glucagon-Like Peptide-1 (GLP-1) drugs for weight loss effective January 1, 2026. Estimated General Fund savings are \$85 million in 2025-26, growing to \$680 million by 2028-29 and ongoing.
- *Pharmacy Drug Rebates.* Implementation of a rebate aggregator to secure state rebates for individuals with individuals with unsatisfactory immigration status. Projected General Fund savings are approximately \$300 million in 2025-26 and \$362 million ongoing. Additionally, the May Revision reflects additional General Fund savings of \$75 million in 2025-26 and \$150 million ongoing associated with increasing the minimum rebate for HIV/AIDS and cancer drug rebates.
- *Elimination of Over-the-Counter Drug Coverage.* Elimination of pharmacy coverage of certain drug classes including COVID-19 antigen tests, over-the-counter vitamins, and certain antihistamines including dry eye products. Estimated General Fund savings are \$3 million in 2025-26 and \$6 million in 2026-27 and ongoing.
- *Prescription Drug Utilization Management.* Implementation of utilization management and prior authorization for prescription drugs resulting in estimated General Fund savings of \$25 million in 2025-26 and \$50 million in 2026-27 and ongoing.
- *Step Therapy Protocols.* Implementation of a step therapy strategy to promote utilization management and control prescription drug costs, resulting in estimated General Fund savings of \$87.5 million in 2025-26 and \$175 million ongoing.
- *Prior Authorization for Continuation of Drug Therapy.* Elimination of the continuing care status for pharmacy benefits under Medi-Cal Rx. The policy, effective January 1, 2026, requires members to obtain drugs no longer on or removed from the Medi-Cal Rx contracted drug list (CDL) through the prior authorization process rather than allow continuing care based upon prior drug usage. Estimated General Fund savings are \$62.5 million in 2025-26 and \$125 million in 2026-27 and ongoing.

► **Proposition 56**

- *Supplemental Payments.* Elimination of approximately \$504 million in 2025-26 and \$550 million ongoing for Proposition 56 supplemental payments to dental, family planning, and women's health providers.

- *Suspension of the Proposition 56 Loan Repayment Program.* Suspension of a final cohort of the loan repayment program to create estimated General Fund savings of \$26 million in 2025-26.

MANAGED CARE ORGANIZATION (MCO) TAX

Proposition 35, approved by the voters in November 2024, specifies permissible uses of specified tax revenues starting with the 2025 tax year for which DHCS must consult with a stakeholder advisory committee to develop and implement. The May Revision reflects MCO Tax revenue of \$9 billion in 2024-25, \$4.2 billion in 2025-26, and \$2.8 billion in 2026-27 to support the Medi-Cal program. Compared to the Governor's Budget, this is an increase of \$1.1 billion in 2024-25 and decreases of \$200 million in 2025-26 and \$400 million in 2026-27. The May Revision reflects \$804 million in 2024-25, \$2.8 billion in 2025-26, and \$2.4 billion in 2026-27 for the MCO Tax and Proposition 35 expenditure plan. In addition to the amounts supporting the Medi-Cal program, \$1.6 billion across 2025-26 and 2026-27 will support increases in managed care payments relative to calendar year 2024 for primary care, specialty care, ground emergency medical transportation, and community and hospital outpatient procedures. The coalition that passed Proposition 35 is identifying this \$1.6 billion in managed care payments as a diversion of the MCO tax revenue as it is being used to cover already incurred costs in Medi-Cal and **not** for increasing provider payments to increase access to health care.

The Department of Health Care Services (DHCS) released an MCO tax spending [document](#) today, which includes a chart of proposed spending in calendar years (CY) 2025 and 2026. The document also includes very brief narratives on each domain. For Designated Public Hospitals, DHCS proposes to use \$150 million in CY 2025 and \$150 million in CY 2026 to support "the non-federal share of a portion of increases in existing special-funded hospital directed payments relative to CY 2024 for designated public hospital services, thereby increasing participating hospitals' net benefit under these programs." DHCS is required to convene the Protect Access to Health Care Act (PAHCA) Stakeholder Advisory Committee of Proposition 35 stakeholders. The PAHCA will be meeting May 19 ([agenda](#)) to discuss the document.

Calendar Years 2025 and 2026 MCO Tax Allocation Overview

Domain	Proposed Funding (millions)
Medi-Cal Program Support	\$2,000
Primary Care	\$691
Specialty Care	\$575
Emergency Department Facilities and Physicians	\$355
Community and Outpatient Procedures	\$245

Domain	Proposed Funding (millions)
Reproductive Health	\$90
Designated Public Hospitals	\$150
Services and Supports for Primary Care	\$50
Ground Emergency Medical Transportation	\$50
Behavioral Health Facility Throughputs	\$300
Graduate Medical Education	\$75
Medi-Cal Workforce	\$75
TOTAL	\$4,656

The May Revision notes the use of Proposition 35 for additional items, including:

- *Proposition 35 Reproductive Health Investments.* The May Revision reflects \$90 million in the Health Care Oversight and Accountability Subfund as part of the Proposition 35 expenditure plan for reproductive health investments for emergent needs including midwifery loan repayments and scholarships and education capacity expansion for midwives at the Department of Health Care Access and Information.
- *Proposition 35 Flexible Housing Subsidy Pools.* The May Revision reflects \$200 million in Proposition 35 funds over two years for Flexible Housing Pool rental assistance and housing supports to help individuals with significant behavioral health conditions who are experiencing, or at risk of, homelessness, enter and maintain stable long-term housing.

Pharmacy Benefit Managers

The May Revision proposes statutory changes to establish licensure and data reporting requirements for pharmacy benefit managers (PBMs) to increase transparency in the pharmacy supply chain, understand cost drivers, and develop approaches to improve the affordability of prescription drugs in California. Under this proposal:

- PBMs must be licensed and regulated by the Department of Managed Health Care (DMHC); must report operational and financial details, including audited statements; and will have a fiduciary duty to clients, which hold PBMs to a higher ethical standard.
- DMHC will review PBM contracts and perform regular financial audits.
- As part of licensure, PBMs must report detailed drug pricing data to the Department of Health Care Access and Information (HCAI), the state's health data agency.

- DMHC will have clear authority to enforce rules and penalize violations.

Trailer bill language is not available at the time of publication of this document.

Expanding CalRx

The May Revision proposes expanding the authority of CalRx to purchase brand-name drugs. This change gives the state more tools to respond to supply chain disruptions, market manipulation, or politically motivated restrictions that could threaten access to essential medications — including medication abortion. By expanding CalRx's scope, California will be better positioned to:

- Secure affordable supply of both generic and brand-name drugs.
- Maintain uninterrupted access to medications at risk of shortage or political interference.
- Strengthen the state's ability to protect reproductive health care options, including mifepristone and other medications under attack in other states.

Behavioral Health

BEHAVIORAL HEALTH WORKFORCE INITIATIVE

The May Revision includes \$1.9 billion (\$143 million Behavioral Health Services Fund, \$808 million Designated State Health Program Funding, and \$950 million federal funds) for the Department of Health Care Access and Information to implement the Behavioral Health Workforce Initiative beginning in January 2026.

BEHAVIORAL HEALTH INFRASTRUCTURE BOND ACT

DHCS requests resources and expenditure authority to continue implementation of the Behavioral Health Continuum Infrastructure Program expanded via the Proposition 1 Behavioral Health Bond Act and [AB 531](#) (Chapter 789, Statutes of 2023). The Department uses a combination of state staff and contractor resources to award and manage competitive grants to construct, acquire, and rehabilitate real estate assets to further expand behavioral health facilities.

BEHAVIORAL HEALTH SERVICES FUND (BHSF) GENERAL FUND OFFSET

The May Revision proposes to replace \$40 million General Fund in 2024-25 and \$45 million General Fund in 2025-26 for the Behavioral Health Bridge Housing Program and \$55 million General Fund for Behavioral Health Transformation County Funding in 2025-26 with BHSF funds.

988 SUICIDE AND CRISIS LIFELINE CENTERS

The May Revision includes \$17.5 million one-time 988 State Suicide and Behavioral Health Crisis Services Fund to support suicide and crisis lifeline center contact volume capacity.

ONGOING RESOURCES FOR CALHOPE WARM LINE

The May Revision includes \$5 million from the BHSF to support the continuation of the CalHOPE Warm Line in 2025-26 and beyond.

TRANSFORMING MATERNAL HEALTH (TMAH) MODEL

DHCS requests resources and expenditure authority to implement the TMAH Model. As one of 15 states selected by the federal CMS, the Department was awarded funding to implement a ten-year Medicaid and Children's Health Insurance Program delivery and payment model designed to improve maternal health outcomes, reduce costs, and address serious gaps in health care. Resources will be used to implement the TMAH Model in five central valley counties: Fresno, Kern, Kings, Madera, and Tulare.

Department of State Hospitals

DEPARTMENT OF STATE HOSPITAL PROGRAMS

The May Revision proposes to reduce resources for various state hospital programs, including the Incompetent to Stand Trial Program, Community-Based Restoration and Felony Diversion programs, and isolation unit needs. Estimated savings are \$195.5 million General Fund in 2025-26, \$273.1 million General Fund in 2026-27, and \$191.6 million General Fund in 2027-28 and ongoing. The May Revision maintains funding to continue to support these programs based on actual program expenditures.

INCOMPETENT TO STAND TRIAL INFRASTRUCTURE GRANT PROGRAM

The May Revision proposes a reduction of \$232.5 million one-time General Fund included in the 2022 Budget Act from unspent grant funds for counties to increase residential treatment housing capacity for individuals designated Incompetent to Stand Trial.

Human Services

In-Home Supportive Services

To address the projected budget shortfall, the May Revision includes several proposals that impact IHSS including:

- *Provider Overtime and Travel Hours.* A reduction of \$707.5 million General Fund and ongoing to cap IHSS provider overtime and travel hours at 50 hours per week beginning in 2025-26.
- *Conform IHSS Residual Program with Medi-Cal Coverage.* A reduction of \$110.6 million General Fund in 2025-26 to conform the IHSS Residual Program coverage with the timing of Medi-Cal coverage.
- *IHSS for Full-Scope Medi-Cal Expansion Adults 19 and Older.* A reduction of \$158.8 million General Fund in 2025-26 and ongoing to eliminate IHSS benefits for individuals, with unsatisfactory immigration status, aged 19 and older.
- *Community First Choice Option Late Penalties.* A reduction of \$81 million General Fund in 2025-26 to reflect the assumed costs for counties to cover the IHSS, Community First Choice Option reassessment late penalties.
- *Medi-Cal Assets Test Limits.* A reduction of \$25.5 million General Fund in 2025-26 to conform IHSS with the reinstatement of the Medi-Cal asset limit.

Additionally, the May Revision does not include funds to address county administrative costs associated with IHSS. The California Department of Social Services and County Welfare Directors Association have been working to update the IHSS administrative methodology, which has not changed since 2017-18.

CalWORKs

The May Revision assumes \$9.5 billion in total Temporary Assistance for Needy Families (TANF) expenditures (state, local, and federal funds) in 2025-26. This amount includes \$6.2 billion for CalWORKs program expenditures. The average monthly CalWORKs caseload is projected to be 363,766 families in 2025-26.

The May Revision includes \$1.7 billion total funds in 2024-25 for the Single Allocation, which reflects no change from the Governor's January Budget estimate. The May Revision includes \$1.6 billion total funds (TF) in 2025-26 for the Single Allocation, which reflects an increase of \$6.3 million TF compared to the Governor's Budget. The increase reflects a faster employment services caseload growth than previously projected and decreases in the Shared Eligibility and Medi-Cal Common Costs shifts, partially offset by elimination of workload associated with the CalWORKs Research and Development Enterprise Project (RADEP) and Enterprise II Lite (E2Lite) system.

The May Revision does not include funding to address the county eligibility component of the CalWORKs single allocation. The 2022 Budget Act included trailer bill language requiring the California Department of Social Services (CDSS) to work with counties to reassess the budget methodology for eligibility administration of the Single Allocation

every three years, beginning with FY 2024-25. The first reassessment took place in FY 2023-24, and revealed approximately \$210 million annually is needed to update for costs associated with eligibility administration: \$160.3 million to update the worker cost and \$48.8 million to fund the workload associated with all applications. The May Revision does not address the methodology shortfall.

The May Revision includes statutory changes to the CalWORKs program, resulting in efficiencies for families and counties. These changes include: (1) expanding the allowable welfare-to-work activities, (2) making Job Club an optional welfare-to-work activity, (3) simplifying the curing of sanctions, and (4) replacing the county welfare-to-work reporting requirements with administrative data extracts.

Finally, the May Revision includes one-time funding of \$21.1 million General Fund to backfill the TANF block grant reduction in federal fiscal year (FFY) 2026 associated with not meeting the two-parent Work Participation Rate (WPR) for FFY 2012 through FFY 2014. The Department of Social Services' budget document notes that a portion of the penalty may be passed on to the counties based on their contribution to the State not meeting the WPR.

California Food Assistance Program

The May Revision creates a trigger for the California Food Assistance Program (CFAP) Expansion, which would trigger **on** in 2027-28 if there are sufficient resources. The CFAP expansion is budgeted for \$117.2 million in 2027-28, growing to \$163.2 million in 2028-29.

Child Welfare Services

FAMILY URGENCY RESPONSE SYSTEM REDUCTION

The May Revision includes a reduction of \$13 million General Fund in 2025-26 and ongoing. The proposal maintains \$17 million ongoing General Fund for the System.

FOSTER CARE TIERED RATE STRUCTURE

The May Revision creates a trigger for the Foster Care Tiered Rate Structure Expansion, which would trigger **on** in 2027-28 if there are sufficient resources. The Foster Care Tiered Rate Structure Expansion is budgeted for \$338.9 million in 2027-28, growing to \$522.1 million in 2028-29.

Child Care

The Administration continues to work toward a single rate structure and utilization of an alternative methodology for estimating the costs of care. Additionally, the

Administration is working to meet the federal requirement that the state determine and submit rates informed by the preapproved Alternative Methodology no later than July 1, 2025. The Administration will also continue to provide point-in-time updates for the implementation of the new single rate structure through the quarterly reports to the Legislature. The current Memorandum of Understanding with Child Care Providers United–California (CCPU) is set to expire on June 30, 2025. The state and CCPU continue to meet to discuss a successor agreement.

The May Revision maintains funding to continue the Cost of Care Plus Rate monthly payments adopted for state-subsidized child care providers, consistent with requirements related to the reimbursement floor established in the 2024 Budget Act. Additionally, an increase of \$44.8 million in 2025-26 is provided for Child Care and Development Agencies to administer these payments outside of service-contract payments.

To address the projected budget shortfall, the May Revision includes General Fund solutions that impact child care, including:

- *Child Care Cost-of-Living Adjustment.* A reduction of \$60.7 million General Fund in 2025-26 and ongoing to suspend the child care cost-of-living adjustment in 2025-26.
- *Emergency Child Care Bridge.* A reduction of \$42.7 million General Fund in 2025-26 and ongoing. The proposal maintains \$51 million in annual ongoing funding for the Emergency Child Care Bridge program.

Housing and Homelessness

Consistent with the Governor's January Budget proposal, the May Revision does not propose to extend the Homeless Housing, Assistance and Prevention (HHAP) program into 2025-26. Unlike prior budget summaries, it also does not include a discussion about working with the Legislature to extend the funding with additional accountability policies. Instead, the May Revision focuses on the proposed establishment of the new California Housing and Homelessness Agency responsible for coordinating state housing and homelessness efforts.

On the housing front, the May Revision reverts \$31.7 million in unexpended General Fund for the Infill Infrastructure Grant Catalytic Program, the Commercial Property Pilot Program, and the 2021 Infill Infrastructure Grant Program from a total of \$506.4 million appropriated for these programs in the 2021, 2022, and 2023 Budget Acts.

Housing and Infrastructure Bond

The May Revision indicates Governor's support for a potential statewide housing bond measure, although with additional investments in broader types of infrastructure. Assembly Member Wicks and Senator Cabaldon have introduced nearly identical \$10 billion housing bond measures, [AB 736](#) and [SB 417](#). While both bond bills include allocations for HCD's Infill Infrastructure Grant Program of 2019, which funds a broad array of infrastructure improvements necessary to build affordable housing, the measures are predominantly focused on housing.

Climate-Aligned Housing Policy Reforms

The May Revision states the Administration's intent to work with the Legislature to include legislation in the budget that advances climate-friendly housing production. During his press conference, the Governor specifically mentioned working with Senate Budget Chair Wiener and Assemblymember Wicks to advance CEQA streamlining. The two legislators have introduced [SB 607](#) and [AB 609](#), respectively, which make several changes to expedite or eliminate environmental review, including broad exemptions from CEQA for qualifying infill housing projects. In addition, the May Revision includes the following specific [trailer bill provisions](#) related to housing and land use:

- Eliminates the exception in the Permit Streamlining Act for the Coastal Commission, thereby subjecting the Commission to the same timelines for discretionary land use approvals that apply to local governments and other state agencies.
- Removes the \$100 million cap on housing development projects under the "Jobs and Economic Improvement Through Environmental Leadership Act of 202," which allows qualifying projects to receive the streamlined administrative and judicial review under CEQA. The trailer bill also allows projects that demonstrate consistency with the Air Resources Board's scoping plan to use this authority, even if the project will result in a net increase in greenhouse gas emissions.
- Establishes a vehicle miles travelled (VMT) mitigation banking program overseen by the Governor's Office of Land Use and Climate Innovation (LCI), with mitigation funding flowing to HCD's Transit-Oriented Development Implementation Fund by July 1, 2026.

The trailer bill language incorporates provisions from [AB 1244](#) (Wicks, 2025) but could provide greater flexibility for the use of mitigation funding. Unlike AB 1244, the trailer bill would allow LCI to designate location-efficient areas where transit-oriented housing development could receive mitigation funds. These provisions may facilitate funding for infill housing projects in "location efficient areas" that do not otherwise meet the standards for qualifying transit service.

- Authorizes LCI to develop uniform standards for the submission of General Plan Annual Reports by cities and counties. In recent years, the portion of the Annual Report related to housing and submitted to HCD has grown in scope and complexity, due to similar legislative requirements.

Climate Change

As expected, the May Revision confirmed the Governor's commitment to extend the state's Cap-and-Trade program this year. Accompanying [trailer bill language](#) would extend the program through 2045 and rename it as the Cap-and-Invest program but is light on other potential programmatic adjustments or changes to the expenditure plan for auction proceeds in the Greenhouse Gas Reduction Fund (GGRF). The May Revision also proposes to tap GGRF to address General Fund shortfalls, including a shift of \$1.54 billion in existing GGRF to backfill General Fund support for CalFIRE's fire prevention, fire control, and other resources management activities.

The May Revision states Governor Newsom's intent to work with the Legislature to design an expenditure plan while also signaling at least one Cap-and-Invest priority of his own – raising the annual funding amount for the High-Speed Rail (HSR) project. Currently, the HSR project receives 25% of GGRF revenue, which fluctuates year-over-year. The May Revision proposes a flat allocation of \$1 billion annually for HSR, regardless of overall auction proceeds, which will have an impact on the availability of funding for other carbon reducing programs.

Since the inception of the Cap-and-Trade program in the fiscal year 2012-13, funding generated from a 25% share of GGRF revenues has ranged from a low of \$61 million in the first year to a high of \$1.28 billion in 2023-24. The HSR project has received GGRF allocations greater than \$1 billion in each of the last three fiscal years. As a reminder, in addition to HSR, the following programs receive ongoing percentage-based allocations of GGRF revenues under existing law:

- Affordable Housing and Sustainable Communities (20%)
- Transit and Intercity Rail Capitol Program (10%)
- Low Carbon Transit Operations Program (5%)
- Safe and Affordable Drinking Water (5%)

Transportation

The May Revision proposes \$17.6 million one-time from the State Highway Account to support the 2028 Olympic and Paralympic Game in Los Angeles, including facility development, ongoing planning efforts, and work on the Games Route Network project.

The May Revision does not make any other transportation funding related proposals, including the 2023 Budget Act's Transportation Package that included significant support from the General Fund for transit programs.

Local Public Safety and State Corrections

Proposition 36

The May Revision proposes no funding to support implementation of the November 2024 voter-approved initiative that amended penalties for specified drug and theft crimes and created a new treatment-mandated felony, among other provisions. (In related news, the Senate Public Safety Committee and the Senate Budget and Fiscal Review Subcommittee No. 5 with jurisdiction over public safety, corrections, and the judiciary are holding a [joint hearing](#) tomorrow to revisit the status of Proposition 36 implementation; a similar joint hearing was held in February.) During his press conference, the Governor was asked about the absence of Proposition 36 funding in the May Revision; he responded that the counties supported the ballot measure and that the state is not responsible for covering the costs.

Proposition 47

The May Revision increases its January estimate for state correctional associated with the state's continued implementation of Proposition 47 (2014) by \$3.2 million, now projecting \$91.5 million in 2024-25 (for allocation in 2025-26). Pursuant to the ballot measure, these funds will be allocated to the three following policy priorities: (1) behavioral health treatment and diversion programs (65 percent), (2) programs to improve outcomes for K-12 students and reduce trancies (25 percent), and (3) support for victims' services through trauma recovery centers (10 percent). For timing reasons, we do not anticipate seeing the impact of Proposition 36 (2024) implementation on Prop 47 state correctional savings until 2026-27.

Community Corrections Performance Incentive Grant (SB 678)

The May Revision proposes \$127.9 million in SB 678 funding for county probation departments as well as [statutory updates](#) to the methodology for calculating the incentive payments associated with counties' successes in reducing prison admissions. In recent years, funding for this item was held constant due to the pandemic's impact on probation populations, law enforcement practices, and court processes. Proposed changes to the methodology for calculating incentive payments recognize the historic successes of California probation departments in reducing the number of individuals sent to prison by establishing stable funding, enhancing the performance-based incentive nature of the funding, and reducing variability in the prior methodology.

Civil Authority to Enforce Minimum Standards for Juvenile Detention Facilities

The May Revision proposes [statutory changes](#) to authorize the BSCC to bring a civil action when a juvenile detention facility is found to be unsuitable for the confinement of youth. These changes would allow a superior court to order specified relief, including corrective action or injunctive relief, for a facility that fails to meet the state's minimum standards for operating a juvenile detention facility.

State Corrections and Prison Population Trends

The state's incarcerated population is projected to fluctuate over the next several years, with modest yet temporary upward pressure in the outyears associated with the implementation of Proposition 36. Overall, however, the state is expected to experience a downward trend over the long-term. The state's updated projections suggest that the prison population will hover around 91,000 in the current and budget years, increase to just over 92,000 in 2027-28, then drop to approximately 89,700 by June 30, 2029. These population projections take into account the Administration's assumptions around a "slower ramp-up" in Proposition 36 impacts.

The outyear downward projections – in combination with the state's fiscal situation – are cited as the rationale for a proposed closure of one additional and as-yet-unnamed state prison by October 2026.

The May Revision includes a variety of additional resources for critical infrastructure and fire and life safety needs in the state's institutions. Additionally, the Governor proposes increased reimbursement authority, 65 positions, and other General Fund adjustments to support the implementation of the Cal-AIM Justice-Involved Initiative within the state prisons. A handful of new investments proposed in the January budget have been withdrawn or reduced to help address the state's budget problem.

Judicial Branch

Significant budget adjustments in the judicial branch budget include a proposed reduction in the Pretrial Services Program. In recognition of current expenditure levels, the Governor's May Revision proposes to revert \$20 million in the branch's pretrial services program in 2024-25 and permanently reduce the annual allocation from \$70 million to \$50 million in 2025-26 and going forward. Additionally, the Administration will pursue budget bill language to permit reallocation of pretrial funding from one jurisdiction to another based on need.

Department of Justice

The May Revision makes a number of investments to address workload and needed information technology enhancements at the Department of Justice (DOJ). Additionally, as one of the solutions to addressing the budget shortfall, the Administration proposes a budgetary loan from the DOJ's Unfair Competition Law Fund to the General Fund, with the caveat that the loan be drawn from resources not immediately required for projected operational or programmatic purposes.

Updated 1991 and 2011 Realignment Revenue Estimates

Updated 1991 and 2011 Realignment revenue estimate charts are provided below. We would note that for the Community Corrections Subaccount, revised estimates show growth of \$26.1 million in 2024-25 (down from the \$79.8 million estimated in January), which creates a projected 2025-26 base of \$1.991 billion (down from the \$2.044 billion estimated in January). Additionally, the Department of Finance now estimates growth funding for the Community Corrections Subaccount of \$84.5 million in 2025-26 compared to the \$76.3 million previously estimated in January.

Recall that the Department of Finance updates revenue estimates twice annually – at the Governor's January Budget and May Revision. Final revenues for the various accounts and subaccounts attributable to the Realignment fiscal year (August 16-August 15) are typically finalized in the fall (late August or early September).

2011 Realignment Estimate at 2025-26 May Revision
(Dollars in Millions)

	2023-24	2023-24 Growth	2024-25	2024-25 Growth	2025-26	2025-26 Growth
Law Enforcement Services	\$3,428.3		\$3,432.1		\$3,466.9	
Trial Court Security Subaccount	\$646.0	0	\$646.8	3.5	650.3	11.3
Enhancing Law Enforcement Activities Subaccount ²	\$489.9	374.4	\$489.9	412.7	489.9	429.4
Community Corrections Subaccount	\$1,962.2	0	\$1,964.7	26.1	1,990.8	84.5
District Attorney and Public Defender Subaccount	\$81.4	0	\$81.5	1.7	83.2	5.6
Juvenile Justice Subaccount	\$248.9	0	\$249.2	3.5	252.7	11.3
Youthful Offender Block Grant Special Account	-235.1		-235.4		-238.7	
Juvenile Reentry Grant Special Account	-13.7		-13.8		-13.9	
Growth, Law Enforcement Services		374.4		447.5		542.1
Mental Health³	1,120.6	0	1,120.6	3.2	1,120.6	10.5
Support Services	5,287.2		5,293.9		5,355.4	
Protective Services Subaccount	3,060.4	0	3,064.3	29.1	3,093.4	94.1
Behavioral Health Subaccount	2,226.8	0	2,229.6	32.3	2,261.9	104.6
Women and Children's Residential Treatment Services	-5.1		-5.1		-5.1	
Growth, Support Services		0		64.6		209.2
Account Total and Growth	\$10,210.5		\$10,358.7		\$10,694.0	
Revenue						
1.0625% Sales Tax	9,306.0		9,413.4		9,730.6	
General Fund Backfill ⁴	40.1		42.8		44.2	
Motor Vehicle License Fee	864.3		902.6		919.3	
Revenue Total	\$10,210.5		\$10,358.7		\$10,694.0	

¹This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

²Base Allocation is capped at \$489.9 million. Growth does not add to the base.

³Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

⁴Reflects General Fund backfill for exempt sales tax categories.

1991 Realignment Estimate at 2025-26 May Revision
\$s in Thousands

Amount	2023-24 State Fiscal Year (Actual)						Total
	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	
Base Funding							
Sales Tax Account	\$752,888	\$119,642	\$2,521,843	\$339,948	\$496,208	\$523,585	\$4,754,113
Vehicle License Fee Account	367,663	1,093,203	216,223	149,879	185,798	472,549	2,485,315
Subtotal Base	\$1,120,551	\$1,212,845	\$2,738,066	\$489,826	\$682,006	\$996,133	\$7,239,428
Growth Funding							
Sales Tax Growth Account:	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Caseload Subaccount	-	-	-	-	-	-	-
General Growth Subaccount	-	-	-	-	-	-	-
Vehicle License Fee Growth Account	-	22,704	-	46,053	-	54,270	123,026
Subtotal Growth	\$-	\$22,704	\$-	\$46,053	\$-	\$54,270	\$123,026
Total Realignment 2023-24^{1/}	\$1,120,551	\$1,235,549	\$2,738,066	\$535,879	\$682,006	\$1,050,403	\$7,362,455
2024-25 State Fiscal Year (Projected)							
Base Funding							
Sales Tax Account	\$752,888	\$171,028	\$2,521,843	\$339,948	\$444,822	\$523,585	\$4,754,113
Vehicle License Fee Account	367,663	1,115,907	216,223	195,932	185,798	526,818	2,608,341
Subtotal Base	\$1,120,551	\$1,286,936	\$2,738,066	\$535,879	\$630,620	\$1,050,403	\$7,362,455
Growth Funding							
Sales Tax Growth Account:	\$-	\$-	\$18,332	\$-	\$-	\$-	\$18,332
Caseload Subaccount	-	-	(18,332)	-	-	-	(18,332)
General Growth Subaccount	-	-	-	-	-	-	-
Vehicle License Fee Growth Account	-	21,479	-	43,569	-	51,342	116,391
Subtotal Growth	\$-	\$21,479	\$18,332	\$43,569	\$-	\$51,342	\$134,722
Total Realignment 2024-25^{1/}	\$1,120,551	\$1,308,415	\$2,756,398	\$579,448	\$630,620	\$1,101,745	\$7,497,177
2025-26 State Fiscal Year (Projected)							
Base Funding							
Sales Tax Account	\$752,888	\$76,865	\$2,540,175	\$339,948	\$538,986	\$523,585	\$4,772,445
Vehicle License Fee Account	367,663	1,137,387	216,223	239,501	185,798	578,161	2,724,732
Subtotal Base	\$1,120,551	\$1,214,251	\$2,756,398	\$579,448	\$724,784	\$1,101,745	\$7,497,177
Growth Funding							
Sales Tax Growth Account:	\$-	\$-	\$150,204	\$-	\$-	\$-	\$150,204
Caseload Subaccount	-	-	(150,204)	-	-	-	(150,204)
General Growth Subaccount	-	-	-	-	-	-	-
Vehicle License Fee Growth Account	-	\$18,841	-	\$38,218	-	\$45,037	\$102,097
Subtotal Growth	\$0	\$18,841	\$150,204	\$38,218	\$0	\$45,037	\$252,301
Total Realignment 2025-26^{1/}	\$1,120,551	\$1,233,093	\$2,906,602	\$617,666	\$724,784	\$1,146,783	\$7,749,478

^{1/} Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.

What's Next?

Both houses' budget subcommittees will convene next week to review the Governor's May Revision proposals. Senate hearings are scheduled over two weeks beginning on Monday. Currently, the Assembly has scheduled one budget subcommittee hearing tomorrow with multiple subcommittees meeting daily through the end of next week. During the month between the May Revision release and the June 15 deadline for the Legislature to approve a balanced budget, considerable behind-the-scenes work – negotiations as well as drafting of specific language – takes place in addition to the public hearings. We will keep you apprised on developments throughout these next few weeks of high-intensity activity. As we have noted previously, many Capitol observers

anticipate that the Legislature will be required to return for a special session this fall to address federal budget decisions that remain very much in flux.

Questions?

As always, we remain available to answer questions on any aspect of the May Revision or the budget process in general. Please do not hesitate to reach out. Thank you!

JEAN HURST
916-272-0010
jkh@hbeadvocacy.com

KELLY BROOKS
916-272-0011
kbl@hbeadvocacy.com

ELIZABETH ESPINOSA
916-272-0012
ehe@hbeadvocacy.com

JOSH GAUGER
916-426-2700
jdg@hbeadvocacy.com