



County of Santa Cruz Board of Supervisors

Agenda Item Submittal

From: County Executive Office

Subject: California Governor's 2025-26 May Revision Budget Proposal

Meeting Date: May 20, 2025

Formal Title: Consider update on the California Governor's May Revision to the Proposed 2025-26 Budget

Recommended Actions

Accept and file update on the California Governor's May Revision to the Proposed 2025-26 Budget and applicable analysis.

Executive Summary

On May 14, 2025, Governor Newsom released the May Revision to the Proposed 2025-26 Budget presented on January 10, 2025. In April, the Governor indicated that the revised budget proposal would contain significant budget reductions due to worsening economic conditions. Ultimately, the May Revision outlined solutions to solve a new \$12 billion deficit. With federal and state budgets providing 57% of General Fund resources, any reductions in federal or state funding can have a direct and significant impact on County services. The California Budget is available at <https://ebudget.ca.gov/>.

Discussion

Governor's Proposed 2025-26 Budget

On January 10, 2025, Governor Gavin Newsom released his [Proposed Budget](#) for 2025-26 while California continued to battle devastating wildfires in Southern California. Estimates of insured losses from the fires are over \$20 billion. The Proposed 2025-26 Budget totaled approximately \$322.2 billion, led by stronger economic performances than those projected in the 2024-25 Budget. The Proposed 2025-26 Budget was largely dependent on personal income taxes, and specifically, an increase in capital gains realizations. It maintained a planned withdrawal of approximately \$7.1 billion from the Budget Stabilization Account, as provided for in the 2024-25 Budget.

Significant features of the Proposed 2025-26 Budget affecting counties and other local agencies in California included the following:

- **Natural Resources and Environment:** \$2.7 billion for the first year of a multi-year expenditure plan to implement the \$10 billion climate bond (Proposition 4) authorized by voters in November.
- **Public Safety:** \$88.3 million in grants to public agencies for various recidivism reduction programs such as mental health and substance use treatment services, truancy and dropout prevention, and victims' services, and \$126.5 million for probation departments.
- **Housing:** reductions of over \$1.2 billion General Fund monies for various housing programs that received recent investments, leaving the total General Fund investment in affordable housing and homeownership programs at approximately \$4 billion since 2019.

- **Health and Human Services:** \$296.1 billion (\$83.7 billion General Fund – over 35% of the state’s overall General Fund budget expenditures) for all health and human services programs in 2025-26.
 - \$85 million (\$50 million General Fund) for counties to begin administering the Behavioral Health Services Act (“BHSA”), as passed by the voters under Proposition 1 in March 2024.
 - \$36.6 million in 2024-25, \$47.1 million in 2025-26, and \$51.1 million in 2026-27 and annually thereafter for county behavioral health agency activities.
 - \$28.5 billion for the In-Home Supportive Services (“IHSS”) program. This is an increase of \$3.3 billion due to increased caseload, costs per hour, and number of hours.
 - \$1 billion from the General Fund for services to children and families. Total funding for children’s programs is more than \$10.8 billion when federal and certain other funding sources are included.
- **Homelessness:** \$100 million from the General Fund for encampment resolution fund grants as committed to in the 2024-25 Budget.
- **Transportation:** \$1.6 billion General Fund resources and \$393 million in greenhouse gas reduction fund resources for transportation programs.

May Revision to Governor’s Budget Proposal

On May 14, 2025, the Governor released the [May Revision](#) in compliance with the statutory deadline. The May Revision proposes \$321.9 billion of state spending, including \$226.4 billion from the General Fund. The January budget proposal included \$322.3 billion of state spending, including \$228.9 billion from the General Fund.

The May Revision proposes \$12 billion in reductions or 5.3% from the January proposal. Unlike the last two years, during which the state also faced budget deficits, this year’s approach includes a significant number of reductions to ongoing programs that result in greater savings in future years. Table 1 summarizes the changes followed by additional details from the Governor’s May Revision.

Although generally the May Revision would have been released the Friday before the deadline, that was not the case this year and staff received it a day before this board letter was published. Accordingly, counties and agencies across the State are still determining the programmatic impacts of the May Revision. Attached to this report is the Governor’s summary of the May Revision along with analysis provided by the California State Association of Counties.

The County Executive Office will provide updated information on the May Revision during the Board presentation and County department representatives will be on hand to provide any new or additional information, including the Health Services Agency and Human Services Department.

Table 1: May Revision Proposed Solutions

Amount	Solutions
\$5.0 billion	Freeze Medi-Cal undocumented adult enrolment, eliminate funding for clinic expansions, and place a cap on in-home

	supportive services overtime and travel costs
\$5.3 billion	Provide internal loans from Medi-Cal, Unfair Competition Law Fund, and Labor and Workforce Development Fund
\$1.7 billion	Support CAL FIRE with new funding from Greenhouse Gas Reduction Fund

\$5 billion in total reductions for 2025-26, growing to \$14.8 billion by 2028-29:

- **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. This freeze on new enrollment to full-scope coverage for individuals, regardless of immigration status, aged 19 and over, effective no sooner than January 1, 2026.
- **Medi-Cal Premiums, Adults 19 and Older:** Implementation cost of \$30 million in 2025-26, growing to savings of \$2.1 billion in 2028-29 for individuals with certain statuses, those who will eventually qualify for federal funds, and individuals enrolled in the Medi-Cal full-scope expansion.
- **Medi-Cal Asset Test Limits:** \$68.6 million in 2025-26, growing to \$765.2 million in 2028-29 for individuals with certain statuses, those who will eventually qualify for federal funds, and individuals enrolled in the Medi-Cal full-scope expansion.
- **Elimination of Long-Term Care Benefits, Adults 19 and Older:** \$333.3 million in 2025-26, growing to \$800 million in 2026-27 for individuals with certain statuses, those who will eventually qualify for federal funds, and individuals enrolled in the Medi-Cal full-scope expansion.
- **Elimination of 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. This applies for state-only funded services provided to individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full scope expansion. Clinics would receive reimbursement at the applicable Medi-Cal fee-for-service rate and at the Medi-Cal managed care rate.
- **Specialty Drug Coverage for Weight Loss:** \$85 million in 2025-26, growing to \$680 million in 2028-29.
- **Cap In-Home Supportive Services Overtime and Travel Hours at 50 Hours:** \$707.5 million in 2025-26, growing to \$893.4 million in 2028-29.
- **Require Provider Mandates for Quality Incentive Payment Incentive Eligibility:** \$221.7 million ongoing beginning in 2026-27.

\$5.3 billion from internal borrowing solutions for 2025-26:

- **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.

\$1.7 billion in funding solutions for 2025-26:

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

In addition to these solutions, the May Revision includes triggers for two future spending commitments of \$456.1 million in 2027-28 contingent upon sufficient resources to support these commitments:

- **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.

The May Revision includes other funding proposals that may be of interest to the County, including:

- **Federal Accountability Workload:** \$14.4 million ongoing (\$13.3 million General Fund and \$1.1 million Special Fund) and 44 positions to defend California against adverse federal actions. The anticipated workload includes, but is not limited to, defending environmental protections, negative impacts of tariffs, reproductive choice, and termination of federal grants that Congress directed be provided.
- **California Housing and Homelessness Agency:** The administration proposes establishing a new California Housing and Homelessness Agency (CHHA) to create a more integrated and effective administrative framework for addressing the state's housing and homelessness challenges. CHHA will be responsible for coordinating state housing and homelessness efforts, which includes addressing the full spectrum of Californians' housing needs, from efforts to prevent and end homelessness, to supporting low-income renters and first-time homebuyers.
- **Medi-Cal:** The May Revision reflects a net \$1.9 billion increase in Medi-Cal expenditures, which are covered by the Medi-Cal Provider Interim Payment Loan, in 2024-25 compared with the Governor's Budget. This is in addition to the \$2.8 billion General Fund early action appropriation assumed in the Governor's Budget.
- **Medi-Cal Premiums, Adults 19 and Older:** Implementation of \$100 monthly premiums for individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion aged 19 and over, effective January 1, 2027. Estimated General Fund savings are \$1.1 billion in 2026-27, increasing to \$2.1 billion.
- **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.
- **Elimination of Long-Term Care:** Elimination of long-term care benefits for individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion, effective January 1, 2026.
- **Elimination of Dental Benefits, Adults 19 and Older:** Elimination of full-scope

dental coverage for Medi-Cal members with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion aged 19 and over, effective July 1, 2026. This population will continue to have access to restricted-scope, emergency dental coverage.

- **Incompetent to Stand Trial Infrastructure Grant Program:** 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.
- **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.
- **Streamlining the CalWORKs Program:** 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.
- **CalAIM Justice-Involved Initiative:** \$21.5 million in 2025-26 and \$11 million ongoing in increased reimbursement authority, an increase of 65 positions in 2025-26 and ongoing, and a reduction of \$6.2 million General Fund in 2025-26, an increase of \$3.8 million General Fund in 2026-27, and a reduction of \$11 million General Fund ongoing to support full implementation of the California Advancing and Innovating Medi-Cal Justice-Involved Initiative and account for additional federal reimbursements.
- **Safe Battery Energy Storage Systems:** \$3.7 million Public Utilities Commission Utilities Reimbursement Account (PUCURA) in 2025-26 and 2026-27, and \$2.9 million ongoing PUCURA and 12 positions in 2027-28 to support compliance and enforcement of safety standards for large-scale, electric grid connected battery energy storage systems.
- **Community Renewable Energy and Storage:** A reversion of \$33 million General Fund for programs funding community renewable energy projects at the California Public Utilities Commission.
- **Business and Consumer Services Agency:** The administration proposes establishing a new Business and Consumer Services Agency (BCSA) to strengthen the state's ability to protect consumers by providing dedicated leadership and oversight across a wide range of industries. The BCSA will be responsible for regulating over four million licensed professionals and businesses.

Federal Policy and Budget Impacts

Santa Cruz County relies on federal funding to provide essential services that protect public health, support vulnerable residents, strengthen the local economy, and maintain infrastructure. Medi-Cal, CalFresh, Behavioral Health, Child Welfare Services, Housing Assistance, Disaster Recovery, Public Health Emergency Response, Workforce Development, and Transportation Infrastructure all rely on significant federal support and approximately one-third of County residents depend on federally funded health or human services programs.

Shifts in federal policy and budget priorities threaten services provided by the County and its partners, risk community well-being, and could negatively impact the local economy. Reductions in federal funding levels, cost shifts to counties, delayed appropriations, new compliance requirements, and legal challenges expose the County to significant risks.

Current Impacts

Several federal funding and policy changes are already impacting County residents, with the most significant potential impacts yet to materialize:

- **Passport Identification Restrictions:** New guidance from the Department of State requires the County Clerk to destroy passport application forms that utilize a gender “X” marker and replace them with a new form that does not have an option outside of a gender binary. This policy is the subject of ongoing litigation.
- **Voter Eligibility and Elections Administration:** Executive Order (EO) 14248, titled “Preserving and Protecting the Integrity of American Elections” requires proof of citizenship to register to vote in federal races and mandates all mail-in ballots must be received by Election Day. As of March 31, 2025, at least two lawsuits have been filed to challenge the order. The federal Safeguard American Voter Eligibility (SAVE) Act intends to require proof of United States citizenship for an individual to register to vote in elections for federal office, and for other purposes. In addition, this legislation requires all voter registration to occur in-person, creating a significant workload burden. While the focus of the SAVE Act is to ensure only citizens register to vote in elections, the passing of this bill will also disenfranchise eligible voters who have undergone legal name changes, have disabilities, and/or live in rural areas among others.
- **National Initiative to Address COVID-19 Health Disparities Among Populations at High-Risk and Underserved, Including Racial and Ethnic Minority Populations and Rural Communities (CERI):** This \$323,000 grant was used by HSA to increase the accessibility of services and was cancelled by the federal government, resulting in a loss of \$78,000 in unspent funds. Additionally, \$26k of these grant funds was set aside to support the Microenterprise Home Kitchen Operations (MEHKO) pilot in the Health Services Agency (HSA) Environmental Health Division. With no other funding source to supplant the loss, the MEHKO pilot project is canceled. HSA will continue to sustain the 1.0 FTE position partially funded through this grant.
- **Immunization and Vaccines for Children:** COVID Supplemental Round 4: This \$875,000 California Department of Public Health (CDPH) grant was supported by federal pass-through funds from the U.S. Centers for Disease Control (CDC) to support access to COVID-19, influenza and other vaccine-preventable diseases and supported 4.7 FTE spread across 16 positions. The cancellation of this grant will result in the loss of \$330,000 in FY 2024-25. The HSA Public Health Division will utilize other grant funds to sustain services for the remainder of the fiscal year, impacting availability of grant funds for FY 2025-26.
- **Epidemiology and Laboratory Capacity (ELC) - Enhancing Detection and Enhancing Detection Expansion:** This \$466,000 CDPH grant funded by pass-through funds from the CDC supported the detection and prevention of emerging infectious diseases. While this grant was fully expended prior to cancellation, the County will not receive new funding.

- **Building Resilient Infrastructure and Community Grant (BRIC22):** The Federal Emergency Management Agency (FEMA) notified the Office of Response, Recovery and Resilience that this grant was cancelled, allowing only \$1.1 million to complete Phase I environmental planning to proceed. Phase 2 would have provided over \$20 million for wildfire risk mitigation, including home hardening, defensible space and evacuation route fuels reduction. A second BRIC22 grant in the amount of \$420,000 to conduct initial studies for improving the Pajaro levee system near the wastewater treatment plant was also cancelled.

Anticipated Impacts

The County anticipates additional potential risks that may translate into service reductions, delayed initiatives, and local funding and policy pressures. The following are major categories of risk:

- **Disaster Recovery:** Changes in FEMA cost-share policies and public assistance eligibility criteria are increasing local match requirements for disaster recovery, including wildfire and storm response efforts. This puts at risk the repayment plan for the 2024 disaster bonds that expected receiving \$12.1 million in 2025-26 and a total of \$42.9 million by 2029-30 of federal disaster reimbursements. Delays in reimbursements could increase by \$4.2 million average annual debt service costs.
- **Behavioral Health Realignment:** California is aligning Medi-Cal behavioral health services under new federal waiver authority. The County is consuming staff and consultant resources to plan for this complex system transformation amid uncertain long-term reimbursement structures.
- **Public Assistance Program Changes:** Proposed federal changes could reduce funding, limit access, and impose new work requirements for benefits, increasing administrative workload without additional resources. For Medi-Cal alone, an estimated 30,000 individuals—one in three current enrollees—are at risk of losing coverage, and up to \$140 million in leveraged funds may be reduced if program eligibility is tightened or existing grants are canceled. Changes in CalFresh administrative requirements and eligibility reviews could increase staff workload without commensurate growth in federal administrative funding. These changes may create fear and confusion, particularly among undocumented and LGBTQ+ residents, deterring them from accessing essential services, and could increase local demand for food banks and emergency assistance.
- **Housing and Homelessness:** Federal housing voucher funding is not keeping pace with local housing costs. The County's housing programs are experiencing higher administrative costs due to regulatory complexity and landlord participation challenges. Furthermore, the Human Services Department Housing for Health Division and partners provide a range of services including housing assistance for more than 4,000 people that involve at least some level of federal funding. Some of these funds may be at risk, particularly with cuts to federal agencies that oversee these programs.

2025 Budget Reconciliation

On May 13, 2025, the [House Committee on Energy and Commerce](#) unveiled its reconciliation proposal, which includes more than \$700 billion in cuts over 10 years to Medicaid. Though the measure avoids some of the more controversial proposals that

were on the table—such as per-capita caps or a reduction in federal reimbursement for the Medicaid (Medi-Cal in California) expansion population—it still represents a significant overhaul of the program that the nonpartisan [Congressional Budget Office](#) estimates could leave upwards of 13 million people without health coverage and will undoubtedly shift significant administrative burden and other costs to states.

The legislation would:

- Increase the frequency of eligibility determinations from one year to six months.
- Prohibit federal Medicaid reimbursement for individuals until their immigration status is verified (currently there is a 90-day grace period).
- Reduce the Expansion Federal Medicaid Assistance Percentage (FMAP) by 10 percentage points for any states using state dollars to expand Medicaid coverage to undocumented immigrants.
- Charge expansion individuals earning over 100 percent FPL a co-pay of no more than \$35 per service. There would be no cost share for primary care, prenatal, pediatric or emergency care.
- Require Section 1115 Demonstration waivers to be budget neutral. The U.S. Department of Health and Human Services (HHS) would be required to certify that the total expenditures for federal financial participation do not exceed what would otherwise have been spent absent the demonstration project.
- Limit retroactive Medicaid coverage from three months before the application date to one month before the application date.
- Impose work requirements on individuals aged 19 to 64, requiring 80 hours/month of work, a work program, an educational program or community service with compliance determinations beginning one month before the individual enrolls in Medicaid and the month before the individuals' regular eligibility redetermination. The legislation provides various exemptions and short-term hardship waivers.
- Freeze states' current provider tax rates and prohibit states from establishing new provider taxes and modify the criteria HHS must consider when determining whether certain health care-related taxes are generally redistributive to waive the general uniform tax requirement.
- Delay cut of \$8 billion annually to safety net hospitals until FY 2029.

2026 Budget Proposal

On May 2, 2025, President Trump unveiled his [FY 2026 Budget Request](#), which includes about \$163 billion in discretionary funding cuts to key federal education, health, housing and labor programs (a 22 percent reduction) while seeking to boost spending on defense and border security. It includes the full elimination of Head Start, the Low Income Home Energy Assistance Program, Community Services Block Grant, Preschool Development Block Grant, teen pregnancy prevention programming and more. The budget would also cut funding for the U.S. Department of Housing and Urban Development by \$32.9 billion, or more than 40 percent, from current levels.

The administration would reduce rental assistance programs by \$26.7 billion while imposing a new two-year cap on rental aid for “able-bodied adults,” according to the White House document, as well as eliminate the Community Development Block Grant,

the HOME program, and significantly cut Homelessness Assistance Grants. Further cuts to food banks would come from the elimination of the Commodity Supplemental Food Program, which supports food assistance for seniors. Mandatory spending programs, including Medicaid, Supplemental Nutrition Assistance Program (CalFresh in California), Temporary Assistance for Needy Families (CalWORKs in California), and Social Services Block Grant, are not addressed in this proposal.

While Congress often dismisses the White House's budget ideas in favor of its own spending plan, the budget serves as a roadmap of Trump's spending priorities and political goals.

Financial Impact

There are no direct financial impacts from the recommended actions in this staff report. County staff are actively analyzing the impacts of the Governor's May Revision to the Proposed 2025-26 Budget.

Nonetheless, with 57% of the General Fund funded by federal and state revenue, the County's exposure to federal or state funding changes and federal policy risk is significant.

Continued engagement with state and federal partners, local scenario planning, and strategic reserve management will be critical to navigating this uncertain environment. Absent action, federal policy changes could result in multi-million-dollar funding losses, operational disruptions, and negative impacts on the health, safety, well-being, and civic participation of tens of thousands of County residents.

Staff would return to the Board at such a time when a response is required in alignment with development of the Federal budget of which details are likely to become more certain between July and September 2025.

Strategic Initiatives

Equity Framework - Plans, Policies & Budgets, Leadership, Operations & Services
Operational Plan - Comprehensive Health & Safety, Attainable Housing, Reliable Transportation, Sustainable Environment, Dynamic Economy, Operational Excellence

Submitted By:

Carlos J. Palacios, County Executive Officer

Recommended By:

Carlos J. Palacios, County Executive Officer

Artificial Intelligence Acknowledgment:

Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.