

20. Consider update on the California Governor's May Revision to the Proposed 2025-26 Budget ()



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:

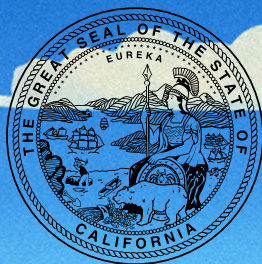
Carlos J. Palacios, County Executive Officer

Recommended By:

Carlos J. Palacios, County Executive Officer

Artificial Intelligence Acknowledgment:

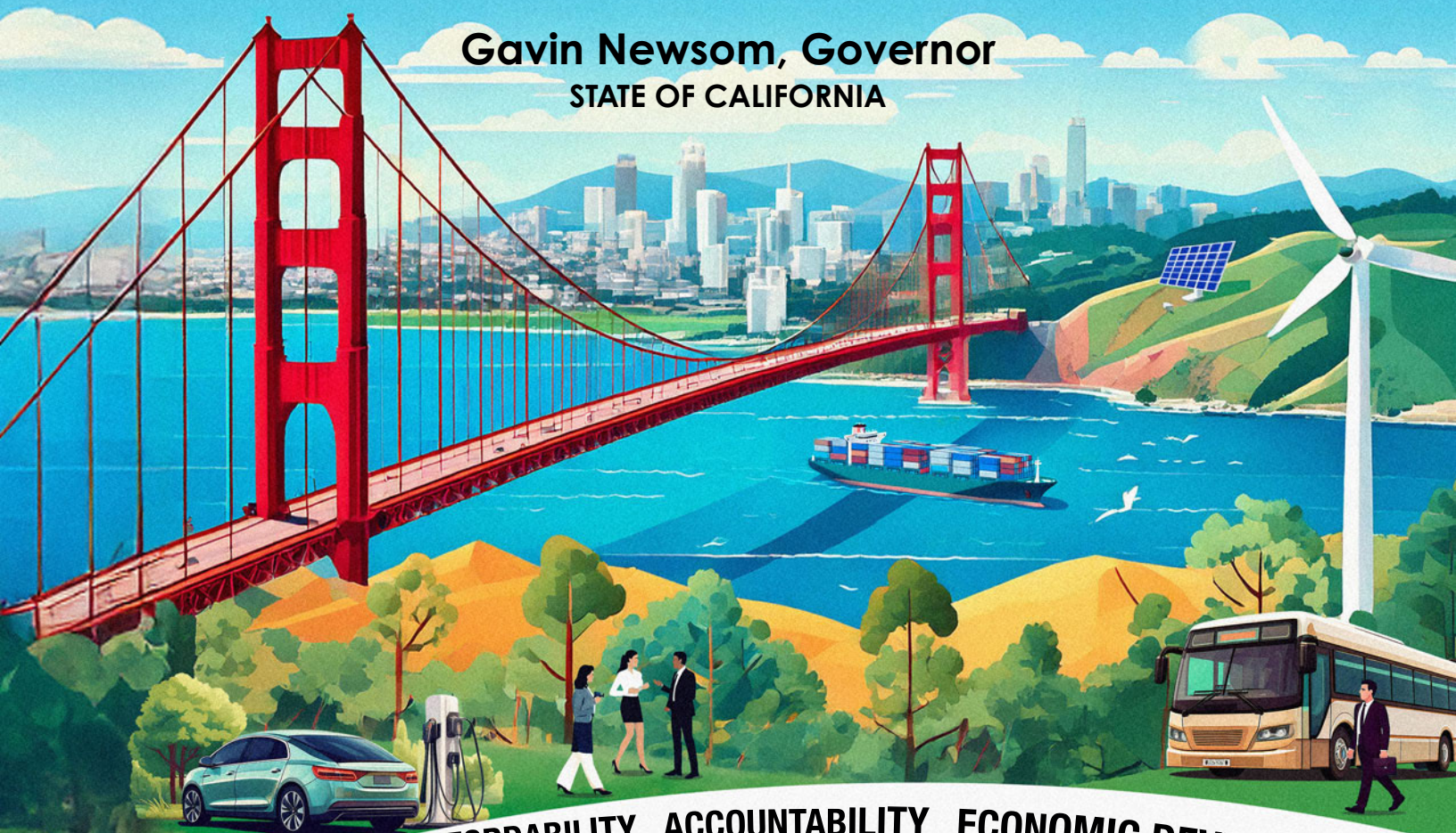
Artificial Intelligence (AI) did not significantly contribute to the development of this agenda item.



MAY REVISION

2025-26

Gavin Newsom, Governor
STATE OF CALIFORNIA



AFFORDABILITY ACCOUNTABILITY ECONOMIC DEVELOPMENT



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INTRODUCTION

The Governor's Budget in January reflected a stronger fiscal position than in recent years. Following the 2024 Budget Act that was projected to be balanced over two years, revenues rebounded, and the Governor's Budget projected a modest surplus in fiscal year 2025-26. Despite these positive developments, the Budget cautioned that the most significant immediate risk to the budget outlook was substantial changes in federal policy, specifically, broad-based tariffs.

Those risks have now become a reality. Washington's imposition of tariffs has driven a downgrade in both the economic and revenue forecasts. Combined with increased expenditure growth above the Governor's Budget—most notably in Medi-Cal—the state must now close an estimated shortfall of \$12 billion to balance the budget and provide for a prudent discretionary reserve. This will require difficult but necessary decisions to reduce ongoing expenditure growth to maintain budget resilience and stability for critical state programs. The May Revision does not incorporate any effect of stark federal cuts that are currently under consideration in Congress.

Still, the May Revision continues to support initiatives that improve the lives of millions of Californians. Transformational changes continue in TK-12 education as the May Revision reflects the full implementation of transitional kindergarten, full funding for school meals for all, and free access to expanded school day and school year enrichment and academic support for thousands of students. Since 2021, through California Jobs First, the state has leveraged federal and private funds to create quality jobs across the state. Further, the May Revision continues to recognize the importance of keeping

Californians safe by maintaining an investment of approximately \$1.6 billion since 2022-23.

WHAT HAS CHANGED SINCE JANUARY

IN THE ECONOMY

While the May Revision does not forecast a traditional recession, it does reflect changing national conditions that economists consider to be a “growth recession”—marked by a substantial slowdown in Gross Domestic Product (GDP) growth combined with lower job growth and higher unemployment. Higher tariffs are the principal driver of this shift to a “growth recession” outlook, and are reflected in the downward revision of key economic factors in the May Revision forecast:

- U.S. real GDP growth is downgraded by 0.7 percentage point in 2025 and by 0.3 percentage point in 2026.
- U.S. job growth, while upgraded by 0.1 percentage point in 2025, is downgraded by 0.3 percentage point in 2026 as the impacts of tariffs take full effect.
- The U.S. unemployment rate is revised higher by an average of 0.3 percentage point in both 2025 and 2026, to reach (respectively) 4.4 percent and 4.9 percent.
- These changes in the national outlook are expected to be fully felt throughout California’s economy, particularly because of the substantial volume of commerce that flows through California’s ports.
- Projected wage and salary growth has been considerably downgraded, with some of the downgrade coming from irregular payments such as bonuses and stock options, as tariffs make businesses less profitable.

IN REVENUES

Given the pivotal role that the financial markets play in state revenues, the onset of tariffs has already had implications for the updated revenue forecast. Market volatility since tariffs were imposed has resulted in a substantial downgrade to the S&P 500 forecast in the second quarter of 2025. The impact of tariffs on financial markets was seen in significantly reduced stock prices of the largest California-based technology companies. The May Revision forecast assumes stock-based compensation to their

employees is projected to decrease in 2025, contributing to a downgrade in projected personal income tax revenues in 2025-26 that will reverse the positive trends in personal income tax withholding cash results through April 2025. In addition, personal income tax revenues from capital gains were significantly downgraded in 2025-26 due to the stock market decline. Notwithstanding recent swings in stock prices, extreme uncertainty persists.

Tariffs also play a role in a significant downgrade of U.S. corporate profit growth in 2025 by nearly nine percentage points (+0.7 percent to -7.9 percent). As a result, state corporate taxable profit growth in 2025 is reduced from 4-percent growth to a 2-percent decline. In all, despite a significant overage in cash receipts through April, General Fund revenues, excluding transfers and loans, are downgraded by approximately \$5.2 billion lower through 2025-26.

IN EXPENDITURES

Expenditures in the Medi-Cal program—the state's health care program for low-income individuals—have increased significantly and continue to outpace revenues. In Spring of 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. 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.

SOLUTIONS

The Budget solves a \$12 billion deficit for 2025-26 through the following categories of solutions. 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.

- **Reductions**—\$5 billion in total solutions in 2025-26. This category grows 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.
 - **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.
 - **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 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.
- **Revenue/Borrowing**—\$5.3 billion in total solutions in 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.
- **Fund Shifts**—\$1.7 billion total solutions in 2025-26.
 - **Greenhouse Gas Reduction Fund for CAL FIRE Operations**—\$1.5 billion in 2025-26, growing to \$1.9 billion in 2028-29.

In addition to these solution categories, the May Revision includes triggers for two future spending commitments.

- **Triggers**—\$456.1 million in commitments would be triggered on 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.

RESERVES

To provide for a balanced budget over two fiscal years, the 2024 Budget Act reflected withdrawals from the Budget Stabilization Account (BSA) of \$5.1 billion in 2024-25 and \$7.1 billion in 2025-26. Spreading the allowable withdrawal for 2024-25 over two years enabled the state to take a more balanced approach to addressing last year's budget shortfall while prudently managing the use of the reserve. Despite the downgraded revenue forecast, the May Revision maintains the planned withdrawal of approximately \$7.1 billion from the 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. This consists of \$11.2 billion in the BSA and \$4.5 billion in the Special Fund for Economic Uncertainties.

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SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2025-26 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2024-25	2025-26
Prior Year Balance	\$41,886	\$34,321
Revenues and Transfers	\$225,673	\$214,559
Total Resources Available	\$267,559	\$248,880
Non-Proposition 98 Expenditures	\$147,933	\$145,629
Proposition 98 Expenditures	\$85,305	\$80,747
Total Expenditures	\$233,238	\$226,376
Fund Balance	\$34,321	\$22,504
Reserve for Liquidation of Encumbrances	\$18,001	\$18,001
Special Fund for Economic Uncertainties	\$16,320	\$4,503
Public School System Stabilization Account	-	-
Safety Net Reserve	-	-
Budget Stabilization Account/Rainy Day Fund	\$18,292	\$11,192

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

(Dollars in Millions)

	2024-25	2025-26	Dollar Change from 2024-25
Legislative, Judicial, Executive	\$11,013	\$8,195	-\$2,818
Business, Consumer Services & Housing	3,917	491	-3,426
Transportation	718	724	6
Natural Resources	9,244	3,836	-5,408
Environmental Protection	627	121	-506
Health and Human Services	76,494	85,362	8,868
Corrections and Rehabilitation	13,992	13,406	-586
K-12 Education	84,813	80,344	-4,469
Higher Education	22,963	23,058	95
Labor and Workforce Development	1,108	946	-162
Government Operations	3,770	2,698	-1,072
General Government:			
Non-Agency Departments	2,398	1,285	-1,113
Tax Relief/Local Government	653	556	-97
Statewide Expenditures	1,529	5,354	3,825
Total	\$233,238	\$226,376	-\$6,863

Note: Numbers may not add due to rounding.

2025-26 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$8,195	\$4,555	\$376	\$13,126
Business, Consumer Services & Housing	491	1,320	522	2,333
Transportation	724	17,144	97	17,965
Natural Resources	3,836	3,457	2,472	9,766
Environmental Protection	121	3,865	372	4,357
Health and Human Services	85,362	44,891	450	130,703
Corrections and Rehabilitation	13,406	4,087	-	17,493
K-12 Education	80,344	105	1,517	81,966
Higher Education	23,058	176	551	23,785
Labor and Workforce Development	946	1,143	-	2,089
Government Operations	2,698	180	12	2,890
General Government:				
Non-Agency Departments	1,285	2,096	171	3,552
Tax Relief/Local Government	556	3,727	-	4,283
Statewide Expenditures	5,354	2,232	1	7,587
Total	\$226,376	\$88,978	\$6,541	\$321,895

Note: Numbers may not add due to rounding.

General Fund Revenue Sources
(Dollars in Millions)

	2024-25	2025-26	Change from 2024-25	
			Dollar Change	Percent Change
Personal Income Tax	\$125,706	\$125,977	\$271	0.2%
Sales and Use Tax	33,706	34,862	1,156	3.4%
Corporation Tax	41,296	35,613	-5,683	-13.8%
Insurance Tax	4,077	4,359	282	6.9%
Alcoholic Beverage Taxes and Fees	417	421	4	1.0%
Cigarette Tax	36	35	-1	-2.8%
Motor Vehicle Fees	46	46	0	0.0%
Other	15,487	6,145	-9,342	-60.3%
Subtotal	\$220,771	\$207,458	-\$13,313	-6.0%
Transfer from the Budget Stabilization Account/Rainy Day Fund	4,902	7,100	2,198	44.8%
Total	\$225,673	\$214,558	-\$11,115	-4.9%

Note: Numbers may not add due to rounding.

2025-26 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2024-25
Personal Income Tax	\$125,977	\$3,634	\$129,611	\$130
Sales and Use Tax	34,862	15,770	50,632	1,629
Corporation Tax	35,613	-	35,613	-5,683
Highway Users Taxes	-	9,571	9,571	60
Insurance Tax	4,359	-	4,359	282
Alcoholic Beverage Taxes and Fees	421	-	421	4
Cigarette Tax	35	1,131	1,166	-47
Motor Vehicle Fees	46	12,826	12,872	331
Other	6,145	47,078	53,223	-5,911
Subtotal	\$207,458	\$90,010	\$297,468	-\$9,205
Transfer from the Budget Stabilization Account/Rainy Day Fund	7,100	-7,100	-	-
Total	\$214,558	\$82,910	\$297,468	-\$9,205

Note: Numbers may not add due to rounding.

TK-12 EDUCATION

California provides instruction and support services to roughly 5.8 million students in grades transitional kindergarten (TK) through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,200 charter schools provide instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation to either enter the workforce or pursue higher education.

The May Revision includes total funding of \$137.8 billion (\$80.5 billion General Fund and \$57.3 billion other funds) for all TK-12 education programs. The May Revision reflects significant Proposition 98 funding that enables increased support for core programs such as the Local Control Funding Formula (LCFF), special education, TK, nutrition, and preschool.

PROPOSITION 98

Proposition 98 is a voter-approved constitutional amendment that guarantees minimum funding levels for TK-12 schools and community colleges (collectively referred to as TK-14 schools). The Proposition 98 minimum guarantee (Guarantee), which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline. The LCFF is the primary mechanism

for distributing these funds to support students attending TK-12 public schools in California.

At May Revision, the revised estimates of General Fund revenues result in notable 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 Proposition 98 levels 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 Governor's Budget.

Due to the inherent risk in revenue projections, the May Revision proposes to appropriate the 2024-25 Guarantee at \$117.6 billion, instead of the currently calculated level of \$118.9 billion. The difference between the appropriated and the calculated levels is less than at Governor's Budget, at \$1.3 billion instead of \$1.6 billion. This is intended to mitigate the risk of potentially appropriating more resources to the Guarantee than are ultimately available in the final calculation for 2024-25. The 2024-25 Guarantee level will not be finalized until that fiscal year is certified—a process that will occur throughout 2026.

The Guarantee is in a Test 2 for 2023-24 (although suspended at \$98.5 billion) and continues to be in a Test 1 for 2024-25 and 2025-26. This means that the funding level of the Guarantee for 2024-25 and 2025-26 is equal to roughly 40 percent of General Fund revenues, plus local property tax revenues. Pursuant to the Proposition 98 formula, this percentage of General Fund revenues is not reduced to reflect enrollment adjustments, which further increases per pupil funding.

The Proposition 98 Guarantee is “rebenched” to reflect the continued implementation of universal TK and property tax backfills related to the January 2025 fires in the County of Los Angeles. The resulting Test 1 percentage is then “rebenched” to increase the percentage of General Fund revenues due to the Guarantee, from 39.2 percent to 39.6 percent.

PROPOSITION 98 RAINY DAY FUND

The May Revision maintains the withdrawal of the full \$8.4 billion balance in the Public School System Stabilization Account (Proposition 98 Rainy Day Fund) in 2023-24. The Governor's Budget included deposits into the Proposition 98 Rainy Day Fund of \$1.2 billion in 2024-25 (this was a mandatory deposit) and \$376 million in 2025-26 (this was a discretionary deposit).

Adjustments in capital gains revenues at the 2025-26 May Revision are projected to reduce the mandatory deposit in 2024-25 to \$540 million. Additionally, a decrease in the Proposition 98 Guarantee triggers a mandatory withdrawal of \$540 million in 2025-26, exhausting the remaining Fund balance.

PROPOSITION 98 FUNDING SPLIT

The May Revision includes a shift in how TK expansion funds are distributed between TK-12 schools and community colleges. In prior years, consistent with the statutory Proposition 98 split, 10.93 percent of the amount of General Fund rebench into the Proposition 98 Guarantee for the cost of TK expansion was added to the community colleges budget. Over the three-year budget window, this has resulted in \$492.4 million in increased resources for community colleges, and a like amount of funding that has not been available for TK-12 schools to implement the expansion of TK.

The May Revision shifts the full TK expansion funding to the TK-12 education side of the Proposition 98 budget. This reduces by a like amount the resources for community colleges. However, the purpose of rebenching Proposition 98 for the cost of TK expansion was to ensure that implementation of universal TK did not create a fiscal burden on existing TK-12 programs, therefore this shift will align resources generated by the rebench with this intent.

LOCAL CONTROL FUNDING FORMULA

The Budget includes a LCFF cost-of-living adjustment of 2.3 percent, down from 2.43 percent at Governor's Budget. When combined with population growth adjustments, this will result in an increase of approximately \$2.1 billion in discretionary funds for local educational agencies (LEAs) as compared to the 2024 Budget Act. To fully fund the LCFF, the May Revision uses \$481 million from the Proposition 98 Rainy Day Fund to support LCFF costs in 2025-26.

DEFERRALS

Budgetary deferrals of \$246.6 million for TK-12 education from 2023-24 and 2024-25 are fully repaid in the three-year budget window. However, to fully fund the LCFF and maintain the level of 2025-26 principal apportionments, the Budget proposes deferring \$1.8 billion in LCFF funding from June 2026 to July 2026.

UNIVERSAL TRANSITIONAL KINDERGARTEN

In the 2025-26 school year, the May Revision provides a total of \$2.1 billion ongoing Proposition 98 General Fund (inclusive of all prior years' investments) to support the full implementation of universal TK, so that all children who turn four years old by September 1 of the school year can enroll in the 2025-26 school year—providing access to roughly 51,000 additional children over the 2024-25 school year. This is down slightly from the Governor's Budget estimate of \$2.4 billion, driven largely by revised average daily attendance estimates and a lower LCFF cost-of-living adjustment.

The May Revision also provides an additional \$1.2 billion ongoing Proposition 98 General Fund to support further lowering the average student-to-adult ratio from 12:1 to 10:1 in every TK classroom. This is also lower than the Governor's Budget estimate of \$1.5 billion, again driven by revised average daily attendance estimates.

BEFORE SCHOOL, AFTER SCHOOL, AND SUMMER SCHOOL

The Expanded Learning Opportunities Program is a multi-year investment plan to implement before, after, and summer school instruction and enrichment for students in grades TK-6, with a focus on LEAs with the highest concentrations of low-income students, English learners, and youth in foster care, otherwise known as unduplicated pupils.

The May Revision maintains the full implementation of the program by increasing the number of LEAs with TK-6th grade that offer universal access to students, from those with an unduplicated pupil percentage of 75 percent to those with 55 percent unduplicated students. However, increasing unduplicated pupil average daily attendance estimates have increased the estimated cost of this investment, from \$435 million ongoing Proposition 98 General Fund at the Governor's Budget to \$515.5 million at the May Revision.

Additionally, the Budget includes an additional \$10 million to increase the minimum grant amount from \$50,000 to \$100,000 per LEA. This increase will allow small LEAs to maintain expanded learning programming without redirecting funding from other local programs.

LITERACY INSTRUCTION

California's research-based English Language Arts/English Language Development (ELA/ELD) Framework is the state's foundational document to guide literacy instruction. It emphasizes core foundational skills (print concepts/alphabetics, phonological/phonemic awareness, phonics and word recognition, and reading fluency), listening, speaking, writing, and comprehension, along with the vocabulary development and background knowledge needed to develop literacy for multilingual learners.

The Governor's Budget included \$545.3 million in investments to provide LEAs with instructional materials that reflect current research; to support current and future educators to implement the ELA/ELD Framework, the state's Literacy Roadmap, and the state's English Learner Roadmap; and to support LEAs to provide evidence-based literacy instruction to diverse learners through early screening of students in kindergarten through second grade for risk of reading difficulties, including dyslexia, and an expanded Literacy Coaches program that will include a new opportunity to support mathematics coaches in addition to literacy coaches. The May Revision builds upon this comprehensive package by including all of the following:

- \$200 million one-time Proposition 98 General Fund to support evidenced-based professional learning for elementary school educators aligned with the ELA/ELD Framework.
- \$10 million one-time Proposition 98 General Fund for a county office of education to partner with the University of California, San Francisco (UCSF) Dyslexia Center to support the Multitudes screener, which is free to California public schools, and expand capacity for educator support for those schools using Multitudes. In late 2024, the UCSF-developed Multitudes literacy screener (which was supported with \$28.7 million in state funds) became widely available for use by schools across the state and was named one of four screeners approved by the state to meet the new reading difficulties screening mandate for all kindergarten through second grade students, beginning in 2025-26.
- Authority for the Department of Education to draw down funding awarded through the federal Comprehensive Literacy State Development grant to leverage and expand existing statewide infrastructure, resources, and expertise to bring coherence to the state's system of literacy supports and improve student outcomes over a period of five years.

TEACHER PREPARATION AND PROFESSIONAL DEVELOPMENT

Preparing, training, and recruiting a diverse, expert workforce of administrative, credentialed, and classified staff to work in public TK-12 schools continues to be critical to the success of the entire system. But staffing shortages persist and make it imperative that barriers to teaching are removed for qualified teacher candidates, and that existing teachers are provided with the training they need to be successful.

The Governor's Budget included multiple proposals intended to support teachers and improve access to the educator pipeline. The May Revision builds on these proposals by including the following:

- Repurposing \$150 million one-time Proposition 98 General Fund for the Teacher Recruitment Incentive Grant Program to, among other things, provide \$100 million one-time Proposition 98 General Fund to fund stipends for student teachers.
- Extending the deadlines by one year, for clear credential candidates who received a related waiver during the COVID-19 Pandemic to complete an induction program or two years of service, and for teacher candidates who received a related waiver during the COVID-19 Pandemic to pass the Reading Instruction Competence Assessment.
- Allowing: (1) credential candidates who completed preparation programs that were aligned to the Reading Instruction Competence Assessment to take that assessment on or before October 31, 2025; and (2) the Commission on Teacher Credentialing to adopt and administer an off-the-shelf reading instruction competence assessment that meets the requirements outlined in statute for candidates who have yet to pass a reading assessment and cannot take the state's literacy performance assessment.

STUDENT SUPPORT AND PROFESSIONAL DEVELOPMENT DISCRETIONARY BLOCK GRANT

Given the reduction in Proposition 98 resources, the May Revision updates the amount of one-time Proposition 98 General Fund available for the Student Support and Professional Development Discretionary Block Grant to \$1.7 billion (from \$1.8 billion at Governor's Budget). These funds will provide LEAs with additional fiscal support to address rising costs, as well as fund statewide priorities including: (1) professional development for teachers on the ELA/ELD Framework and the Literacy Roadmap, with

a focus on strategies to support literacy for English learners; (2) professional development for teachers on the Mathematics Framework; (3) teacher recruitment and retention strategies; and (4) career pathways and dual enrollment expansion efforts consistent with the Master Plan for Career Education.

OTHER TK-12 EDUCATION ISSUES

Below are additional adjustments in the May Revision that add to, reduce, or amend proposals from the Governor's Budget.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Local Property Tax Adjustments**—\$309 million in additional Proposition 98 General Fund for school districts and county offices of education in 2024-25, and a decrease of \$1.1 billion ongoing Proposition 98 General Fund for school districts and county offices of education in 2025-26, resulting from increased offsetting property taxes.
- **Cost-of-Living Adjustments**—\$174 million ongoing Proposition 98 General Fund to reflect a 2.3 percent cost-of-living adjustment for specified categorical programs and the LCFF Equity Multiplier. The specified categorical programs include Special Education, Child Nutrition, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- **Nutrition**—\$90.7 million in additional ongoing Proposition 98 General Fund to fully fund the universal school meals program in 2025-26.
- **Special Olympics**—\$30 million one-time General Fund, available over three years, for the Special Olympics of Northern and Southern California. The Special Olympics serves thousands of athletes in community and school-based programs in California, providing children with intellectual disabilities with opportunities to improve their overall health and wellness, gain leadership skills, and participate in enriching programs.
- **Summer Electronic Benefits Transfer (SUN Bucks)**—\$21.9 million in additional ongoing Proposition 98 General Fund to support the SUN Bucks Program, which provides nutrition funding to eligible students during the summer months. These funds will provide the match to an equal amount of federal funds to support the program.

- **Secondary School Redesign Pilot Program**—\$15 million one-time Proposition 98 General Fund for a county office of education to administer a pilot program to redesign middle and high schools to better serve the needs of all students and increase student outcomes, and to manage a network of grantees to support peer learning and documentation of practices.
- **County Offices of Education**—\$12.9 million ongoing Proposition 98 General Fund, increased from \$12.2 million at Governor's Budget, to reflect ADA changes applicable to the county office of education LCFF, and a 2.3-percent cost-of-living adjustment.
- **TK Multilingual Learner Supplementary Funding**—\$7.5 million one-time Proposition 98 General Fund, available through the 2026-27 fiscal year, to mitigate reductions in supplemental and concentration grant funds to LEAs resulting from the recent exemption of TK students from the English language proficiency assessment.
- **Regional English Learner Lead Agencies**—\$2 million ongoing Proposition 98 General Fund to support Regional English Learner lead agencies that assist schools in providing focused support to English Learners.
- **Fire-Related Property Tax Backfill**—A one-time fire-related property tax backfill of \$1.2 million in 2024-25 and \$8.5 million in 2025-26 for impacted basic aid school districts.
- **California Association of Student Councils**—\$500,000 one-time Proposition 98 General Fund to support the California Association of Student Councils.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Reversion of Unallocated School Facilities Funds**—A reduction of \$177.5 million in remaining, unused General Fund from a \$2 billion one-time allocation provided to the Office of Public School Construction in the 2023 Budget Act for TK-12 school facilities. These funds were made available on an as-needed basis for fire-impacted LEAs through August 2025; however, impacted schools have indicated that they will not be able to use the funds by this date. Proposition 2 facilities funds will be available for fire-impacted LEAs to access moving forward, as needed.
- **Suspension of the State Preschool Cost-of-Living Adjustment**—A reduction of \$19.3 million ongoing Proposition 98 General Fund and \$10.2 million ongoing

General Fund to reflect the suspension of the statutory cost-of-living adjustment for the California State Preschool Program in 2025-26.

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HIGHER EDUCATION

The May Revision proposes total funding of \$45.7 billion (\$28.1 billion General Fund and local property tax and \$17.5 billion other funds) for the higher education segments and the California Student Aid Commission.

UNIVERSITY OF CALIFORNIA

The University of California (UC) offers formal undergraduate and graduate education. The UC is authorized to independently award doctoral degrees and is designated as the state's primary academic agency for research. Its 10 campuses enroll approximately 299,000 students and the UC extension centers register an additional 500,000 participants in continuing education programs. In 2023-24, the UC awarded more than 85,000 degrees, including more than 62,000 undergraduate degrees.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Revised Base Funding Reduction**—A revised ongoing base reduction of \$129.7 million General Fund for the UC. The Governor's Budget included a proposed ongoing General Fund base reduction of \$396.6 million, representing an ongoing 7.95 percent reduction. The revised amount reflects an ongoing reduction of approximately 3 percent to support UC in stable fiscal planning.
- **Compact Funding Deferral**—The May Revision maintains the planned deferral of the 2025-26 Compact investment of \$240.8 million, representing a five-percent base

increase in the fourth year of the Compact, to 2027-28. The May Revision also maintains the planned 2025-26 deferral of \$31 million to offset revenue reductions associated with the replacement of 902 nonresident undergraduate students enrolled at three campuses with an equivalent number of California resident undergraduate students, from 2025-26 to 2027-28.

- **Foster Youth Support Services**—An increase of \$1.8 million one-time General Fund to support First Star Youth Cohorts at UC campuses.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes a General Fund solution to achieve a balanced budget. This includes:

- **Debt Service Savings**—A reduction of \$3.6 million ongoing General Fund debt service savings from the Higher Education Student Housing Grant Program.

CALIFORNIA STATE UNIVERSITY

The California State University (CSU) provides undergraduate and graduate instruction generally up to the master's degree. The CSU serves approximately 454,000 undergraduate and graduate students across 23 campuses and provides opportunities for students to enroll in professional and continuing education programs. In 2023-24, the CSU awarded more than 125,000 degrees.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Revised Base Funding Reduction**—A revised ongoing base reduction of \$143.8 million General Fund for the CSU. The Governor's Budget included a proposed ongoing base reduction of \$375.2 million, representing an ongoing 7.95 percent reduction. The revised amount reflects an ongoing reduction of approximately 3 percent to support CSU in stable fiscal planning.
- **Compact Funding Deferral**—The May Revision maintains the planned deferral of the 2025-26 Compact investment of \$252.3 million, representing a five-percent base increase in the fourth year of the Compact, to 2027-28.

CALIFORNIA COMMUNITY COLLEGES

The California Community Colleges (CCCs) are the largest system of higher education in the country, serving roughly one out of every four of the nation's community college students, or approximately 2.1 million students. The CCCs provide basic skills, vocational, and undergraduate-transfer education with 73 districts, 116 campuses, and 78 educational centers. In 2023-24, the CCCs awarded over 139,000 certificates and 199,000 degrees and transferred over 97,000 students to four-year institutions.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Student Centered Funding Formula (SCFF) Base Adjustment**—One-time increase of \$210.2 million to fully fund the SCFF in 2024-25 and an ongoing increase of \$104.7 million to fully fund the SCFF in 2025-26.
- **SCFF Growth Adjustment**—An ongoing increase of \$109.5 million to fund 2.35-percent enrollment growth in the SCFF in 2025-26, which is an increase from the Governor's Budget proposal of 0.5 percent.
- **SCFF and Categorical Programs Cost-of-Living Adjustment**—To reflect a change in the cost-of-living adjustment from 2.43 percent to 2.3 percent, the May Revision includes an ongoing decrease of \$12.9 million Proposition 98 General Fund for the SCFF and an ongoing decrease of \$122,000 Proposition 98 General Fund for select categorical programs and the Adult Education Program.
- **Local Property Tax Adjustments**—An ongoing increase of \$89.6 million Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.
- **Fire-Related Property Tax Backfill**—A one-time fire-related property tax backfill of \$3.8 million in 2024-25 and \$8.1 million in 2025-26 for impacted community colleges.

ADDRESSING THE BUDGET PROBLEM

To align community college expenditures with available Proposition 98 resources, the May Revision adopts several budget solutions, including reducing or withdrawing some Governor's Budget proposals.

- **SCFF Deferral**—To fully fund the SCFF and maintain the level of 2025-26 apportionments, the May Revision proposes deferring \$531.6 million in SCFF funding from 2025-26 to 2026-27. Budgetary deferrals of \$243.7 million for the CCCs from the 2024 Budget Act are fully repaid in the three-year budget window.

- **Proposition 98 Rainy Day Fund**—To fully fund the SCFF, the May Revision uses \$59 million from the Proposition 98 Rainy Day Fund to support SCFF costs in 2025-26.
- **Collaborative Enterprise Resource Planning (ERP) Project**—Withdrawal of a one-time investment of \$168 million one-time Proposition 98 General Fund for the Collaborative ERP Project, which would have funded the procurement of an ERP platform to upgrade outdated systems that aimed to standardize student and staff experience throughout the CCC system.
- **Common Cloud Data Platform**—A \$150.5 million reduction to a one-time investment of \$162.5 million, of which \$29 million was ongoing, for the Common Cloud Data Platform, which will leverage existing local districts' student data systems to provide near real-time data reporting. When accounting for this reduction, the May Revision provides \$12 million one-time Proposition 98 General Fund for this initiative.
- **Career Passport and Credit for Prior Learning**—The May Revision reduces the Career Passport proposal from \$50 million to \$25 million one-time and the Credit for Prior Learning proposal from \$50 million to \$15 million one-time and from \$7 million to \$5 million ongoing. These proposals are part of the Administration's investments in the Master Plan for Career Education. See the Labor and Workforce Development and General Government and Statewide Issues Chapters for more information on investments in the Master Plan for Career Education.
- **Rising Scholars**—The May Revision reduces the proposed \$30 million ongoing augmentation for the Rising Scholars Network to \$10 million ongoing.

PROPOSITION 98 FUNDING SPLIT

The May Revision includes a shift in how TK expansion funds were distributed between TK-12 schools and community colleges. Specifically, the May Revision shifts the full amount of funding for TK expansion to the TK-12 education side of the Proposition 98 budget, reducing resources for community colleges by \$492.4 million over the three-year budget window. For more information about the Proposition 98 funding split and TK expansion, see the TK-12 Education Chapter.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers California's postsecondary financial aid programs, primarily the Cal Grant program. The Cal Grant program is estimated to provide nearly 492,000 financial aid awards to students who meet specified eligibility criteria in fiscal year 2025-26.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Cal Grant Program Caseload Adjustments**—Estimated Cal Grant expenditures of approximately \$2.3 billion in 2023-24, \$2.5 billion in 2024-25, and \$2.8 billion in 2025-26 based on the latest estimates of enrollment of Cal Grant-eligible students. These estimates reflect an increase of \$94.7 million one-time General Fund in 2024-25 and \$228.7 million ongoing General Fund in 2025-26. These costs are driven largely by an unexpected number of eligible students attending Cal Grant awarding institutions.
- **Middle Class Scholarship Program**—A one-time General Fund increase of \$77 million in 2024-25 to support unanticipated caseload increases in the Middle Class Scholarship Program.
- **Golden State Teacher Grant Program**—The May Revision reflects total available one-time funding of \$64.2 million for the Golden State Teacher Grant Program, up from \$50 million at Governor's Budget. This increase reflects carryover of unused funds from 2024-25.

COLLEGE OF THE LAW, SAN FRANCISCO

College of the Law, San Francisco is affiliated with the UC system but is governed by its own Board of Directors. Located in San Francisco, it primarily serves students seeking a Juris Doctor degree but also offers programs leading to Master of Laws; Master of Studies in Law; and Master of Science, Health Policy and Law degrees. In 2023-24, College of the Law, San Francisco enrolled 1,166 full-time equivalent students. Of these, 1,107 were Juris Doctor students.

SIGNIFICANT BUDGET ADJUSTMENT

- **Revised Base Funding Reduction**—A revised ongoing base reduction of \$695,000 General Fund for the College of the Law, San Francisco. The Governor's Budget included a proposed ongoing base reduction of \$1.8 million, representing an ongoing 7.95 percent reduction. The revised amount reflects an ongoing reduction of approximately 3 percent to support College of the Law, San Francisco in stable fiscal planning.

SCHOLARSHARE INVESTMENT BOARD

The ScholarShare Investment Board administers the Golden State ScholarShare College Savings Trust Program (ScholarShare 529) and the California Kids Investment and Development Savings Program (CalKIDS). The CalKIDS program funds college savings accounts targeted to low-income and underrepresented public school students, in addition to establishing college savings accounts for all newborns.

SIGNIFICANT BUDGET ADJUSTMENT

- **CalKIDS Program Information**—The May Revision includes statutory language that requires LEAs to include information about the CalKIDS program to students along with already required Federal Application for Federal Student Aid information.

STATE LIBRARY

The California State Library serves as the central reference and research library for the Governor and the Legislature. The Library collects, preserves, generates, and disseminates information and provides critical assistance to libraries across the state. The Library administers programs funded by state and federal funds to support local and public library programs.

LOSS OF FEDERAL GRANT FUNDS

In April 2025, the State Library received a notice from the acting director of the federal Institute of Museum and Library Services (IMLS) informing them that their federal grant through the IMLS 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. The grant funds supported both State Library personnel and grants to local libraries to promote resource sharing across diverse populations within communities and the implementation of equitable programming.

Prior to the federal grant elimination, the State Library estimated the federal allocation to California to be \$16 million in 2025-26. In recognition of the uncertainty created by the proposed grant elimination, the May Revision removes the ongoing authority for these funds beginning in 2025-26.

To provide resources to support federally funded positions at the State Library, 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 Library personnel in 2024-25 and 2025-26.

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CLIMATE CHANGE AND ENVIRONMENT

California continues to experience the adverse impacts of climate change, with record breaking heat waves, historic droughts, hazardous flooding and increasingly destructive wildfires. In January, multiple catastrophic wildfires devastated large portions of the Los Angeles region, displacing thousands of residents and destroying thousands of buildings—underscoring the urgency to address and reduce the state's multi-faceted climate risks.

Building on decades of bipartisan climate leadership, the Administration has invested tens of billions of dollars in the California Climate Commitment and is implementing the \$10 billion Climate Bond (Proposition 4). This historic funding continues to protect communities, reduce pollution, accelerate clean energy, and make progress toward the state's world-leading climate goals.

CAP-AND-INVEST

In April, the Governor and legislative leaders announced their joint intention to extend California's nation-leading climate pollution reduction program—known as Cap-and-Trade—that is currently set to expire in 2030. Extending the program this year will further California's climate leadership, set the state on a clear path to achieve its 2045 carbon-neutrality goal, provide greater market certainty and attract stable, private investment for decades.

Since its establishment in 2006, California's Cap-and-Trade program remains globally recognized as a cost-effective tool to reduce carbon pollution by encouraging clean technology investment from carbon emitters, generating billions of dollars in proceeds to support investments in innovative and pollution-reducing projects. The program's proceeds have funded nearly \$33 billion in investments across the state and cut carbon pollution equivalent to taking 1.3 million gas-powered cars off the road.

The May Revision proposes an extension of the Cap-and-Trade program that is best captured in a renaming of the program to the Cap-and-Invest program and enshrined in clear guiding principles that enable a stable and predictable price on carbon pollution to drive deeper investments in carbon reduction and clean technologies. Importantly, extension of this program will result in a continuation of the California Climate Credit, resulting in approximately \$60 billion available for utility bill credits to California residents over the duration of the extension.

The Administration intends to work with the Legislature to design an expenditure plan that invests the program's proceeds in transformative climate projects, such as the High-Speed Rail Project, as well as other climate programs. Specifically, at least \$1 billion annually should be provided for the High-Speed Rail Project to establish a stable and predictable funding stream, which will enable the High-Speed Rail Authority to plan with greater certainty and deliver the project more efficiently. A guaranteed minimum funding level will also improve the project's ability to attract private capital and leverage additional funds upfront, which will accelerate project delivery, lower long-term costs, and increase flexibility through alternative delivery methods.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes a General Fund solution to achieve a balanced budget. This includes:

- **Department of Forestry and Fire Protection (CAL FIRE) Operations Costs**—A shift of \$1.54 billion from the General Fund to the Greenhouse Gas Reduction Fund to support CAL FIRE's fire prevention, fire control, and resource management activities on an ongoing basis. This proposal aligns with the polluter-pays principle in which carbon emitters will fund the state's world-class forestry and fire protection programs in the face of wildfires that have become increasingly destructive because of climate change. The proposal also includes a General Fund backstop to protect CAL FIRE's operations in the event Cap-and-Invest auction proceeds fall below projected revenues.

WATER SUPPLY RELIABILITY

The State Water Project supplies water to more than 27 million Californians and is the backbone of the state's economy. The statewide service area it supports would qualify as the eighth largest economy in the world if it were its own nation. In recognition of climate change impacts on the state's water supplies, it is critical to modernize infrastructure to improve water supply reliability. After decades of development, study, planning, and review, the Delta Conveyance Project must move forward to provide long-term affordability and reliability of water for California's residents and its economy. Accordingly, the state must clear a path for this critical climate-adaptation project by unwinding overly complicated processes that create unnecessary delays.

MODERNIZING CRITICAL WATER INFRASTRUCTURE

The May Revision proposes statutory changes to streamline administrative processes for the Delta Conveyance Project, which will save time and reduce costs to adapt the State Water Project to the effects of climate change and protect against earthquake risk. This proposal preserves environmental protections and promotes efficiency and expediency, which will accelerate the state's most important surface water supply and climate adaptation project, saving billions of dollars by avoiding unnecessary delays.

ENERGY

California is building the clean, reliable, affordable and safe energy system of the future to provide reliable power to the public and combat climate change and the stresses it poses to the state's electric grid. The May Revision continues strategic investments in the energy system.

SIGNIFICANT BUDGET ADJUSTMENTS

- **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.
- **Expediting Clean Energy Development**—\$1.9 million Energy Facility Licensing and Compliance Fund and 9 positions through 2028-29 to support the California Energy

Commission's Opt-in clean energy and advanced manufacturing permitting program. Additionally, the May Revision includes statutory changes to the program's project application fee structure to align it with current program needs.

OTHER CLIMATE AND ENVIRONMENT RELATED ISSUES

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Exide Cleanup Fund Shift**—A shift of \$35 million General Fund to the Lead-Acid Battery Cleanup Fund for the cleanup of residential properties with lead contamination near the former Exide lead-acid battery recycling facility in Vernon, CA. The 2021 Budget Act included \$132 million one-time General Fund for the cleanup and closure of the facility. There is approximately \$75 million remaining of the \$132 million. This proposal would repurpose the remaining \$75 million to be used for residential cleanup and shift \$35 million of the \$75 million of the remaining funding from the General Fund to the Lead-Acid Battery Recycling Fund, which is an appropriate fund source for residential cleanup and has been previously used for this purpose.
- **CAL FIRE Training Center**—A reversion of \$31.5 million General Fund appropriated for the acquisition of property for a new CAL FIRE training center. CAL FIRE is exploring more cost-effective alternatives that will meet the same training capacity goals as the new additional training center project through a combination of expanding and upgrading existing training facilities and utilizing newly identified long-term lease opportunities to minimize delays in training output. These options will provide sufficient training capacity to meet the demands associated with increases in staffing in recent years, including the transition to a 66-hour work week.
- **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 (CPUC). The 2023 Budget Act included \$33 million as part of the Clean Energy Reliability Investment Plan to support community renewable generation and storage-backed renewable generation programs at the CPUC. This proposal would revert the \$33 million given that the CPUC has received federal funding from the U.S. Environmental Protection Agency for community renewable generation projects.

- **Offshore Wind**—A shift of \$42.8 million General Fund to the Climate Bond (Proposition 4) in 2025-26 to support a program for the development of offshore wind generation at the California Energy Commission. The 2022 Budget Act included \$45 million General Fund to support offshore wind infrastructure improvements. The proposal would shift \$42.8 million to Proposition 4 for activities consistent with the purposes of the Climate Bond program for offshore wind.

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HEALTH AND HUMAN SERVICES

The Health and Human Services Agency includes departments and state entities that provide health and social services to the most vulnerable and at-risk Californians while providing public health services to Californians.

Expenditures in health and human services programs have significantly increased, from \$161 billion (\$35 billion General Fund) at the 2017 Budget Act, to an estimated \$283.9 billion (\$76.8 billion General Fund) in 2024-25. This increase is primarily driven by Medi-Cal, Developmental Services, and In-Home Supportive Services (IHSS), with significant increases projected to continue over the multi-year outlook. The May Revision proposes General Fund solutions to align program expenditures with available revenue to maintain a balanced budget. The May Revision includes \$302.4 billion (\$85.6 billion General Fund) for health and human services programs in 2025-26.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost for low-income individuals. The Department also administers programs for special populations and several other non-Medi-Cal programs, as well as county-operated community mental health and substance use disorder programs. The Medi-Cal budget includes \$179 billion (\$37.4 billion General Fund) in 2024-25 and \$194.5 billion (\$44.6 billion General Fund) in

2025-26. Medi-Cal is projected to cover approximately 15 million Californians in 2024-25 and 14.8 million in 2025-26—more than one-third of the state's population.

MANAGED CARE ORGANIZATION TAX AND PROVIDER PAYMENT INCREASES

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 Managed Care Organization (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.

SIGNIFICANT BUDGET ADJUSTMENTS

- **2024-25 Budget Update**—The May Revision reflects a net \$1.9 billion increase in Medi-Cal expenditures in 2024-25 compared with the Governor's Budget, which are covered by the Medi-Cal Provider Interim Payment Loan. This is in addition to the \$2.8 billion General Fund early action appropriation assumed in the Governor's Budget. This increase is driven primarily by increased caseload associated with the continuation of eligibility-related flexibilities, costs for providing full-scope Medi-Cal to income-eligible individuals regardless of immigration status, retroactive managed care rate adjustments, and higher overall costs in managed care, fee-for-service, and pharmacy.
- **Year-Over-Year Comparison**—The May Revision projects Medi-Cal General Fund expenditures of \$44.6 billion in 2025-26, an increase of \$7.2 billion, compared with the revised 2024-25 expenditures. The increase is primarily due to lower MCO Tax revenue available to support the Medi-Cal program, growth in managed care costs, and increased costs for individuals with certain statuses, those who will eventually qualify for federal funds as well as individuals, regardless of immigration status, enrolled in the Medi-Cal full-scope expansion (Medi-Cal full-scope

expansion). This increase is offset by \$1.3 billion Medi-Cal Provider Interim Payment loan.

- **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.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Enrollment Freeze for Full-Scope Medi-Cal Expansion, Adults 19 and Older**—A 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. Estimated General Fund savings are \$86.5 million in 2025-26, increasing to \$3.3 billion by 2028-29.
- **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 by 2028-29.
- **Prospective Payment System Payments to Federally Qualified Health Centers and Rural Health Clinics**—Elimination of Prospective Payment System rates to clinics 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 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 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. 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 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. Estimated General Fund savings are \$308 million in 2026-27 and \$336 million in 2028-29 and ongoing.

- **Pharmacy Drug Rebates**—Implementation of a rebate aggregator to secure state rebates for individuals with certain statuses, those who will eventually qualify for federal funds and individuals enrolled in the Medi-Cal full-scope expansion. 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.
- **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.
- **Medi-Cal Asset Test Limits**—Reinstatement of 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.
- **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.
- **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.
- **Prescription Drug Utilization Management**—Implementation of utilization management, step therapy protocols, and prior authorization for prescription drugs resulting in estimated General Fund savings of \$200 million in 2025-26 and \$400 million in 2026-27 and ongoing.
- **Skilled Nursing Facilities**—Elimination of 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.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, protects, and supports the people of California experiencing need in ways that empower wellbeing and disrupt systemic inequities. The Department's major programs include the California Work Opportunity and Responsibility to Kids (CalWORKs), CalFresh and Nutrition Programs, IHSS, Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare and Adult Protective Services, Community Care Licensing, Disability Determination Services, and Child Care. The May Revision includes \$53.4 billion (\$22.8 billion General Fund) for DSS programs in 2025-26.

CHILD CARE AND DEVELOPMENT

DSS administers child care and development programs including CalWORKs Stages One, Two, and Three; the Emergency Child Care Bridge Program; Alternative Payment Programs; Migrant Child Care; General Child Care; Child Care for Children with Severe Disabilities; and a variety of local supports for these programs, such as Resource and Referral and Local Child Care Planning Councils, in addition to quality improvement projects. Families can access child care subsidies through centers that contract directly with DSS, LEAs, or vouchers from county welfare departments and Alternative Payment Programs. The May Revision includes \$7 billion (\$4.5 billion General Fund) for DSS administered child care and development programs.

The Administration continues to work towards 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.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **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.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services to support economic mobility. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

The May Revision assumes \$9.5 billion in total TANF expenditures (state, local, and federal funds) in 2025-26. This amount includes \$6.2 billion for CalWORKs program expenditures and \$3.3 billion for other programs such as Child Welfare Services, Foster Care, the Department of Developmental Services (DDS) programs, the California Statewide Automated Welfare System, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services. The average monthly CalWORKs caseload is projected to be 363,766 families in 2025-26.

SIGNIFICANT UPDATE

- **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.

FOOD AND NUTRITION

The CalFresh program, California's version of the federal Supplemental Nutrition Assistance Program (SNAP), provides federally funded benefits for eligible families to purchase food needed to maintain adequate nutrition.

The May Revision includes \$4.5 billion in total CalFresh and nutrition expenditures. In addition, \$13.3 billion in food benefits is provided directly to recipients by the federal government. The average monthly CalFresh caseload is projected to be 3,338,191 households in 2025-26.

SIGNIFICANT UPDATE

- **Summer Electronic Benefits Transfer (SUN Bucks)**—SUN Bucks provides \$120 per child (\$40 per month for June, July, and August) in federally-funded food benefits to children who lose access to free and reduced-price meals during the summer school closure period. The May Revision includes \$115.8 million (\$57.5 million General Fund) in 2025-26 for transactions costs and outreach to allow California to provide an estimated \$815.9 million in federal food assistance to children.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes a General Fund solution to achieve a balanced budget. This includes:

- **California Food Assistance Program (CFAP) Expansion**—Statutory language that would make the expansion of the CFAP to adults 55 and over, regardless of immigration status, subject to a trigger-on, based on the availability of General Fund in spring 2027.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides domestic and related services such as housework, meal preparation, and personal care services to eligible low-income individuals with disabilities, including children and adults, as well as low-income individuals who are ages 65 and over. These services are provided to assist individuals to remain safely in their homes and prevent more costly institutionalization.

The May Revision includes \$28.3 billion (\$10.3 billion General Fund) for the IHSS program in 2025-26.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **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, regardless of 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.

CHILDREN'S PROGRAMS

Child Welfare Services include family support and maltreatment prevention services, child protective services, foster care services, and adoptions. California's child welfare system provides a continuum of services to children who are either at risk of, or have

suffered, abuse and neglect. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served.

The May Revision includes \$973.3 million General Fund in 2025-26 for services to children and families in these programs. When federal and 1991 and 2011 Realignment funds are included, total funding for children's programs is in excess of \$9.9 billion in 2025-26.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Tiered Rate Structure Implementation**—Statutory language that would make the implementation of the Tiered Rate Structure subject to a trigger-on, based on the availability of General Fund in spring 2027.
- **Family Urgency Response System Reduction**—A reduction of \$13 million General Fund in 2025-26 and ongoing. The proposal maintains \$17 million ongoing General Fund for the System.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Development Services (DDS) provides individuals with intellectual and developmental disabilities a variety of services that allow them to achieve their goals. The state's developmental services are designed to meet the needs and choices of individuals at each stage of their lives, and support them in their home communities, providing choices that are reflective of lifestyle, cultural and linguistic preferences.

The May Revision includes \$18.7 billion (\$12.2 billion General Fund) and estimates that over 490,000 individuals will receive services in 2025-26.

DDS continues to work closely with regional centers, service providers, and the community on numerous initiatives to streamline and enhance developmental services and supports statewide.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Health and Safety Waiver Assistance**—A reduction of \$3 million ongoing General Fund to eliminate health and safety waiver application assistance.
- **Implicit Bias Training**—A reduction of \$5.6 million ongoing General Fund to eliminate dedicated resources for refreshing regional center implicit bias training.
- **Direct Service Professional Workforce Training and Development**—A reduction of \$17.6 million General Fund in 2025-26 and 2026-27, and \$36.8 million General Fund in 2027-28 and ongoing to eliminate the Direct Services Professional Workforce Training and Development program, which has not yet been implemented.
- **Self-Determination Program**—A reduction of \$22.5 million General Fund in 2025-26, and \$45.5 million General Fund annually thereafter, to reflect new guardrails that protect the sustainability of the program.
- **Rate Reform Hold Harmless**—A reduction of \$75 million General Fund in 2025-26 to reflect ending the rate reform hold harmless policy in February 2026 instead of June 30, 2026.
- **Porterville Developmental Center**—A reduction of \$10 million General Fund starting in 2026-27 and ongoing, reflecting historical savings.
- **Increased Reimbursements and Cost Recovery**—Assumed out-year savings associated with improved processes to increase reimbursements and evaluation of options to recoup costs for certain services.
- **Require Provider Mandates for Quality Incentive Program Eligibility**—A reduction of \$221.7 million General Fund in 2026-27 and ongoing associated with requiring compliance with Electronic Visit Verification, annual audits, and Home and Community-Based Services rules as a pre-condition of eligibility for the quality incentive component of the rate models.

OTHER HEALTH AND HUMAN SERVICES

SIGNIFICANT BUDGET ADJUSTMENTS

- **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.
- **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.
- **Pharmacy Benefit Managers Licensure**—The May Revision proposes statutory changes to establish licensure and data reporting requirements for pharmacy benefit managers to increase transparency in the pharmacy supply chain, understand cost drivers, and develop approaches to improve the affordability of prescription drugs in California.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Department of State Hospital Programs**—Reduced 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**—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.

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HOUSING AND HOMELESSNESS

CREATING THE NEW CALIFORNIA HOUSING AND HOMELESSNESS AGENCY

The Administration has proposed to establish 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. The agency will also be responsible for safeguarding civil rights, including efforts to advance and enforce fair housing and equal employment protections.

The May Revision includes \$4.2 million (\$4 million General Fund) in 2025-26, \$6.4 million (\$6.2 million General Fund) in 2026-27, and \$6.2 million (\$6.1 million General Fund) in 2027-28 and ongoing to support the reorganization of the Business, Consumer Services, and Housing Agency, which includes resources for CHHA and the creation of the Housing Development and Finance Committee (HDFC) in addition to the Business and Consumer Services Agency. See the General Government and Statewide Issues Chapter for information on the related Business and Consumer Services Agency

proposal. By streamlining state operations, making more efficient use of limited state resources, and reducing costs to develop housing, this reorganization will create a more sustainable housing system and deliver better outcomes. This proposal aligns with the Governor's Reorganization Plan submitted to the Little Hoover Commission on April 4, 2025.

The new CHHA will integrate housing programs, streamline policies, and simplify the administration of state affordable housing programs. Creating a state agency focused on overseeing policy development and the administration of state housing and homelessness resources will provide clear authority and accountability for addressing statewide priorities. The agency will include the following entities:

- Department of Housing and Community Development
- California Interagency Council on Homelessness
- California Housing Finance Agency
- Civil Rights Department
- Housing Development and Finance Committee

The new HDFC will promote transparency, coordination, and alignment of state affordable housing resources. Specifically, the creation of HDFC to administer multifamily affordable housing programs will streamline the administration and oversight of housing funding across the state, improving efficiency and reducing the administrative burden for housing developers. By consolidating these programs under one entity, HDFC will align programmatic requirements across related initiatives and enhance long-term monitoring and compliance. This centralized approach will improve accountability and support data-driven decision-making.

CLIMATE-ALIGNED HOUSING AND ECONOMIC DEVELOPMENT

As outlined in the Governor's Budget, the Administration remains committed to advancing policies that support California's climate and economic goals, including through accelerating housing production. A focus will be proposals that hold all permitting entities accountable to existing statutory processes and timelines to reduce delays, alongside targeted improvements to existing streamlining tools and innovative financing strategies that reduce vehicle miles traveled by supporting affordable, transit-oriented housing.

The Administration is also committed to partnering with the Legislature to include key legislation into the budget that advances these goals, which are essential to accelerating infill development. In today's constrained fiscal environment, these cost-effective, high-impact solutions are more important than ever.

BUILDING FOR THE FUTURE

Even amid current fiscal constraints, the Administration is committed to advancing solutions that support long-term progress and is open to working with the Legislature on a potential statewide bond measure to fund critical investments in housing and infrastructure. Such a measure could help sustain momentum in the years ahead and deliver transformative resources to communities across California.

SIGNIFICANT BUDGET ADJUSTMENTS

- Business, Consumer Services, and Housing Agency Governor's Reorganization Plan**—An increase of \$3.7 million General Fund in 2025-26, \$4 million in 2026-27, and \$3.8 million in 2027-28 and ongoing for CHHA, as well as \$322,000 in 2025-26 and \$2.3 million in 2026-27 and ongoing for HDFC. The May Revision includes budget adjustments necessary to begin implementation of the reorganization in 2025-26, with further staffing and program transfers subject to future budget proposals.
- Community Development Block Grant – Disaster Recovery**—An increase of \$416.6 million one-time Federal Trust Fund to reflect federal resources that will be available to the Department of Housing and Community Development beginning in 2025-26 to support long-term recovery efforts related to 2023 and 2024 natural disasters.
- Proposition 35 Flexible Housing Subsidy Pools**—The May Revision reflects \$200 million 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. See the Health and Human Services Chapter for more information on Proposition 35.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes a General Fund solution to achieve a balanced budget. This includes:

- **Reversions of Unexpended Affordable Housing Program Funding**—A reversion of \$31.7 million unexpended General Fund that was previously appropriated for the Infill Infrastructure Grant Catalytic Program, the Commercial Property Pilot Program, and the 2021 Infill Infrastructure Grant Program. A total of \$506.4 million was appropriated for projects in the 2021, 2022, and 2023 Budget Acts for these three programs and \$474.7 million has been awarded for projects to date. The amount identified for reversion represents the unused balance of funds that have not been awarded to date.

CRIMINAL JUSTICE AND JUDICIAL BRANCH

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates people convicted of the most serious and violent felonies, supervises those released to parole, and provides rehabilitation programs to help people reintegrate into the community. The Department strives to facilitate the successful reintegration of the individuals in its care back to their communities equipped with the tools to be drug-free, healthy, and employable members of society by providing education, treatment, and rehabilitative and restorative justice programs. The May Revision proposes total funding of \$13.6 billion (\$13.2 billion General Fund and \$385.4 million other funds) for CDCR in 2025-26. Of this amount, \$4.1 billion General Fund is for health care programs, which provide incarcerated individuals access to mental health, medical, and dental care services.

The adult incarcerated population is projected to fluctuate over the next few years, with increases in the near-term due to the passage of Proposition 36 in November 2024. Spring projections indicate the average daily adult incarcerated population for 2024-25 is estimated to be 91,471, a decrease of 0.2 percent since the fall 2024 projections, and 91,205 in 2025-26, a decrease of 2.2 percent since the fall projections. The projected decrease recognizes a slower ramp up of the Proposition 36 impact than projected in the fall. However, even with the expected population increase from Proposition 36,

temporarily rising to 92,179 in 2027-28, the population is still projected to continue its overall long-term downward trend, declining to 89,692 incarcerated individuals by June 30, 2029.

The parolee average daily population is projected to be 34,723 in 2024-25, declining slightly to 34,197 in 2025-26. Proposition 36 is projected to slightly increase the parole population, which is anticipated to remain relatively stable over the next few years, at 34,213 by June 30, 2029.

PRISON CAPACITY

The adult prison population has steadily declined in recent years, which has allowed CDCR to eliminate its reliance on in-state and out-of-state contract prison capacity, and the lease of the California City Correctional Facility. CDCR has also closed three institutions: Deuel Vocational Institution (Tracy), California Correctional Center (Susanville), and Chuckawalla Valley State Prison (Blythe). Lastly, the department has deactivated 11 facilities, portions of 2 facilities, and 42 housing units across 11 prisons. Combined, these closures and deactivations, along with administrative savings, result in hundreds of millions of dollars in annual savings.

The Administration remains committed to meeting the needs of staff and the incarcerated population while right-sizing California's prison system as the prison population declines, and to address space needs as the state transforms the carceral system to one more focused on rehabilitation. While Proposition 36 is expected to increase CDCR's population, the population should continue its downward trend over the long-term.

Given the state's fiscal situation and the projected decline in the prison population, the May Revision proposes to close one additional prison by October 2026. Upon full closure, the state will achieve an estimated savings of about \$150 million General Fund annually.

In assessing capacity, CDCR takes into consideration its population, specialized bed needs, and available health care, mental health care, educational, and rehabilitation programming space, while also assessing the amount and type of space needed to provide services and a more normalized living environment to support the incarcerated population. The closure of a prison does not change the Administration's commitment to balancing the needs of the population it serves and focusing on rehabilitation and reentry.

As such, the May Revision maintains resources for San Quentin Rehabilitation Center's (SQRC's) new educational center, which is expected to complete construction in January 2026. The May Revision continues the commitment to begin operating this facility, consistent with the Governor's Budget proposal, to provide staffing, add and expand rehabilitative programs focused on behavior change, trauma-informed care, and dynamic security to help foster change in SQRC's correctional environment. The new facility will be operated so as to embody the California Model.

SIGNIFICANT BUDGET ADJUSTMENTS

The May Revision proposes additional resources to continue existing CDCR initiatives, make needed infrastructure improvements, and address increased costs:

- **Reappropriation and Repurposing of Statewide Roofs Replacement Funding**—\$50.8 million in roof replacement funding from the 2023 Budget Act and \$62 million in roof replacement funding from the 2024 Budget Act are repurposed for use on various statewide roof replacement projects and for kitchen repairs at California State Prison, Corcoran and Salinas Valley State Prison, which were damaged by roof leaks.
- **Statewide Fire Alarm Replacements and Fire Watch**—\$37.3 million in 2025-26 and \$44.2 million in 2026-27 and 2027-28 to replace fire alarm control panels and systems at two institutions that require staff to patrol for fires as mandated by the Office of the State Fire Marshal.
- **CalAIM Justice-Involved Initiative – Program Support**—\$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.

THE MAY REVISION INCLUDES THE FOLLOWING STATUTORY CHANGES:

- **Work Privileges for Incarcerated College Students**—Increases the ability for full-time incarcerated college students to also hold a job or participate in additional rehabilitative programming.
- **Licensure of Mental Health Professionals**—Broadens the pre-licensure employment waiver option to include all mental health professionals employed by CDCR.

- **Tuberculosis Testing Changes**—Limits tuberculosis testing requirements to only those employees working in institutional settings and allows employees to complete this testing during their first week of their employment.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the following proposals from the Governor's Budget are withdrawn or modified:

- **COVID-19 Mitigation Costs**—A reduction of \$7.8 million one-time General Fund in 2025-26. The remaining \$5 million will be used to continue necessary COVID-19 prevention and mitigation activities.
- **Air Cooling Pilot Program**—A reduction of \$6 million General Fund in 2025-26 and \$25.4 million General Fund in 2026-27. The remaining \$17.6 million General Fund in 2025-26 and \$20 million General Fund in 2026-27 will be used to initiate a pilot program at three prisons to evaluate the effectiveness of various air cooling alternatives.
- **Americans with Disabilities Act Facility Improvements**—A reduction of \$23.1 million one-time General Fund in 2025-26 related to the plan to complete accessibility improvements at six institutions. This postponement will allow CDCR to incorporate accessibility concerns in master planning efforts currently underway, which will inform the department's priorities over the longer term.
- **Public Safety Radio Replacement**—A reduction of \$19.8 million ongoing General Fund related to maintenance and replacement of CDCR's existing public safety radio and communications equipment.

In addition, the May Revision reflects savings of \$125 million General Fund in 2025-26, growing to over \$600 million General Fund in 2027-28. CDCR will work to identify and achieve savings through additional operational improvements related to headquarters, contract management, overtime management, and modifying various aspects of health care programs.

PUBLIC SAFETY

PROPOSITION 47 SAVINGS

Proposition 47, passed in 2014, requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits incarcerated persons previously sentenced for these reclassified crimes to petition for resentencing. The May Revision includes an additional \$3.2 million General Fund in savings for Proposition 47, for a total General Fund savings of \$91.5 million in 2025-26. Proposition 47 invests savings from reduced prison utilization in prevention and supporting community programs; funds are allocated according to the formula specified in the ballot measure, which requires 65 percent be allocated for grants to public agencies to support various recidivism reduction programs (such as mental health and substance use treatment services), 25 percent for grants to support truancy and dropout prevention programs, and 10 percent for grants for victim services.

COMMUNITY CORRECTIONS PERFORMANCE INCENTIVE GRANT

The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. By lowering the number of supervised offenders sent to state prison, the program has resulted in allocations to county probation departments of more than \$1.5 billion since its creation.

The May Revision proposes \$127.9 million General Fund for county probation departments. In recent years, funding for this item was held constant due to the COVID-19 Pandemic's effect on probation populations, law enforcement practices, and court processes. The May Revision includes statutory updates to the methodology for calculating incentive payments to the counties beginning in 2025-26, which recognize the historic successes of California probation officers 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.

DEPARTMENT OF JUSTICE

As the chief law officer of the state, the Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ). The Department provides litigation services on behalf of the people of California; serves as legal counsel to state agencies; provides oversight, enforcement, education, and regulation of California's firearms laws; provides evaluation and analysis of physical evidence; and supports the data needs of California's criminal justice community. The Budget includes approximately \$1.3 billion, including \$496 million General Fund, to support the DOJ.

SIGNIFICANT BUDGET ADJUSTMENTS

- **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 Law Enforcement Telecommunications System (CLETS) – Department of Motor Vehicles Enhancements**—\$3.2 million General Fund in 2025-26 and \$1.6 million in 2026-27 for information technology enhancements at DOJ to establish a new connection between CLETS and the Department of Motor Vehicles.
- **DOJ FI\$Cal Resources**—\$2.7 million (\$1.1 million General Fund and \$1.6 million Special Fund) in 2025-26 and \$3.2 million (\$1.2 million General Fund and \$2 million Special Fund) in 2026-27 for DOJ to continue the transition from its legacy accounting system to FI\$Cal. The migration will take place over the next three years, with an estimated completion date by the end of 2026-27.
- **Juveniles: Sealing Records (AB 1877)**—\$2.4 million General Fund and four positions in 2025-26 and \$812,000 in 2026-27 and ongoing to implement the provisions of Chapter 811, Statutes of 2024 (AB 1877).
- **Registry of Charities and Fundraisers Workload**—\$1.2 million Registry of Charities and Fundraisers Fund and eight positions and \$1.4 million in 2026-27 and ongoing to address the program workload within the Registry of Charities and Fundraisers within the Charitable Trusts Section of the Public Rights Division.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Unfair Competition Law Fund Loan**—A budgetary loan of \$150 million from the Unfair Competition Law Fund to the General Fund in 2025-26 from resources not required for currently projected operational or programmatic purposes.
- **Various Chaptered Legislation**—A reduction of \$729,000 (\$656,000 General Fund and \$73,000 Special Fund) in 2025-26, decreasing to \$563,000 (\$492,000 General Fund and \$71,000 Special Fund) in 2028-29 and ongoing to withdraw proposals from the Governor's Budget associated with various chaptered legislation that the department intends to initially implement within existing resources.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol (CHP) provides uniform traffic law enforcement throughout the state and serves the public by assuring the safe, convenient, and efficient transportation of people and goods on the state's highway system. Additionally, CHP is responsible for the security of state buildings and officials. Increasingly, CHP also supports statewide law enforcement in specialized areas concerning interjurisdictional crimes.

SIGNIFICANT BUDGET ADJUSTMENT

- **Highway Violence Task Force**—To continue addressing violent crimes occurring on state highways, the May Revision includes one-time resources totaling \$4.9 million Motor Vehicle Account in 2025-26 for an additional year of funding for the CHP's Highway Violence Task Force.

OFFICE OF EMERGENCY SERVICES

The Office of Emergency Services (Cal OES) serves as the state's leadership hub during all major emergencies and disasters. This includes responding, directing, and coordinating local, state, and federal resources, and mutual aid assets across all regions to support the diverse communities across the state. Cal OES also builds disaster resilience by supporting local jurisdictions and communities through planning and preparedness activities, training, and facilitating the immediate response to an emergency through the longer-term recovery phase. During this process, Cal OES serves as the state's overall coordinator and agent to secure federal government resources through the Federal Emergency Management Agency. The May Revision includes \$4.4 billion (\$613 million General Fund) and 1,911 positions for Cal OES.

In addition, the May Revision maintains \$80 million one-time General Fund to implement the California State Nonprofit Security Grant Program, consistent with the two-year funding commitment in the 2024 budget agreement. Since 2020-21, the state has dedicated \$220 million one-time General Fund for this program to support physical security enhancements to nonprofit organizations that have historically been targets of hate-motivated violence. The state has also received \$116 million from the federal Nonprofit Security Grant Program during this time period.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes a General Fund solution to achieve a balanced budget. This includes:

- **Flexible Cash Assistance for Survivors of Crime**—A reversion of \$49.7 million one-time General Fund appropriated in the 2022 Budget Act to establish a financial assistance program for survivors of crime.

JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, the Habeas Corpus Resource Center, and the Judicial Council. The Judicial Council is responsible for managing the resources of the Judicial Branch. The trial courts are funded with a combination of General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive

most of their funding from the General Fund. The May Revision includes total funding of \$5.2 billion (\$3.2 billion General Fund) in 2025-26 for the Judicial Branch, of which \$2.9 billion is provided to support trial court operations.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Tribal Nations Access to Justice Act (SB 549)**—\$2.7 million in 2025-26, \$1.5 million in 2026-27, and \$784,000 in 2027-28, for the courts to handle workload resulting from lawsuits filed by California Indian tribes against California gambling establishments and third-party providers pursuant to Chapter 860, Statutes of 2024 (SB 549).
- **State Court Facilities Construction Fund (SCFCF) Backfill**—A reduction of \$20 million to the General Fund backfill of the SCFCF in 2025-26.
- **Trial Court Employee Health Benefits**—A reduction of \$9 million ongoing General Fund to reflect updated health benefit and retirement rate changes for trial court employees. This brings the total additional amount available for trial court employee benefits in 2025-26 to \$19.8 million.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Trial Court Trust Fund Unrestricted Fund Balance**—A reduction of \$38 million in 2025-26 of the unrestricted fund balance in the Trial Court Trust Fund to the General Fund. This unrestricted fund balance exists primarily from cost savings from previous allocations to the Judicial Branch where no mechanism exists to return the funds to the General Fund.
- **Pretrial Release Program**—A reversion of \$20 million General Fund from 2024-25 associated with savings related to the Judicial Branch's pretrial services and a reduction of \$20 million ongoing General Fund beginning in 2025-26. The budget maintains \$50 million General Fund in 2025-26 and ongoing for the Pretrial Release program, consistent with the current level of expenditure for the program.
- **Incompetent to Stand Trial Evaluations**—A reversion of \$9.1 million General Fund in 2023-24 and 2024-25 associated with unspent funds provided to the Judicial Branch for improvements to Incompetent to Stand Trial evaluations.
- **Jury Duty Pilot Program (AB 1981)**—A reversion of \$27.5 million General Fund in 2023-24 and 2024-25 associated with unspent funds provided to the Judicial Branch

to implement a pilot program related to juror compensation pursuant to Chapter 326, Statutes of 2022 (AB 1981). Statutory changes are also proposed to suspend the program.

- **Court Facilities Architectural Revolving Fund**—A transfer of accumulated savings and accumulated interest revenue totaling \$34.3 million from the Court Facilities Architectural Revolving Fund to the SCFCF, resulting in a one-time reduction of the General Fund backfill to the SCFCF by the same amount in 2025-26.

LABOR AND WORKFORCE DEVELOPMENT

The Labor and Workforce Development Agency supports equitable pathways to quality jobs through workforce development strategies. The May Revision continues investments aimed at expanding workforce development opportunities.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Unemployment Insurance Trust Fund Loan Interest**—An increase of \$8.5 million one-time General Fund in 2025-26 to align with updated estimates for the annual interest payment on the state's Unemployment Insurance loan balance. This adjustment will bring the total estimated interest payment for 2025-26 to \$642.8 million General Fund when combined with the estimated payment included in the Governor's Budget.
- **Workforce Innovation and Opportunity Act-May Revision Update**—An increase of \$20.4 million one-time in 2024-25 and an increase of \$119.6 million one-time in 2025-26 to align with anticipated federal Workforce Innovation and Opportunity Act funding that will be available to support various workforce development programs.
- **Department of Industrial Relations (DIR) Apprenticeship Training Grant Expansion**—An increase of \$18.2 million one-time from the Apprenticeship Training Contribution Fund for DIR to support apprenticeship training in construction and related trades. This funding is in addition to the \$3 million included in the Governor's Budget for this purpose.

- **DIR Public Works Information Technology System Enhancements**—An increase of \$19.1 million Labor and Workforce Development Fund to continue modernization of DIR's Public Works information technology system.

Subsequent Injuries Benefits Trust Fund

The May Revision maintains \$2.7 million Special Fund and 15 positions for the DIR Division of Workers' Compensation to support the rising workload in the Subsequent Injuries Benefits Trust Fund program, which has seen claims payments expand dramatically in recent years. Without changes to the program, claim payments are expected to increase from \$87 million in 2019-20 to \$1.3 billion in 2029-30 and the impact to the employer assessment is expected to grow from \$112 million to \$1.5 billion. Additionally, DIR projects an increasing workload and a need for future resources to address the growing caseloads. While 18 states have eliminated similar subsequent benefits programs, creating efficiencies through statutory changes could address the rapid expansion and mitigate DIR workload, and are appropriate given the program's projected impacts absent modifications.

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Labor and Workforce Development Fund Loan**—A loan of \$400 million from the Labor and Workforce Development Fund to the General Fund from resources not currently projected to be used for operational and programmatic purposes.
- **Regional Coordination for Career Education**—A reduction of \$3 million one-time General Fund for the Labor and Workforce Development Agency (LWDA) in 2025-26. The Governor's Budget included \$4 million in one-time General Fund for the LWDA to support evaluation of the expansion of regional coordination models to support implementation of the Master Plan for Career Education. The May Revision proposes to reduce the amount available for this purpose to \$1 million one-time General Fund. See the Higher Education and General Government and Statewide Issues Chapters for more information on investments in the Master Plan for Career Education.

GENERAL GOVERNMENT AND STATEWIDE ISSUES

This chapter describes items in the Governor's Budget that are statewide issues or related to various departments.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) continues to modernize its operations through projects like the Digital eXperience Platform (DXP) project, a comprehensive replacement of DMV's major informational technology (IT) software programs. Projects such as these will improve the overall customer experience when completing DMV transactions in the field office and through alternative service channels.

SIGNIFICANT BUDGET ADJUSTMENT

- **DXP**—The May Revision includes an increase of \$53 million Motor Vehicle Account (MVA) one-time to complete the vehicle registration phase of the DXP project.

MOTOR VEHICLE ACCOUNT

The MVA is the main operating fund for the California Highway Patrol (CHP) and the DMV, providing \$3.1 billion and \$1.4 billion in 2024-25, respectively. It also funds the California State Air Resources Board's (CARB) mobile source program (\$175 million) and

provides smaller amounts of funding for myriad other departments. The Budget currently projects that the MVA will be insolvent as soon as 2026-27.

ADDRESSING THE BUDGET PROBLEM

To continue to maintain fund solvency, and address the projected budget shortfall in the near-term, the May Revision includes:

- **Ongoing Vacancy and Efficiency Reductions**—\$34 million in vacancy and efficiency reductions across the MVA's major users including the CHP, DMV, and CARB as reflected in the Governor's Budget.
- **Special Fund Transfers**—A one-time transfer of \$166 million (\$81 million from the Greenhouse Gas Reduction Fund and \$85 million from the Air Pollution Control Fund) to fund CARB's MVA-related workload as reflected in the Governor's Budget.
- **Delayed Implementation**—Several recently chaptered pieces of legislation are proposed to be delayed until DMV can complete the DXP project that replaces many of its aging IT components, which alleviates some of the fiscal pressure on the MVA in the near-term.

Given the ongoing fiscal constraints in the MVA, the Administration will continue to prioritize fiscal discipline. This means limiting new workload or initiatives including those with delayed implementation dates that would create additional cost pressures over time. By focusing on core operational priorities, the DMV can serve Californians while staying within available MVA resources.

CANNABIS

The state has made efforts to sustain an equitable legal cannabis market through reforming the cannabis tax structure, assisting local governments in transitioning licensees from provisional to annual licenses, and implementing programs such as the High-Road Cannabis Tax Credit, Cannabis Equity Tax Credit, and the Cannabis Equity Retailer Vendor Compensation Program. These changes have reduced financial and administrative barriers, promoted equity within the industry, and bolstered the regulated market's competitiveness.

With the legal market still in its infancy, two of the most critical areas for strengthening it are enforcement against the illicit market and keeping legal business costs low so licensed operators can compete more effectively. To address these priorities, 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 authorize the department to seal an unlicensed premises when it is involved in illicit commercial cannabis activities. Without the proposed funding shift, the Cannabis Control Fund will be unable to sustain existing enforcement activities without imposing significant fee increases on existing licensees.

The May Revision also includes \$7.1 million between the Cannabis Control Fund and Cannabis Tax Fund in 2025-26, \$4.9 million in 2026-27, and \$6.1 million ongoing beginning in 2027-28 to support additional inspections and other departmental activities by adding 27 staff over the next three years.

UPDATED ALLOCATION OF CANNABIS TAX FUND

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, which is considered Allocation 1. Following this, resources are allocated to research and activities related to the legalization of cannabis and the past effects of its criminalization, which is Allocation 2. Once these priorities have been met, the remaining funds are directed to what are referred to as Allocation 3 programs—youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities.

The May Revision estimates \$454.3 million will be available for Allocation 3 programs in 2025-26 as follows:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent (\$272.5 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$90.9 million)
- **Public safety-related activities**—20 percent (\$90.9 million)

The Board of State and Community Corrections' (BSCC) Proposition 64 Public Health and Safety Grant Program, which is funded through Allocation 3 of the Cannabis Tax Fund, provides grant funds to local governments that assist with law enforcement, fire protection, or other local programming to address public health and safety associated with the implementation of the Control, Regulate and Tax Adult Use of Marijuana Act.

The May Revision includes statutory changes authorizing BSCC to award grants to local governments that prohibit cannabis cultivation if they authorize retail cannabis sales and prioritizes grants for local illicit cannabis enforcement efforts. These changes will expand collaboration with local law enforcement and encourage retail participation to further stabilize the legal market and promote consumer safety.

CREATING THE NEW BUSINESS AND CONSUMER SERVICES AGENCY

The Administration has proposed to establish 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 4 million licensed professionals and businesses.

The May Revision includes \$456,000 in reimbursements in 2025-26 and ongoing for this new agency. Creating this agency will improve regulatory efficiency with a focus on harmonizing standards and best practices for licensing, enforcement, education, and professional conduct across its member departments. A centralized agency will modernize operations by updating systems and processes, making licensing renewals, and other services more efficient for consumers and licensees.

This proposal aligns with the Governor's Reorganization Plan submitted to the Little Hoover Commission on April 4, 2025. See the Housing and Homelessness Chapter for information on the related California Housing and Homelessness Agency proposal.

The agency will include the following entities:

- Department of Alcoholic Beverage Control
- Alcoholic Beverage Control Appeals Board
- Department of Cannabis Control
- Cannabis Control Appeal Panel
- Department of Consumer Affairs
- Department of Financial Protection and Innovation
- California Horse Racing Board
- Department of Real Estate

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The May Revision proposes adjustments to prior investments to assist in closing the projected shortfall, and this requires that employee compensation be part of the budget solution. As such, collective bargaining negotiations will commence or continue with all the state's bargaining units to achieve these savings beginning with the July 2025 pay period. The state will make every attempt to reach these savings through collective bargaining. Additionally, the Administration will include a budget provision to impose reductions if the state cannot reach an agreement with each of the state's bargaining units. The May Revision assumes savings of \$766.7 million (\$283.3 million General Fund) for salaries and wages. However, the May Revision maintains funding for all negotiated 2026 calendar year increases in health care premiums and enrollment for active state employees.

Collective bargaining negotiations are ongoing with seven bargaining units representing Attorneys and Hearing Officers; Correctional Officers; Professional Engineers; Stationary Engineers; Physicians, Dentists, and Podiatrists; Psychiatric Technicians; and Health and Social Services/Professionals, whose contracts or side letter agreements will expire in summer 2025.

STATE RETIREMENT CONTRIBUTIONS

The May Revision includes the following adjustments for retirement contributions:

- State contributions to the California Public Employees' Retirement System (CalPERS) have decreased by a net total of \$103.9 million in 2025-26 relative to the Governor's Budget. The decrease is a result of the integration of CalPERS valuation results as of June 30, 2024, which were not available at Governor's Budget.
- The May Revision estimates \$573 million in one-time Proposition 2 debt repayment funding in 2025-26 to further reduce the unfunded liabilities of the CalPERS state plans.
- State contributions to the State Teachers' Retirement System (CalSTRS) increased by \$7.2 million General Fund in 2025-26, relative to the Governor's Budget, due to a revised creditable compensation report showing increases to the Defined Benefits Program and Supplemental Benefits Maintenance Account.
- Relative to the Governor's Budget, state contributions to the Judges' Retirement System (JRS) II decreased by \$5.4 million General Fund in 2025-26. The contribution

rate decrease is due to the Governor's Budget projection of a larger employer contribution than approved by the CalPERS Board in April 2025.

The State Retirement and Health Care Contributions figure below provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions ^{1/ 2/ 3/}
(Dollars in Millions)

	CalPERS	CSU CalPERS	CalSTRS	JRS	JRS II	LRS ^{5/}	Active Health & Dental ^{6/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{7/}
2016-17	\$ 4,754	\$ 621	\$ 2,473	\$ 202	\$ 68	\$ 1	\$ 3,104	\$ 1,623	\$ 272	\$ 342 ^{8/}
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	242	91	1	3,371	1,844	326	562
2020-21	4,925	680	3,428 ^{4/}	225	84	1	3,398	1,938	339	600
2021-22	5,363	677	3,862	194	91	1	3,501	2,019	356	1,292 ^{9/}
2022-23	7,475	744	3,712	208	86	1	3,731	2,208	392	735
2023-24	7,728	744	3,939	211	89	0	4,139	2,417	428	711
2024-25	6,251	609	4,257	217	92	0	4,574	2,723	484	663
2025-26 ^{10/}	8,279	731	4,632	181	95	0	5,012	3,030	542	716

^{1/} The chart does not include contributions for the University of California pension or retiree health care costs.

^{2/} The chart does not reflect the following pension payments: \$6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), Chapter 859, Statutes of 2019 (AB 118), Chapter 78, Statutes of 2021 (AB 138), Chapter 67, Statutes of 2022 (SB 191), Chapter 39, Statutes of 2023 (AB 130), Chapter 52, Statutes of 2024 (AB 171), and Proposition 2 payments to CalPERS proposed in the 2025-26 May Revision.

^{3/} In addition to the Executive Branch, this chart includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in the CalPERS column include statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

^{4/} As part of the 2020 Budget Act, the Teachers' Retirement Board's statutory authority to adjust the state contribution rate for fiscal year 2020-21 was suspended. The amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the 2021 Budget Act.

^{5/} In 2023-24, no state employer contributions to the Legislators' Retirement System are included as the fund was in a surplus position due to the termination of all active members. In 2024-25, a one-time contribution of \$75,085 was required due to negative impacts of investment losses and cost of living adjustments to the fund. In 2025-26, a one-time contribution of \$493,000 is required due to the fund still being below 100 percent funded, primarily due to higher than expected cost of living adjustments.

^{6/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

^{7/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

^{9/} Amount includes \$616 million to help ensure full funding by 2046, which is provided by the employer on behalf of the employees, based on the actuarial liability for each bargaining unit, as employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

^{10/} Estimated as of the 2025-26 May Revision, contributions sourced from the General Fund are estimated to be \$4.2 billion for CalPERS, \$731 million for CSU CalPERS, \$2.4 billion for Active Health and Dental, and \$383 million for OPEB Prefunding. Fiscal year 2025-26 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are funded entirely by the General Fund.

GENERATIVE ARTIFICIAL INTELLIGENCE PROJECTS AND THE PROJECT DEVELOPMENT LIFECYCLE

On September 6, 2023, the Governor signed Executive Order N-12-23 (EO), which directed the Government Operations Agency (GovOps), the California Department of General Services, and the California Department of Technology (CDT) to update the state's project approval, procurement, and contracting processes for Generative Artificial Intelligence (GenAI) related efforts using results from potential GenAI pilot projects. Since the release of the Governor's Budget, the first cohort of projects are either completing procurement or developing the Minimum Viable Product (MVP).

In February 2025, CDT updated its statewide policies, which includes required safeguard measures to ensure the responsible use of GenAI. CDT also designed the Project Delivery Lifecycle (PDL) to update the state's project approval process for GenAI projects pursuant to the requirements of the EO. The Administration intends to pilot PDL with the second round of GenAI projects and may also explore opportunities to incorporate the use of PDL for non-GenAI projects.

The May Revision includes up to \$8 million one-time Internal Departmental Quality Improvement Account to support the development of a GenAI MVP to streamline data collection and analysis, survey development and reporting for health facility quality and safety inspections at the Department of Public Health.

2026 WORLD CUP

The State of California has a long history of supporting and facilitating safe, secure, and successful major sporting events. Leveraging the state's integrated and well-exercised emergency and transportation management systems provides for a unified effort at every level of government, through strong coordination and use of state-level authorities to secure and apply appropriate resources.

In support of the 2026 World Cup games being held in California, Cal OES has the ability to leverage existing and applicable authorities to provide assets through working with state agencies (including the California Transportation Agency), and to facilitate the acquisition of appropriate local or specialized resources, in support of objectives set forth by the Host Committees.

LA28 OLYMPICS

The May Revision includes funding and statutory changes to support planning and preparation for the 2028 Olympic and Paralympic Games in Los Angeles.

These changes are aimed at supporting planning efforts for the Olympics and Paralympic Games, including facility development, delivery of services, and other activities that complement the ongoing planning efforts.

SIGNIFICANT BUDGET ADJUSTMENT

- **Transportation**—The May Revision includes \$17.6 million one-time from the State Highway Account to support transportation project planning associated with the 2028 Olympic Games, including work on the Games Route Network project.

VARIOUS DEPARTMENTS

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Governor's Office of Land Use and Climate Innovation: California Education Learning Lab Program**—Withdrawal of the Governor's Budget proposal to transfer the California Education Learning Lab from the Governor's Office of Land Use and Climate Innovation to GovOps and instead eliminate the program over two years. This proposal maintains \$250,000 General Fund and 1 position for one additional year in 2025-26 to manage phasing out of the program and reduces \$5.3 million General Fund in 2025-26 and \$4 million and 1 position in 2026-27 and ongoing, fully eliminating the program in 2026-27.
- **GovOps: California Education Interagency Council**—Withdrawal of \$5 million ongoing General Fund for the California Education Interagency Council, which was proposed at Governor's Budget as part of the implementation of the Master Plan for Career Education. See the Labor and Workforce Development and Higher Education Chapters for more information on investments in the Master Plan for Career Education.

- **Military Department: Deferred Maintenance**—Withdrawal of \$4.8 million one-time General Fund in 2025-26 related to deferred maintenance projects at the Azusa, Sacramento-Okinawa, and Fresno-Hammer Field armories.
- **California Department of Veterans Affairs (CalVet): Veterans Homes Deferred Maintenance**—Withdrawal of \$819,000 ongoing General Fund related to deferred maintenance for the Veterans Homes of California.
- **CalVet: Administrative Services Staffing**—Withdrawal of \$285,000 ongoing General Fund and 2 positions related to augmenting staffing support for their Administrative Services Division.
- **California Arts Council: Staffing Resources**—Withdrawal of \$153,000 ongoing General Fund and 1 position related to staffing support for human resources at the California Arts Council.
- **Governor's Office of Business and Economic Development (Go-Biz): California Competes**—Withdrawal of \$60 million one-time General Fund in 2025-26 related to new funding for the California Competes grant program.
- **Go-Biz: Performing Arts Equitable Payroll Fund**—A reversion of \$11.5 million General Fund in 2023-24 associated with unspent funds relating to the implementation of the Performing Arts Equitable Payroll Fund pursuant to Chapter 731, Statutes of 2022 (SB 1116).
- **Office of State Public Defender: Public Records Act Workload**—Withdrawal of \$148,000 General Fund and 1 position in 2025-26, and \$141,000 ongoing to address Public Records Act workload.
- **Hope, Opportunity, Perseverance, and Empowerment (HOPE) for Children Trust Account Program Board**—A reduction of \$50 million one-time General Fund in 2025-26 of the amount available for future use by the HOPE Program.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2025-26 limit is estimated to be \$166.9 billion. The revised limit is the result of applying the growth factor of 6.76 percent to the prior year limit. The revised 2025-26 limit is \$0.9 billion above the \$166 billion estimated in January. A substantial portion of the increase is attributable to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 6.37%
 - May Revision Percentage Growth: 6.44%
- State Civilian Population
 - January Percentage Growth: 0.11%
 - May Revision Percentage Growth: 0.28%
- K-14 Average Daily Attendance
 - January Percentage Growth: 0.56%
 - May Revision Percentage Growth: 0.34%

ECONOMIC OUTLOOK

In 2024, the U.S. and California economies generally performed in line with the Governor's Budget forecast, experiencing slowing but relatively stable growth in the midst of a mature economic expansion. In fact, in 2024, the state passed Japan to become the fourth largest economy in the world as measured by Gross Domestic Product (GDP) and official exchange rates. However, the outlook has abruptly and significantly dampened as a result of various federal policies, including broad and elevated tariffs, strict immigration policies, and cuts to the federal government workforce. Anticipation of tariffs has already led to a slight contraction of 0.3 percent in U.S. real GDP growth in the first quarter of 2025 due to a surge in imports, which is a negative in the calculation of GDP.

As the federal administration's policies continue to take effect, the U.S. is projected to experience a "growth recession," which is a period of below-trend growth along with rising unemployment. As a result, U.S. real GDP growth is downgraded by 0.3 percentage point per year on average from 2025 to 2028 (the forecast window) relative to the Governor's Budget. This "growth recession" is expected to occur during the first three quarters of 2025, bringing GDP growth for the entire calendar year of 2025 to just 1.3 percent. After the projected "growth recession" ends, U.S. GDP growth is projected to accelerate slightly to 1.7 percent in 2028, remaining well below the 2015-2019 pre-pandemic average growth rate of 2.6 percent.

The May Revision forecast was finalized in mid-April and incorporates announced tariffs and other current law federal policies as of the time. In contrast, the Governor's Budget did not incorporate any tariffs into the baseline since they were not enacted but

instead recognized as downside risks. The May Revision forecast assumes 25-percent tariffs on steel, aluminum, autos, and Canadian and Mexican goods that are not compliant with the existing United States-Mexico-Canada (USMCA) agreement, 145-percent tariffs on Chinese goods, 10-percent tariffs on all countries through July 8, 2025 before increasing to various elevated rates after the 90-day pause with an exception for various Chinese-made tech goods. With these newly imposed tariffs, California's average tariff rate is estimated to have increased to 27 percent as of mid-April, significantly higher than the 2.4 percent rate in 2024. The state is expected to be especially vulnerable to tariffs as California serves as a gateway to goods imported from Asia and as Canada, Mexico, and China are three of the state's largest trading partners. The tariffs will have immediate and broad-reaching impacts affecting nearly all the state's \$500 billion worth of imported goods as of 2024, nearly 12 percent of its economic output. The forecast does not include the trade deal announced on May 12, 2025 with China which temporarily cuts tariffs on Chinese goods from at least 145 percent to a base rate of 30 percent for a period of 90 days while Chinese tariffs on U.S. goods are cut from at least 125 percent to 10 percent.

The cost of tariffs is largely expected to be passed on to consumers, leading to increased inflation across all major consumer price index (CPI) categories. At the Governor's Budget, U.S. inflation was projected to decelerate from 2.9 percent in 2024 to 2.3 percent in 2025, broadly reaching the Federal Reserve's inflation target rate after a long battle to get inflation back down to normal levels following elevated rates of over 9 percent at the height of supply chain issues in 2022. However, due to the inflationary impacts of tariffs, the inflation forecast is revised significantly higher for both the nation and the state, by more than a full percentage point per year in 2025 and 2026. U.S. consumer price inflation is now projected to accelerate to 3.5 percent in 2025 and 3 percent in 2026, up from 2.3 percent and 2.2 percent, respectively, in the Governor's Budget forecast. Similarly, as tariffs are expected to push prices upward, California inflation is projected to accelerate from 3.1 percent in 2024, to 3.8 percent in 2025 and 3.5 percent in 2026, up from 2.3 percent and 2.6 percent, respectively, in the Governor's Budget.

New vehicles and apparel are especially vulnerable and impacted because the federal administration imposed a 25-percent tariff on most car imports regardless of country of origin and because nearly a third of the nation's apparel comes from China. With higher projected inflation, the Federal Reserve is now expected to cut target interest rates just once by the end of 2025, a stark contrast from the six rate cuts projected at the Governor's Budget. As a result, credit conditions are anticipated to remain tight, which will limit growth in business investment and interest-sensitive

consumption as federal manufacturing incentives taper off. On the consumer side, higher prices will lead to reduced purchasing power and lower demand and spending, contributing to lower economic growth.

Following annual revisions, U.S. and California job growth was softer in 2024 than initially estimated. Additionally, the state lost 18,000 jobs per month in the first three months of 2025 while the Governor's Budget had projected a gain of 13,000 jobs per month. Unlike California, the nation's labor market remains comparably more stable as the U.S. added 144,000 jobs per month in the first four months of 2025, higher than the Governor's Budget projection of about 75,000 jobs added per month in the first half of 2025. California job growth is downgraded compared to the Governor's Budget as job growth is expected to slow through 2026. This is driven mainly by impacts from tariffs which are broadly assumed to dampen job growth across most sectors but particularly in the manufacturing, leisure and hospitality, trade, transportation and utilities, and professional and business services sectors. The state is projected to add 6,000 jobs per month in 2025 and just 3,000 jobs per month in 2026 before slightly accelerating to add 8,000 jobs per month by the end of the forecast period in 2028, remaining substantially below the 2015-2019 rate of around 30,000 jobs added per month. This is significantly lower than the Governor's Budget projected monthly gains of 13,000 jobs per month in 2025 and 10,000 jobs per month in 2026.

The California personal income forecast is also downgraded from the Governor's Budget due to lower estimates in 2024 and a more pessimistic economic outlook in the forecast window. Actual 2024 wages were \$21 billion, or 1.2 percent, lower than projected in the Governor's Budget and this gap is projected to widen to \$31 billion, or 1.7 percent, in 2025 and \$41 billion, or 1.9 percent, by 2028. In addition to wages, most income components were downgraded relative to the Governor's Budget forecast including proprietors' income, interest income, and rental income. As a result, the state's projected total personal income from 2025 to 2028 was downgraded by nearly \$30 billion or about 0.8 percent on average per year.

The biggest downside risk for the May Revision forecast continues to be federal policy uncertainty. The federal administration's approach to tariff policies has been remarkably inconsistent thus far, with tariff schedules changing frequently and making it very difficult for consumers and businesses to plan. Even if federal policy in this area were to stay stable for a period of time, tariffs near or above the current levels have no recent historical precedent and are expected to both spur inflation and distort many goods markets, significantly impeding economic growth. In the event tariffs are substantially scaled back, the state and national economies will likely remain on a lower trajectory compared to before the sweeping tariffs were announced, since businesses

and consumers are likely to remain cautious in the face of ongoing uncertainty. Moreover, the U.S. may no longer be seen as a safe haven by investors who may pull back on investment in the long-term. The federal administration's immigration policies are also unclear as it has indicated that it will implement a large-scale deportation program that could significantly degrade the state's labor force.

Select Economic Indicators

Annual Percentage Change unless Otherwise Indicated

Column 1	2020	2021	2022	2023	2024	Forecast				
						2025	2026	2027	2028	
United States										
Real GDP										
May Revision, April 2025	-2.2	6.1	2.5	2.9	2.8	1.3	1.5	1.5	1.7	
Percentage Point Change from Governor's Budget	-	-	-	-	0.1	-0.7	-0.3	-0.1	-0.1	
Unemployment Rate (percent)										
May Revision, April 2025	8.1	5.4	3.6	3.6	4.0	4.4	4.9	5.1	4.9	
Percentage Point Change from Governor's Budget	-	-	-	-	-0.0	0.1	0.4	0.5	0.4	
Nonfarm Employment										
May Revision, April 2025	-5.8	2.9	4.3	2.2	1.3	0.9	-0.0	0.0	0.3	
Percentage Point Change from Governor's Budget	-	-	-	-	-0.3	0.1	-0.3	-0.1	0.1	
Personal Income										
May Revision, April 2025	6.8	9.2	3.1	5.9	5.4	4.7	4.5	4.8	4.5	
Percentage Point Change from Governor's Budget	-	-	-	-	-0.4	0.0	-0.5	0.1	0.0	
CPI Inflation Rate (percent)										
May Revision, April 2025	1.2	4.7	8.0	4.1	2.9	3.5	3.0	2.5	2.4	
Percentage Point Change from Governor's Budget	-	-	-	-	0.0	1.2	0.9	0.2	0.2	
California										
Unemployment Rate (percent)										
May Revision, April 2025	10.2	7.4	4.3	4.7	5.3	5.4	5.5	5.5	5.3	
Percentage Point Change from Governor's Budget	-	-	-	-	0.1	0.2	0.4	0.6	0.6	
Civilian Labor Force										
May Revision, April 2025	-2.4	0.0	1.4	1.3	0.9	0.4	0.1	0.2	0.2	
Percentage Point Change from Governor's Budget	-	-	-	-	0.6	0.1	-0.2	-0.2	-0.2	
Nonfarm Employment										
May Revision, April 2025	-7.1	3.5	5.5	0.9	0.7	0.4	0.2	0.4	0.5	
Percentage Point Change from Governor's Budget	-	-	-	-	-0.3	-0.5	-0.4	-0.4	-0.3	
Residential Permits (thousands of units)										
May Revision, April 2025	105	120	113	110	100	100	100	101	104	
Percentage Point Change from Governor's Budget	-	-	-	-	-3.3	-6.3	-11.7	-17.3	-21.2	
Average Wages										
May Revision, April 2025	11.2	7.8	-0.7	3.4	5.5	3.2	3.9	4.3	4.1	
Percentage Point Change from Governor's Budget	-	-	-	-	-0.9	-0.2	0.2	0.4	0.1	
Personal Income										
May Revision, April 2025	9.0	8.7	-0.2	5.4	6.5	4.0	4.1	4.6	4.7	
Percentage Point Change from Governor's Budget	-	-	-	-	-0.2	-0.2	-0.5	-0.1	0.0	
CPI Inflation Rate (percent)										
May Revision, April 2025	1.7	4.3	7.4	3.9	3.1	3.8	3.5	3.1	3.2	
Percentage Point Change from Governor's Budget	-	-	-	-	0.1	1.5	1.0	0.5	0.6	

2025-26 Governor's Budget Forecast based on data available as of November 2024.

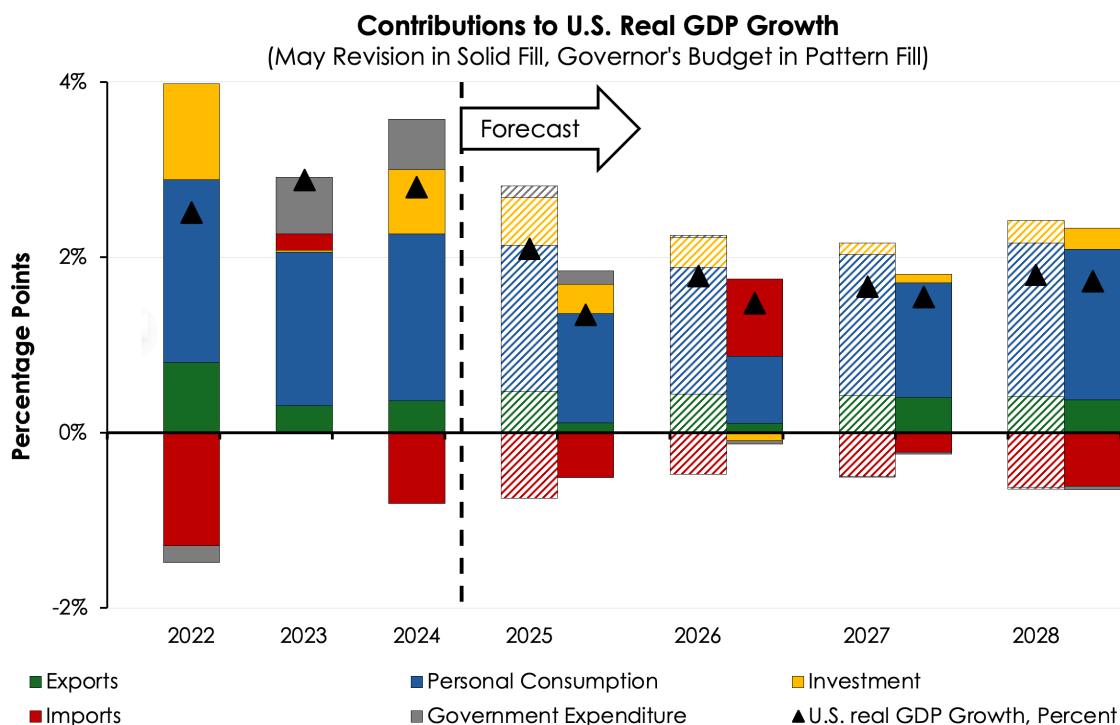
2025-26 May Revision Forecast based on data available as of April 2025. Figures in italics indicate forecasts.

Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau; California Employment Development Department, Labor Market Information Division; California Department of Finance, 2025-26 May Revision Forecast.

U.S. AND CALIFORNIA FORECASTS

"GROWTH RECESSION"

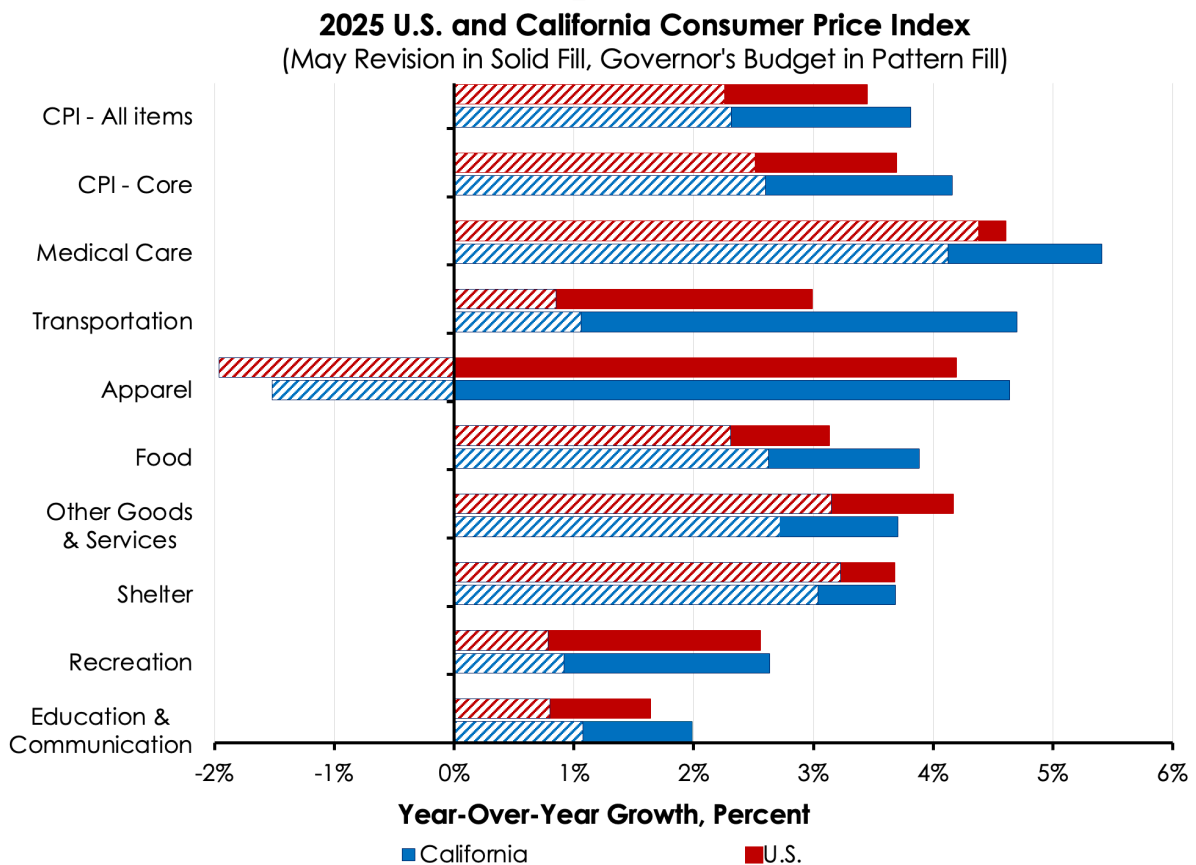
The U.S. is projected to be in a "growth recession", a period of below-trend growth and rising unemployment during the first three quarters of 2025. U.S. real GDP contracted by 0.3 percent in the first quarter of 2025 driven by a surge in imports as domestic producers and consumers stockpiled foreign goods ahead of when most tariffs took effect. Economic growth is downgraded by 1.4 percentage points in the second quarter, 1.2 percentage points in the third quarter and by 0.3 percentage point in the fourth quarter relative to the Governor's Budget driven by tariff-related uncertainty and price increases. Unlike the imports surge from the first quarter, the projected slow growth in the last three quarters of 2025 is due to weakening consumption and nonresidential fixed investment (downgraded by 1.3 percentage points and 5 percentage points, on average, respectively, relative to the Governor's Budget) as the overall economic environment is projected to deteriorate for the year. After the growth recession ends in the fourth quarter of 2025, U.S. GDP growth is projected to average 1.7 percent from 2026 through 2028, 0.1 percentage point lower than the Governor's Budget forecast as markets adapt and adjust to tariffs.



Source: U.S. Bureau of Economic Analysis (BEA); California Department of Finance, 2025-26 May Revision Forecast.

INFLATION PROJECTED TO SPIKE IN 2025 AND 2026 DUE TO TARIFFS

For both the state and the nation, all major CPI components are projected to experience higher inflation in 2025 and 2026 as a result of the broad and elevated tariffs. While new vehicles and apparel have the greatest projected inflationary impacts, tariffs are projected to significantly raise inflation in most categories including household furnishings, food, medical care, recreation, and other goods. Shelter is also projected to be impacted by tariffs due to higher input costs. As a result, California projected shelter inflation—which includes rents as well as homeowners' "equivalent rent"—is upgraded to 3.7 percent in 2025, compared to 3 percent in the Governor's Budget. The outer years of the forecast project more moderate inflation rates as consumers and prices are expected to adjust to higher prices. Overall, there has been a notable upward shift in inflation assumptions relative to November when U.S. headline inflation was decelerating toward the Federal Reserve's 2-percent target rate.



Source: U.S. Bureau of Labor Statistics (BLS); California Department of Finance, 2025-26 May Revision Forecast.

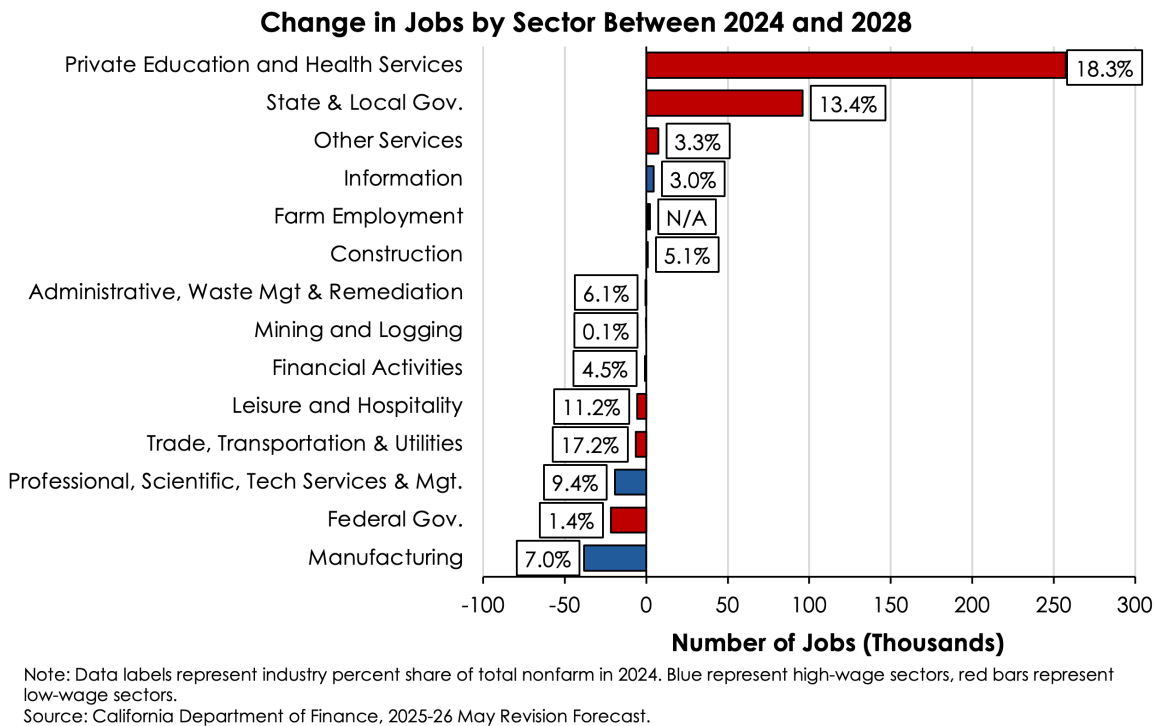
CALIFORNIA JOB GROWTH TO SLOW AND REMAIN SUBDUED

Since the Governor's Budget forecast was finalized in mid-November 2024, California added fewer than 8,000 jobs per month between October 2024 and March 2025—roughly half of the Governor's Budget projection of about 14,000 jobs added per month during the same period. Subdued job growth has been driven primarily by losses in the high-wage sectors while most low-wage sectors have buoyed total job growth. “Low-wage sectors” are defined as sectors with an average wage that is lower than the state's average wage—around \$96,000 in 2024—while “high-wage sectors” have average wages above the state average. According to this definition, low-wage sectors are comprised of construction, trade, transportation, and utilities, private education and health services, leisure and hospitality, other services and government while high-wage sectors are comprised of mining and logging, manufacturing, information, financial activities, and professional and business services.

Job losses were more pronounced in the manufacturing sector, which lost about 3,000 jobs per month between October 2024 and March 2025 compared to the Governor's Budget projection of fewer than 100 jobs lost per month during the same period. Job losses also remained higher in the professional and business services sector which lost about 7,000 jobs per month. In contrast, the only sector that saw stronger job growth than projected was the private education and health services sector, which added around 14,000 jobs per month during the same period compared to the Governor's Budget projection of just over 5,000 jobs added per month. Meanwhile, the government sector and the health care and social assistance subsector continue to be the largest drivers of growth, averaging a combined gain of nearly 18,000 jobs added per month during the same period.

Looking ahead, job growth was downgraded by 0.4 percentage point on average between 2025 and 2028 due to both weaker labor market conditions through March 2025 and the federal administration's policies regarding immigration, tariffs, and federal government layoffs. Tariffs are expected to have the largest broad-based adverse effects on job growth, with the leisure and hospitality, professional and business services, manufacturing, and trade, transportation, and utilities sectors projected to be disproportionately impacted. Job growth in the leisure and hospitality sector is expected to be dampened as these jobs tend to be supported by tourism and travel while the state's technology sector (defined as information plus professional, scientific, technical services and management of companies sectors) benefits largely from foreign direct investment and a higher share of a foreign-born workforce. Moreover, job growth in the state's manufacturing sector and trade, transportation, and utilities sector,

which broadly includes logistics and port activity, is expected to be affected due to reduced port and trade activity. California's job growth is projected to continue to be driven by health care and social assistance and government jobs, since these sectors are the least exposed to tariffs and deportations.



California's unemployment rate is projected to be about 0.4 percentage points higher per year on average through 2028 due largely to more subdued growth from household employment in the near term because of slower economic activity stemming from the impact of federal policies. California household employment growth is projected to slow from 0.3 percent in 2025 to 0.1 percent in 2026, compared to 0.4 percent and 0.5 percent respectively in the Governor's Budget. As a result, the state's unemployment rate is projected to increase from an average of 5.3 percent in 2024 to 5.5 percent in 2026, compared to a decrease to 5.1 percent in 2026 projected in the Governor's Budget. Moreover, tariffs are expected to continue to slow employment growth beyond 2026, while the high-interest rate environment is also projected to continue to dent the pace of employment growth, including self-employment in interest-sensitive sectors such as construction and professional and business services, keeping the unemployment rate at or around 5.5 percent through 2027. In 2028, California's unemployment rate is projected to tick down to 5.3 percent, remaining slightly above the state's pre-pandemic 2015-2019 historical average of 5 percent.

CALIFORNIA REAL WAGE GROWTH DOWNGRADED

Real average wages grew by 2.4 percent in 2024, lower than the 3.3 percent projected in the Governor's Budget. Wage growth was lower than projected due to downward revisions and lower-than-anticipated actuals driven mainly by lower growth in the state's high-wage sectors (information, professional services, and finance in particular), which missed the forecast by 0.9 percentage point in 2024. The state's real average wage is projected to contract by 0.6 percent in 2025 before averaging 0.8 percent growth from 2026 to 2028. This is a significant downgrade from the Governor's Budget projections of real average wage growth of 1.1 percent in 2025 before averaging 1.3 percent growth from 2026 to 2028.

CALIFORNIA PERSONAL INCOME GROWTH SLIGHTLY DOWNGRADED

Personal income generally captures all income earned in the economy in nominal terms. As a result, the negative impacts of lower overall economic activity are partially lessened by higher prices, which positively affect personal income. From 2025 to 2028, the forecast for California personal income is downgraded by approximately \$30 billion or 0.8 percent per year on average. Overall, California personal income growth is expected to slow from 6.5 percent in 2024 to 4 percent and 4.1 percent in 2025 and 2026, respectively (compared to 4.2 percent and 4.6 percent in the Governor's Budget) due to general weakening economic conditions. Notably, wages and salaries are downgraded by \$36.2 billion per year or 1.8 percent. Following a strong growth of 6.2 percent in 2024, wages are projected to slow to 3.6 percent growth in 2025 as the economy slows before gradually returning to normal growth. Employer-paid benefit growth is projected to slow along with wage growth. Proprietors' income is downgraded by \$11.7 billion per year or 4 percent. Its projected growth is just 2.5 percent in both 2025 and 2026, down from 5.1 percent and 5 percent respectively in the Governor's Budget as these are likely to be difficult years for non-corporate businesses due to weak economic growth and especially weak profit growth. From 2027 on, total personal income growth is projected to be just above the estimated steady-state rate of 4.5 percent, similar to the Governor's Budget projections.

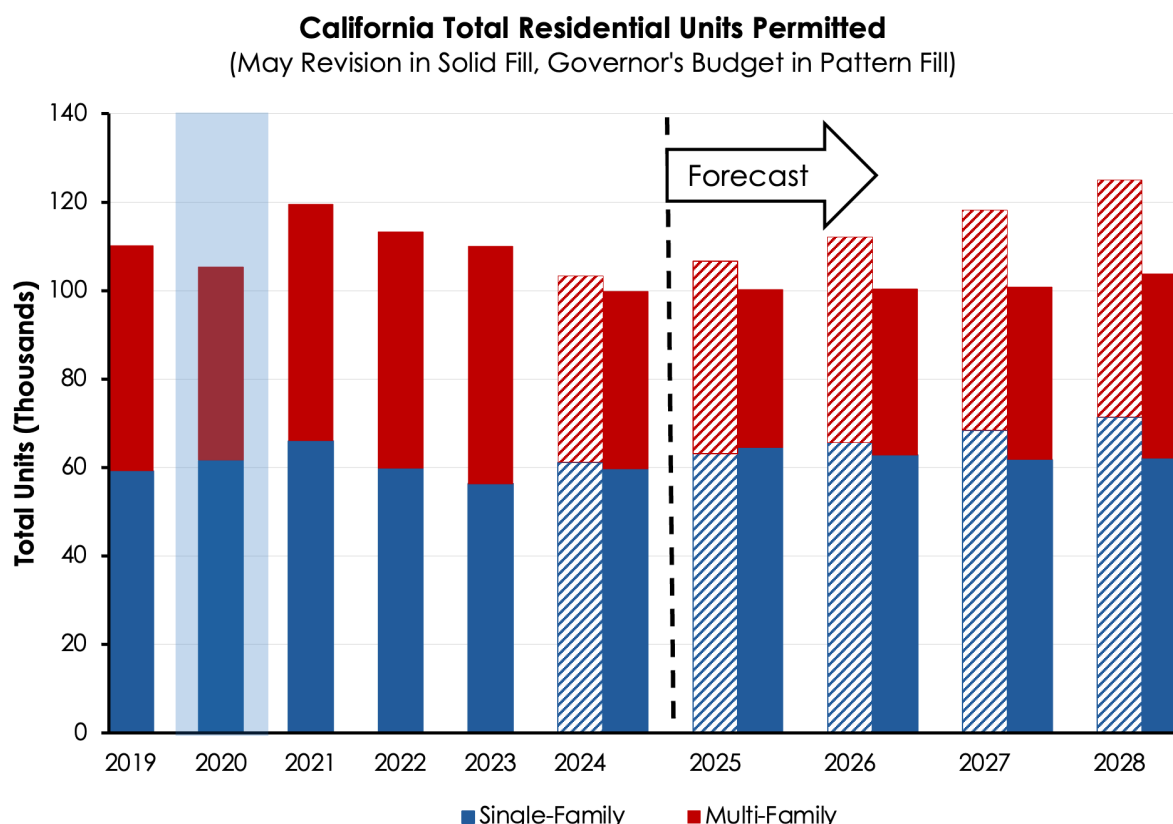
CALIFORNIA HOUSING PERMITS SIGNIFICANTLY DOWNGRADED

High interest rates continue to hamper residential construction activity, which is also now projected to be further slowed by tariffs, leading to a significantly downgraded housing permits forecast. Residential units permitted fell substantially in 2024, declining

by 9.2 percent year-over-year from 110,000 total units in 2023 to just under 100,000 units in 2024, on a seasonally adjusted annualized average basis, compared to a 6.1-percent decline to 103,300 total units projected at the Governor's Budget. Weakness in permitting activity continued into the first quarter of 2025, with authorized units declining 13.1 percent year-over-year to 94,400 units, falling short by nearly 10,000 units relative to the Governor's Budget forecast.

The decline in permitting has been driven by multi-family permitting, which is disproportionately impacted by high interest rates. The number of authorized multi-family units averaged 40,200 units in 2024, 25.1 percent lower than the over 53,600 units permitted in 2023 and 23.7 percent lower than the 52,700 average authorized units during the 2015 to 2019 pre-pandemic period. On the other hand, single-family units averaged 59,700 units in 2024, 6 percent above the 56,400-units permitted in 2023 and 9.4 percent above the 54,600 average units permitted during the 2015 to 2019 pre-pandemic period. Additionally, in the first quarter of 2025, single-family permits averaged 66,000 units, 6.2 percent higher than the 62,100 permitted units projected in the Governor's Budget forecast, while multi-family permits averaged 28,400 units, about 32.3 percent below the projected average of nearly 42,000 permitted units in the Governor's Budget forecast.

The forecast for permitted units is downgraded by 14,000 units or 12 percent on average through the forecast window due to low actuals since Governor's Budget, higher projected interest rates, tariff-induced material cost increases, and potential labor supply issues. Residential permits are projected to remain low through 2025, 2026, and into 2027, averaging about 100,600 units, compared to an average of 112,300 units projected in the Governor's Budget. Rebuilding activity in Los Angeles following the January fires is expected to account for around 11,000 single-family units and 1,500 multi-family units of total permitted units through 2026. Growth is expected to pick up very slightly starting in mid-2027, a lagged result of interest rates falling in the second half of 2026 making construction inputs more affordable and lowering mortgage rates for potential homebuyers, spurring the real estate sector.



Note: Shaded area indicates the COVID-19 Pandemic Recession.

Source: U.S. Census Bureau; California Department of Finance, 2025-26 May Revision Forecast.

RISKS TO BASELINE FORECAST

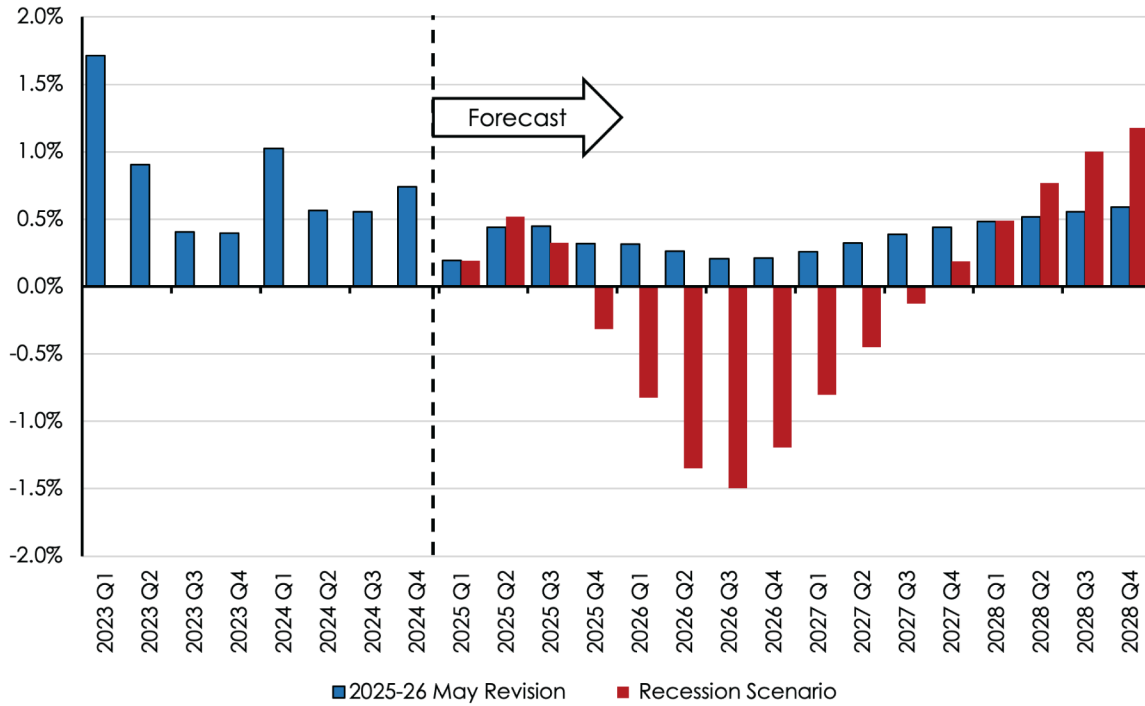
While there is more information on federal policy at the May Revision than at the Governor's Budget, risks and uncertainty remain elevated due to the fast-moving and changing landscape of federal policies. The federal administration has been inconsistent in its approach to tariffs, with actual and proposed tariff schedules regularly changing. Uncertainty remains about the future course of tariffs (and retaliatory measures by trade partners), immigration policy, and tax policy. For example, further escalations in the trade war with China or other countries would likely impact the economy even more negatively through higher inflation due to higher costs of goods, which would lead to lower consumption and would negatively impact businesses, leading to even more suppressed economic growth or even a contraction. There would also likely be more volatility and further declines in the stock market, which would negatively impact state revenues. Due to restrictive immigration and trade policies creating an unwelcome environment, tourism to the U.S. and California has already been slowing and may decline even further, which would disproportionately affect the leisure and hospitality sector.

RECESSION SCENARIO

The stock market and periodic surveys indicate that financial markets, consumers, and business leaders are especially unsettled about the economy's near-term prospects, with recession probabilities ranging from 35 percent to 60 percent as of the end of April 2025. Widespread expectations of weakness can make households and businesses reluctant to spend and increasing the risk of "stagflation,"—meaning a period when GDP growth contracts even while inflation increases. Restrictive monetary policy from persistent inflation could lead the Federal Reserve to keep target interest rates higher for longer than projected, which would dampen business and consumer confidence further and lead to lower economic growth and lower stock prices, which would negatively impact state revenues. Continued or worsening stock market volatility and declines would disproportionately impact high-income earners and state revenues as a result. Any other federal cuts such as cuts to key social safety net programs will create additional impacts through job losses, decreased local spending, and long-term adverse health and educational outcomes.

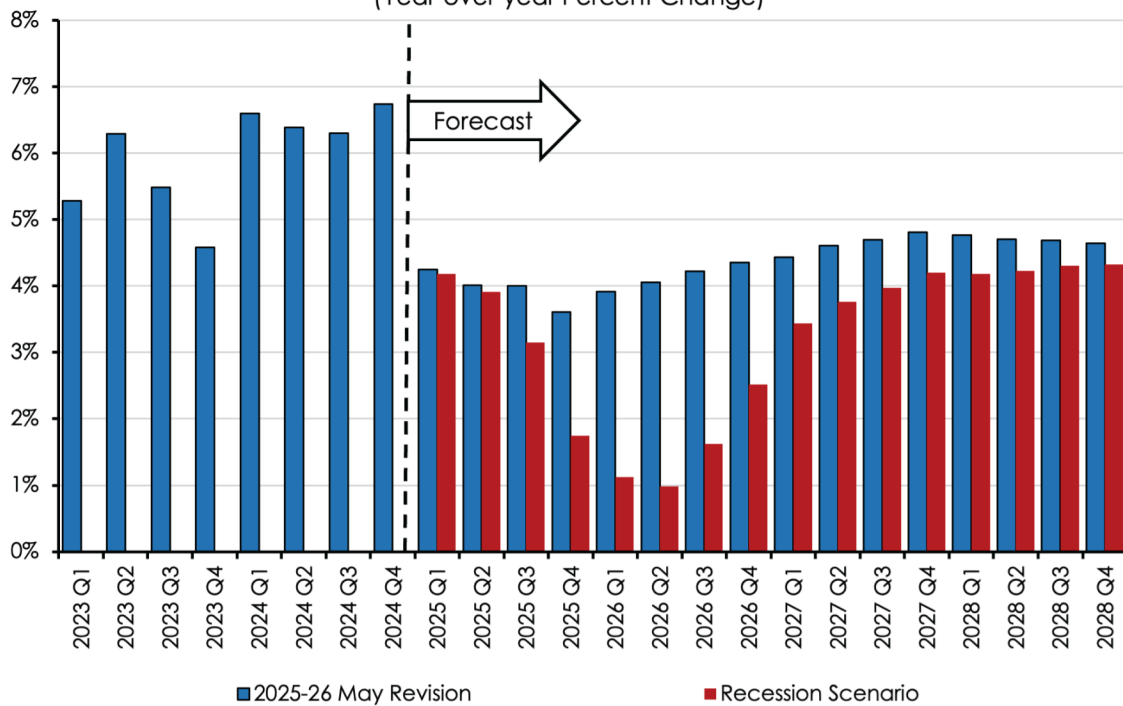
A mild recession along the lines described above driven by more stringent federal policies would result in a contraction in economic growth and payroll employment while leading to higher unemployment relative to the baseline forecast for the May Revision. The Department of Finance has modeled a mild recession scenario which assumes a larger negative response of households, businesses, and investors to the administration's tariffs and other federal policies. This scenario projects an economic slowdown in mid-2025 to early 2026, with outright real GDP contractions of 1.3 percent and 1.6 percent annualized in the last two quarters of 2025. Under this scenario, nonfarm payroll employment contracts from late 2025 through most of 2027, and the state unemployment rate peaks at 6.7 percent in 2027, a somewhat smaller increase than during the early 2000s recession when unemployment rose from 4.7 percent to 7 percent. Personal income would also grow more slowly in this scenario, slowing to 1.6 percent in 2026, and cumulative state personal income would be approximately \$460 billion or 3.1 percent lower over the forecast window relative to the baseline forecast. In comparison, personal income growth was 1.5 percent in 2002.

California Nonfarm Employment Growth Scenario Comparison (Year-over-year Percent Change)



Source: U.S. Bureau of Labor Statistics, California Department of Finance, 2025-25 May Revision Forecast.

California Personal Income Growth Scenario Comparison (Year-over-year Percent Change)



Source: U.S. Bureau of Economic Analysis, California Department of Finance, 2025-26 May Revision Forecast.

Other structural risks remain, including more extreme and frequent disasters such as wildfires, droughts, or floods. Long term, the state's labor force, and hence economic output will be affected by reduced net migration of working-age residents and declining fertility rates. The state's high living costs, especially due to persistent housing shortages, also continue to constrain the economy.

REVENUE ESTIMATES

Despite a significant overperformance in cash receipts through spring compared to the Governor's Budget, the General Fund revenue forecast is substantially downgraded at the May Revision due to a more pessimistic economic outlook moving forward.

General Fund cash receipts through March 2025 exceeded the Governor's Budget forecast by \$4.4 billion. Additionally, April results for the Big Three Revenues—personal income tax, corporate income tax, and sales tax—were \$443 million above forecast. After adjusting for \$3 billion in personal and corporation income tax payments estimated to be delayed from January through April to October due to the tax deadline extensions for Los Angeles County as a result of January fires, cash receipts are estimated to have exceeded the Governor's Budget forecast by \$7.9 billion through April 2025. Driving the cumulative cash receipts above forecast was the personal income tax, contributing \$6.3 billion due to strong personal income tax withholding receipts and personal income tax receipts related to tax year 2024, reflecting both solid economic growth and a strong stock market in 2024. Additionally, \$1.6 billion of the overage is attributed to higher federal cost recovery collections, which are categorized as “not otherwise classified” revenues. The California economy generally tracked the Governor's Budget forecast of steady and stable growth, advancing to become the fourth largest economy in the world in 2024.

However, the outlook for both the U.S. and California economies is significantly downgraded due largely to the federal government's sweeping tariff policy, which has resulted in declines in the stock market, declining consumer and business confidence,

and elevated inflation expectations. Despite the strong cash results to date, incorporation of the disruptive impacts of recent federal policies result in a projected “growth recession” and a General Fund revenue forecast (excluding transfers and loans) that is moderately downgraded in the budget window (-\$5.2 billion in fiscal years 2023-24 through 2025-26) and significantly lowered in the outyears (-\$20.6 billion in fiscal years 2026-27 through 2028-29).

Risks and uncertainty remain elevated due to the future course of tariffs, immigration policy, and tax policy. The May Revision revenue projections are based on an economic forecast that assumes a “growth recession” due largely to tariffs. If the “growth recession” turns into an actual economic recession, or if federal policies are moderated considerably and turn out to be less disruptive for the economy, then the revenue picture will likely change accordingly.

BUDGET WINDOW

General Fund revenues, excluding transfers and loans, are projected to be approximately \$5.2 billion lower than assumed in the Governor's Budget over the budget window. While there are various changes as summarized in the May Revision General Fund Revenue Forecast Reconciliation with the Governor's Budget figure, this downgrade is driven largely by the Big Three as detailed below.

- **Revenues from the Big Three**—The Big Three revenues—Personal Income, Corporation, and Sales Taxes—are projected to be lower by \$4.8 billion, due largely to the downgraded economic outlook and the decline in equity markets since the Governor's Budget. The forecast for personal income tax is revised down by \$1.3 billion, corporation tax revenues are lower by \$2.8 billion, and the sales tax forecast is downgraded by \$666 million.
- **Minor Revenues**—Insurance taxes, alcoholic beverage taxes, cigarette taxes, and interest earned on pooled money, are higher by \$377 million, largely due to a \$361 million upgrade in the pooled money interest forecast.
- **Other Minor Not Otherwise Classified Revenues**—Unclassified revenues are \$703 million lower in the budget window due primarily to a large portion of federal cost recovery collections in 2025-26 shifting to 2026-27, partially offset by higher federal cost recovery collections in 2024-25.
- **Transfers and Loans**—Excluding transfers to the Budget Stabilization Account (BSA), transfers and loans are projected to increase General Fund revenues by

\$11.6 billion, an upgrade of \$684 million relative to what was assumed in the Governor's Budget.

**2025-26 May Revision
General Fund Revenue Forecast
Reconciliation with the 2025-26 Governor's Budget**
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget	
Fiscal 2023-24				
Personal Income Tax	\$113,380	\$115,166	\$1,786	1.6%
Corporation Tax	34,318	35,456	1,138	3.3%
Sales & Use Tax	33,342	33,339	-2	0.0%
Insurance Tax	3,966	3,966	0	0.0%
Alcoholic Beverage	418	418	0	0.0%
Pooled Money Interest	2,892	2,892	0	0.0%
Cigarette	40	40	0	0.0%
Not Otherwise Classified Revenues	3,959	3,983	24	0.6%
Subtotal	\$192,315	\$195,261	\$2,946	1.5%
Transfer To/From BSA	-1,194	-1,486	-292	24.5%
Other Transfers and Loans	2,148	2,104	-44	-2.1%
Total	\$193,269	\$195,879	\$2,610	1.4%
Fiscal 2024-25				
Personal Income Tax	\$121,106	\$125,706	\$4,600	3.8%
Corporation Tax	43,199	41,296	-1,903	-4.4%
Sales & Use Tax	34,110	33,706	-405	-1.2%
Insurance Tax	4,064	4,077	13	0.3%
Alcoholic Beverage	423	417	-7	-1.6%
Pooled Money Interest	3,156	3,066	-89	-2.8%
Cigarette	37	36	0	-1.3%
Not Otherwise Classified Revenues	2,893	3,663	770	26.6%
Subtotal	\$208,989	\$211,967	\$2,978	1.4%
Transfer To/From BSA	4,857	4,902	45	0.9%
Other Transfers and Loans	8,627	8,804	177	2.1%
Total	\$222,473	\$225,673	\$3,200	1.4%
Fiscal 2025-26				
Personal Income Tax ^{1/}	\$133,815	\$126,107	-\$7,709	-5.8%
Corporation Tax ^{1/}	37,377	35,293	-2,084	-5.6%
Sales & Use Tax ^{1/}	35,125	34,866	-259	-0.7%
Insurance Tax	4,341	4,359	18	0.4%
Alcoholic Beverage	428	421	-7	-1.6%
Pooled Money Interest	1,930	2,380	450	23.3%
Cigarette	35	35	0	-1.3%
Not Otherwise Classified Revenues	4,587	3,090	-1,497	-32.6%
Tax Policy Proposals	186	186	0	0.0%
Subtotal	217,824	206,736	-11,088	-5.1%
Transfer To/From BSA	7,100	7,100	0	0.0%
Other Transfers and Loans	171	722	552	323.5%
Total	\$225,095	\$214,558	-\$10,536	-4.7%
Three-Year Total Excluding Transfers			-\$5,164	
Three-Year Total Including Transfers			-\$4,726	
^{1/} Excludes the impact of tax policy proposals.				

^{1/} Excludes the impact of tax policy proposals.

- **BSA Transfers**—BSA transfers are projected to increase General Fund revenues by \$10.5 billion in total, a downgrade of \$247 million relative to the Governor's Budget.

The May Revision assumes a \$7.1 billion withdrawal from the BSA in 2025-26, equal to the amount assumed at Governor's Budget.

- **Tax Policy Proposals**—Tax policy proposals, which remain unchanged since the Governor's Budget, are projected to increase General Fund revenues by \$186 million.

PERSONAL INCOME TAX

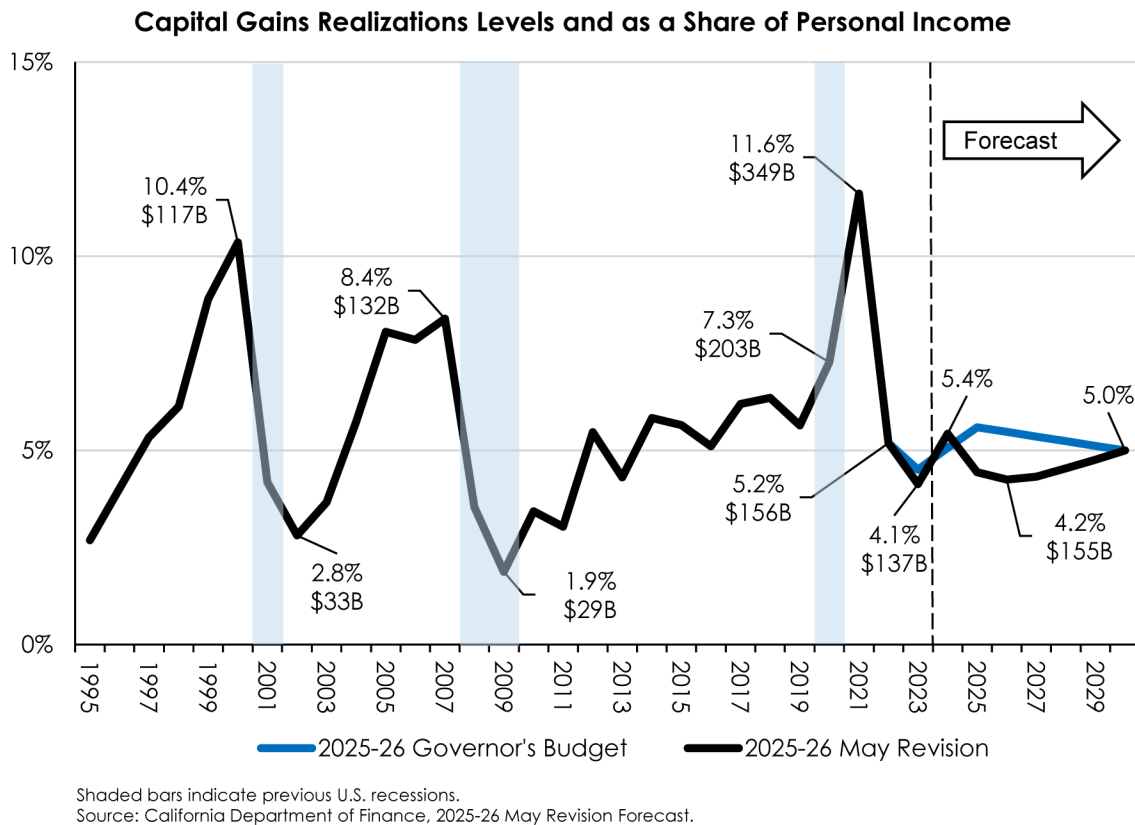
The personal income tax forecast is higher by \$1.8 billion in 2023-24 and \$4.6 billion in 2024-25, reflecting solid economic growth and gains in equity markets in 2024 as reflected in strong cash results through April 2025. However, due to downgrades to the economic forecast and to projected stock prices, personal income tax revenues are downgraded by \$7.7 billion in 2025-26 compared to the Governor's Budget forecast.

Personal income cash receipts are up approximately \$4.1 billion from the Governor's Budget through April, due primarily to a \$3.3 billion overage in personal income tax withholding receipts. The \$4.1 billion variance does not account for the shifting of payments related to delayed tax deadlines for taxpayers in Los Angeles County, which was not incorporated in the Governor's Budget forecast. The May Revision projects \$2.2 billion of shifting of personal income tax payments between January and April to October, which means cash results are estimated to be \$6.3 billion above forecast through April after adjusting for the shift.

Informed by cash results through late April, capital gains realizations are projected to increase from \$131 billion in 2023 to \$183 billion in 2024—a \$12 billion upgrade compared to the Governor's Budget's projection of \$171 billion for 2024. This is a projected 40-percent year-over-year increase in 2024 and follows a 55-percent year-over-year decline in 2022 and a 16-percent year-over-year decline in 2023. In 2024, capital gains realizations' share of personal income is estimated to increase to 5.4 percent, as illustrated in the Capital Gains Realizations Levels and Share of Personal Income figure.

Reflecting declines in equity markets since the Governor's Budget, the S&P 500 forecast was downgraded from 5,871 to 5,388, or 8.2 percent, in the second quarter of 2025. Additionally, the NASDAQ dropped 13.5 percent from its close at the end of 2024 to mid- to late-April when the May Revision forecast was finalized. As a result, capital gains realizations are projected to decrease year-over-year by approximately 15 percent in 2025 and remain flat in 2026, when capital gains realizations' share of personal income

is projected to decline to 4.2 percent, roughly equivalent to its share in 2023. Capital gains realizations are downgraded from \$197 billion to \$156 billion in 2025 and from \$202 billion to \$155 billion in 2026. Including the positive impact from the upgrade to capital gains realizations in 2024, capital gains are estimated to contribute \$2.8 billion to the downgrade to the personal income tax forecast in the budget window. Capital gains realizations are assumed to grow faster than the economy from 2027 on and reach 5 percent of personal income by 2030; however, capital gains levels are projected to remain lower than the Governor's Budget projections throughout the multi-year forecast.



From November through April, personal income tax withholding grew 9.1 percent year-over-year, significantly faster than the growth of 2.7 percent assumed in the Governor's Budget. The strength in withholding is largely attributable to growth in equity markets in 2024 and through early 2025 that resulted in higher levels of stock-based compensation for employees at large technology companies. However, partly as a result of stock market declines as of mid-April 2025, the May Revision projects withholding growth to slow substantially for the remainder of 2024-25 and 2025-26. As a result, while withholding is upgraded by \$3.1 billion in 2024-25, it is downgraded by \$383 million in 2025-26.

Outside of withholding and capital gains, which largely offset each other in the budget window, the downgrade in the budget window for the personal income tax is due to a downgraded economic forecast, mainly through lower economic proprietorship income which led to downgrades in taxable business and partnership income in 2025 and 2026.

CORPORATION TAX

The corporation tax forecast is higher by \$1.1 billion in 2023-24 due to lower refunds and higher payments in 2024-25 that were accrued to 2023-24, but lower by \$1.9 billion in 2024-25 and \$2.1 billion in 2025-26 as a result of the downgrade to corporate profits.

Corporation tax cash receipts are down approximately \$350 million through April but are estimated to be around \$450 million above the Governor's Budget forecast after adjusting for \$800 million in assumed shifting related to the Los Angeles County tax deadline delays.

Corporation tax revenues are downgraded primarily due to a downgraded forecast for corporate profit growth beginning in 2025. Corporate profits are projected to be negatively impacted by the tariffs as production costs increase and corporate profit margins decline as not all costs are assumed to be passed through to the consumer. Based on strong cash results since the Governor's Budget, corporate profit growth was upgraded from 5 percent to 10 percent in 2024. However, corporate profits are projected to decline 2 percent year-over-year in 2025 and grow 2 percent in 2026, compared to a projected growth of 4 percent in 2025 and 2026 in the Governor's Budget.

SALES AND USE TAX

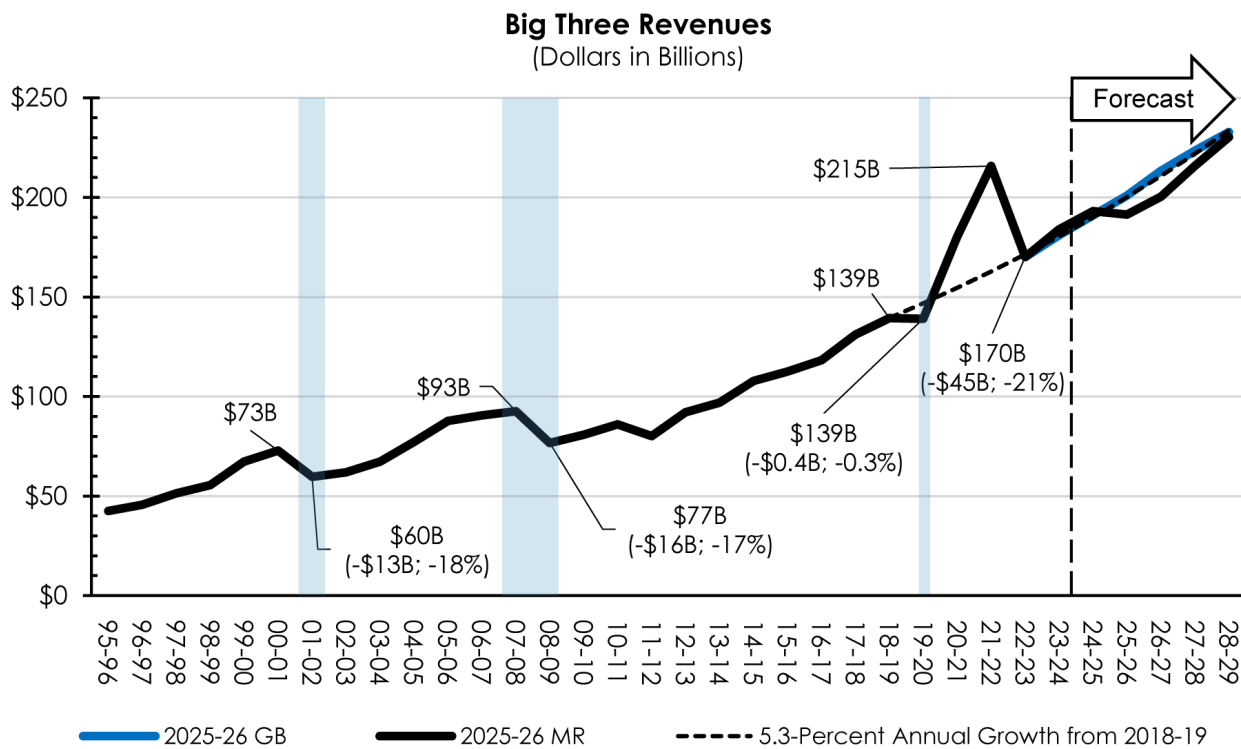
The sales tax forecast is \$2 million lower in 2023-24, \$405 million lower in 2024-25, and \$259 million lower in 2025-26.

Sales tax revenues are downgraded due to lower-than-anticipated taxable sales in the second half of 2024, which resulted in sales tax cash receipts falling short of projections by \$326 million cumulatively through March 2025. In addition, taxable sales are projected to grow slower due to a weaker economic outlook and lower business investment more than offsetting some near-term positive impacts on nominal consumer spending due to inflation. Inflation resulting from tariffs has a positive impact on sales tax revenues from higher growth in nominal consumer spending through the first quarter

of 2026, however growth is thereafter downgraded relative to the Governor's Budget forecast as the negative impact of inflation on demand outweighs the near-term inflationary boost on prices. Business investment is projected to decline significantly throughout the budget window and multi-year.

LONG-TERM FORECAST

General Fund revenues related to the Big Three revenue sources are cumulatively lower by \$22.7 billion in 2026-27 through 2028-29. Yearly revenue downgrades peak at \$13.7 billion in 2026-27, with personal income tax revised down by \$11.1 billion, as the full impact of the lowered economic and stock market forecasts is realized. As shown in the Big Three Revenues Long-Term Trajectory figure, downgrades narrow starting in 2027-28 and, by 2028-29, revenues are assumed to approach the 5.3-percent annual growth trajectory from pre-pandemic levels projected in the Governor's Budget. The plotted figures exclude the impact of 2024 Budget Act and May Revision policies, including the credit limitation and net operating loss suspension enacted in the 2024 Budget Act.



Projected revenue figures exclude the impact of 2024 Budget Act tax policies and proposed May Revision tax policies.

Shaded bars indicate previous U.S. recessions.

Source: California Department of Finance, 2025-26 May Revision Forecast.

REVENUE ESTIMATES

The Long-Term Revenue Forecast table below shows the forecast for each of the Big Three from 2022-23 through 2028-29. Following the significant revenue decline of 21.1 percent in 2022-23, which was on the heels of two years of record cumulative growth of 55 percent in 2020-21 and 2021-22, revenue growth for the Big Three rebounded to 8.1 percent in 2023-24. Revenues are then projected to increase by 9.1 percent in 2024-25, boosted by the 2024 Budget Act policy to suspend the use of net operating losses and limit credit use for tax years 2024, 2025, and 2026. Absent that policy, which is estimated to contribute \$7.1 billion to 2024-25 revenues, Big Three revenue growth for 2024-25 would be at 5.2 percent.

Long-Term Revenue Forecast—Three Largest Sources

(General Fund Revenue—Dollars in Billions)

	2022-23	2023-24	2024-25 ^{e/}	2025-26 ^{e/}	2026-27 ^{e/}	2027-28 ^{e/}	2028-29 ^{e/}
Personal Income Tax	\$100.5	\$115.2	\$125.7	\$126.0	\$141.5	\$155.5	\$168.3
(Year-over-Year Change)	-27.0%	14.6%	9.2%	0.2%	12.4%	9.9%	8.2%
Corporation Tax	\$36.3	\$35.5	\$41.3	\$35.6	\$24.7	\$22.1	\$21.6
(Year-over-Year Change)	-19.5%	-2.4%	16.5%	-13.8%	-30.7%	-10.3%	-2.4%
Sales and Use Tax	\$33.3	\$33.3	\$33.7	\$34.9	\$35.6	\$36.3	\$37.3
(Year-over-Year Change)	0.9%	0.0%	1.1%	3.4%	2.1%	1.9%	2.7%
Total	\$170.1	\$184.0	\$200.7	\$196.5	\$201.8	\$213.9	\$227.1
(Year-over-Year Change)	-21.1%	8.1%	9.1%	-2.1%	2.7%	6.0%	6.2%

^{e/}Estimated

Source: California Department of Finance, 2025-26 May Revision Forecast.

Revenues from the Big Three are projected to contract by 2.1 percent in 2025-26 and to increase by only 2.7 percent in 2026-27 as the impacts of tariffs are expected to be at their highest in the near-term. Revenue growth is projected to accelerate starting in 2027-28 such that the Big Three revenue sources grow by an average of 5 percent in the multi-year, in line with historical averages.

Due to the projected expiration of the Pass-Through Entity Elective Tax (PTET) at the beginning of 2026, the growth rates for the personal income tax and corporation tax are distorted in 2025-26 and 2026-27 as lower PTET payments after the end of the program negatively impact the corporation tax while the personal income tax is boosted by a similar amount due to lower PTET credit use. Therefore, growth rates for personal income tax and corporation tax in 2025-26 and 2026-27 should be viewed together rather than individually.

RECESSION SCENARIO

The May Revision revenue forecast is based on a scenario that assumes a “growth recession”, a period of below-trend growth and rising unemployment, but it does not reflect a traditional economic recession, which is defined as a significant decline in economic activity that is spread across the economy and lasts more than a few months. As a result, projected growth is slow, with real GDP growing 1.3 percent in 2025 and 1.5 percent in 2026. Given the inconsistent federal tariff policy, stock market volatility, heightened uncertainty among both businesses and consumers, and higher inflation expectations, the relative probability of a recession is higher than in a typical period of normal growth and stability.

In a mild recession scenario as outlined in the Economic Outlook Chapter, with real GDP contracting by an average of 1.5 percent year-over-year in the third and fourth quarters of 2025, revenues from the Big Three are projected to be around \$14 billion lower in the budget window than in the May Revision forecast, with additional downgrades in the multi-year that average around \$18 billion per year. The main driver of the downgrade in this scenario is the personal income tax, projected to be lower by \$11 billion in 2025-26 due primarily to lower wages and capital gains realizations. The corporation tax is lower by \$2 billion, while the sales tax is lower by \$1 billion in 2025-26. The personal income tax comprises the majority of the downgrade during the multi-year, with a downgrade averaging around \$15 billion per year.

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2025-26 May Revision Budget Proposal May 14, 2025

TO: CSAC Board of Directors
County Administrative Officers and County Executive Officers

FROM: Graham Knaus, CSAC Chief Executive Officer
Jacqueline Wong-Hernandez, CSAC Chief Policy Officer

RE: **2025-26 May Revision Budget Proposal**

Amidst considerable trepidation over the state's fiscal condition, the Governor released the May Revision budget proposal earlier today. While the Governor spoke for more than two hours, there was little in substance or solutions in his presentation. The lengthy press conference included more screenshots of newspaper headlines and political narrative than facts and figures about what is included in the Governor's revised budget proposal for 2025-26.

Hiding behind the effects of federal global trade policy, the Governor evaded accountability for failing to properly account for the costs of policy changes and programmatic expansions the state made. The Governor repackaged past budget actions and cost shifts as "flooding the zone" with aid to local governments to address homelessness. Local governments across the state understand, now more than ever, that clever wording and finger pointing from the bully pulpit does not obfuscate the realities and challenges of direct service delivery. The state must fulfill its responsibility to lay out policy framework with clear delineation of responsibilities for all levels of government aligned with consistent funding for cities and counties to make sustainable progress on addressing and preventing homelessness.

Regrettably, the 2025-26 May Revision does not include critical funding for the Homeless Housing, Assistance, and Prevention (HHAP) Grant program, nor does it include funding for county governments to implement Proposition 36 (2024). The HHAP program, which provides flexible funding to counties, large cities, and

continuum of care to address homelessness in local communities, has been funded in a piecemeal fashion, leaving local governments with no ongoing support to sustain these vital programs.

Counties were similarly left in the lurch regarding implementation of Proposition 36, although many nonpartisan organizations across the state have argued that Proposition 36 is certain to result in an increase to the population under local community supervision, as well as an increase in local court-related workloads.

Although the Governor's May Revision and its shortcomings will dominate headlines today and for the following week, our attention is now poised on the Legislature and their pending budget packages for 2025-26. The budget conversation is far from over and CSAC will continue to drive the conversation about consistent and sufficient funding for the programs most critical to ensuring vulnerable populations have access to health and medical resources, providing for public welfare, public safety, and creating a place to live where residents are able pursue a fulfilling life.

Just the facts, please.

The Governor's May Revision budget proposal for 2025-26 includes \$321.9 billion in total expenditures (\$226.4 General Fund), and addresses an estimated budget deficit of \$12 billion. Including the negative effects of federal global trade policy (i.e. tariffs), California's revenue forecast for 2025-26 is \$10.5 billion below the January fiscal forecast (within a five percent margin of error). The state's revenue forecast is considerably impacted by the uncertainty of the federal administration's policies on California's economy, including the tariffs that have created uncertainty for businesses and consumers. The May Revision does not draw down reserves from the Budget Stabilization Account (the voter-created "rainy day fund") to address the deficit. Rather, the Administration returned to an "everything but the kitchen sink" scattershot approach to bridge the budget gap, including budget reductions, borrowing from special funds, and shifts from the General Fund to other funds.

What did the Governor know and when did he know it?

Policy wonks who follow the Department of Finance's monthly [Finance Bulletin](#) publication of economic and revenue updates and the State Controller's Office's [monthly statement](#) of General Fund Cash Receipts and Disbursements were already well aware before the Governor's press conference that state revenues on a cash basis for 2024-25 were outpacing the state's fiscal forecast from January 2025. Even after accounting for delayed tax payments from April to October due to the tax

deadline extensions for Los Angeles County residents following the devastating January fires, state revenues as of April 2025 have exceeded the state's revenue forecast by \$7.9 billion for 2024-25.

What does this mean for building the 2025-26 budget? In January, [we knew](#) that the Governor's budget proposal for 2025-26 and the fiscal forecast was subject to transformation, more so than typical years. CSAC cautioned that the state shouldn't "count your chickens (appropriations) before they are hatched (enacted)." At this time, the "chickens have come home to roost"—specifically, identified risks monitored for the state's revenue forecast between January and May that came to fruition include:

- Wildfire recovery in Southern California.
- Federal fiscal policy regarding global trade and the federal/state funding relationship generally.
- Geopolitical instability, including further escalation in the Middle East or the Russian invasion of Ukraine.
- Stock market and asset price volatility.
- Constrained labor supply and lower than average labor force participation rates.

As we move forward with the budget development melee the Administration cautions some additional variables will add to our uncertainty:

- Effects on the state's labor force and economic output due to reduced net migration of working-age residents and declining fertility rates.
- The state's high living costs, especially due to persistent housing shortages, continuing to constrain the economy.

The state's budget architecture and additional commentary on the state's fiscal condition is described in further detail subsequently in this publication.

Welcome to Countyland

In some respects, the unmanageable expenditure growth of the Medi-Cal program and the subsequent frustration that the state is experiencing trying to contain its General Fund exposure is akin to what counties have experienced for decades—the twin pressures of increasing service demands for entitlement programs and

statutory requirements on the one hand, and the inability to raise necessary resources to meet those demands on the other.

As we know well, the options available to counties to meet state requirements while managing finances and general-purpose revenues are limited. Broadly speaking, county general-purpose revenues have not kept up with service demands and inflation. Additionally, counties' share of costs does not typically reflect their ability to control costs in the programs for which they have responsibility to manage. It is about time that the state has to understand and experience the consequences of not fully funding their policy initiatives, as this is an essential piece of local government budgeting. Unfortunately, these hard-felt realities have consequences on the lives of everyday Californians, leading to confusion, disappointment, and the loss of expected support.

Outside of the State Echo Chamber: What do others have to say?

Last week, the Legislative Analyst's Office (LAO) released its semi-annual [updated revenue outlook](#) and assessment of the state's fiscal condition. The LAO is the California Legislature's nonpartisan fiscal and policy advisor. The LAO provides an independent assessment of the California state budget condition for the upcoming fiscal year. The publication also includes a forecast of the state's longer-term condition, typically a three-year period following the upcoming fiscal year. The 2025-26 Fiscal Outlook includes the LAO's assumptions about the state's economy for fiscal years 2025-26 through 2028-29 and how the state's economy affects the state's annual revenues and expenditures.

Earlier this year, the LAO described the state's budget as "roughly balanced" and warned about multi-billion structural deficits in the outyears. At this time, the LAO's tone is markedly blunt, and describes the state's revenue prospects in 2025-26 and beyond as "... essentially flat, reflecting mounting risks and headwinds." Further, the LAO boldly states that "The state's economy has been in an extended slowdown for over two years." It is a reasonable question to ask; How can the state's revenues (apart from the effects of the federal tariff slump) be relatively healthy in 2024-25 and, simultaneously, the economy appears to be on the brink of a recession?

In [a separate publication regarding the efficacy of revenue forecasts](#), the LAO warns that "revenue trends can diverge considerably from trends in the state's economy." Essentially, the LAO is emboldened to say what the Administration has muffled; there are rough economic roads ahead. Despite their candor, at this time

the LAO does not include any specific predictions regarding anticipated changes in federal policy that may affect California's fiscal condition.

What happens next?

In the coming weeks, the budget negotiations will begin in earnest, with the tight constitutional deadline for the Legislature to pass the budget bills by June 15. Budget committees and their subcommittees in the Assembly and Senate will hold hearings to review the Governor's May Revision budget proposals and craft the legislative vehicles that will eventually become law. As required by the State Constitution, the budget chair in each house of the California Legislature introduced the Governor's proposed budget bill in January ([AB 227](#) and [SB 65](#)). These bills will be amended to reflect the proposed revisions to the 2025-26 budget announced this week.

As county leaders, now is the time to make your community's voice heard by providing written comments or in-person testimony directly to these committees. We also encourage you to contact legislators and officials from your region to share the county perspective and your own budget priorities and areas of concern. Your CSAC advocacy team has been working tirelessly for months to shape this year's budget. However, we are stronger together and by making our collective voices heard during the coming weeks we can help craft a budget that serves all of our communities. We look forward to providing you updates, advocacy tools and analysis as the budget process evolves over the coming days.

The subsequent sections of this publication provide statewide revenue and expenditure summary charts as well as descriptions of specific budget proposals by policy area. For questions on these and other items of importance, please contact the [CSAC legislative affairs team](#).

If you have questions regarding the Budget Action Bulletin, please contact Jessica Sankus, CSAC Principal and Fiscal Policy Analyst, at jsankus@counties.org

The State's Fiscal Condition and Future Uncertainty

"Growth Recession"

While California recently passed Japan to become the fourth largest economy in the world, the Administration says the state's fiscal outlook has abruptly and significantly dampened as a result of various federal policies, including broad and elevated tariffs, strict immigration policies, and cuts to the federal government workforce.

As the federal administration's policies continue to take effect, the U.S. is projected to experience a "growth recession", which is a period of below-trend growth and rising unemployment, during the first three quarters of 2025. The Administration assumes California will experience a "growth recession" in the May Revision revenue forecast.

The Administration finalizes its May Revision revenue forecast in mid-April, and has stated that this forecast incorporates announced tariffs and other federal policies current at that point in time. The Administration suggests the biggest downside risk for the May Revision forecast continues to be federal policy uncertainty, including the inconsistent and unpredictable approach to tariff policies, making it difficult for consumers and businesses to plan. Even if federal policy in this area stabilizes, broad tariffs near or above the current levels have no recent historical precedent and are expected to both spur inflation and distort global markets, significantly impeding economic growth. Even if tariffs are substantially scaled back, the Administration anticipates the state and national economies will likely remain on a lower trajectory compared to the time before the sweeping tariffs were announced, as businesses and consumers are likely to remain cautious in the face of ongoing uncertainty.

"Big Three" Revenues

In total, the Administration estimates that cash receipts have exceeded the Governor's Budget forecast by \$7.9 billion through April 2025. This includes \$6.3 billion from strong personal income tax withholding receipts and personal income tax receipts related to tax year 2024, and \$1.6 billion from higher federal cost recovery collections. However, as noted above, the Administration indicates that, despite the strong cash results to date, the recent federal policies result in a projected "growth recession" and a General Fund revenue forecast that is moderately downgraded in the budget window (-\$5.2 billion total in fiscal years 2023-24 through 2025-26) and significantly lowered in future years (-\$20.6 billion total in fiscal years 2026-27 through 2028-29) compared to the Governor's January Budget revenue forecast.

Addressing the Ongoing Budget Deficits

As mentioned previously, the Administration is proposing several “solutions” to address the projected budget gaps in the budget year and ongoing. In previous years the Administration has relied upon one-time funding or funding available over multiple years to solve the budget gaps, however this year the Administration is proposing a significant number of reductions to ongoing programs that result in greater savings in future years.

Below is a high-level summary of the different categories of “budget solutions,” which, are discussed in more detail throughout the remaining sections of this budget analysis:

- Cuts—\$5 billion in total solutions in 2025-26, growing to \$14.8 billion by 2028-29.
- Revenue/Borrowing—\$5.3 billion in total solutions in 2025-26.
- Fund Shifts—\$1.7 billion in total solutions in 2025-26.
- Triggers—\$456.1 million in commitments that would be ‘triggered on’ in 2027-28 contingent upon sufficient resources to support these commitments. Meaning, these programs will only be funded if there is enough funding in the budget to support them in that fiscal year.

It is important to note that these budget gaps and proposed solutions do not account for any potential budget reductions at the federal level. These would need to be addressed in future budget actions by the state, whether through the proposed control sections or through additional legislative actions (budget bill juniors).

See the Department of Finance May Revision Summary linked [here](#) for additional information and charts detailing the projected revenues and expenditures.

Agriculture, Environment, and Natural Resources

The May Revision maintains much of the status quo as proposed in the Governor's January Budget with some exceptions for funding shifts to the Greenhouse Gas Reduction Fund (GGRF) and elimination of state-level projects that have not started. Major changes, however, are proposed through trailer bill language for how the state approaches the Sacramento-San Joaquin Delta (Bay-Delta), from exemptions from the California Environmental Quality Act (CEQA) for the Bay-Delta Plan, to elimination of legal requirements and fast-tracking for the state-proposed Delta Conveyance Project.

The May Revision also includes a proposal to extend and recast the existing Cap-and-Trade Program in coordination with the Senate and Assembly's existing working groups. Though lacking many details, major funding shifts are proposed for fire prevention and recovery, as well as High-Speed Rail.

Finally, the budget does not include major cuts in the disaster and recovery space. However, as counties see reductions in federal funding, from cancellation of the Building Resilient Infrastructure and Communities (BRIC) program to reductions in staffing at federal forest agencies, disaster preparedness losses are mounting for counties.

Forestry and Fire Protection

Shifting Funds to Support Ongoing CalFIRE Programs

The May Revision maintains most CalFIRE programs and proposes an ongoing shift of \$1.5 billion from the General Fund to the GGRF. Programs impacted by the shift include fire prevention and resource management activities that are intended to reduce carbon emissions through reduction in catastrophic wildfires.

Elimination of the New CalFIRE Training Facility

The May Revision eliminates \$35.5 million General Fund for the acquisition of property for a new CalFIRE training facility. The department is exploring options to increase training capacity using existing facilities and resources.

Increasing Capacity for Exclusive Use Air Contract

CalFIRE, along with all other wildland firefighting agencies nationwide, utilize the same limited pool of contract aerial firefighting resources during major fires and periods of dangerous wildfire conditions. The May Revision proposes to increase the current threshold for exclusive use aircraft from \$27.5 million to \$65 million General Fund to reflect California's increased need for aerial wildfire response.

Water Management and Delta Conveyance

Proposal to Accelerate Delta Conveyance Project

A [proposal](#) to accelerate the development of the Delta Conveyance Project within the Department of Water Resources (DWR) State Water Project is included in the May Revision. The proposal continues the Governor's desire to fast-track specific state-driven water supply projects. The project currently has a certified environmental impact report (finalized in 2023) and several permits necessary to move the project forward. The proposal would:

- Eliminate certain water rights permit deadlines within the State Water Project.
- Specifically allow for the isolated transfer of water (Delta Conveyance) across the Sacramento-San Joaquin Delta to be included as a feature of the overall system, and states this is declaratory of current law.
- Authorizes DWR to issue bonds for the project to be repaid by water agencies under contract to the State Water Project.
- Narrows judicial review and increases the authority of the state to acquire land to support construction of the project.

Eliminating CEQA for Regional Water Quality Control Plans.

The May Revision proposes [trailer bill language](#) that would eliminate CEQA review for changes to regional water quality control plans, specifically impacting the Bay-Delta Plan, so long as quarterly quality objectives are not relaxed. Combined with the specific trailer bill proposal related to the Delta Conveyance Project, the actions represent a major shift in the way the project will be reviewed and the ability to protest the project.

CSAC has a very clear Delta and State Water policy within the Agriculture, Environment and Natural Resources [platform](#) that acknowledges the varying positions of counties relative to Delta water matters, and respects all counties land use authority, revenues, public health and safety, economic development, water rights, and agricultural viability. The platform also supports strong county-focused governance and decision-making for all water matters which will no doubt be challenged by the CEQA exemption and streamlining proposals.

Salton Sea Restoration Projects

The May Revision proposes \$178 million over three years (federal funds) for priority Salton Sea Restoration projects from the federal Inflation Reduction Act. This would be complemented by \$11 million bond funding from previous bonds (Proposition 68 and Proposition 84) through allocations from the Department of Fish and Wildlife. The projects are focused on construction of habitat and dust suppression that would reduce pollution in downwind (inland) communities.

Urban Flood Risk Reduction Projects

The May Revision proposes \$12.5 million General Fund for state operations to manage urban flood risk reduction projects with the United States Army Corps of Engineers. This investment

is intended to provide the non-capital funding for over \$500 million in urban flood risk reduction projects.

Greenhouse Gas Reduction Fund

The May Revision proposes to rename the “Cap-and-Trade” program to “Cap-and-Invest”, extend the program to 2045, and include a minimum funding level of \$1 billion annually from the GGRF for High-Speed Rail, in contrast to the 25% minimum allocation in prior years. Further, the May Revision proposes a one-time transfer of \$81 million from the GGRF to the California Air Resources Board’s (CARB) Motor Vehicle Account, which faces insolvency, thereby reducing the amount of GGRF funds available for climate-related activities. Extension of the program and continuation of the Climate Credit funded by GGRF would provide an estimated \$60 billion for California ratepayers through 2045.

Energy

Renewable Energy

The May Revision proposes to revert \$33 million of General Fund previously allocated for programs funding community renewable energy projects at the California Public Utilities Commission.

Clean Energy Storage and Permitting

The May Revision proposes significant budget augmentations for clean energy storage, including \$3.7 million to the 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.

The May Revision also proposes an augmentation of \$1.9 million Energy Facility Licensing and Compliance Fund and 9 positions through 2028-29 to support the California Energy Commission’s (CEC) opt-in clean energy and advanced manufacturing permitting program.

Offshore Wind

The May Revision proposes to shift \$42.8 million of expenditures from the General Fund to the Climate Bond (Proposition 4) in 2025-26 to support the development of offshore wind generation at the CEC.

Cannabis

The Administration proposes trailer bill language to shift the Department of Cannabis Control’s illicit enforcement funding from the Cannabis Control Fund to the Cannabis Tax Fund. In addition to this fund shift, the May Revision proposes an additional \$7.1 million in 2025-26, \$4.9 million in 2026-27, and \$6.1 million ongoing beginning in 2027-28 to support

additional inspections and other departmental activities by adding 27 staff over the next three years.

The May Revision estimates \$454.3 million in the Cannabis Tax Fund will be available for Allocation 3 programs for environmental protection, youth education, prevention, early intervention, and treatment, and public safety-related activities in 2025-26 and proposes the following allocation:

- 60% (approximately \$272.5 million) to education, prevention, and treatment of youth substance use disorders and school retention.
- 20% (approximately \$90.9 million) to clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation.
- 20% (approximately \$90.9 million) to public safety-related activities.

The May Revision also proposes statutory changes to the Board of State and Community Corrections' (BSCC) Proposition 64 Public Health and Safety Grant program to allow BSCC to award grants to local governments that prohibit cannabis cultivation if they authorize retail cannabis sales and requires the Board to prioritize illicit cannabis enforcement applications from local governments.

Farming and Agriculture

The May Revision proposes to increase funding for animal and human health emergency infrastructure. This increase includes \$6 million General Fund and \$5 million in federal funds and 29 positions that are intended to more effectively respond to Bird Flu agricultural disasters.

Exide Lead-Acid Battery Recycling Facility

The May Revision proposes a one-time shift of \$35 million from the General Fund to the Lead-Acid Battery Cleanup Fund for the cleanup of residential properties with lead contamination near the former Exide lead-acid battery recycling facility.

Administration of Justice

Local Public Safety

Proposition 47 Savings Estimate

The May Revision includes an estimated total state General Fund savings of \$91.5 million in 2025-26. In comparison, the estimated net savings in the Governor's January budget proposal was \$88.3 million. Each year, state savings from the implementation of Proposition 47 (2014) are allocated through grants to public agencies for various recidivism reduction programs such as mental health and substance use treatment services (65% of savings), truancy and dropout prevention (25% of savings), and victims' services (10% of savings). There is an estimated reduction in state savings in future years based on forecasted incarceration impacts of Proposition 36, passed by voters last November. Proposition 36 repealed portions of Proposition 47, rendering specified drug and theft crimes from misdemeanors to felonies.

Community Corrections Performance Incentive Grant

The Community Corrections Performance Incentive Grant, established by SB 678 (Chapter 608, Statutes of 2009), was created to provide incentives for counties to reduce the number of individuals on felony probation who are admitted to state prison. The May Revision includes \$127.9 million General Fund in 2025-26 for probation departments, slightly higher than the Governor's January budget proposal of \$126.5 million General Fund. Funding for this grant was held relatively flat due to the impact of the COVID-19 pandemic on probation populations, law enforcement practices, and court processes. The May Revision also proposes statutory updates to the methodology for calculating incentive payments to counties, which are primarily aimed at stabilizing funding, enhancing the performance-based nature of the methodology, and reducing variability over the years.

Board of State and Community Corrections (BSCC) – Juvenile Facilities

The May Revision proposes [trailer bill language](#) that would authorize the BSCC to take civil action when a juvenile detention facility is found by the Board to be unsuitable for youth confinement. These proposed 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.

California Highway Patrol (CHP) – Highway Violence Task Force

The May Revision includes one-time resources totaling \$4.9 million Motor Vehicle Account funds in 2025-26 to fund an additional year of funding for the CHP's Highway Violence Task Force to address violent crimes occurring on highways statewide.

Proposition 36 (2024)

Notably, the May Revision does *not* propose any funding for county implementation of Proposition 36.

Department of State Hospitals (DSH)

The May Revision includes reductions to various programs that were part of the Incompetent to Stand Trial (IST) solutions package in the 2022 Budget Act. Such programs include Early Access and Stabilization Services (EASS, Jail-Based Competency Treatment, Community-Based RestorationBR), felony diversion, and collaborative stakeholder working groups, totaling an estimated reduction of \$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. This proposed reduction will not impact counties with existing contracts or contracts under active negotiation with DSH. Additionally, the May Revision proposes a one-time reduction of \$232.5 million General Fund for unspent grant funds for counties to increase residential treatment housing capacity for IST patients. Please see the Judicial Branch section below for impacts to IST evaluations within the courts.

California Department of Corrections and Rehabilitation (CDCR)

The May Revision proposes to close another state prison by October 2026 and notes further General Fund reductions totaling roughly \$125 million General Fund in 2025-26, growing to over \$600 million General Fund in 2027-28. CDCR is tasked with identifying and achieving savings through additional operational improvements related to headquarters, contract management, overtime management, and modifying various aspects of health care programs.

CDCR Adult Institutions

The May Revision includes total funding of \$13.6 billion for CDCR in 2025-26, of which \$4.1 billion General Fund is allocated for mental health, medical, and dental care programs and services. This reflects a \$300 million decrease from the Governor's budget proposal in January. Despite recent trends showing a continual decline in the adult incarcerated population, as with Proposition 47 savings, there is projected to be a modest reversal of the downward trend because of the passage of Proposition 36 (2024).

The May Revision projects that the average daily adult incarcerated population for 2024-25 is estimated to be 91,471, a decrease of 0.2% since fall projections, and 91,205 in 2025-26, a decrease of 2.2% since fall projections. The projected decrease recognizes a slower ramp up of the Proposition 36 impact than projected in the fall. However, even with the expected population increase from Proposition 36, anticipated by the state to temporarily rise to 92,179 in 2027-28, the population is still projected to continue its overall long-term downward trend, declining to 89,692 incarcerated individuals by June 30, 2029. The statewide average daily population for individuals on parole is projected to be 34,723 in 2024-25, declining slightly to 34,197 in 2025-26. Proposition 36 is projected to slightly increase the parole population, which is anticipated to remain relatively stable over the next few years, leveling out to 34,213 by June 20, 2029.

Judicial Branch

The May Revision includes \$5.2 billion for the Judicial Branch (\$3.2 billion General Fund), with \$2.9 billion to support trial court operations.

- *Tribal Nations Access to Justice Act*: The May Revision proposes \$2.7 million in 2025-26, \$1.5 million in 2026-27, and \$784,000 in 2027-28, for the court workload resulting from lawsuits filed by California Indian tribes against California gambling establishments and third-party providers pursuant to SB 549 (Chapter 860, Statutes of 2024).
- *Trial Court Employee Health Benefits*: A reduction of \$9 million ongoing General Fund to reflect updated health benefit and retirement rate changes for trial court employees.
- *State Court Facilities Construction Fund (SCFCF) Backfill*: A reduction of \$20 million to the General Fund backfill of the SCFCF in 2025-26.

Additionally, the May Revision proposes several General Fund solutions within the Judicial Branch, including but not limited to the following:

- *Incompetent to Stand Trial (IST) Evaluations*: A reversion of \$9.1 million General Fund in 2023-24 and 2024-25 relating to unspent funds for improvements to IST evaluations.
- *Pretrial Release Program*: The May Revision reverts \$20 million General Fund from 2024-25 from savings related to pretrial services, as well as a \$20 million ongoing General Fund reduction in 2025-26 and onwards. However, the budget maintains \$50 million in 2025-26 for this program.
- *Trial Court Trust Fund Unrestricted Balance*: A \$38 million reduction in 2025-26 from the Trial Court Trust Fund unrestricted fund balance to the General Fund.

Department of Justice (DOJ)

The May Revision provides \$1.3 billion for the California DOJ, including \$496 million General Fund. These funding levels mirror what was included in the Governor's January budget proposal. There are several adjustments, including but not limited to the following:

- *Juveniles: Sealing Records*: Pursuant to AB 1877 (Chapter 811, Statutes of 2024), the May Revision proposes \$2.4 million General Fund and four positions in 2025-26, decreasing to \$812,000 in 2026-27 and ongoing for implementation.
- *Federal Accountability Workload*: The May Revision includes \$14.4 million ongoing and 44 positions to defend against adverse federal actions, including defending environmental protections and the termination of federal grants.
- *California Law Enforcement Telecommunications System (CLETS) Department of Motor Vehicles (DMV) Enhancements*: \$3.2 million General Fund in 2025-26 and \$1.6 million in 2026-27 for information technology enhancements at DOJ to establish a new connection between CLETS and the DMV.

Office of Emergency Services (Cal OES)

The May Revision includes \$4.4 billion (\$613 million General Fund) for Cal OES. Critically, the May Revision does *not* include supplemental funding to account for a year-over-year decline in federally funded Victims of Crime Act (VOCA) dollars. In addition, the May Revision proposes a reversion of \$49.7 million one-time General Fund, appropriated in the 2022 Budget Act, for the Flexible Cash Assistance for Survivors of Crime.

Government Finance and Administration

Educational Revenue Augmentation Fund (ERAF)

The Governor's May Revision proposal lacks an appropriation to backfill the insufficient ERAF amounts for Alpine, Mono, and San Mateo counties. The three counties would collectively require an appropriation of \$118.4 million to be held harmless under the Vehicle License Fee reduction made in 2004.

Labor

The May Revision proposes to realize \$766.7 million in savings (\$283.3 million General Fund) made from salary and wage adjustments to state bargaining units. The May Revision indicates that collective bargaining negotiations will begin for bargaining units that are not already conducting collective bargaining and that budget language will be included to make the reductions if the state and public sector unions cannot reach a voluntary agreement.

Libraries

The May Revision notes the loss of \$3.4 million in expected federal grants for the State Library, some of which would be used for local library grants. The May Revision proposes to reallocate \$4.3 million in one-time General Fund from a 2022 budget allocation for State Library personnel. It does not appear that the funds will be used to offset the lost funding for local library grants.

Tax Proposals

The Governor's January Budget Proposal included several tax proposals that were estimated to increase General Fund revenues by a net total of \$186 million in 2025-26. Those tax proposals, including a near doubling of the annual Film and Television Tax Credit 4.0 award cap from \$330 million to \$750 million, are unchanged in the May Revision.

State-Mandated Programs

The Governor's May Revision proposes to increase the allocation to the Commission on State Mandates to reimburse local governments for costs incurred to implement state-mandated programs in 2025-26 – from \$92.9 million proposed in the January budget proposal to \$94.8 million. The increase is needed to account for revised state-mandated cost estimates.

To address revenue constraints or increasing costs, the state will suspend some mandated programs via the state budget. While a mandate is suspended, the requirement remains in law; however, local governments are not required to comply with the state-mandated requirements in that fiscal year and the state has no reimbursement obligation. The state can also modify the mandate to reduce costs by easing its requirements or making them

options, or the state can repeal the mandate entirely, eliminating both the obligation and its associated costs.

This year, the Administration proposes a different strategy – *suspending the **requirements** of the mandate **retroactively***. This means that the state purports that it does not have to reimburse claims by local governments for costs already incurred during the suspension time frame, even though they were determined to be reimbursable by the Commission on State Mandates. Between the Governor’s Budget and the May Revision, the Administration proposes to retroactively suspend four mandates related to stormwater permit requirements from the period of December 2009 to December 2017.

This new strategy is unconscionable. It is unclear how the state go back in time and tell local governments that they do not have to comply with the mandate requirements for eight years, so they do not have to incur costs? They cannot and should not. Local governments already incurred the costs to implement these mandates and they should be reimbursed for these costs -- suspending the mandate now does not remove the state’s Constitutional requirement to pay local governments for costs already incurred. Interpreting the State Constitution to allow retroactive suspension of state-mandated programs is gross warping of this constitutional requirement.

As the Legislative Analyst’s Office (LAO) rightfully points out in its [comments](#) on the proposed retroactive suspension of California Regional Water Quality Control Board, Santa Ana Region (09-TC-03), suspending the mandate does not actually remove the past requirement and local governments cannot go back in time 15 years and cease required activities to avoid incurring costs. Plus, funding these mandates would not have direct out-year fiscal implications for the state since the payments would be one time in nature to cover the costs incurred during that time frame.

The Administration, however, believes this retroactive approach is allowable under the California Constitution and proposes to retroactively suspend the following mandates:

- California Regional Water Quality Control Board, San Diego (11-TC-03) for the period of November 10, 2010 to December 31, 2017.
- California Regional Water Quality Control Board, San Diego (10-TC-11) for the period of December 16 2009 to December 31, 2017.
- California Regional Water Quality Control Board, Santa Ana (10-TC-07) for the period of January 29, 2010 to December 31, 2017.
- California Regional Water Quality Control Board, Santa Ana Region (09-TC-03) for the period of June 1, 2009 to December 31, 2017.

Also, while the California Constitution requires the state to reimburse local agencies for all valid mandate claims, specific payment deadlines for any mandate that is suspended or

repealed in the following fiscal year is unclear. Consequently, local governments can spend significant resources to meet state-imposed mandates without any certainty of reimbursement. Interest on unpaid claims accrues until the claims are fully paid.

According to the [State Controller's Office](#), as of April 2025 local governments (cities, counties, and special districts) are collectively owed \$874 million for the cost to deliver state-mandated programs since 2004, an increase of \$5.3 million from the prior year. That amount does not include the \$140 million in accrued interest payable to local governments.

Health and Human Services

The May Revision proposal includes \$302.4 billion (\$85.6 billion General Fund – over 35% of the state’s overall General Fund budget expenditures) in 2025-26 for all health and human services programs that support our state’s most vulnerable communities. This reflects an increase of nearly \$2 billion General Fund compared to expenditure appropriations included in the Governor’s January budget proposal.

Of particular note, the May Revision does not incorporate any effects of potential federal cuts to critical health and human services programs that are currently under consideration in Congress.

Realignment

The Governor’s May Revision includes updated revenue assumptions for 1991 Realignment and 2011 Realignment. While the projections for 2024-25 and 2025-26 indicate revenue growth for both Realignments, the total projected revenues in each Realignment in each year are lower than what was projected in January. This is due to lower estimates for the sales tax revenues, which is slightly balanced out by higher estimates for vehicle license fee (VLF) revenues. For 1991 Realignment, the estimates for both years indicate that there will not be sufficient growth to fully cover the social services caseload. All of the sales tax growth will go to caseload growth and there will only be general growth for VLF revenues.

The Realignment revenue tables, including specific projections by subaccount, are included in the appendix at the end of this Budget Action Bulletin.

HEALTH

To address the estimated budget shortfall and curb future expenditure growth in the Medi-Cal program, the May Revision includes numerous proposals which are estimated to result in \$5 billion in total cost reductions in 2025-26, increasing to \$14.8 billion by 2028-29. These proposals are in addition to the early budgetary actions taken to execute a \$3.4 billion cash flow loan and an additional \$2.8 billion General Fund appropriation for increased Medi-Cal program costs.

General Fund savings proposals include, but are not limited to:

- *Freeze Enrollment for Full-Scope (State-Only) Medi-Cal Expansion for Adults 19 Years and Older* — Freezing new enrollment effective no sooner than January 1, 2026, for individuals that otherwise would qualify for full-scope coverage under the previous

young adult expansion (19-25 years), 26-49 year old expansion, and 50+ year old expansion but who have unsatisfactory immigration status (UIS) 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 estimated to reduce costs by \$86.5 million General Fund in 2025-26, increasing to \$3.3 billion General Fund in 2028-29.

- *Impose Medi-Cal Premiums for Adults with UIS* —Estimated General Fund savings of \$1.1 billion General Fund in 2026-27, increasing to \$2.1 billion General Fund by 2028-29 to impose a \$100 per person per month premium for Medi-Cal members aged 19 years and older with UIS, beginning no sooner than January 1, 2027. Once implemented, members who do not pay the premium will be discontinued from full-scope coverage but will continue to have access to restricted scope (emergency and pregnancy) services.
- *Eliminate State-Only Long-Term Care Benefits for Adults 19 and Older with UIS* – Eliminating state-only long-term care benefits for adults with unsatisfactory immigration status, effective January 1, 2026, is estimated to save \$333 million General Fund in 2025-26 and \$800 million in 2026-27 and ongoing.
- *Eliminate State-Only Dental Benefits for Adults 19 and Older with UIS* – Eliminating full-scope state-only dental coverage for Medi-Cal members with UIS aged 19 and older, effective July 1, 2026, is estimated to save \$308 million General Fund in 2026-27 and \$336 million in 2028-29 and ongoing. This population will continue to have access to restricted-scope emergency dental coverage.
- *Eliminate Prospective Payment System (PPS) Payments to Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs) for UIS* — Estimated savings of \$452.5 million General Fund in 2025-26, growing to \$1.1 billion General Fund in 2026-27 to eliminate payment at the PPS rate for state-only services delivered to Medi-Cal members with UIS by FQHCs and RHCs. The PPS is a payment system that adjusts for geographic differences in the cost of services based on the delivery site where the services are furnished. Following the elimination, these services will be reimbursed at the applicable Medi-Cal Fee Schedule rate in the fee-for-service delivery system and at the applicable negotiated rate between a Medi-Cal managed care plan and FQHC/RHC in the managed care delivery system.
- *Reinstate the Medi-Cal Asset Test Limits*— Reinstatement of 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. This proposal is estimated to result in

General Fund savings of \$94 million in 2025-26, \$540 million in 2026-27 and \$791 million ongoing, inclusive of IHSS impacts.

- *Eliminate Proposition 56 Supplemental Payments* – Eliminating the Dental Services, Medi-Cal Family Planning, and Women’s Health Proposition 56 Supplemental Payments results in cost reductions of \$504 million General Fund in 2025-26 and \$550 million General Fund ongoing for Proposition 56 supplemental payments to dental, family planning, and women’s health providers.
- *Eliminate Specialty Drug Coverage for Weight Loss (GLP-1)* — Eliminating coverage for GLP-1 drugs for weight loss effective January 1, 2026, is estimated to save \$85 million General Fund in 2025-26, growing to \$680 million by 2028-29 and ongoing.
- *Eliminate Acupuncture Optional Medi-Cal Benefit* – Eliminating acupuncture as an optional benefit is estimated to result in General Fund savings of \$5.4 million in 2025-26 and \$13.1 million ongoing.
- *Skilled Nursing Facilities* – Eliminating the Workforce and Quality Incentive Program and suspending the requirement to maintain a backup power system for no fewer than 96 hours, results in estimated General Fund savings of \$168.2 million in 2025-26 and \$140 million ongoing.
- *Behavioral Health Services Fund (BHSF) General Fund Offset* – Replaces \$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 Proposition 1 implementation funding to counties in 2025-26 with BHSF (state, not county) funds.
- *Medical Providers Interim Payment Fund Loan* – Utilizes \$2.2 billion of the cash loan authorized in 2024-25, and \$1.2 billion in 2025-26, and begins repayment of the loan in 2027-28.
- *Medi-Cal Minimum Medical Loss Ratio* – Increases the minimum medical loss ratio for managed care plans, commencing January 1, 2026, resulting in estimated General Fund savings of \$200 million in 2028-29 and ongoing.
- *Pharmacy Drug Rebates* – Implements a rebate aggregator to secure state rebates for individuals with UIS. Estimated General Fund savings are \$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 minimum rebates for human immunodeficiency virus (HIV)/acquired immunodeficiency syndrome (AIDS) and cancer drug rebates.

Medi-Cal

The Medi-Cal budget includes \$179 billion (\$37.4 billion General Fund) in 2024-25 and \$194.5 billion (\$44.6 billion General Fund) in 2025-26. Medi-Cal is projected to cover approximately 15 million Californians in 2024-25 and 14.8 million in 2025-26—more than one-third of the state’s population. The May Revision reflects a net increase of \$1.9 billion General Fund in 2024-25 for Medi-Cal compared to expenditure appropriations included in the Governor’s January budget proposal.

Since the release of the Governor’s Budget in January, Medi-Cal program expenditures have increased significantly, resulting in a \$3.4 billion cash flow loan and an additional \$2.8 billion General Fund appropriation approved through early budget action in recent months. According to the Governor’s May Revision summary, the increase is driven primarily by higher than anticipated overall program enrollment and continued growth due to major policy changes, pharmacy costs, and higher managed care costs.

Without the May Revision proposals listed above to contain expenditure growth, the Administration forecasts that General Fund costs for Medi-Cal would be roughly \$10 billion higher across 2024-25 and 2025-26 compared to the Governor’s Budget and contribute significantly to a budgetary structural imbalance in future years.

MCO Provider Tax and Proposition 35

Proposition 35, approved by voters at the November 2024 general election, continues the MCO tax added by AB 119 (Chapter 13, Statutes of 2023) permanently and specifies permissible uses of tax revenues starting with the 2025 tax year. Provider payment increases and investments that were new and authorized in the 2024 Budget Act are repealed as of January 1, 2025. Tax revenues will continue to support provider rate increases for primary care, maternal care, and non-specialty mental health services that were implemented in 2024. Proposition 35 also requires DHCS to consult with a stakeholder advisory committee to develop and implement new or modified payment methodologies.

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 existing and increased costs in the Medi-Cal program. Compared to the Governor’s Budget, this is an increase of \$1.1 billion in 2024-25 and reflects 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](#). This includes \$1.6 billion across 2025-26 and 2026-27 to support increases in managed care base rates relative to Calendar Year 2024 for primary care, specialty care, ground emergency medical transportation, and hospital outpatient procedures.

CalAIM / Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT)

In December 2024, the federal Centers for Medicare & Medicaid Services (CMS) approved approximately \$8 billion (state, local, and federal funds) for the BH-CONNECT Demonstration effective January 1, 2025, through December 31, 2029, to expand access to and strengthen the continuum of behavioral health services for Medi-Cal members living with behavioral health needs. The funding will support activities and services administered by the DHCS, the Department of Social Services, and the Department of Health Care Access and Information (HCAI). The BH-CONNECT waiver also includes \$1.9 billion total funds over the life of the demonstration, for a workforce initiative. While no significant changes have been highlighted in the May Revision related to the BH-CONNECT waiver, estimate details are still being reviewed.

Behavioral Health Services Act (Proposition 1)

The 2024 Budget Act included \$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. The May Revision maintains the \$93.5 million in 2025-26 for counties to continue implementation efforts under the BHSA. However, as previously noted, \$55 million of the \$93.5 million total that had been funded with General Fund is now proposed to be swapped out with part of the state's portion of Behavioral Health Services Fund (BHSF) dollars.

The May Revision also 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 (HCAI) to implement the Behavioral Health Workforce Initiative beginning in January 2026. Proposition 1 directs HCAI to implement a comprehensive workforce initiative to build and support a robust and diverse behavioral health workforce capable of providing high-quality, holistic services to all Californians. The initiative is to be developed in consultation with various stakeholders, including DHCS, behavioral health professionals, counties, education and training programs, and consumer advocates.

Proposed budget trailer bill language seeking to address BHSA revenue stability to effectuate the report required to be submitted by June 30, 2025, to the Governor's Office and Legislature, is still pending. The report is to include recommendations to reduce BHSA revenue volatility and propose appropriate prudent reserve levels to support the sustainability of county programs and services.

Elimination of Mental Health Wellness Act Funding

The May Revision proposes to eliminate BHSA expenditure authority of \$20 million annually starting in 2025-26 that was initially provided to the Behavioral Health Oversight and

Accountability Commission to support peer respite, maternal behavioral health, and full-service partnership performance contracting programs.

Community Assistance, Recovery and Empowerment (CARE) Act

The May Revision continues to support statewide implementation of the CARE Act. Specifically, the Governor's Budget includes \$23.3 million in 2024-25, and \$31.9 million in 2025-26 for county behavioral health activities. Funding information to support qualified legal services projects and public defenders for legal services, as well as funding for 2026-27 and ongoing for county behavioral health agency activities was pending from the Administration at the time of this publication.

The May Revision estimates reflect a decrease from the Governor's Budget proposal due to updated forecasts based on more recent actual data on petitions. Net increased funding in 2025-26 reflects an increase in the number of estimated CARE Act cases, a three percent increase in rates (inflation adjustment) for claimable activities, and a reduction in training/technical assistance funding to petitioner entities as statewide implementation activity settles.

Lanterman-Petris-Short (LPS) Conservatorships (SB 43/SB 1238)

Additional counties have begun implementation of SB 43 (Chapter 637, Statutes of 2023) prior to the statutory deadline of January 1, 2026. Consistent with the Governor's Budget, the May Revision does not propose additional funding for counties to implement the bill's requirements.

Public Health

The May Revision includes \$5 billion (\$2.3 billion federal funds, \$1.9 billion special fund/reimbursements, and \$742.3 million General Fund) in 2025-26 for the support of the California Department of Public Health's programs and services that reinforce the state's commitment to the health and well-being of all Californians. Of the total, \$1.8 billion is for State Operations and \$3.2 billion is for Local Assistance.

Future of Public Health Funding Maintained

The May Revision preserves the Future of Public Health investment, which provides approximately \$276 million General Fund annually, with roughly \$188 million dedicated to local public health. Originally appropriated through the 2022 Budget Act, the Future of Public Health funding has been a critical investment in California's public health readiness and response to existing and emerging public health threats. Local health departments have hired over 1,100 staff positions using these funds, leading to strengthened local programs, services, and partnerships to reduce health disparities.

Public Health IT Infrastructure Funding Restored

The May Revision also includes approximately \$31.5 million one-time funding to support the maintenance and operations for the California Vaccine Management System, also known as myCAvax. The Governor's January Budget proposal did not include funding for myCAvax beyond the end of the current fiscal year, which would have resulted in health care providers, the state, and local health departments needing to return to using spreadsheets and manual calls to track vaccination distribution and records management.

CSAC, alongside county partners, [advocated](#) to maintain critical Future of Public Health Funding and formally requested restoration of funding for the myCAvax system.

Responding to Complaints – Acute Psychiatric Hospitals

The May Revision reflects an increase of 5 positions and \$1 million from the State Department of Public Health Licensing and Certification Program Fund to support the investigations of acute psychiatric hospital complaints.

Further, the Department of Public Health indicates it will be introducing budget trailer bill language pertaining to emergency regulations for acute psychiatric hospitals. This language is currently pending.

988 Suicide and Crisis Lifeline Centers

The May Revision includes \$17.5 million from the 988 State Suicide and Behavioral Health Crisis Services Fund to provide additional support to 988 Suicide and Crisis Lifeline Centers.

Licensure and Regulation of Pharmacy Benefit Managers

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

HUMAN SERVICES**California Work Opportunity and Responsibility to Kids (CalWORKs)**

The CalWORKs program is California's version of the federal Temporary Assistance for Needy Families (TANF) program, which provides temporary cash assistance to low-income families with children to meet basic needs as well as welfare-to-work services to help families become self-sufficient. The May Revision assumes \$9.5 billion in total state, local, and federal TANF expenditures in 2025-26. Of this, \$6.2 billion is included for the CalWORKs program. For 2025-26, the average monthly CalWORKs caseload is estimated to be 363,766 families.

Program Streamlining

The May Revision proposes statutory changes that would streamline the CalWORKs program and result in \$18.2 million in ongoing Total Fund savings. These policy changes are intended to align with more family-centered approaches to CalWORKs. There will be trailer bill language released for implementation of these proposals. There are four significant policy changes being presented.

1. Expand allowable welfare-to-work (WTW) activities – This proposal would include activities such as case plan development, WTW plan revisions, and coaching with a case manager to the list of allowable activities.
2. Reassess mandatory activities – This proposal would preserve the ability to participate in Job Club when appropriate by making it an optional WTW activity, while also including flexibility for other work and work readiness activities.
3. Simplify curing of sanctions – This change would allow for verbal agreement to participate in activities outlined in a cure plan and eliminate the signature requirement for completing a WTW cure plan.
4. Elimination of CalWORKs RADEP and E2Lite – This proposal would eliminate county WTW data reporting activities and proposes to instead gather required data elements for federal reporting using CalSAWS administrative data extracts by the California Department of Social Services (CDSS).

Grant Increase

The Governor's May Revision does not include an increase to CalWORKs Maximum Aid Payment levels for October 2025. This is an updated estimate that is less than the 0.2% increase that was projected in the January Budget proposal. The estimate is based on the projected revenues available in the Child Poverty and Family Supplemental Support Subaccount.

In-Home Supportive Services

The In-Home Supportive Services (IHSS) program provides assistance and services to eligible older or disabled individuals to help them remain safely in their homes. For 2025-26, the May Revision includes \$28.3 billion for IHSS, of which \$10.3 billion is from the General Fund. This is a net decrease of \$251.6 million General Fund from the Governor's January Budget Proposal that reflects the budget solutions outlined below.

IHSS Budget Solutions

The Governor's May Revision contains several proposals to address the budget situation:

- *Provider Hours* – The May Revision proposes to cap IHSS provider hours for overtime and travel at 50 hours per week, generating a savings of \$707.5 million General Fund.

- *IHSS Residual Program* – There is a proposal to conform the IHSS Residual Program coverage with the timing of Medi-Cal coverage which would save \$110.6 million General Fund. The IHSS Residual Program is the original IHSS program that is maintained for individuals who are eligible for IHSS under a state-only Medi-Cal program. Approximately 2% of the IHSS caseload is in the Medi-Cal residual program.
- *IHSS for Medi-Cal Expansion* – The May Revision would eliminate IHSS benefits for individuals ages 19 and older who are eligible for Medi-Cal but have unsatisfactory immigration status. This proposal would result in reduced General Fund costs of \$158.8 million in 2025-26.
- *Late Penalties* – The May Revision proposes to shift \$81 million in costs from the General Fund to counties for Community First Choice Option (CFCO) reassessment late penalties. There are 22 counties that are out of compliance as of 2024-25.
- *Asset Test Limit* – There is a proposal to conform IHSS with the reinstatement of the Medi-Cal asset limit resulting in a reduction of \$25.5 million General Fund spending in 2025-26.

IHSS Collective Bargaining

The Governor's May Revision does not contain any proposals related to moving IHSS collective bargaining responsibilities to the state. In April, the CDSS released an analysis of the costs and benefits of moving IHSS collective bargaining responsibilities from counties to the state level as required by the 2023 Budget Act. CSAC provided a [detailed summary](#) of this report when it was released.

Child Welfare and Foster Care

Child welfare services and foster care provide a range of services for children who are at risk of or have been victims of abuse and neglect. The Governor's May Revision includes \$973.3 million General Fund for services to children and families. Total funding for children's programs is more than \$9.9 billion when federal funding and 1991 and 2011 Realignment revenues are included.

Tiered Rate Structure Implementation

AB 161 (Chapter 46, Statutes of 2024) enacted a new foster care permanent rate structure with implementation set to occur on July 1, 2027. The Governor's May Revision proposes to make implementation of this new rate structure in 2027-28 subject to a trigger provision based on the availability of General Fund revenues in spring 2027.

Family Urgent Response System (FURS)

The FURS program provides foster youth and their caregivers with the immediate support they need during times of emotional crisis, and links youth and families to needed supports

and services to help stabilize the situation. The May Revision proposes to reduce funding by \$13 million in 2025-26 and ongoing, maintaining \$17 million ongoing for the program.

Nutrition Assistance

The CalFresh program is California's version of the federal Supplemental Nutrition Assistance Program (SNAP), which provides federally funded food benefits for eligible families. The May Revision includes \$4.5 billion in total CalFresh and other nutrition assistance expenditures. This is in addition to \$13.3 billion in food benefits provided directly by the federal government to eligible recipients. The average monthly caseload for CalFresh is projected to be 3,338,191 households in 2025-26.

SUN Bucks

California's Summer Electronic Benefits program, known as SUN Bucks, provides \$40 per child per summer month (June, July, and August) in federally funded food benefits to children who lose access to free and reduced-price meals during the summer school break period. The May Revision includes \$115.8 million (\$57.5 million General Fund) in 2025-26 for transactions costs and outreach to provide an estimated \$815.9 million in federal food assistance to children.

CFAP Expansion

The California Food Assistance Program (CFAP) provides state-funded food benefits for noncitizens who do not qualify for federally funded CalFresh benefits. The 2022 Budget included funding to expand CFAP to all adults ages 55 and over and who are income eligible, regardless of their immigration status. To address the projected budget shortfall, the May Revision proposes to make implementation of CFAP expansion subject to a trigger provision, based on the availability of General Fund in Spring 2027.

Child Care and Early Learning

The May Revision includes \$7 billion (\$4.5 billion General Fund) for all child care and development programs administered by the CDSS.

Child Care Budget Solutions

To address the projected budget shortfall, the May Revision includes:

- A reduction of \$60.7 million General Fund in 2025-26 and ongoing to suspend the child care cost-of-living adjustments.
- A reduction of \$42.7 million General Fund in 2025-26 and ongoing for the Emergency Child Care Bridge program, while maintaining \$51 million in annual ongoing funding for the program. The Emergency Child Care Bridge program was first implemented in 2018 and provides time-limited vouchers for child care and child navigator services for children within the foster care system.

Homelessness

The May Revision does not contain any new proposals related to homelessness funding.

New Housing and Homelessness Agency

Please see the Housing, Land Use, and Transportation section for details related to the new California Housing and Homelessness Agency, as proposed in the Governor's Reorganization Plan.

Homeless Housing, Assistance and Prevention Program

The Governor's May Revision maintains existing commitments for the Homeless Housing, Assistance and Prevention (HHAP) program, but does not include funding for a Round 7 of the program. In January, the Governor had outlined additional accountability measures that should be incorporated into any future homelessness funding. These included requirements for a local encampment policy and compliant Housing Element, prioritization of funding for jurisdictions with a Pro-Housing Designation, and reallocation of funding if local governments fail to meet program requirements or show progress on key metrics. CSAC is engaged in ongoing conversations with the Administration and the Legislature on homelessness funding and accountability, including advocacy for additional HHAP funding.

Housing, Land Use, and Transportation

The May Revision released today did not contain significant funding changes. However, the Administration is introducing trailer bill language to achieve a variety of policy goals that would typically require a package of compromises if they were attempted through the standard policy committee legislative process.

Housing

The Administration is reverting approximately \$32 million in unexpended General Fund resources that was previously appropriated for the following programs:

- Infill Infrastructure Grant Catalytic Program
- Commercial Property Pilot Program
- Infill Infrastructure Grant Program from the 2021 Budget

Climate-Aligned Housing Trailer Bill Language

The May Revision proposes a significant program change that would allow transportation project sponsors, which includes counties, to contribute to a fund that supports the state's Transit-Oriented Program to mitigate the project's transportation impact measured in vehicle miles traveled. For background, counties and other government agencies are required by CEQA to mitigate the environmental impacts of new discretionary projects, including impacts to transportation.

Prior to the passage of SB 743 (Chapter 386, Statutes of 2013), a project's impact on transportation infrastructure was assessed in level of service: essentially, how much congestion the project would relieve or create. After 2013, SB 743 requires that a project's transportation impact be assessed in how many additional vehicle miles traveled (VMT) the project creates. VMT focuses on total vehicle trip-miles generated by a new project regardless of where they occur or how much traffic they cause.

Notable requirements in the proposed trailer bill language include:

- Requires the Governor's Office of Land Use and Climate Innovation (formerly the Governor's Office of Planning and Research) to draft a methodology for quantifying VMT, estimating potential VMT reductions and setting a mitigation fee amount. This is notable as there is no current standard for VMT assessment, reduction, or mitigation price used in the state.
- Requires the funding to be used by the Department of Housing and Community Development for housing projects in the same region where the VMT mitigation fee was paid. This is significant, because it ensures that mitigation funding spent on local projects stays within a region. However, we are aware that counties in geographically larger Metropolitan Planning Organization areas may have concerns ensuring county

transportation mitigation funds support housing that would realistically benefit county residents.

- State-level entities would be responsible for confirming the estimated VMT reductions that this funding supports. This is helpful, because it would relieve this potential reporting burdens from county staff.

CSAC notes that this proposal is expansive and staff is still in the process of assessing the potential impacts.

New Housing and Consumer Services Agencies

The May Revision also highlights the previously-announced proposal to split the existing Businesses, Consumer Services and Housing Agency into the California Housing and Homelessness Agency and the Business and Consumer Services Agency.

California Housing and Homelessness Agency

The May Revision proposes spending \$4.2 million, mostly General Fund resources, to create an agency that will perform oversight of policy development and the Administration of state housing and homelessness programs. The Administration hopes the new agency will be able to manage and create integrated housing programs, streamline policies, and simplify the administration of state affordable housing programs. The Administration proposes the agency oversee the following entities:

- Department of Housing and Community Development
- California Interagency Council on Homelessness
- California Housing Finance Agency
- Civil Rights Department
- Housing Development and Finance Committee

CSAC notes that the Housing Development and Finance Committee would be a new entity with the goal of promoting transparency, coordination, and alignment of affordable housing resources. The Committee would administer a variety of multifamily affordable housing programs that are currently spread among several departments.

Business and Consumer Services Agency

The May Revision proposes a second new agency to focus on coordinating standards and best practices for licensing, enforcement, and education in the oversight of the state various business and professional licensing boards, bureaus and commissions. The agency will oversee the following entities:

- Department of Alcoholic Beverage Control
- Alcoholic Beverage Control Appeals Board
- Department of Cannabis Control
- Cannabis Control Appeal Panel

- Department of Consumer Affairs
- Department of Financial Protection and Innovation
- California Horse Racing Board
- Department of Real Estate

Counties employ a variety of professions, such as engineers, doctors and nurses, whose professions are overseen by the appropriate entity within the Department of Consumer Affairs (e.g., licensing).

Transportation

The May Revision budget provides no new funding, and proposes no funding shifts to the major transportation programs. The May Revision continues the agreement made in the 2024 Budget to provide \$1.9 billion to transportation programs in the 2025-26 budget.

The May Revision includes a total of \$1.5 billion in General Fund sources and \$393 million in Greenhouse Gas Reduction Fund (GGRF) resources for transportation programs. However, we note that the Administration is not providing a GGRF funding allocation as part of the release of the May Revision, therefore it is unclear if transportation programs will receive the committed GGRF funding. Additionally, the budget information released shows the Transportation Agency is proposed to sustain a \$400 million funding reduction, which indicates the capital programs the Agency administers will likely be reduced. Until additional details can be confirmed, CSAC is providing the following funding summary of transportation programs relevant to all counties:

Active Transportation Program

The Active Transportation Program (ATP) encourages projects that increase the use of active modes of transportation, such as walking and biking. The May Revision proposes \$100 million in General Fund for ATP.

Transit and Intercity Rail Capital Program

The Transit and Intercity Rail Capital Program was created to fund transformative capital improvements that will modernize California's intercity, commuter, and urban rail systems, and bus and ferry transit systems, to significantly reduce emissions of greenhouse gases, vehicle miles traveled, and congestion.

- Competitive Program: The May Revision proposes for the program to receive \$564 million in combined resources from the General Fund (\$384 million) and Greenhouse Gas Reduction Fund (\$180 million).
- Formula Program: The May Revision proposes for the program to receive \$1 billion in combined resources from the General Fund (\$812 million) and Greenhouse Gas Reduction Fund (\$188 million).

Formula Funding for Local Streets and Roads

The May Revision includes updated estimates of the fuels-based taxes and other fees that are the primary sources for supporting local transportation. Estimates of these revenues indicate a potential year-over-year increase of 0.3% in gasoline excise tax revenue and 2.6% in diesel excise tax revenue from 2024-25 to 2025-26. However, staff notes that any drop in fuel consumption driven by the overall economy may result in revenue decreases. . These revenue streams fully fund county Highway User Tax Account allocations and provide approximately 70% of county Road Maintenance and Rehabilitation Account (RMRA) allocations. Transportation Improvement Fee revenues, which fund approximately 30% of county RMRA allocations, are estimated to grow by approximately 3%. CSAC will provide counties with detailed revenue estimates for 2024-25 and 2025-26 next week.

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.

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 (§8 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.

**FY25/26 Interim
Redirection Calculation**

CMSP	25-26 Realignment		Maintenance of Effort	60% Realignment + 60% MOE	Jurisdictional Risk Limitation	Adjustment to CMSP Board	Redirection
	Sales Tax	VLF					
Alpine	\$ 61,211.13	\$ 130,436.78	\$ 21,465.00	\$ 127,867.75	\$ 13,150.00	\$ 114,717.75	\$ 13,150.00
Amador	\$ 929,485.96	\$ 1,850,126.06	\$ 278,460.00	\$ 1,834,843.21	\$ 620,264.00	\$ 1,214,579.21	\$ 620,264.00
Butte	\$ 6,796,883.86	\$ 12,669,759.57	\$ 724,304.00	\$ 12,114,568.46	\$ 5,950,593.00	\$ 6,163,975.46	\$ 5,950,593.00
Calaveras	\$ 1,049,304.09	\$ 2,002,691.95	\$ -	\$ 1,831,197.62	\$ 913,959.00	\$ 917,238.62	\$ 913,959.00
Colusa	\$ 852,526.17	\$ 1,613,687.97	\$ 237,754.00	\$ 1,622,380.88	\$ 799,988.00	\$ 822,392.88	\$ 799,988.00
Del Norte	\$ 955,844.92	\$ 1,850,093.77	\$ 44,324.00	\$ 1,710,157.61	\$ 781,358.00	\$ 928,799.61	\$ 781,358.00
El Dorado	\$ 3,879,633.98	\$ 7,345,082.28	\$ 704,192.00	\$ 7,157,344.96	\$ 3,535,288.00	\$ 3,622,056.96	\$ 3,535,288.00
Glenn	\$ 930,179.24	\$ 1,791,359.69	\$ 58,501.00	\$ 1,668,023.96	\$ 787,933.00	\$ 880,090.96	\$ 787,933.00
Humboldt	\$ 7,008,408.84	\$ 13,049,599.00	\$ 589,711.00	\$ 12,388,631.30	\$ 6,883,182.00	\$ 5,505,449.30	\$ 6,883,182.00
Imperial	\$ 6,893,903.47	\$ 12,795,156.91	\$ 772,088.00	\$ 12,276,689.03	\$ 6,394,422.00	\$ 5,882,267.03	\$ 6,394,422.00
Inyo	\$ 1,273,484.53	\$ 2,441,765.05	\$ 561,262.00	\$ 2,565,906.95	\$ 1,100,257.00	\$ 1,465,649.95	\$ 1,100,257.00
Kings	\$ 3,341,528.38	\$ 6,254,150.76	\$ 466,273.00	\$ 6,037,171.28	\$ 2,832,833.00	\$ 3,204,338.28	\$ 2,832,833.00
Lake	\$ 1,405,375.86	\$ 2,671,465.67	\$ 118,222.00	\$ 2,517,038.12	\$ 1,022,963.00	\$ 1,494,075.12	\$ 1,022,963.00
Lassen	\$ 958,898.79	\$ 1,891,877.92	\$ 119,938.00	\$ 1,782,428.83	\$ 687,113.00	\$ 1,095,315.83	\$ 687,113.00
Madera	\$ 3,342,831.12	\$ 6,198,800.85	\$ 81,788.00	\$ 5,774,051.98	\$ 2,882,147.00	\$ 2,891,904.98	\$ 2,882,147.00
Marin	\$ 7,945,070.37	\$ 14,951,452.11	\$ 1,196,515.00	\$ 14,455,822.49	\$ 7,725,909.00	\$ 6,729,913.49	\$ 7,725,909.00
Mariposa	\$ 533,810.06	\$ 1,032,773.45	\$ -	\$ 939,950.11	\$ 435,062.00	\$ 504,888.11	\$ 435,062.00
Mendocino	\$ 2,080,699.50	\$ 3,924,838.10	\$ 347,945.00	\$ 3,812,089.56	\$ 1,654,999.00	\$ 2,157,090.56	\$ 1,654,999.00
Modoc	\$ 586,529.78	\$ 1,135,897.51	\$ 70,462.00	\$ 1,075,733.57	\$ 469,034.00	\$ 606,699.57	\$ 469,034.00
Mono	\$ 739,951.71	\$ 1,513,033.36	\$ 409,928.00	\$ 1,597,747.84	\$ 369,309.00	\$ 1,228,438.84	\$ 369,309.00
Napa	\$ 3,308,971.67	\$ 6,238,261.48	\$ 546,957.00	\$ 6,056,514.09	\$ 3,062,967.00	\$ 2,993,547.09	\$ 3,062,967.00
Nevada	\$ 2,085,842.58	\$ 3,929,597.86	\$ 96,375.00	\$ 3,667,089.26	\$ 1,860,793.00	\$ 1,806,296.26	\$ 1,860,793.00
Plumas	\$ 919,865.33	\$ 1,707,777.91	\$ 66,295.00	\$ 1,616,362.94	\$ 905,192.00	\$ 711,170.94	\$ 905,192.00
San Benito	\$ 1,233,142.56	\$ 2,367,072.31	\$ -	\$ 2,160,128.92	\$ 1,086,011.00	\$ 1,074,117.92	\$ 1,086,011.00
Shasta	\$ 5,934,928.39	\$ 10,959,909.47	\$ 184,049.00	\$ 10,247,332.12	\$ 5,361,013.00	\$ 4,886,319.12	\$ 5,361,013.00
Sierra	\$ 189,231.37	\$ 368,673.17	\$ 7,330.00	\$ 339,140.72	\$ 135,888.00	\$ 203,252.72	\$ 135,888.00
Siskiyou	\$ 1,592,736.30	\$ 3,039,222.68	\$ 287,627.00	\$ 2,951,751.59	\$ 1,372,034.00	\$ 1,579,717.59	\$ 1,372,034.00
Solano	\$ 8,251,430.16	\$ 15,349,084.81	\$ 115,800.00	\$ 14,229,788.98	\$ 6,871,127.00	\$ 7,358,661.98	\$ 6,871,127.00
Sonoma	\$ 13,797,246.89	\$ 25,530,964.18	\$ 438,234.00	\$ 23,859,867.04	\$ 13,183,359.00	\$ 10,676,508.04	\$ 13,183,359.00
Sutter	\$ 3,212,576.78	\$ 6,096,640.57	\$ 674,240.00	\$ 5,990,074.41	\$ 2,996,118.00	\$ 2,993,956.41	\$ 2,996,118.00
Tehama	\$ 2,136,912.57	\$ 4,068,231.85	\$ 446,992.00	\$ 3,991,281.85	\$ 1,912,299.00	\$ 2,078,982.85	\$ 1,912,299.00
Trinity	\$ 840,816.84	\$ 1,649,464.68	\$ 292,662.00	\$ 1,669,766.11	\$ 611,497.00	\$ 1,058,269.11	\$ 611,497.00
Tuolumne	\$ 1,641,235.86	\$ 3,140,980.91	\$ 305,830.00	\$ 3,052,828.06	\$ 1,455,320.00	\$ 1,597,508.06	\$ 1,455,320.00
Yuba	\$ 2,696,680.28	\$ 4,973,568.25	\$ 187,701.00	\$ 4,714,769.72	\$ 2,395,580.00	\$ 2,319,189.72	\$ 2,395,580.00
Yolo	\$ 1,950,151.36	\$ 4,193,404.61	\$ 1,081,388.00	\$ 4,334,966.38	\$ 943,110.00	\$ 3,391,856.38	\$ 943,110.00
CMSP Board	\$ 60,109,911.68	\$ 185,797,900.55	\$ -	\$ 147,544,687.34	NA	NA	\$ 245,907,812.23
SUBTOTAL	\$ 161,467,242.38	\$ 376,524,804.05	\$ 11,534,612.00	\$ 329,715,995.06	\$ 90,012,071.00	\$ 92,159,236.72	\$ 335,919,883.23

Article 13 60/40	25-26 Realignment		Maintenance of Effort	FY 10-11 Total Realignment		MOE Capped at 14.6% of 10-11 Realignment	Redirection
	Sales Tax	VLF		Sales Tax	VLF		
Placer	\$ 1,964,183.70	\$ 4,054,398.95	\$ 368,490.00	\$ 1,223,351.24	\$ 3,475,002.90	\$ 368,490.00	\$ 3,832,243.59
Sacramento	\$ 17,943,389.17	\$ 37,681,608.44	\$ 7,128,508.00	\$ 11,073,547.81	\$ 32,428,453.58	\$ 6,351,292.20	\$ 37,185,773.89
Santa Barbara	\$ 4,454,670.69	\$ 9,734,672.31	\$ 3,794,166.00	\$ 2,695,565.51	\$ 8,405,681.53	\$ 1,620,782.07	\$ 9,486,075.04
Stanislaus	\$ 6,107,930.69	\$ 12,926,551.36	\$ 3,510,803.00	\$ 3,756,009.76	\$ 11,132,596.16	\$ 2,173,736.46	\$ 12,724,931.11
SUBTOTAL	\$ 30,470,174.25	\$ 64,397,231.06	\$ 14,801,967.00	\$ 18,748,474.32	\$ 55,441,734.17	\$ 10,514,300.74	\$ 63,229,023.63
Article 13 Formula	25-26 Realignment		Health Realignment Indigent Care %	Total Revenue FY 25-26	Total Costs FY 25-26	Savings	Calculated Redirection
	Sales Tax	VLF					
Fresno*	\$ 13,360,853.95	\$ 28,563,081.53	44.38%				\$ 18,605,842.57
Merced*	\$ 3,216,535.97	\$ 6,478,184.16	43.41%				\$ 4,208,478.01
Orange*	\$ 32,354,301.37	\$ 62,596,799.58	52.02%				\$ 49,393,562.71
San Diego*	\$ 38,284,173.57	\$ 70,001,930.82	49.33%				\$ 53,417,535.30
San Luis Obispo*	\$ 2,431,277.11	\$ 5,283,186.87	44.45%				\$ 3,429,079.24
Santa Cruz*	\$ 2,977,334.94	\$ 6,594,336.39	46.61%				\$ 4,461,356.01
Tulare	\$ 5,730,358.26	\$ 11,562,967.90	47.88%				\$ 7,933,695.51
SUBTOTAL	\$ 98,354,835.17	\$ 191,080,487.25		\$ 10,343,320.00	\$ 426,200.61	\$ 9,917,119.38	\$ 141,449,549.34
*Opted for Historical Percentage							
DPH	25-26 Realignment		Health Realignment Indigent Care %	Total Revenue FY 25-26	Total Costs FY 25-26	Savings	Calculated Redirection
	Sales Tax	VLF					
Alameda	\$ 20,861,876.78	\$ 45,957,544.14	81.68%	\$ 993,093,577.07	\$ 874,113,030.70	\$ 118,980,546.37	\$ 54,578,103.01
Contra Costa	\$ 10,687,392.22	\$ 23,351,985.41	80.50%	\$ 547,051,837.71	\$ 683,739,141.54	\$ (136,687,303.82)	\$ -
Kern	\$ 9,056,320.52	\$ 19,448,442.91	66.26%	\$ 457,004,368.26	\$ 330,485,737.94	\$ 126,518,630.32	\$ 18,887,256.25
Los Angeles	\$ 166,042,788.02	\$ 367,798,873.87	83.00%	\$ 6,473,059,567.67	\$ 7,184,827,070.24	\$ (711,767,502.57)	\$ -
Monterey	\$ 4,317,714.62	\$ 9,460,488.23	51.19%	\$ 322,527,925.41	\$ 286,795,223.76	\$ 35,732,701.65	\$ 7,053,062.04
Riverside	\$ 17,189,870.58	\$ 36,375,593.00	84.44%	\$ 844,398,407.83	\$ 732,270,052.03	\$ 112,128,355.80	\$ 45,230,677.45
San Bernardino	\$ 20,336,661.96	\$ 40,614,996.01	58.54%	\$ 708,304,926.52	\$ 519,725,717.80	\$ 188,579,208.72	\$ 35,681,100.58
San Francisco	\$ 31,673,495.80	\$ 70,158,123.63	57.36%	\$ 766,805,247.11	\$ 918,838,445.81	\$ (152,033,198.69)	\$ -
San Joaquin	\$ 7,846,146.33	\$ 15,961,519.92	96.74%	\$ 335,934,986.67	\$ 366,341,046.16	\$ (30,406,059.48)	\$ -
San Mateo	\$ 7,434,174.26	\$ 16,296,765.32	80.82%	\$ 290,326,498.37	\$ 284,332,873.15	\$ 5,993,625.22	\$ 4,794,900.18
Santa Clara	\$ 17,983,689.65	\$ 39,190,614.09	85.00%	\$ 2,015,960,010.43	\$ 2,143,868,483.66	\$ (127,908,473.24)	\$ -
Ventura	\$ 7,045,424.71	\$ 15,232,113.50	80.62%	\$ 427,757,347.03	\$ 350,680,379.96	\$ 77,076,967.07	\$ 17,960,151.30
SUBTOTAL	\$ 320,475,555.45	\$ 699,847,060.03		\$ 14,182,224,700.08	\$ 14,676,017,202.73	\$ (493,792,502.65)	\$ 184,185,250.80
25-26 Interim Redirection						\$	724,783,706.99



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!

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To: CHEAC General Membership

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Date: May 14, 2025

RE: Governor’s 2025-26 May Revision Budget Proposal

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Overview

Governor Gavin Newsom today unveiled his Administration’s May Revision Budget for 2025-26, updating revenue projections and proposals from the [Governor’s January Budget](#). The revised proposal outlines a \$321.9 billion budget (\$226.4 billion General Fund) and anticipates a deficit of approximately \$12 billion, representing 5.8 percent of the budget.

As you may recall, the Governor’s January proposal projected a balanced budget with no shortfall. However, several developments have since altered the state’s fiscal outlook—including increased Medi-Cal costs, the projected \$16 billion impact of new federal tariffs and growing concerns regarding a potential national recession.

The Governor’s May Revision includes roughly \$5 billion in reductions to health and human services programs in 2025-26 growing to \$14.8 billion by 2028-29, \$5.3 billion in revenue/borrowing, and \$1.7 billion in fund shifts. The Administration also includes triggers for two future social services commitments (\$451.1 million) which would be contingent on sufficient resources in 2027-28.

The Governor's May Revision maintains the Governor's January proposal to withdraw \$5.1 billion in 2024-25 and \$7.1 billion in 2025-26 from the Budget Stabilization Account (BSA), and maintaining reserve balances of \$16.9 billion at the end of 2025-26, including (\$11.2 billion in BSA and \$4.5 billion in the Special Fund for Economic Uncertainties).

The Governor's May Revision does not account for anticipated federal funding cuts. During the press conference, the Governor did acknowledge that tough decisions are on the horizon as the state responds to future federal actions.

1991 Realignment

1991 Realignment. The Governor's May Revision updates projected state sales tax and vehicle license fees for 1991 Realignment. From 2023-24 to 2024-25, sales tax and vehicle license fees revenues are anticipated to increase by approximately 1.83 percent; from 2024-25 to 2025-26, sales tax and vehicle license fees revenues are anticipated to increase by approximately 3.36 percent. Estimates of 1991 Realignment revenues at May Revision can be [viewed here](#).

AB 85 1991 Realignment Diversions. The Governor's May Revision updates the estimated redirection from the Governor's January Budget estimate. The Administration now estimates that \$724.8 million will be redirected from counties in 2025-26, up from \$628 million estimated in January. No update to the estimated net true-up for 2022-23 was provided at May Revision; the Department of Finance (DOF) is anticipated to release these figures this summer.

As a brief background, after the passage of the Affordable Care Act and Medi-Cal expansion, the State anticipated counties would be spending less on indigent care, given more individuals would qualify for insurance through Medi-Cal or Covered California. Under this assumption, the State enacted AB 85 (Chapter 24, Statutes of 2013), which diverted health realignment dollars from the counties to the State. The State diverted either: 1) 60 percent of health realignment funding received each year; or 2) a specified amount of health realignment funding based on a formula that considered county revenues and costs. The State estimates the redirection in the Governor's January Budget proposal and updates those revisions in the May Revision.

AB 85 includes a true-up mechanism two years after the close of the fiscal year to determine what the actual county diversion should have been based on updated county data.

The county-by-county 2025-26 interim redirection figures are available [here](#).

Public Health Workforce & Infrastructure

Future of Public Health (FoPH). The Governor's May Revision does not propose changes to the ongoing \$276.1 million Future of Public Health (FoPH) General Fund investment in state and local public health workforce and infrastructure and continues to provide \$188.2 million ongoing General Fund to local health departments. CHEAC, along with partner organizations, [applauds](#)

[the Newsom Administration](#) for maintaining this critical investment in our California local health departments. Maintaining and bolstering FoPH funding continues to be a top priority for CHEAC.

Public HERO Initiative Workforce Funding. The Governor's May Revision proposes to pull back unspent public health workforce training funding, provided as one-time funding in the 2022 Budget Act. For a refresher on these workforce investments, please see our [summary](#) of the 2022 Budget Bill Jr. (AB 178). Specific programs impacted include:

- **California Pathways into Public Health (Cal-PPH).** Up to \$840,000 in unspent funds is proposed to be reverted to the state General Fund. These funds support fellowships for early-career public health professionals and students in local health departments.
- **California Lab Aspire.** Up to \$1.7 million in unspent funds is proposed to be reverted to the state General Fund. These funds support training and preparation of qualified professionals to direct California Public Health Laboratories.
- **California Microbiologist Training.** Up to \$1.27 million in unspent funds is proposed to be reverted to the state General Fund. These funds support training for qualified individuals to meet microbiologist certification requirements as required by the state.
- **California Epidemiologic Intelligence Service (Cal-EIS).** Up to \$1.7 million in unspent General Fund is proposed to be reverted to the state General Fund. Funding supports one-year fellowships for epidemiologists to gain hands-on experience in local or state health departments.
- **Public Health Career Ladder Upskill Program.** Up to \$1.42 million in unspent funds is proposed to be reverted to the state General Fund. Additionally, the Governor's May Revision proposes to revert \$3.2 million for the fourth and final year of the one-time Public Health Career Ladder Upskill Program in 2025-26. The funding supports state and local public health workforce upskilling to improve retention of the public health workforce and help incumbent workers develop skills to meet future public health demands.

Public Health Programs

CDPH Funding. The Governor's May Revision updates anticipated resources to the California Department of Public Health (CDPH) for 2025-26. At May Revision, CDPH is anticipated to receive \$5.02 billion in total funds, including approximately \$742.2 million General Fund, \$1.9 billion special funds, and \$2.3 billion in federal funds. CDPH additionally reflects a decrease of \$55 million state operations expenditures in 2024-25 and ongoing and reduced position authority by 283 positions at May Revision for a total of 4,927 positions in 2025-26 and ongoing. For 2024-25, CDPH reflects a total decrease of \$31 million General Fund of unspent funds, including \$19.9 million in local assistance and \$11.1 million in state operations.

California Vaccine Management System (myCAvax). The Governor's May Revision proposes to invest \$31.45 million one-time General Fund to support the maintenance and operation of the California Vaccine Management System, also known as myCAvax, in 2025-26. This system is critical for statewide vaccine distribution, appointment scheduling, vaccine clinic management, and vaccine records management and sharing. As a reminder, sustaining myCAvax was one of CHEAC's top budget priorities.

Avian Flu and Marburg Response. The Governor's May Revision reflects a net increase of \$1.6 million General Fund in state operations to support CDPH emergency preparedness and response efforts to Avian Flu and Marburg. This net increase includes a decrease of \$8.3 million in current year unanticipated costs included in the 2025-26 Governor's January Budget and an increase of \$9.9 million associated with the Governor's executive order related to avian flu emergency response.

Los Angeles Wildfire Response. The Governor's May Revision reflects an increase of \$10.7 million General Fund in CDPH state operations to support ongoing response efforts to the 2025 Southern California wildfires. This includes various increases from various executive orders issued by Governor Newsom.

Wastewater Surveillance for Infectious Diseases. The Governor's May Revision seeks \$3.25 million one-time General Fund to support a CDPH statewide wastewater surveillance program of routine wastewater testing for detection of infectious diseases.

Syndromic Surveillance Reappropriation. The Governor's May Revision seeks to reappropriate up to \$2.5 million in Opioid Settlements Funds (OSF) from the 2022 Budget Act originally intended for a CDPH Opioid Public Awareness Campaign. Using these reappropriated funds, the Administration seeks to extend encumbrance or expenditure authority through June 2028 to launch the California Syndromic Surveillance Program.

Opioid Prevention and Harm Reduction Initiative. The Governor's May Revision seeks to increase \$4.2 million Opioid Settlements Funds to support the CDPH Overdose Prevention and Harm Reduction Initiative (COPHRI). Recall, the Governor's January Budget proposed a reduction of \$8.4 million to CDPH for COPHRI.

Naloxone Distribution Project (NDP). The Governor's May Revision proposes to decrease \$4.2 million Opioid Settlements Funds one-time in 2025-26 to the Department of Health Care Services (DHCS) Naloxone Distribution Project. Recall, the Governor's January Budget previously proposed an increase of \$8.4 million to DHCS for NDP.

Proposition 99 Health Education Account. The Governor's May Revision reflects a decrease of \$6.3 million in Proposition 99 Health Education in 2025-26 as a result of updated Proposition 99 revenue projections. This includes a decrease of \$3.5 million in competitive grants (local assistance) and \$2.7 million in committee and evaluation (state operations). Revenues in this account support comprehensive statewide tobacco control programs and are provided to state

and local government agencies and other entities for evidence-based health promotion and health communications activities related to tobacco.

Proposition 56 State Dental Program Account. The Governor's May Revision reflects no changes in allocations in the State Dental Program Account. This includes a shift to increase \$3.4 million in state operations and a decrease of \$3.4 million in local assistance as a result of shifting unspent funds from reduced local assistance expenditures to cover state contracts and salaries. These funds support local oral health programs (LOHPs) and other dental workforce initiatives.

Proposition 56 Tobacco Prevention and Control Programs Account. The Governor's May Revision reflects a decrease of \$3.6 million in the Tobacco Prevention and Control Programs Account as a result of updated revenue projections. The decrease includes \$1 million in contracts (state operations) and \$2.6 million in contracts (local assistance). Revenues are used for a comprehensive statewide tobacco control program and are provided to state and local government agencies and other entities.

STD Funding. The Governor's May Revision proposes to revert up to \$1 million General Fund, originally appropriated in the 2023 Budget Act, in unspent state operations for CDPH to oversee a grant program to address sexually transmitted diseases in specified jurisdictions.

Hepatitis C Virus (HCV) Funding. The Governor's May Revision seeks to revert up to \$1 million General Fund, originally appropriated in the 2023 Budget Act, in unspent state operations to support administration of investments to end the epidemic of Hepatitis C virus.

HCV Testing Kits. The Governor's May Revision seeks to revert up to \$328,000 General Fund of \$1 million originally appropriated in the 2021 Budget Act in unspent local assistance to support Hepatitis C virus testing kits, related supplies, and training. This investment was a component of a larger appropriation intended to address HIV, viral hepatitis, sexually transmitted infection, and harm reduction interventions.

ADAP Estimate. The Governor's May Revision reflects decreased expenditure authority for the CDPH AIDS Drug Assistance Program (ADAP) of \$50.6 million in 2025-26 due to decreased caseload projection and lower medication and insurance premium expenditures. For 2024-25, the May Revision reflects a decrease of \$36.2 million primarily due to lower medication and insurance premium expenditures.

Title XIX for Maternal, Child, & Adolescent Health. The Governor's May Revision reflects an increase of Title XIX funding for maternal, child, and adolescent health programs within CDPH and implemented by our local health departments. For 2024-25, Title XIX slightly decreased to \$69.0 million in federal funds based on updated actuals and adjusted projections of anticipated payments. For 2025-26, Title XIX increases to \$101.5 million in federal funds based on adjusted projections from DHCS.

Medi-Cal Lead Program. The Governor's May Revision reflects a slight decrease in federal matching funds provided to CDPH for the Medi-Cal Lead Program for 2025-26. Specifically,

federal matching funds in 2024-25 are \$4.46 million and in 2025-26 are \$4.36 million. These funds support administrative case management costs associated with the CDPH Childhood Lead Poisoning Prevention Program (CLPPP).

Vital Records Staffing. CDPH, as part of the Governor's May Revision, seeks an increase of \$2.4 million in 2025-26 through 2027-28 and \$1.7 million annually in 2028-29 and ongoing to reduce response times for vital records requests, including during emergencies when records requests increase.

Transgender Wellness and Equity Reappropriation. The Governor's May Revision proposes to reappropriate up to \$7.2 million from the 2022 Budget Act and extend encumbrance or expenditure authority through June 2028 to support existing gender health equity programs, grant agreements, and contracts related to transgender-inclusive health care for individuals who identify as transgender, gender nonconforming, or intersex.

Gender Health Equity Savings. The Governor's May Revision reflects estimated savings of \$15.5 million in General Fund in 2024-25, including a decrease of \$1.5 million in state operations and \$14 million in local assistance that supports gender health equity programs within the CDPH Office of Health Equity, Gender Health Equity Section.

Medi-Cal & Health Care Programs

Medi-Cal Budget & Caseload. The Governor's May Revision reflects a net \$1.9 billion increase in Medi-Cal expenditures in 2024-25 compared to the Governor's January Budget. This overage amount, according to the Newsom Administration, is covered by the \$3.44 billion Medi-Cal Provider Interim Payment Loan and the \$2.8 billion General Fund early action appropriation by the Legislature in April 2025. The Administration proposes utilizing \$2.2 billion of the Medi-Cal Provider Interim Payment Loan in 2024-25 and \$1.2 billion in 2025-26. Repayment of the loan would begin in 2027-28.

The Governor notes that increases in Medi-Cal expenditures are primarily associated with continuation of COVID-19 pandemic eligibility-related flexibilities, costs for providing full-scope Medi-Cal to income-eligible individuals regardless of immigration status, retroactive managed care rate adjustments, and higher overall costs in managed care, fee-for-service, and pharmacy.

The May Revision additionally reflects Medi-Cal General Fund expenditures of \$44.6 billion in 2025-26, an increase of \$7.2 billion, compared to revised 2024-25 expenditures. This increase is primarily due to lower MCO tax revenues, growth in managed care costs, and increased costs for individuals with certain statuses.

Managed Care Organization Tax and Proposition 35. Recall, California voters approved Proposition 35 in November 2024 to permanently continue the state's managed care organization (MCO) tax and specify permissible uses of tax revenues. Provider payment increases and

investments that were previously authorized in the 2024 Budget Act were repealed as of January 1, 2025, as a result of the passage of Proposition 35.

The Governor's May Revision reflects MCO tax revenues of \$9 billion in 2024-25, \$4.2 billion in 2025-26, and \$2.8 billion in 2026-27 to support existing and increased costs in 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 MCO Tax and Proposition 35 expenditures of \$804 million in 2024-25, \$2.8 billion in 2025-26, and \$2.4 billion in 2026-27. This includes \$1.6 billion across 2025-26 and 2026-27 to support increases in managed care base rates relative to calendar year 2024 for primary care, specialty care, ground emergency medical transportation, and hospital outpatient procedures. A spending plan overview for Proposition 35 from DHCS is [available here](#).

Medi-Cal Asset Test Limits. The Governor's May Revision proposes reinstating the Medi-Cal asset limit to consider resources, including property and other assets, when determining Medi-Cal eligibility for applicants or members whose eligibility is not based on modified adjusted gross income (MAGI) financial methods. Per the Newsom Administration, the asset limit for a household is \$2,000 for an individual and \$3,000 for a couple. This policy change would take effect no sooner than January 1, 2026, and would result in estimated General Fund savings of \$94 million in 2025-26, \$540 million in 2026-27, and \$791 million ongoing, inclusive of In-Home-Supportive Services (IHSS).

Health Care Coverage for UIS Individuals. The Governor's budget proposal includes two significant policy changes affecting individuals with unsatisfactory immigration status aged 19 and older. No sooner than January 2026, new Medi-Cal enrollments for this population would no longer be allowed. This proposal is anticipated to save \$86.5 million General Fund in 2025-26, increasing to \$3.3 billion by 2028-29. While those already enrolled in Medi-Cal will be allowed to maintain their coverage, starting in 2027, they will be required to pay a \$100 monthly premium. According to the Newsom Administration, General Funds savings are anticipated to be \$1.1 billion in 2026-27, increasing to \$2.1 billion by 2028-29.

Elimination of UIS Long-Term Care Coverage. The May Revision proposes to eliminate state-only long-term care benefits for individuals with unsatisfactory immigration status, effective January 1, 2026. Estimated General Fund savings associated with this change are \$333 million in 2025-26 and \$800 million in 2026-27 and ongoing.

Elimination of UIS Adult Dental Benefits. The May Revision proposes to eliminate full-scope state-only dental coverage for Medi-Cal members with unsatisfactory immigration status aged 19 and older, effective July 1, 2026. According to the Newsom Administration, this population will continue to have access to restricted-scope emergency dental coverage. This change would provide General Fund savings of \$308 million in 2026-27 and \$336 million in 2028-29 and ongoing.

FQHC/RHC Prospective Payments for UIS Individuals. The Newsom Administration proposes to eliminate Prospective Payment System (PPS) rates to federally qualified health centers (FQHCs) and rural health centers (RHCs) for state-only funded services to individuals with unsatisfactory immigration status. Clinics would receive reimbursement at the applicable Medi-Cal schedule rate in the fee-for-service delivery system and the applicable negotiated rate in Medi-Cal managed care delivery system. This proposal is estimated to provide General Fund savings of \$452.5 million in 2025-26 and \$1.1 billion in 2026-27 and ongoing.

Elimination of Over-the-Counter Drug Coverage. The Governor's May Revision proposes to eliminate Medi-Cal pharmacy coverage for certain drug classes, including COVID-19 antigen tests, over-the-counter vitamins, and certain antihistamine products. These eliminations are anticipated to provide General Fund savings of \$3 million in 2025-26 and \$6 million in 2026-27 and ongoing.

Elimination of Acupuncture Medi-Cal Benefits. The Governor's 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.

Elimination of Specialty Drug Coverage for Weight Loss. The Governor's May Revision seeks to eliminate Medi-Cal coverage for GLP-1 drugs for weight loss, effective January 1, 2026. Estimated General Fund savings are anticipated to be \$85 million in 2025-26, growing to \$680 million by 2028-29 and ongoing.

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

Proposition 56 Loan Repayment Program. The Governor's May Revision seeks to suspend a final cohort of the Proposition 56 provider loan repayment program to provide anticipated General Fund savings of \$26 million in 2025-26.

Pharmacy Drug Rebates. The Governor's May Revision proposes to establish a rebate aggregator to secure state rebates for individuals with unsatisfactory immigration status. This change is anticipated to provide \$300 million in General Fund savings in 2025-26 and \$362 million ongoing. The May Revision additionally reflects \$75 million General Fund in 2025-26 and \$150 million ongoing associated with the minimum rebate amount for HIV/AIDS drugs and cancer drug rebates.

Pharmacy Benefit Manager (PBM) Oversight. The Governor's May Revision proposes new state oversight of pharmacy benefit managers (PBMs) – actors involved in transactions between drug manufacturers, pharmacies, and insurers – to increase transparency and reduce pharmacy expenditures. The Governor proposes to require that PBMs be licensed and regulated by the Department of Managed Health Care (DMHC), as well as require PBMs to report operational and financial data and have fiduciary responsibility to clients. Under the proposal, DMHC would review

PBM contracts and perform regular financial audits of PBMs. As part of PBM licensure with DMHC, PBMs must also report detailed drug pricing data to the Department of Health Care Access and Information (HCAI).

CalRx Expansion. Governor Newsom proposes to expand the authority of CalRx, the state's initiative to make prescription medications more affordable for residents, to purchase brand-name drugs. This expansion would enable the state to secure an affordable supply of both generic and name-brand drugs, maintain uninterrupted access to medications, and strengthen the state's ability to protect reproductive health options, including mifepristone and other medications used in pregnancy termination.

CalRx Reduction for Biosimilar Insulin. The Governor's May Revision seeks a reduction of \$45 million General Fund to CalRx, originally approved to enable the state to support a California-based manufacturing facility for a biosimilar insulin product.

Prescription Drug Utilization Management. Governor Newsom's May Revision proposes to implement utilization management and prior authorization requirements for prescription drugs. This proposal results in estimated General Fund savings of \$25 million in 2025-26 and \$50 million in 2026-27 and ongoing.

Step Therapy Protocols. The May Revision proposes to implement a step therapy protocol to promote utilization management of prescription drugs and better control prescription drug costs. This change is anticipated to provide General Fund savings of \$87.5 million in 2025-26 and \$175 million ongoing.

Prior Authorization for Continuation of Drug Therapy. The Governor's May Revision proposes to eliminate 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 on prior drug usage. Estimated General Fund savings are \$62.5 million 2025-26 and \$125 million in 2026-27 and ongoing.

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

Skilled Nursing Facilities. The Governor's May Revision seeks to eliminate the Workforce and Quality Incentive Program (WQIP) and suspend the requirement for skilled nursing facilities to maintain a backup power system for no fewer than 96 hours. This change is anticipated to provide General Fund savings of \$168.2 million in 2025-26 and \$140 million ongoing.

Medi-Cal Minimum Loss Ratio. The Governor's May Revision seeks to increase the minimum medical loss ratio for Medi-Cal managed care plans, beginning January 1, 2026. This change is anticipated to provide General Fund savings of \$200 million in 2028-29 and ongoing.

CMS Interoperability. As part of the Governor's May Revision, DHCS seeks resources and expenditure authority to plan and implement federal Centers for Medicare & Medicaid Services (CMS) interoperability and patient access final rules issued in January 2024. DHCS requests \$1.1 million in total resources to leverage existing resources approved through previous budget change proposals to enable data exchange and processes pursuant to the federal final rule.

Medicaid Managed Care, Access, and Eligibility Final Rules. DHCS seeks \$7.8 million total funds (\$3.9 million General Fund) to address implementation and planning activities associated with recently released federal regulations related to access to care, transparency, and quality.

Transforming Maternal Health (TMaH) Model. The Governor's May Revision seeks \$1.1 million total funds and two positions to support the state's [Transforming Maternal Health](#) (TMaH) Model that was recently approved by CMS. This 10-year payment and delivery demonstration project is intended to improve maternal health outcomes, reduce costs, and address gaps in access to care. The model is primarily focused on Medi-Cal managed care plans and will be implemented in five Central Valley counties including Fresno, Kern, Kings, Madera, and Tulare.

FQHC Policy Guide. As part of the Governor's May Revision, DHCS requests expenditure authority of \$700,000 from a grant awarded by the California Health Care Foundation (CHCF) to help support the development of a reimbursement policy guide for use by federally qualified health centers. DHCS anticipates developing a consolidated policy manual that comprehensively documents the FQHC Prospective Payment System (PPS) and other relevant Medi-Cal policies.

CalAIM Justice-Involved Initiative. The Governor's May Revision seeks \$21.5 million in 2025-26 and \$11 million ongoing in increased reimbursement authority and an increase of 65 positions in 2025-26 and ongoing. The May Revision reflects 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 CalAIM Justice-Involved Initiative.

California Children's Services (CCS). The Governor's May Revision updates projections for caseload and expenditures in the California Children's Services (CCS) program. For 2024-25, CCS case management/administrative costs total \$197.56 million (\$70.2 million General Fund, \$127.4 million Federal Funds). For 2025-26, CCS case management/administrative costs total \$196.5 million (\$69.8 million General Fund, \$126.7 million Federal Funds). DHCS notes that from 2024-25 to 2025-26 a slight decrease in projected caseload is anticipated in the program.

CHEAC was pleased to note that DHCS recently announced it was indefinitely delaying its CCS Monitoring & Oversight Initiative that was set to go-live on July 1, 2025. Despite this announcement, the DHCS Medi-Cal Estimate continues to reflect a county allocation for CCS Monitoring & Oversight of \$10.1 million total funds in 2025-26. CHEAC staff will continue engaging with DHCS leadership to determine the availability of these funds and details associated with the delay of the CCS Monitoring & Oversight Initiative.

Health Care Program for Children in Foster Care. The Governor's May Revision reflects no changes to the allocations for the Health Care Program for Children in Foster Care (HCPCFC). Specifically, allocations consist of \$32.7 million total funds for the Base Allocation, \$6.6 million total funds for Psychotropic Medication Monitoring & Oversight, \$15.4 million total funds for Caseload Relief, and \$23.8 million total funds for HCPCFC Admin.

Targeted Case Management. The Governor's May Revision includes updates to expenditures in the Medi-Cal Targeted Case Management (TCM) program in both 2024-25 and 2025-26. Specifically, in 2024-25, DHCS reflects expenditures of \$22.9 million; in 2025-26, expenditures are projected at \$11.9 million, which reflect an increase compared to the Governor's January budget estimates of \$20.3 million and \$10.9 million, respectively.

Medi-Cal Administrative Activities. The Governor's May Revision increases projections for Medi-Cal Administrative Activities (MAA) for both 2024-25 and 2025-26. In 2024-25, DHCS estimates MAA expenditures of \$132.6 million; in 2025-26, DHCS estimates MAA expenditures of \$131.6 million. County-Based Medi-Cal Administrative Activities (CMAA) comprises the bulk of these estimates of \$132.0 million in 2024-25 and \$131.0 million in 2025-26.

Behavioral Health

CDPH BHSA Planning. The Governor's May Revision reflects a request of \$7.35 million in Behavioral Health Services Act (BHSA) funds one-time to support CDPH planning and implementation of the Behavioral Health Services Act.

Behavioral Health Infrastructure Bond Act. The Governor's May Revision seeks \$13.5 million and 22 permanent positions to continue implementation of the Behavioral Health Continuum Infrastructure Program that was expanded by the Proposition 1 Behavioral Health Bond Act.

Behavioral Health Transformation Implementation. The Governor's May Revision proposes \$131 million and 104 permanent positions to support the continued implementation SB 326 (Chapter 790, Statutes of 2023) to reform the behavioral health system. According to DHCS, this request builds off of previously approved budget change proposals and supports continued policy development, implementation, and readiness activities that over time will transition into ongoing operations, monitoring, and oversight.

Behavioral Health Workforce Initiative. The Governor's May Revision includes \$1.9 billion (\$143 million Behavioral Health Services Fund, \$808 Designed State Health Program funding, and \$950 million federal funds) to the Department of Health Care Access & Information (HCAI) to implement the Behavioral Health Workforce Initiative, established through the state's BH-CONNECT Section 1115 waiver, beginning in January 2026.

Behavioral Health Services Fund General Fund Offset. The Governor's May Revision proposes to swap the funding source for the Behavioral Health Bridge Housing Program (BHBHP) and the Behavioral Health Transformation Funding (BHTF). The Administration replaces the

following General Fund investments with Behavioral Health Services Funding: \$40 million in 2024-25 and \$45 million in 2025-26 for the (BHBHP), and \$55 million for the (BHTF).

CalHOPE Warm Line. The Governor's May Revision includes \$5 million from the Behavioral Health Services Fund (BHSF) to support the continuation of the state's CalHOPE Warm Line in 2025-26 and beyond.

ACEs Provider Training. The Governor's May Revision includes \$2.9 million (\$1.46 million BHSF and \$1.46 million federal funds) in 2025-26 to support additional ACEs trainings for health care providers.

988 Suicide and Crisis Lifeline. The Governor's May Revision seeks one-time resources and expenditure authority to manage the increase in 988 contact volume by providing \$17.5 million total funds.

Nutrition Programs

Women, Infants, & Children (WIC) Program. The Governor's May Revision includes total expenditures for the WIC program of \$1.2 billion in 2024-25 and \$1.3 billion in 2025-26. These figures represent a decrease of approximately \$5.6 million in local assistance expenditure authority in 2024-25 and a decrease of approximately \$20.4 million in local assistance expenditure authority in 2025-26. According to CDPH, these changes are primarily attributed to reduced inflation rates and decreased caseload participation.

Universal School Meals. The Governor's May Revision proposes \$90.7 million in additional ongoing Proposition 98 General Fund to fully fund the universal school meals program in 2025-26.

SUN Bucks. The Governor's May Revision reflects \$115.8 million (\$57.5 million General Fund) in 2025-26 for the Summer Electronic Benefits Transfer (SUN Bucks) for transaction costs and outreach to allow California to provide an estimated \$815.9 million in federal food assistance to children. This represents an increase of \$21.9 million ongoing Proposition 98 General Fund. SUN Bucks support food access to children who lose access to free and reduced-price meals during the summer school closure period.

CFAP Expansion. The Governor's May Revision seeks a statutory change that would make expansion of the California Food Assistance Program (CFAP) to adults 55 and over, regardless of immigration status, subject to a trigger-on based on the availability of General Fund resources in spring 2027.

Housing and Homelessness

California Housing & Homelessness Agency. Recall, the Governor's January Budget proposed creating a new California Housing and Homelessness Agency (CHHA) to create a more

integrated and effective administrative framework for addressing the state's housing-related challenges. The Governor's May Revision includes \$4.2 million (\$4 million General Fund) in 2025-26, \$6.4 million (\$6.2 million General Fund) in 2026-27, and \$6.2 million (\$6.1 million General Fund) in 2027-28 and ongoing to support the reorganization of the Business, Consumer Services, and Housing Agency. The Governor's May Revision proposal seeks to integrate housing- and homelessness-related programs and services by placing in the new agency the Department of Housing & Community Development, California Interagency Council on Homelessness, California Housing Finance Agency, Civil Rights Department, and Housing Development and Finance Committee.

Flexible Housing Subsidy Pools. The Governor's May Revision reflects \$200 million Proposition 35 funding over two years for Flexible Housing Pool rental assistance and housing supports for individuals with significant behavioral health conditions who are experiencing or at risk of experiencing homelessness.

Cannabis

Cannabis Tax Revenues. Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund. After meeting various allocation requirements, remaining funds are available for youth education, prevention, early intervention, and treatment; environmental protection, and public safety-related activities. The Governor's May Revision updates revenue estimates to \$454.3 million in 2025-26:

- Education, Prevention, and Treatment of Youth Substance Use Disorders and School Retention (60 percent) – \$272.5 million
- Clean-up, Remediation, and Enforcement of Environmental Impacts (20 percent) – \$90.9 million
- Public Safety-Related Activities (20 percent) – \$90.9 million

The Board of State and Community Corrections' (BSCC) Proposition 64 Public Health and Safety Grant Program, funded through the Cannabis Tax Fund, provides grants to local governments to address public health and safety issues associated with the implementation of Proposition 64. The Governor's May Revision includes statutory changes authorizing BSCC to award grants to local governments that prohibit cannabis cultivation if they authorize retail cannabis sales and prioritizes grants for local illicit cannabis efforts. Per the Administration, these changes are anticipated to expand collaboration with local law enforcement and encourage retail participation in the legal market.

Climate Health

Extreme Heat Action Plans. The Governor's May Revision proposes to revert up to \$900,000 General Fund, originally appropriated in the 2022 Budget Act, in unspent state operations to CDPH for implementation of the Extreme Heat Action Plan.

General Government & Operations

Business & Consumer Services Agency. The Administration maintains its proposal to establish a new Business and Consumer Services Agency (BCSA), similar to the proposal to establish a new Housing & Homelessness Agency (CHHA) described above. The Governor's May Revision reflects \$456,000 in reimbursements in 2025-26 and ongoing in the new agency. The new agency will include entities such as the Department of Alcoholic Beverage Control, Department of Cannabis Control, and the Department of Consumer Affairs, among other entities.

Budget Resources

Budget Background:

For additional information on the state budget process, we encourage CHEAC Members to view the California Budget & Policy Center (CBPC) "Dollars & Democracy: A Guide to the State Budget Process." This primer provides a succinct overview of key processes, dates, and participants in the California state budget. The resource can be [viewed here](#).

Budget Links:

Governor's 2025-26 May Revision Budget: <http://www.ebudget.ca.gov/>

Governor's Press Conference Presentation: <https://www.gov.ca.gov/wp-content/uploads/2025/05/MAY-REVISE-2025-2026-Governor-Budget-Slides-PRESS.pdf>

CDPH May Revision Budget Highlights: <https://www.cdph.ca.gov/Documents/CDPH-2025-26-May-Revision-Highlights.pdf>

DHCS May Revision Budget Highlights:
<https://www.dhcs.ca.gov/Budget/Documents/DHCS-FY-2025-26-May-Revision-Budget-Highlights.pdf>

Senate Highlights of 2025-26 May Revision: <https://sbud.senate.ca.gov/system/files/2025-05/overview-of-the-governors-2025-26-may-revision.pdf>

Assembly Highlights of 2025-26 May Revision:
<https://abgt.assembly.ca.gov/system/files/2025-05/highlights-of-governor-s-proposed-2025-26-may-revision.pdf>

Next Steps. Over the coming weeks, the Legislature will convene budget hearings to consider the updated proposals set forth in the Governor's May Revision. The Senate Budget & Fiscal Review Subcommittee No. 3 on Health & Human Services will convene hearings on May 19 and 20 and May 28 and 29. The Assembly Budget Subcommittee No. 1 on Health will convene hearings on May 19 and 20.

The Legislature must pass a budget bill by June 15. The Governor, Senate President pro Tempore, and Assembly Speaker will then begin negotiations to finalize a state budget by the beginning of the new fiscal year on July 1.

Questions. For questions on the items highlighted above or other budget-related inquiries, please feel free to contact Michelle Gibbons (mgibbons@cheac.org) and Jack Anderson (janderson@cheac.org) via email.

**CWDA**Advancing Human Services
for the Welfare of All Californians

State Budget Update #2

May Revision 2025-26 Budget

May 14, 2025 | 20 Pages

Governor Newsom released the May Revision to his proposed Fiscal Year (FY) 2025-26 Budget today, Wednesday May 14. The following budget update summarizes what we know so far about the proposals and issues of interest in the health and human services area. CWDA staff will continue to keep you updated in the coming days and weeks as we learn more details and as budget actions are taken in the Legislature.

Overall Budget Picture

California's overall revenue outlook has deteriorated compared to January's revenue forecast and the state continues to face a structural multi-year deficit. In order to balance the budget and provide for prudent discretionary reserves, the May Revision aims to close a shortfall of \$12 billion in FY 2025-26, which is about 5.8% of the total FY 2025-26 Budget of \$321.9 billion (\$226.4 billion General Fund).

As previously noted, the Governor's Budget in January projected a modest General Fund surplus of \$363 million. Since then, actual revenues and state cash receipts have exceeded the Governor's Budget projection by \$7.9 billion. However, increased economic uncertainty is expected to reverse that trendline. The State is now projecting a \$16 billion revenue downturn across FYs 2025-26 and 2026-27. The Governor noted this is largely attributable to growing economic uncertainty as a result of economic and financial decisions from the White House, primarily its tariff policy, which have chilled investment, led to market volatility, and are projected to result in significant declines in tax revenues associated with capital gains. Additionally, the U.S. is now projected to experience a "growth recession," which is a period of below-trend growth along with rising unemployment. Consistent with coverage over the last few months, the Budget picture is exacerbated by significant cost growth in state programs such as Medi-Cal. Notably, the May Revision does not incorporate any potential impacts of federal cuts that are currently under consideration in Congress.

Moreover, the Administration's updated May Revision multi-year forecast anticipates annual

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General Fund operating deficits of \$14 billion in FY 2026-27, \$19 billion in FY 2027-28, and \$13 billion in FY 2028-29; these figures assume legislative adoption of the May Revision's budget solutions in the final Budget Act.

To address the \$12 billion budget shortfall in FY 2025-26, the Administration proposes the below solutions, in addition to the planned withdrawal, as assumed in the 2024 Budget Act, of approximately \$7.1 billion from the Budget Stabilization Account in FY 2025-26. Unlike the last two years, the May Revision proposes reductions to ongoing programs to partially address the out-year structural deficit.

- \$5 billion in spending reductions or cuts in FY 2025-26, growing to \$14.8 billion by FY 2028-29.
 - As detailed below, the most significant reductions are from health and human services programs and concentrated in the Medi-Cal and the In-Home Supportive Services (IHSS) programs. These include but are not limited to: enrollment freeze for full-scope Medi-Cal of undocumented adults 19 and older effective January 2026; requirement of Medi-Cal premiums for those with unsatisfactory immigrant status effective January 2027; reinstatement of Medi-Cal asset test limits for seniors, disabled adults, and IHSS consumers; and elimination of IHSS as a benefit for undocumented adults 19 and older. These reductions and other noteworthy cuts are expanded on in the below sections.
- \$5.3 billion in revenue and borrowing solutions in FY 2025-26.
 - This includes \$3.4 billion due to extending the repayment deadline for the Medical Providers Interim Payment Fund loan and \$1.3 billion in revenues from Proposition 35, as approved by the voters in November 2024.
- \$1.7 billion in fund shifts, primarily from cap-and-trade revenues to support CAL FIRE operating costs.
- Additionally, the May Revision includes triggers (total of \$456.1 million) for two spending commitments, both in human services. These commitments would be triggered on in FY 2027-28 contingent upon sufficient resources.
 - California Food Assistance Program (CFAP) Expansion
 - Foster Care Tiered Rate Structure

REALIGNMENT REVENUES

As with the state's revenues in general, realignment revenues are projected to be lower than originally projected at the Governor's Budget. Growth in both 1991 and 2011 Realignment is

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significantly lower in FY 2024-25 relative to the Governor's Budget. While growth in FY 2025-26 recovers and is higher relative to Governor's Budget, cumulative growth across both FYs is below Governor's Budget levels. The details for each realignment are provided below.

1991 REALIGNMENT

At the Governor's Budget, 1991 Realignment sales tax revenues were estimated to grow by 2.28 percent in FY 2024-25 over the FY 2023-24 base, and another 2.58 percent in FY 2025-26. Vehicle License Fee (VLF) revenues were estimated to grow by 3.39 percent in FY 2024-25 and another 2.66 percent in FY 2025-26. As of the May Revision, 1991 Realignment revenue estimates for the current year and budget year projections have slowed on the net. Relative to Governor's Budget, sales tax revenues are now estimated to decline by about 1.85 percent in FY 2024-25 and decrease by about 1.31 percent in FY 2025-26. VLF revenues are estimated to grow by 1.03 percent in FY 2024-25 and another 2.10 percent in FY 2025-26.

There is still projected to be growth funding in both the FYs 2024-25 and 2025-26, though relative to Governor's Budget, sales tax revenues for the Social Services Subaccount decreased by 3.42 percent in FY 2024-25 and 1.67 percent in FY 2025-26. The VLF funding in the Social Services Subaccount will remain flat in FY 2024-25 and FY 2025-26 because the Social Services Subaccount does not receive General Growth funding.

Family Support Subaccount

With implementation of the Affordable Care Act (ACA), county costs and responsibilities for indigent health care have decreased as more individuals gained access to health care coverage through the Medi-Cal expansion. The Family Support Subaccount within 1991 Realignment enables counties' indigent health care savings to be captured and redirected to pay for CalWORKs General Fund assistance costs, thereby freeing up General Fund that can be used to pay for the state's Medi-Cal expansion costs. Counties' indigent health care savings is redirected from counties' 1991 Realignment Health Subaccounts and moved to the Family Support Subaccount at the state level. Funds are then allocated to counties from the Family Support Subaccount in lieu of General Fund for CalWORKs assistance payments and the Single Allocation. The distribution of the funds from the Family Support Subaccount to counties is based on counties' CalWORKs expenditures. The May Revision estimates savings of \$630.6 million in FY 2024-25 (unchanged from Governor's Budget) and \$724.8 million in FY 2025-26 (higher than Governor's Budget).

Child Poverty and Family Supplemental Support Subaccount

The Child Poverty and Family Supplemental Support Subaccount within 1991 Realignment is used to fund CalWORKs assistance grant increases, which total about 31 percent from this

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subaccount since 2013-14, as well as the repeal of the Maximum Family Grant (MFG) rule, which took effect January 1, 2017. There is estimated to be \$1.1 billion in the Child Poverty and Family Supplemental Support Subaccount in FYs 2024-25 and 2025-26, respectively. We are awaiting confirmation as to whether there is enough to fully fund the previous grant increases and MFG repeal in 2025-26, and will follow-up in a subsequent update.

2011 REALIGNMENT

At the Governor's Budget, 2011 Realignment sales tax revenues were estimated to grow by 3.37 percent in FY 2024-25, and another 2.90 percent in FY 2025-26. As with 1991 Realignment, 2011 Realignment revenue projections have declined as of the Governor's Budget. Specifically, relative to Governor's Budget, 2011 Realignment sales tax revenues have decreased by 2.12 percent in FY 2024-25 and by 1.67 percent in FY 2025-26. However, sales tax revenues continue to grow between FYs, with a 1.21 percent increase from FY 2023-24 to FY 2024-25 and a 3.37 percent increase between FY 2024-25 and FY 2025-26. This translates into growth of \$29.1 million for the Protective Services Subaccount and \$32.3 million for the Behavioral Health Subaccount in FY 2024-25. For FY 2025-26, growth is projected to be \$94.1 million and \$104.6 million for the Protective Services and Behavioral Health Subaccounts, respectively.

HOUSING AND HOMELESSNESS**California Housing and Homelessness Agency**

The Governor's January Budget proposed establishing a new California Housing and Homelessness Agency (CHHA) to integrate administration of the state's housing and homelessness programs. The May Revision provides additional details and funding to support this reorganization.

It includes \$4.2 million in FY 2025-26, \$6.4 million in FY 2026-27, and \$6.2 million ongoing to support the reorganization of the Business, Consumer Services, and Housing Agency, as well as the administration of CHHA and the creation of the Housing Development and Finance Committee (HDFC). The reorganization is intended to streamline housing efforts, reduce development costs, and improve outcomes. CHHA will oversee:

- Department of Housing and Community Development
- California Interagency Council on Homelessness
- California Housing Finance Agency
- Civil Rights Department
- Housing Development and Finance Committee

STATE BUDGET UPDATE | MAY REVISION 2025-26 BUDGET**California Department of Social Services (CDSS)-Administered Housing Programs**

CDSS will continue to administer the four county-run housing and homelessness programs:

- CalWORKs Housing Support Program (HSP)
- Bringing Families Home (BFH)
- Home Safe
- Housing Disability Advocacy Program (HDAP)

The May Revision continues to include \$95 million in ongoing funding for HSP. The May Revision also continues to include \$25 million General Fund in ongoing HDAP funding. The May Revision increases this amount to \$37.5 million due to additional federal funding available through Title XIX of the Social Security Act, which can be used for the HDAP program.

BFH and Home Safe remain without ongoing funding as identified in the Governor's January Budget.

MEDI-CAL AND HEALTH CARE SERVICES**Program Funding and Caseload**

The total Medi-Cal budget is estimated to be \$179 billion (\$37.4 billion General Fund) in FY 2024-25 and \$194.5 billion (\$44.6 billion General Fund) in FY 2025-26.

The May Revision estimates a caseload of slightly under 15 million beneficiaries for FY 2024-25, reflecting a modest increase from the 14.9 million projected in the Governor's January Budget. From FY 2024-25 to FY 2025-26, the May Revision projects a caseload decrease of 0.89 percent, with an estimated 14.8 million beneficiaries in FY 2025-26. This represents an increase from the 14.5 million beneficiaries projected for FY 2025-26 in the Governor's January Budget.

County Administration Funding

The May Revision includes a total of \$2.34 billion (approximately \$1.19 billion General Fund) in county administrative funding for FY 2025-26. Due to the budget deficit, the Budget Act of 2024 implemented a freeze on California CPI adjustment increases, also referred to as COLA adjustments, for county administration funding through FY 2027-28. Both the Governor's January Budget and the May Revision continue to reflect this freeze.

Managed Care Organization Tax and Provider Payment Increases

Proposition 35, approved by the voters in November 2024, specifies permissible uses of

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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 includes Managed Care Organization (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.

Budget Solutions in Medi-Cal

Caseload and cost trends in Medi-Cal have significantly impacted the overall state budget. The May Revision has proposed the following solutions to address the projected budget shortfall:

Premiums for Adults with Unsatisfactory Immigration Status

The policy changed for adults aged 19 and over with unsatisfactory immigrant status, requiring a \$100 monthly premium per person for each member with unsatisfactory immigration status, effective January 1, 2027. The state is responsible for 100% of this population's costs, other than emergency and pregnancy-related services. Once this is implemented, projected for a January 1, 2027, implementation date, members who fail to pay the premium will be discontinued from full scope coverage but will still have access to restricted scope services. Budget includes \$30 million for system updates and to procure capacity to manage collection and tracking activities.

Full-Scope Medi-Cal Expansion Enrollment Freeze

The policy changed to freeze new enrollment for the young adult expansion, the 26-49-year-olds expansion, and 50-year-olds and over expansion for individuals regardless of their immigration status. All members who are currently enrolled will not be immediately affected and will maintain their full scope Medi-Cal. The freeze would start no sooner than January 1, 2026. After that time, individuals new to the program will no longer be enrolled in full scope Medi-Cal, even if they were previously enrolled. They would be eligible for restricted scope for emergency and pregnancy services. This is expected to result in savings of approximately \$86.5 million General Fund in FY 2025-26, increasing to \$3.3 billion by 2028-29.

STATE BUDGET UPDATE | MAY REVISION 2025-26 BUDGET**Eliminations of Some Coverage**

The May Revision calls for the elimination of state-only long-term care benefits for individuals who do not have a satisfactory immigration status, effective as of January 1, 2026. The population of adults aged 19 and over with unsatisfactory immigration status would also have full scope dental coverage eliminated, but those individuals would still have access to restricted-scope emergency dental coverage.

Reinstatement of Asset Limit

The policy change will reverse AB 133 in 2021. California will revert to asset limits that align with those of the federal Supplemental Security Income which is \$2,000 for an individual and \$3,000 for a couple. The department must seek federal approval to implement these limits for applicants and members. New asset limits would not go into effect until January 1, 2026, or whenever systems have been programmed. This is expected to result in savings of approximately \$94 million General Fund in FY 2025-26.

Medi-Cal Unwinding Flexibilities

The Governor's Budget proposes ending the discretionary Continuous Coverage Unwinding flexibilities on June 30, 2025. These flexibilities were initiated to reduce coverage loss following the restarting of Medi-Cal redetermination after the ending of the COVID-19 pandemic pause. The Governor's Budget assumes the ending of these flexibilities will result in an increase in discontinuances in FY 2025-26. Flexibilities ending on June 30, 2025, with significant impact are the Zero Income waiver, the 100 percent federal poverty level (FPL waiver), and the stable income waiver. The elimination of these flexibilities continues.

IN-HOME SUPPORTIVE SERVICES (IHSS)**Caseload and Overall Funding**

The May Revision includes \$283.0 billion (\$10.3 billion General Fund) for IHSS in FY 2025-26, a decrease of \$205.1 million compared to the Governor's Budget. This decrease reflects a reduction in provider overtime and travel hours, conforming the IHSS residual program with the timing of Medi-Cal coverage, eliminating IHSS benefits for undocumented individuals age 19 or older, updated costs for counties to cover the IHSS Community First Choice Option (CFCO) reassessment late penalties currently covered by the State, conforming IHSS with the reinstatement of the Medi-Cal asset limit, and lower projected caseload growth, offset by growth in the hours per case. Average monthly caseload is estimated to grow by 10.2 percent in FY 2024-25, resulting in 735,702 cases, and by 7.8 percent in FY 2025-26, resulting in 793,316 cases. This is an increase of 2.5 percent in FY 2024-25 and 2.8 percent in FY 2025-

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26 compared to Governor's Budget. Average weighted hours per case are estimated to be 124.6 hours in FY 2024-25 and 126.4 hours in FY 2025-26. The average cost per hour in the Individual Provider mode is estimated to be \$21.03 in FY 2024-25 and \$21.65 in FY 2025-26.

County IHSS and Public Authority Administration

The May Revision includes \$776.5 million (\$396.3 million General Fund) in FY 2024-25 for IHSS county administration funding, an increase compared to the Governor's Budget due to a growth in projected caseload. For FY 2025-26 the May Revision includes \$752.7 million (\$343.7 million General Fund) for IHSS county administration funding, a decrease of approximately \$75 million General Fund compared to the Governor's Budget due to a lower growth in projected caseload and assumed costs for counties to cover IHSS CFCO reassessment late penalties. Funding for Public Authority administration includes \$69.5 million (\$35.4 million General Fund) in FY 2025-26.

County IHSS Maintenance of Effort (MOE)

The May Revision includes an estimated county IHSS MOE amount of \$2.2 billion in FY 2025-26.

Permanent Back-up Provider System

The May Revision maintains both FY 2024-25 and FY 2025-26 funding for the permanent back-up provider system at the FY 2025-26 Governor's Budget levels. The May Revision includes \$597 million GF for back-up provider system services and \$4.1 million GF for back-up provider system administration in FY 2025-26.

Budget Solutions in IHSS**Elimination of IHSS for Undocumented Adults 19 and Older (Medi-Cal Full Scope Expansion Population)**

Beginning January 1, 2026, the May Revision eliminates IHSS benefits for undocumented adults aged 19 or older and includes a reduction of \$158.7 million General Fund (including \$4.3 million General Fund in administrative funding) in FY 2025-26 and ongoing to implement that change. Note that this change will be implemented halfway through FY 2025-26, but no administrative funding for the full scope Medi-Cal expansion is included in the May Revision for FY 2025-26.

Medi-Cal Asset Test Limits

The May Revision reinstates the Medi-Cal asset limit for seniors and disabled adults of \$2,000

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for an individual or \$3000 for a couple, beginning January 1, 2026. Asset limits will be reinstated upon annual renewal in the Medi-Cal program. The May Revision includes a reduction of \$25.5 million General Fund in FY 2025-26 to conform IHSS with the reinstatement of the Medi-Cal asset test limit.

Provider Overtime and Travel Hours

The May Revision institutes a cap on IHSS provider overtime and travel hours at 50 hours per week, beginning in FY 2025-26. Currently, the maximum amount of time an IHSS provider can provide services for two or more IHSS recipients in a week is 66 hours. The May Revision includes a reduction of \$707.5 million General Fund in FY 2025-26 and ongoing for this change.

IHSS Residual Program Conformity with Medi-Cal Coverage

The May Revision includes a reduction of \$110.6 million General Fund in FY 2025-26 to conform IHSS Residual program coverage with the timing of Medi-Cal coverage. This would result in auto-termination of IHSS recipients when their Medi-Cal is discontinued due to a failure to complete the annual Medi-Cal redetermination.

Community First Choice Option (CFCO) Late Penalties

The May Revision includes a reduction of \$81 million General Fund in FY 2025-26 to reflect costs for counties to cover the IHSS CFCO reassessment late penalties which are currently covered by the State. Counties are required to perform CFCO reassessments every 12 months. The State receives a 56 percent federal funding match for these cases, compared to 50 percent for other IHSS cases.

CALWORKS**Caseload**

The May Revision projects a 2.6 percent increase in the CalWORKs caseload from FY 2023-2024 to FY 2024-25. This increase is slightly lower than what was projected in the Governor's January Budget. The May Revision estimates 358,942 cases for FY 2024-25, reflecting this growth rate. For FY 2025-26, the May Revision estimates 363,766 cases, representing a 1.3 percent year-over-year increase. This projected growth is higher than the 0.6 percent increase estimated in the Governor's Budget.

Additionally, the May Revision projects a 5 percent increase in the Employment Services caseload from FY 2023-24 to FY 2024-25, which is 4.5 percent higher than the Governor's

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January Budget projection of 149,467 cases, estimating 156,215 cases for FY 2024-25 in the May Revision. For FY 2025-26, the Governor's Budget estimated an Employment Services caseload of 150,946, while the May Revision estimates caseload at 158,099, reflecting a 1.2 percent year-over-year increase.

TANF Work Participation Rate (WPR) Penalty Resolution

The May Revision includes a one-time General Fund allocation of \$21.1 million to cover California's penalty for not meeting the two-parent Work Participation Rate (WPR) requirements in Federal Fiscal Years (FFY) 2012 through 2014. The \$21.1 million reflects the reduction in FFY 2026 TANF Block Grant amount that was agreed to between CDSS and the previous federal administration for the penalty based on the completion of a corrective compliance plan.

Pursuant to Welfare and Institutions Code Section 10544(b), "if the state does not achieve the outcomes required by federal law and is therefore subject to a fiscal penalty, the penalty shall be shared equally by the state and the counties after all reasonable and available federal administrative remedies have been exhausted." Statute also requires the Department to consult with CWDA on the county share of the penalty. The Department of Social Services notes that a portion of the penalty may be passed on to counties.

CalWORKs Policy Proposals

The May Revision includes funding to further streamline the CalWORKs program, with one-time automation costs of \$1.5 million from TANF funds and ongoing cost savings of \$18.2 million. The proposed policy changes are as follows:

- Expand the list of Welfare-to-Work (WTW) activities: This proposal would include activities such as case plan development, WTW plan revisions, and caseworker coaching.
- Optional Job Club: This proposal would eliminate Job Club as a required activity under certain conditions.
- Simplify the WTW cure sanction plan: This proposal would eliminate the signature requirement for the plan.
- Eliminate CalWORKs RADEP and E2Lite: This proposal would remove county WTW data reporting requirements. The cost savings for this proposal is \$18.2 million.

Single Allocation.

The May Revision includes \$1.7 billion Total Funds in FY 2024-25 for the Single Allocation, which reflects no change from the Governor's Budget estimate for FY 2024-25.

For FY 2025-26, the May Revision includes \$1.6 billion Total Funds, reflecting an increase of

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about \$24.3 million compared to Governor's Budget. Specifically, this increase is due to a faster-than-expected growth in the employment services caseload and reductions in the Shared Eligibility and Medi-Cal Common Costs shifts.

Increase to the CalWORKs Maximum Aid Payment

The Governor's January Budget estimated a 0.2 percent increase to the Maximum Aid Payment (MAP), with funding to come from the Child Poverty and Family Supplemental Support Subaccount. However, due to projected revenue levels in the subaccount, the 0.2 percent increase is not included in the May Revision. As a result, there will be no grant increase in October 2025.

CHILD CARE AND EARLY EDUCATION**Stage 1 Child Care**

The May Revision projects a slightly higher caseload for FY 2024-25 and a slightly lower caseload for FY 2025-26 compared to the Governor's January Budget estimates, with projected caseloads of 51,871 and 52,505 children, respectively. The average monthly caseload for FY 2024-25 represents a 0.9 percent decrease compared to FY 2023-24, followed by a projected year-over-year increase of 1.2 percent in FY 2025-26.

The May Revision estimates costs of \$610.3 million for FY 2024-25 and \$617.8 million for FY 2025-26. The higher estimates are attributed to increased caseloads in FY 2024-25 and a higher cost per case in FY 2025-26.

Stage 2 and 3 Child Care

The May Revision increases projected caseloads for both FY 2024-25 and FY 2025-26. Average monthly caseloads are projected at 48,110 for FY 2024-25 and 56,575 for FY 2025-26. This change results in higher projected costs: \$548.8 million for FY 2024-25 and \$657.4 million for FY 2025-26.

For Stage 3, May Revision projections reflect a larger decrease in caseloads from the previous fiscal year than was estimated in the Governor's Budget. The average monthly caseload for FY 2025-26 is projected at 45,970, with associated costs revised downward to \$515.5 million.

Budget Solutions in Child Care

The May Revision includes proposals in the child care development area to address the statewide budget shortfall. These proposals are outlined below:

STATE BUDGET UPDATE | MAY REVISION 2025-26 BUDGET**Child Care Cost-of-Living Adjustment**

This proposal would suspend the COLA in FY 2025-26 and ongoing for certain child care programs.

Emergency Child Care Bridge Program

This program supports stable child care placements for children in the foster care system and was implemented in 2018. The May Revision proposes reducing funding to \$51 million in FY 2025-26, a General Fund reduction of \$42.7 million.

CALFRESH**Caseload**

The total CalFresh caseload is projected to increase by 4.7 percent in FY 2024-25 from the prior year. Caseload is projected to continue to increase by an additional 3.4 percent from FY 2024-25 to FY 2025-26. It is projected that the CalFresh caseload will reach 3.3 million in 2025-26.

CalFresh Administrative Funding

The proposed budget includes \$2.2 billion in CalFresh Administrative Funding for FY 2025-26. The increase is largely driven by the increase in activities associated with applications.

CalFresh Administration Funding for Reimbursement of Food Benefit Theft

The Governor's Budget includes separate administrative funding for reimbursement of food benefit theft of \$13.5 million (\$9.5 million General Fund) in FY 2024-25, and \$10.4 million (all General Fund) in FY 2025-26. CWDA will continue to engage with CDSS regarding the sufficiency of the administrative funding for theft reimbursement activities.

SUN Bucks

SUN Bucks is the Summer Electronic Benefit program that provides \$120 per child in federally-funded food benefits to children during the summer months. The May Revision includes \$115.8 (\$57.5 General Fund) for transactions cost and administration.

Budget Solutions in Food & Nutrition

The May Revision includes a budget solution to address the statewide budget shortfall.

STATE BUDGET UPDATE | MAY REVISION 2025-26 BUDGET**The California Food Assistance Program (CFAP) Expansion**

CFAP Expansion for adults 55 and over, regardless of immigration status, would be subject to a trigger-on, based on the availability of General Fund in the Spring of 2027.

CHILD WELFARE / FOSTER CARE / ADOPTION ASSISTANCE

The May Revision includes \$9.8 billion total funds (\$981.2 million General Fund) in FY 2025-26 for child welfare and foster care services and programs, inclusive of 1991 and 2011 Realignment funding. This is a decrease of \$856.4 million (\$4.5 million General Fund) from the Governor's proposed January Budget.

Caseload

The May Revision estimates average monthly child welfare caseload (Emergency Response, Family Maintenance, Family Reunification, and Permanent Placement) of 74,303, reflecting a continuing decline in year-over-year caseloads for FY 2025-26, with the most significant actual and projected decline in Permanent Placement caseloads (14.2 percent in FY 2024-25, and 14.7 percent in FY 2025-26). The average AFDC-FC caseload representing youth in out-of-home placements (including county resource family homes, FFAs and group care) continues to decline and is projected to equal 25,525 in FY 2025-26. Significant declines are noted for foster family agency (FFA) placements, with the May Revision projecting steeper declines than projected in the Governor's Budget, of 12.6 percent in FY 2024-25 and 10.7 percent in FY 2025-26 to 6,216 youth in FFAs, and a slowing decline of placements into congregate care of 4.9 percent in FY 2025-26 to 2,148 youth (this figure however also includes youth receiving wraparound).

The caseload of non-federally eligible relatives who are supported through the Approved Relative Caregivers Program continues to decrease given overall foster care caseload trends and is projected to decrease by 15.6 percent in FY 2024-25 and by 6.9 percent in FY 2025-26 to 3,289 cases. Kin-GAP/Fed-GAP caseload is projected to remain nearly the same, decreasing by 0.3 percent to 17,073 cases in FY 2025-26. The Adoption Assistance Program (AAP) caseload will also remain mostly unchanged, increasing by 0.2 percent to 86,298 cases in FY 2025-26.

Continuum of Care Reform (CCR)

The May Revision provides a total of \$574.1 million (\$381.3 million GF) to continue implementation of CCR, which is nearly identical to the Governor's January Budget. Administrative costs to implement various CCR components (RFA, CANS, and Child and Family Teams) are largely unchanged. Two specific components worth noting given their

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connection to the implementation of the Tiered Rate Structure:

- **Child and Family Teams (CFT):** The May Revision continues to reflect an updated methodology for CFT meetings (4 hours, on average) as adopted in FY 2024-25, an outdated social worker hourly rate of \$99.46 per hour (actual county cost is \$192.46 per hour), and an overall reduction in the number of children and families served due to continued year-over-year caseload decreases in foster care. As a result, CFT funding is projected to decrease from \$72.9 million General Fund in FY 2024-25 to \$64.5 million General Fund in FY 2025-26. Of this total, \$62.5 million General Fund is for Child Welfare Departments.
- **Child and Adolescent Needs and Strengths (CANS) assessment tool:** Overall funding for the CANS component is proposed to increase in the May Revision, from \$3.0 million GF in FY 2024-25, to \$4.4 million GF in FY 2025-26, based on an increased projection of caseloads that are expected to receive a CANS assessment.

Tiered Rate Structure

The May Revision provides updated estimates for implementation of the Tiered Rate Structure (TRS), which implements on July 1, 2027, proposing no funding in FY 2024-25 and \$23.5 million (15.5 million General Fund) in FY 2025-26 to begin implementation and support county administrative activities. The May Revision will also propose trailer bill language to make implementation of the TRS subject to a trigger based on availability of state funding, to be determined Spring 2027. If revenues are insufficient, the May Revision projects reduced TRS expenditures by \$338.9 million General Fund in 2027-28, growing to \$522.1 million in reduced expenditures in 2028-29.

For FY 2025-26, TRS-funded components include:

CalSAWS and CWS-CARES: To support automation of the multiple tiers and transitioning from the current Level of Care (LOC) rate structure, the May Revision provides \$6.1 million (entirely General Fund) in FY 2025-26 for CalSAWS automation, which is unchanged from the Governor's January Budget. For CWS-CARES automation, the May Revision provides \$14.5 million (\$7.2 million General Fund) in FY 2025-26, which is also unchanged in total amount, but all costs are now shifted to FY 2025-26.

CANS Fidelity and Training: The May Revision increases funding for this component to \$2.9 million (\$2.1 million General Fund), from the Governor's January Budget proposal of \$1.7 million (\$1.2 million General Fund), in FY 2025-26 to support implementation of the CANS system-level and case-level fidelity tools, including the County Practice and Implementation Profile and CFT Observation Tool, to monitor and improve practice quality, in preparation

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for the implementation of the TRS.

Funding Extensions

The May Revision extends the availability of Flexible Family Supports for Home-Based Care (\$50.0 million General Fund) from June 30, 2025 to June 30, 2026. The May Revision also extends the availability of \$4.0 million General Fund for the Children's Crisis Continuum Pilot Program, through June 30, 2027.

Caregiver Approval

The May Revision maintains \$50 million General Fund which supports mandated activities associated with the Resource Family Approval (RFA) process.

Family First Prevention Services Act (FFPSA)

Part 1 Prevention: Pursuant to the Budget Act of 2024, \$222.4 million GF continues to be available to counties to implement Part 1 prevention services for expenditure to June 30, 2028.

Part IV: The May Revision continues funding the various components for Part IV implementation, including county administration associated with social worker activities in support of the required review by Qualified Individuals and social worker activities related to obtaining court authorization for placement into congregate care facilities. A total of \$44.9 million (\$23.3 million General Fund and \$17.2 million county funds) is proposed in FY 2025-26 to support administrative activities to meet FFPSA requirements under Part IV of the law. This reflects a slight decrease from FY 2024-25 due to overall declines in projected foster care caseloads.

Social Security Administration (SSA) Benefits for Foster Youth (AB 2906, Statutes of 2024)

AB 2906, which prohibits counties from utilizing a child's SSA benefits to offset costs related to the child's care and instead requires counties to conserve those funds for the child, will implement July 1, 2025. The May Revision does not fund counties for their increased local costs as a result of this new law. CWDA estimates the net loss to counties as a result to be \$5 million annually. The May Revision continues to reflect funding to counties only for the administrative component adopted through AB 2906, which requires social workers to send written notice of intent to be appointed as representative payee to the child's counsel and parents or legal guardians, requires counties to establish and maintain dedicated accounts for foster youth receiving SSA benefits and provide an accounting report upon request. Funding for this component is proposed at \$244,000 (\$179,000 General Fund) beginning

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July 1, 2025.

Health Care Program for Children in Foster Care (HCPCFC)

The May Revision continues to provide funding to support the administrative costs of HCPCFC as a stand-alone program after the sunset of the Child Health and Disability Prevention Program (CHDP) on June 30, 2024. The Governor's Budget provides \$23.8 million (\$11.9 million General Fund) in FY 2025-26 for administrative costs to support HCPCFC.

Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT)

BH-CONNECT is a five-year demonstration approved December 2024 and includes a number of initiatives designed to expand the continuum of community-based behavioral health care services for Medi-Cal children and youth, including for foster youth. As part of the BH-CONNECT proposal (visit the [DHCS BH-CONNECT website](#) for the full proposal), the May Revision continues to propose investments in both the DHCS and CDSS budgets for child welfare agencies and county mental health plans.

The May Revision continues to reflect new implementation activities to implement child welfare-related components of BH-CONNECT, including CFTs for Family Maintenance (FM) cases, activity stipends for foster children, and joint home visits by social workers and a mental health worker. While overall funding remains nearly identical to the Governor's January Budget, the May Revision shifts funding for activity stipends out of the CDSS budget to the DHCS budget, reflecting a change to shift administration of the funds out of county child welfare agencies. The May Revision proposes \$30.5 million (\$22.4 million General Fund) for county child welfare administration of CFTs for FM cases and delayed implementation of joint home visits to July 1, 2025. The May Revision is also proposing to adopt trailer bill to implement CFTs for FM cases.

New Premise Items

The following are new items proposed for funding beginning FY 2025-26:

- Youth Missing from Care Notification (AB 2108, Statutes of 2024): The May Revision provides funding to implement this legislation beginning in FY 2025-26, equaling \$848,000 (\$623,000 GF), to support county administrative activities associated with providing notification to law enforcement, child's parents or guardians, child's attorney, and others, and to contact individuals known to the child to inquire of the child's whereabouts.

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- Documentation of Family Finding Efforts (AB 2929, Statutes of 2024): The May Revision provides \$1.1 million (\$796,000 GF) beginning in FY 2025-26 to support the on-going effort by social workers to locate relatives for a child or non-minor dependent not residing with relatives, and to submit a supplemental report to the court documenting those efforts.

Budget Solutions In Child Welfare Services**Emergency Child Care Bridge (ECCB) Funding**

The May Revision proposes to decrease ECCB funding by \$42.7 million GF in FY 2025-26 and annually ongoing to address the budget shortfall. This equates to a 45 percent reduction of the overall funding and rolling back of the expansion that was approved in the FY 2022-23 budget. This would leave a net \$51 million total funds (\$40.8 million GF) for the program in 2025-26. The CWS administrative funding to support county administration of the program is proposed to be reduced by 53 percent, from \$7.6 million GF to \$3.5 million GF.

Family Urgent Response System (FURS)

The May Revision proposes a reduction of \$13 million GF in FY 2025-26 and on-going to address the projected budget shortfall. This would leave \$17 million GF for on-going funding for FURS. FURS provides 24/7 conflict resolution, de-escalation, and in-person response to current and former foster children and their caregivers to preserve families via a state-level hotline and a county-based mobile response team.

Tiered Rate Structure (TRS)

As noted above, the May Revision includes a trigger for implementation of TRS. The funding commitment would be triggered on in 2027-28 contingent upon sufficient resources.

ADULT PROTECTIVE SERVICES (APS)**APS Federal Grants**

The May Revision extends the APS Elder Justice Act Grant from March 31, 2025, to March 31, 2026.

STATE BUDGET UPDATE | MAY REVISION 2025-26 BUDGET**SUPPLEMENTAL SECURITY INCOME/STATE SUPPLEMENTAL PAYMENT (SSI/SSP) AND CAPI****SSI/SSP Caseload and Grants**

The May Revision includes \$11.5 billion (\$3.5 billion General Fund) in FY 2025-26 for SSI/SSP programs. This reflects an increase of \$242.5 million (-\$50.3 million General Fund) from the Governor's budget due to a slower decline in the projected SSI/SSP caseload, partially offset by a decline in the projected average SSI/SSP grant.

The average SSI monthly grant (absent the 2025 CPI COLA), are \$438.55 for aged recipients, \$591.69 for blind recipients, and \$635.52 for disabled recipients. The SSP average grant are \$250.66 for aged recipients, \$315.74 for blind recipients, and \$238.27 for disabled recipients. The projected caseloads for both SSI and SSP in FY 2025-26 are 341,583 for aged recipients, 12,993 for blind recipients, and 720,933 for disabled recipients.

CAPI Caseload and Grants

The May Revision proposes a decrease in the Base CAPI Funding and an increase in Extended CAPI funding in FY 2025-26 compared to the Governor's Budget. The decrease in Base CAPI reflects a lower administrative fee and a decline in projected caseload, partially offset by a higher average grant. The increase for Extended CAPI funding reflects growth in the average grant and projected caseload, partially offset by a lower administrative fee. The average Base CAPI monthly grant amount is \$1,095.53 for 2025-26 and the average Extended CAPI monthly grant amount is \$1,1127.95 for 2025-26.

The average SSI monthly grant (absent the 2025 CPI COLA), are \$438.55 for aged recipients, \$591.69 for blind recipients, and \$635.52 for disabled recipients. The SSP average grant are \$250.66 for aged recipients, \$315.74 for blind recipients, and \$238.27 for disabled recipients. The average monthly caseload for Base CAPI is 929 in FY 2025-26 and the average monthly caseload for Extended CAPI is 17,991 in FY 2025-26.

AUTOMATION

The key automation projects appear to be funded at the levels needed to proceed as expected, with significant changes as noted below, based on the information currently available. Future budget updates will provide additional information as it becomes available.

Child Welfare Services – California Automated Response and Engagement System (CWS-CARES)

The May Revision reflects total funding of \$173.4 million (\$88 million General Fund) in FY

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2024-25 and \$256.5 million (\$130 million General Fund) in FY 2025-26. This is consistent with the May 2023 approval of the CARES budget by the Department of Finance. The CWS/CMS budget continues to include funding of \$1.5 million total funds (\$485,000 General Fund) per year for the removal of duplicate data in CWS/CMS, to prepare for conversion to CARES. Additional support for Tribal Engagement remains at \$100,000 (all General Fund) per year in FY 2024-25 and FY 2025-26.

Electronic Benefits Transfer (EBT) Theft and Security Improvements

The proposed budget increases current year total funding for EBT card technology improvements to \$60.7 million (\$19 million General Fund), reflecting a shift of funds from FY 2023-24 to the current year, with no change to the total cost. There is no funding in the budget year, reflecting CDSS' plan to complete the issuance of replacement EBT cards with Chip EMV/Tap Pay technologies this FY. This effort is expected to improve security and reduce benefit theft.

The Governor's proposal contains a decrease in funding for reimbursement of benefit theft in the current year, to \$71.8 million General Fund for cash theft, and total funds of \$38 million (\$15.2 million General Fund) for food theft due to lower than previously projected rates of theft. Funding in the budget year is considerably lower, in anticipation that the card security improvements will reduce theft, at \$8.8 million (all General Fund) for cash theft, and \$4 million (all General Fund) for food theft. The proposal also includes administrative funding for reimbursement of food benefit theft of \$11.4 million (\$7.3 million General Fund) in the current year, and \$1 million (all General Fund) in the budget year. CWDA will continue to engage with CDSS regarding the sufficiency of the administrative funding for theft reimbursement activities

CalSAWS

The Governor's proposal includes the anticipated funding to support the CalSAWS project in the current year, with a total of \$369.4 million (\$106 million General Fund), and a total of \$377 million (\$108 million General Fund) in the budget year. As is typically the case, some premise items will require further discussion with state partners and may require adjustments to the estimate amounts and/or timing, or modification of planned automation changes. CWDA will continue to work with the Administration and CalSAWS so that CalSAWS automation impacts, costs, timing, and the resultant impacts on county workload, are considered as various budget and policy changes are discussed with the Legislature.

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ADDITIONAL RESOURCES

A summary of the May Revision proposed 2025-26 budget can be found [here](#).

This budget update was created by CWDA Staff. Direct questions to the contact at right.

For more information, visit:
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CHIEF PROBATION OFFICERS

OF CALIFORNIA

To: All Chiefs

From: CPOC Legislative Team

Date: May 14, 2025

Subject: Governor Releases May Revision to the 2025-26 State Budget

Today, Governor Newsom released the May Revision to the proposed \$321 billion 2025-26 state budget. As a reminder, the proposed budget in January was projected to be balanced over two years with a modest surplus in FY 2025-26. The May Revision now estimates a shortfall of \$12 billion in 2025-26, with the Governor ascribing these impacts to federal tariffs and other expenditures and economic changes.

The May Revision proposes to address the \$12 billion deficit through the following:

- Reductions - \$5 billion
- Revenue/Borrowing - \$5.3 billion
- Fund Shifts - \$1.7 billion

Accounting for withdrawals, the Budget also reflects total reserve balances of approximately \$15.7 billion at the end of 2025-26. This consists of \$11.2 billion in the BSA and \$4.5 billion in the Special Fund for Economic Uncertainties.

The final budget is due to the Governor by June 15 and must be signed into law by July 1, 2025.

The full May Revision budget summary can be viewed at:

<https://ebudget.ca.gov/FullBudgetSummary.pdf>

Probation Priority Items That REMAIN UNCHANGED FROM THE JANUARY BUDGET

- **Juvenile Justice Realignment Block Grant** – The Budget Summary does not discuss changes to the January proposal to modify the Juvenile Justice Realignment Block Grant (JJRBG) formula methodology or overall funding level. Funding in the amount of \$208.8 million for 2025-26 is authorized under the original legislation and it should be expected that this amount will be adjusted commensurate with any anticipated growth in 2011 Public Safety Realignment and required minimum funding levels. The Legislature and Administration will continue negotiations on the methodology trailer bill language.
- **STC** – The May Revision maintains STC funding levels at \$20.9 million.
- **Mobile Probation** – The May Revision does not change the Administration's January proposal to extend the reversion date for \$12.8 million in Mobile Probation Service Center

grant funds, originally authorized in the 2022 Budget Act, to June 30, 2026 to allow grantees time to expend funds.

- **Retail Theft/Proposition 36** – The May Revision does not include funding for Proposition 36 Implementation.
- **Foster Care Funding** - The May Revision continues to fund foster care activities initiated through the Continuum of Care Reform and Resource Family Approval for probation departments. Funding continues to be allocated based on caseload. Based on caseload numbers probation projected funding for FY 2025-26 for CFTs is \$2.7 million and for Resource Family Approval is \$5.8 million. The May Revision also maintains child specific complex care funding for foster youth with acute needs at \$18.1 million in state general funds. The Department of Social Services continues to engage CPOC and CWDA to examine the distribution of complex care funding, assessing utilization by probation and child welfare departments, in order to maximize use of this program. Detailed information on all DSS child welfare programs can be found here: [2025 May Revision Local Estimates](#)

Probation Priority Items that Reflect May Revision Updates

- **Community Corrections Performance Incentive Grant (SB 678)** – After utilizing two additional quarters of 2024 calendar year data, the May Revision includes \$127.9 million General Fund for county probation departments under the Administration’s proposed SB 678 formula. As previously discussed, the May Revision reiterates the formula changes recognize the historic successes of California probation officers 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. You will find a county by county breakdown of the Governor’s May Revision proposal at the end of this memo; however, it is still subject to change based on budget negotiations between the Administration and Legislature.
- **Pretrial** – The May Revision proposes a reduction in 2025-26 and ongoing of \$20 million for the pretrial program with associated language that would allow the Judicial Council to reallocate a county’s unspent funding to other counties with demonstrated needs.
- **Proposition 47 Savings** – The May Revision includes an additional \$3.2 million General Fund in savings for Proposition 47, for a total General Fund savings of \$91.5 million in 2024-25 (allocated in 2025-26). This is up from the January estimate of \$88.3 million.
- **2011 Public Safety Realignment Revenues** – The May Revision updates revenue estimates for 2011 Public Safety Realignment. These estimates show base funding of \$1.965 billion and growth funding of \$26.1 million (down from \$79.8 million in January) in 2024-25 for the Community Corrections Subaccount. This creates a base of \$1.991 billion (down from \$2.044 billion in January) in 2025-26 and the Department of Finance estimates an additional \$84.5

million (up from \$76.3 million in January) in growth for 2025-26. Please see the updated estimates for each account, subaccount, and special account at the conclusion of this memo.

- **Rising Scholars** – The May Revision proposes to reduce funding for the Rising Scholars program from \$30 million to \$10 million ongoing.

Board of State and Community Corrections

- **Suitability of Facilities for the Confinement of Juveniles** – The May Revision proposes statutory changes to authorize the BSCC to bring a civil action when a juvenile detention facility is found by the BSCC to be unsuitable for the confinement of youth. According to the Administration, these changes will allow a superior court to order specified relief, including corrective action or injunctive relief, for a facility that the BSCC has found to have failed to meet the state's minimum standards for operating a juvenile detention facility. The TBL language can be found here: <https://trailerbill.dof.ca.gov/public/trailerBill/pdf/1232>
- **Cannabis Tax Fund** – The May Revision includes statutory changes authorizing BSCC to award grants to local governments that prohibit cannabis cultivation if they authorize retail cannabis sales and prioritizes grants for local illicit cannabis enforcement efforts. The summary notes these changes are intended to expand collaboration with local law enforcement and encourage retail participation to further stabilize the legal market and promote consumer safety.

California Department of Corrections

- **Prison Capacity and Closure** – The May Revision proposes to close one additional prison by October 2026 (facility unspecified). Upon full closure, the state will achieve an estimated savings of about \$150 million General Fund annually.

The May Revision maintains resources for San Quentin Rehabilitation Center's (SQRC's) new educational center, which is expected to complete construction in January 2026. The May Revision continues the commitment to begin operating this facility, consistent with the Governor's Budget proposal, to provide staffing, add and expand rehabilitative programs focused on behavior change, trauma-informed care, and dynamic security to help foster change in SQRC's correctional environment.

- **State Parole** – The May Revision updates the parolee average daily population which is projected to be 34,723 in 2024-25, declining slightly to 34,197 in 2025-26. Proposition 36 is projected to slightly increase the parole population, which is anticipated to remain relatively stable over the next few years, at 34,213 by June 30, 2029.

The May Revision does not note changes to the January proposal for reductions of \$1.2 million General Fund in 2024-25, and \$2.3 million in 2025-26 and ongoing, as part of the Division of Adult Parole Operations' redistricting plan, which the budget notes is intended to create efficiencies by aligning staffing with caseloads within geographic areas.

- **CalAIM Justice-Involved Initiative – Program Support**—The Budget includes \$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 CalAIM.
- **Community Correctional Reentry Centers** —*No changes proposed from January.* The previous 2022 Budget Act included resources to expand community correctional reentry centers located in Sacramento, San Bernardino, Ontario, and Fresno which will add a total of 439 additional Male Community Reentry Program beds. These new sites are projected to be activated in 2025-26.
- **Reentry** - *No changes proposed from January.* The Budget also notes programs such as Day Reporting Centers, Long-Term Offender Reentry Recovery Program, and Specialized Treatment for Optimized Programming and adds \$32 million General Fund, growing to \$42.9 million in 2029-30, for CDCR to increase contract rates and provide annual adjustments for 14 parole reentry contracts.
- **Returning Home Well** - *No changes proposed from January.* The Budget proposes \$12.9 million one-time General Fund in 2025-26 and 2026-27 to continue the Returning Home Well (RHW) Program for an additional two years. This program provides transitional housing to individuals and CDCR will provide a report, by March 2026, on the outcomes of individuals who participate in the RHW Program, including their housing status after completing the program.
- **CDCR Reductions/Efficiencies** – *No changes proposed from January.* The May Revision continues the elimination of the Council on Criminal Justice and Behavioral Health (CCJBH) at the end of 2024-25.

Health and Human Services

- **Foster Care Tiered Rate Structure Implementation**—The May Revision includes statutory language that would make the implementation of the Tiered Rate Structure subject to a trigger-on, based on the availability of General Fund in spring 2027. This would delay the current implementation date of July 1, 2027 to a future year and allow the state to realize savings of \$338.9 million in FY 27/28 and \$552.1 million in FY 28/29. It is important to note that the CANS requirement, a precursor to the rate reform, is still going into effect as of July 1, 2025 which requires all foster youth to receive a CANS assessment. More information on CANS implementation is forthcoming in an ACL.
- **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 program.
- **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.

- **Enrollment Freeze for Full-Scope Medi-Cal Expansion, Adults 19 and Older**—The May Revision proposes a 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. Estimated General Fund savings are \$86.5 million in 2025-26, increasing to \$3.3 billion by 2028-29.
- **Department of State Hospital Programs**—The Budget 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**—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.

Judiciary

- **Trial Court Trust Fund Unrestricted Fund Balance**—The May Revision proposes a reduction of \$38 million in 2025-26 of the unrestricted fund balance in the Trial Court Trust Fund to the General Fund. This unrestricted fund balance exists primarily from cost savings from previous allocations to the Judicial Branch where no mechanism exists to return the funds to the General Fund.
- **Incompetent to Stand Trial Evaluations**—The May Revision proposes a reversion of \$9.1 million General Fund in 2023-24 and 2024-25 associated with unspent funds provided to the Judicial Branch for improvements to Incompetent to Stand Trial evaluations.

Department of Justice

- **California Law Enforcement Telecommunications System (CLETS) – DMV**—The May Revision includes \$3.2 million General Fund in 2025-26 and \$1.6 million in 2026-27 for information technology enhancements at DOJ to establish a new connection between CLETS and the Department of Motor Vehicles.
- **Juveniles: Sealing Records (AB 1877)**—The May Revision includes \$2.4 million General Fund and four positions in 2025-26 and \$812,000 in 2026-27 and ongoing to implement the provisions of Chapter 811, Statutes of 2024 (AB 1877).

CalOES

- **Flexible Cash Assistance for Survivors of Crime**—The May Revision proposes a reversion of \$49.7 million one-time General Fund appropriated in the 2022 Budget Act to establish a financial assistance program for survivors of crime.

California Highway Patrol

- **Highway Violence Task Force**— The May Revision includes one-time resources totaling \$4.9 million Motor Vehicle Account in 2025-26 for an additional year of funding for the CHP's Highway Violence Task Force to address violent crimes occurring on state highways.

Housing and Homelessness

- **New California Housing and Homelessness Agency (CHHA)** – The January Budget proposed to establish a new CA Housing and Homelessness Agency. The May Revision includes \$4.2 million (\$4 million General Fund) in 2025-26, \$6.4 million (\$6.2 million General Fund) in 2026-27, and \$6.2 million (\$6.1 million General Fund) in 2027-28 and ongoing to support the reorganization of the Business, Consumer Services, and Housing Agency, which includes resources for CHHA and the creation of the Housing Development and Finance Committee (HDFC) in addition to the Business and Consumer Services Agency.
- **Proposition 35 Flexible Housing Subsidy Pools**—The May Revision reflects \$200 million 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.

Community Corrections Performance Incentive Grant
2025-26 May Revision

County	2024 Adm. to Prison Rate	Component 1	Component 2			Component 3	Grand Total
		Total Component 1	2024 Avoided to Prison	Per Capita Savings	Total Component 2	\$200,000 Minimum	
California	2.97%	\$ 103,668,010	1,330	\$ 96,710,285	\$ 24,177,571	\$ 102,504	\$ 127,948,085
Alameda	1.31%	\$ 2,330,216	14	\$ 1,018,003	\$ 254,501	\$ -	\$ 2,584,717
Alpine	0.00%	\$ 168,800	0	\$ -	\$ -	\$ 31,200	\$ 200,000
Amador	1.92%	\$ 197,308	10	\$ 727,145	\$ 181,786	\$ -	\$ 379,094
Butte	9.15%	\$ 351,445	3	\$ 218,144	\$ 54,536	\$ -	\$ 405,981
Calaveras	8.53%	\$ 432,151	0	\$ -	\$ -	\$ -	\$ 432,151
Colusa	7.35%	\$ 225,980	1	\$ 72,715	\$ 18,179	\$ -	\$ 244,159
Contra Costa	0.54%	\$ 5,606,841	10	\$ 727,145	\$ 181,786	\$ -	\$ 5,788,627
Del Norte	10.68%	\$ 168,800	0	\$ -	\$ -	\$ 31,200	\$ 200,000
El Dorado	3.74%	\$ 294,130	2	\$ 145,429	\$ 36,357	\$ -	\$ 330,487
Fresno	6.03%	\$ 2,664,300	28	\$ 2,036,006	\$ 509,002	\$ -	\$ 3,173,302
Glenn	4.61%	\$ 188,356	0	\$ -	\$ -	\$ 11,644	\$ 200,000
Humboldt	4.65%	\$ 890,805	7	\$ 509,002	\$ 127,250	\$ -	\$ 1,018,055
Imperial	3.54%	\$ 171,540	0	\$ -	\$ -	\$ 28,460	\$ 200,000
Inyo	4.93%	\$ 187,451	5	\$ 363,573	\$ 90,893	\$ -	\$ 278,344
Kern	3.99%	\$ 1,282,194	87	\$ 6,326,162	\$ 1,581,540	\$ -	\$ 2,863,734
Kings	4.98%	\$ 933,353	0	\$ -	\$ -	\$ -	\$ 933,353
Lake	6.61%	\$ 392,522	4	\$ 290,858	\$ 72,715	\$ -	\$ 465,237
Lassen	7.14%	\$ 213,563	6	\$ 436,287	\$ 109,072	\$ -	\$ 322,635
Los Angeles	1.31%	\$ 31,577,019	358	\$ 26,031,791	\$ 6,507,948	\$ -	\$ 38,084,967
Madera	0.29%	\$ 1,044,486	17	\$ 1,236,147	\$ 309,037	\$ -	\$ 1,353,523
Marin	1.60%	\$ 833,952	2	\$ 145,429	\$ 36,357	\$ -	\$ 870,309
Mariposa	0.00%	\$ 168,800	3	\$ 218,144	\$ 54,536	\$ -	\$ 223,336
Mendocino	4.86%	\$ 500,078	21	\$ 1,527,005	\$ 381,751	\$ -	\$ 881,829
Merced	2.38%	\$ 871,819	29	\$ 2,108,721	\$ 527,180	\$ -	\$ 1,398,999
Modoc	20.99%	\$ 171,311	2	\$ 145,429	\$ 36,357	\$ -	\$ 207,668
Mono	2.53%	\$ 217,301	0	\$ -	\$ -	\$ -	\$ 217,301
Monterey	2.93%	\$ 253,591	54	\$ 3,926,583	\$ 981,646	\$ -	\$ 1,235,237
Napa	3.60%	\$ 278,323	2	\$ 145,429	\$ 36,357	\$ -	\$ 314,680
Nevada	1.56%	\$ 564,871	7	\$ 509,002	\$ 127,250	\$ -	\$ 692,121
Orange	3.14%	\$ 4,197,668	25	\$ 1,817,863	\$ 454,466	\$ -	\$ 4,652,134
Placer	3.81%	\$ 460,696	3	\$ 218,144	\$ 54,536	\$ -	\$ 515,232
Plumas	2.50%	\$ 373,623	1	\$ 72,715	\$ 18,179	\$ -	\$ 391,802
Riverside	3.73%	\$ 5,869,455	71	\$ 5,162,730	\$ 1,290,682	\$ -	\$ 7,160,137
Sacramento	2.29%	\$ 10,405,873	162	\$ 11,779,749	\$ 2,944,937	\$ -	\$ 13,350,810
San Benito	1.80%	\$ 238,189	2	\$ 145,429	\$ 36,357	\$ -	\$ 274,546
San Bernardino	4.13%	\$ 7,053,381	197	\$ 14,324,757	\$ 3,581,189	\$ -	\$ 10,634,570
San Diego	7.09%	\$ 2,473,762	8	\$ 581,716	\$ 145,429	\$ -	\$ 2,619,191
San Francisco	0.47%	\$ 2,583,106	0	\$ -	\$ -	\$ -	\$ 2,583,106
San Joaquin	2.77%	\$ 1,879,816	10	\$ 727,145	\$ 181,786	\$ -	\$ 2,061,602
San Luis Obispo	5.11%	\$ 1,116,156	1	\$ 72,715	\$ 18,179	\$ -	\$ 1,134,335
San Mateo	4.65%	\$ 992,398	0	\$ -	\$ -	\$ -	\$ 992,398
Santa Barbara	3.87%	\$ 1,195,901	27	\$ 1,963,292	\$ 490,823	\$ -	\$ 1,686,724
Santa Clara	2.76%	\$ 1,475,130	1	\$ 72,715	\$ 18,179	\$ -	\$ 1,493,309
Santa Cruz	0.98%	\$ 1,474,167	10	\$ 727,145	\$ 181,786	\$ -	\$ 1,655,953
Shasta	9.85%	\$ 432,159	4	\$ 290,858	\$ 72,715	\$ -	\$ 504,874
Sierra	0.00%	\$ 181,873	2	\$ 145,429	\$ 36,357	\$ -	\$ 218,230
Siskiyou	4.32%	\$ 239,996	0	\$ -	\$ -	\$ -	\$ 239,996
Solano	1.83%	\$ 681,311	13	\$ 945,289	\$ 236,322	\$ -	\$ 917,633
Sonoma	4.73%	\$ 901,241	1	\$ 72,715	\$ 18,179	\$ -	\$ 919,420
Stanislaus	5.97%	\$ 1,086,126	3	\$ 218,144	\$ 54,536	\$ -	\$ 1,140,662
Sutter	4.57%	\$ 622,956	24	\$ 1,745,148	\$ 436,287	\$ -	\$ 1,059,243
Tehama	2.93%	\$ 386,626	0	\$ -	\$ -	\$ -	\$ 386,626
Trinity	1.25%	\$ 168,800	4	\$ 290,858	\$ 72,715	\$ -	\$ 241,515
Tulare	3.31%	\$ 1,573,585	8	\$ 581,716	\$ 145,429	\$ -	\$ 1,719,014
Tuolumne	6.35%	\$ 322,723	0	\$ -	\$ -	\$ -	\$ 322,723
Ventura	5.86%	\$ 661,077	50	\$ 3,635,725	\$ 908,931	\$ -	\$ 1,570,008
Yolo	2.77%	\$ 1,270,110	3	\$ 218,144	\$ 54,536	\$ -	\$ 1,324,646
Yuba	10.05%	\$ 168,800	28	\$ 2,036,006	\$ 509,002	\$ -	\$ 677,802

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 (§8 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.



2025–26 Governor's May Revise: County Impacts and Outlook

Presentation by:

Nicole Coburn, Assistant County Executive Officer

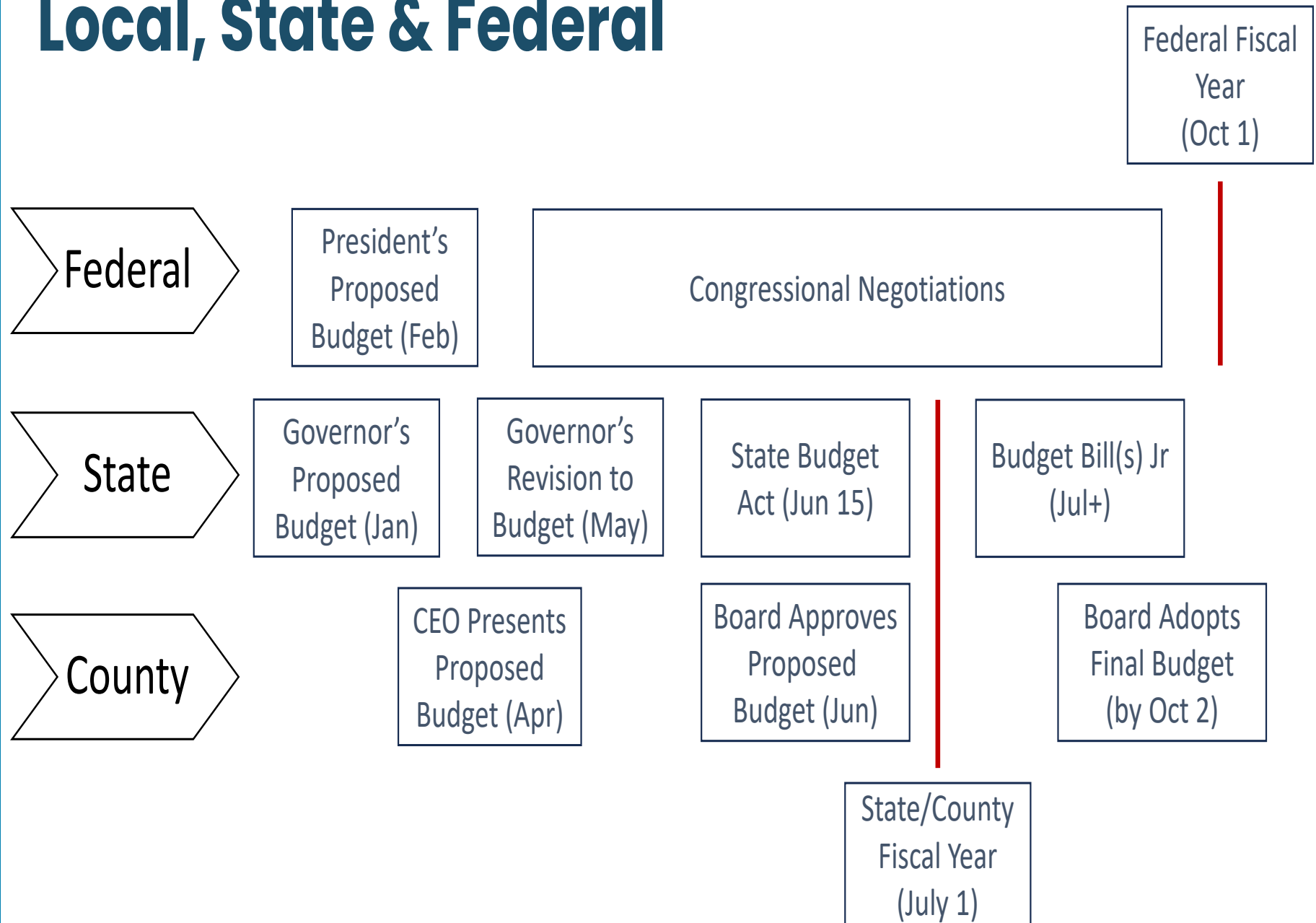
Marcus Pimentel, County Budget Manager

Mónica Morales, Health Services Agency Director

Randy Morris, Human Services Department Director

May 20, 2025

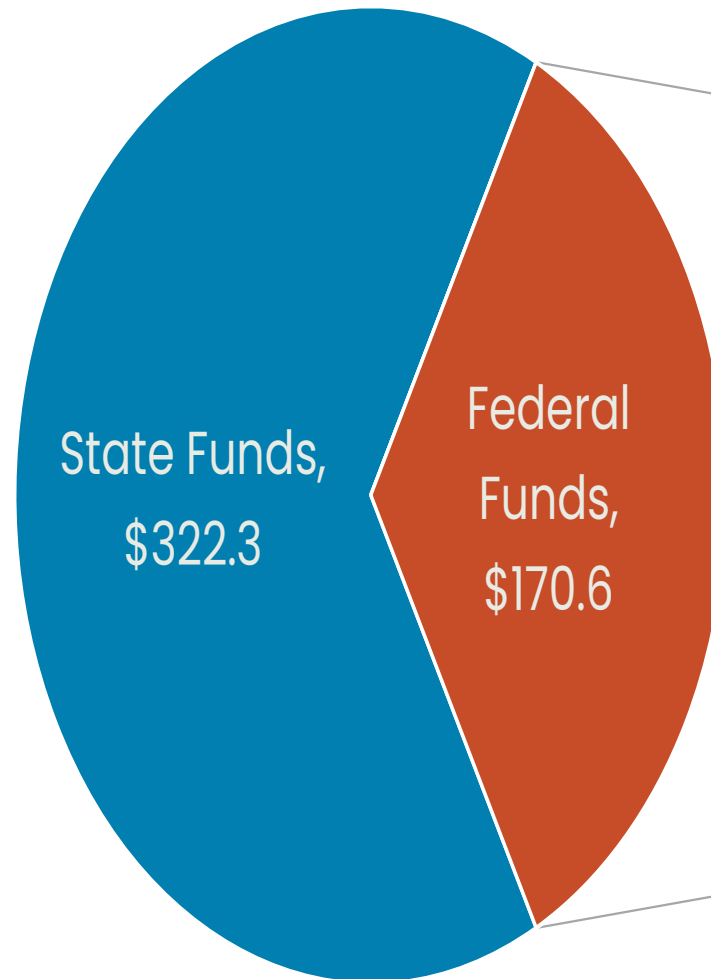
Budget Timelines: Local, State & Federal



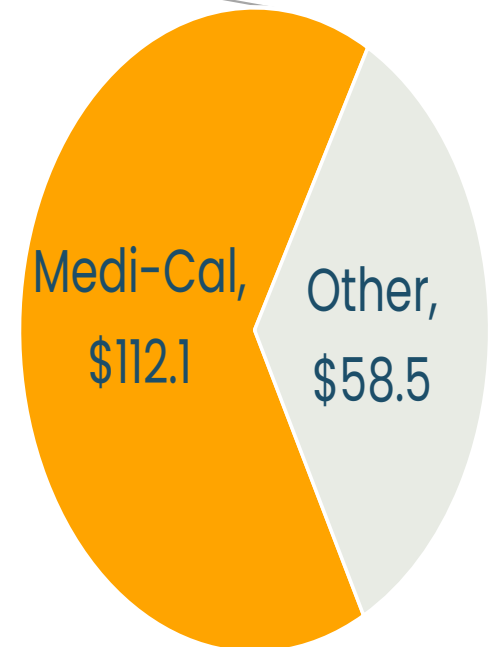
Federal & State Funding Risks

- Federal funds make up over one-third of the State Budget
- 112.1 Billion in Medi-Cal is from Federal Sources

State Budget

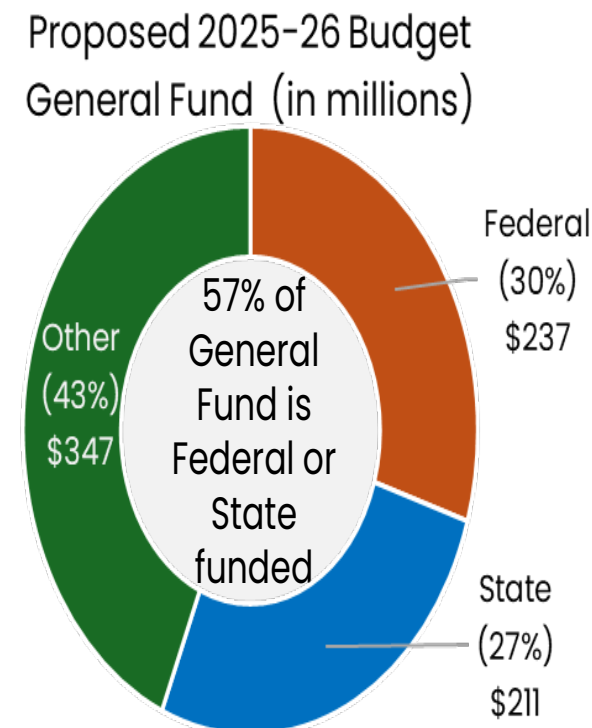
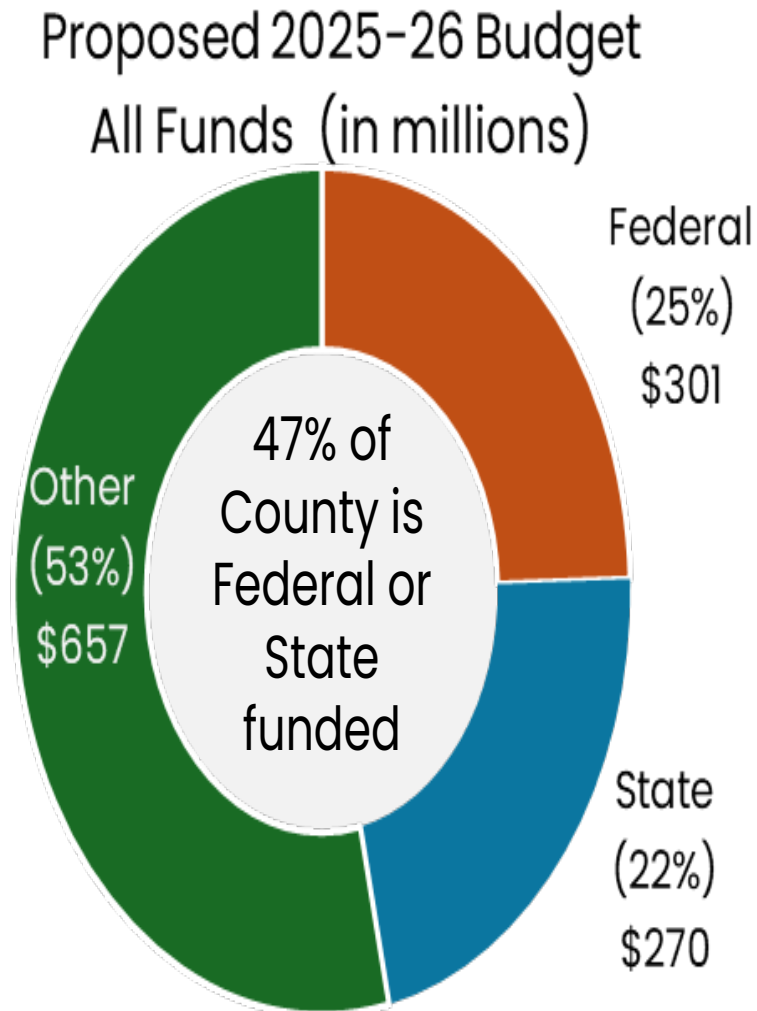


State Use of Federal Funds



County Reliance on State & Federal Funding

- The County's exposure to federal funding and policy risk is significant
- Federal funds make up nearly a quarter of the county wide budget and 30% of the General Fund



Included in Federal are budgets for State Medi-Cal & Disaster pass throughs

Federal Policy REAL Impacts

- Passport Identification Restrictions

- Destroy passport application forms that utilize a gender “X” marker
- Replace them with a new form that does not have an option outside of a gender binary

- Voter Eligibility and Elections Administration

- Require proof of citizenship to register to vote in federal races
- Mandate all mail-in ballots must be received by Election Day

- Building Resilient Infrastructure and Community Grant

- Phase 2 would have provided \$20 million for wildfire risk reduction and \$420,000 to improve Pajaro River levee at the wastewater treatment plant

- Health Services Grants Eliminated

- Access to health (\$78k lost)
- Microenterprise Home Kitchen Operation pilot project (\$26k lost)
- Access to immunizations for COVID-19, flu and other vaccine-preventable diseases (\$330k lost)
- Detection and prevention of emerging infectious diseases (fully expended)
- 5.7 FTEs saved with other funding sources

Federal Budget Proposals

• 2025 Budget

- Medicaid (MediCal) changes:
 - More frequent eligibility determinations
 - Work requirements
 - Budget neutral demonstration waivers
 - Limit retroactive coverage to one month before application date
 - Freeze provider tax rates

• 2026 Budget

- 22% funding cut to education, health, housing and labor programs
- >40% funding cut to U.S. Department of Housing and Urban Development
- Program eliminations:
 - Head Start
 - Low Income Home Energy Assistance Program
 - Community Development Block Grant
 - Preschool Development Block Grant
 - Teen pregnancy prevention

Federal Budget Potential Local Impacts

- Reduced eligibility for public assistance within Medi-Cal, CalFresh and CalWORKS
- At risk funding for housing voucher and like funding that supports 4,000 people
- Reductions within FEMA for individual and agency disaster support

Community Impact*:

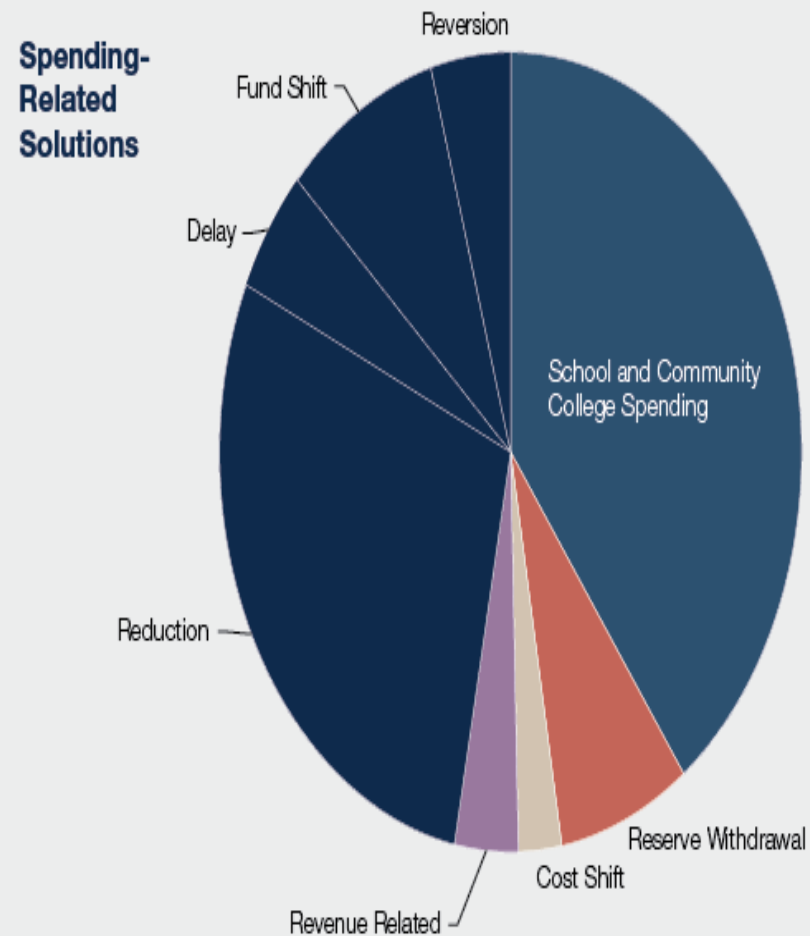
- 30,000 (1 in 3) county Medi-Cal enrollees at risk
- Current recipients:
 - 86,541 in Medi-Cal
 - 43,488 in CalFresh food assistance
 - 4,336 in CalWORKS cash aid

State Fiscal Outlook

- 321.9B total Budget,
\$226.4B General Fund
 - \$12B deficit addressed through spending cuts, loans, and fund shifts
 - Prioritizes long-term savings with cuts to ongoing programs

Figure 1

How the May Revision Addresses the Deficit



State Budget Potential Local Impacts

- Proposed Reductions:
 - Freeze on Medi-Cal Expansion for undocumented adults
 - Cuts to long-term care, IHSS travel/overtime, and dental for adults 19+
 - Reduces clinical/behavioral health and childcare investments
- No Funding for Proposition 36 Implementation



QUESTIONS?

THANK YOU

