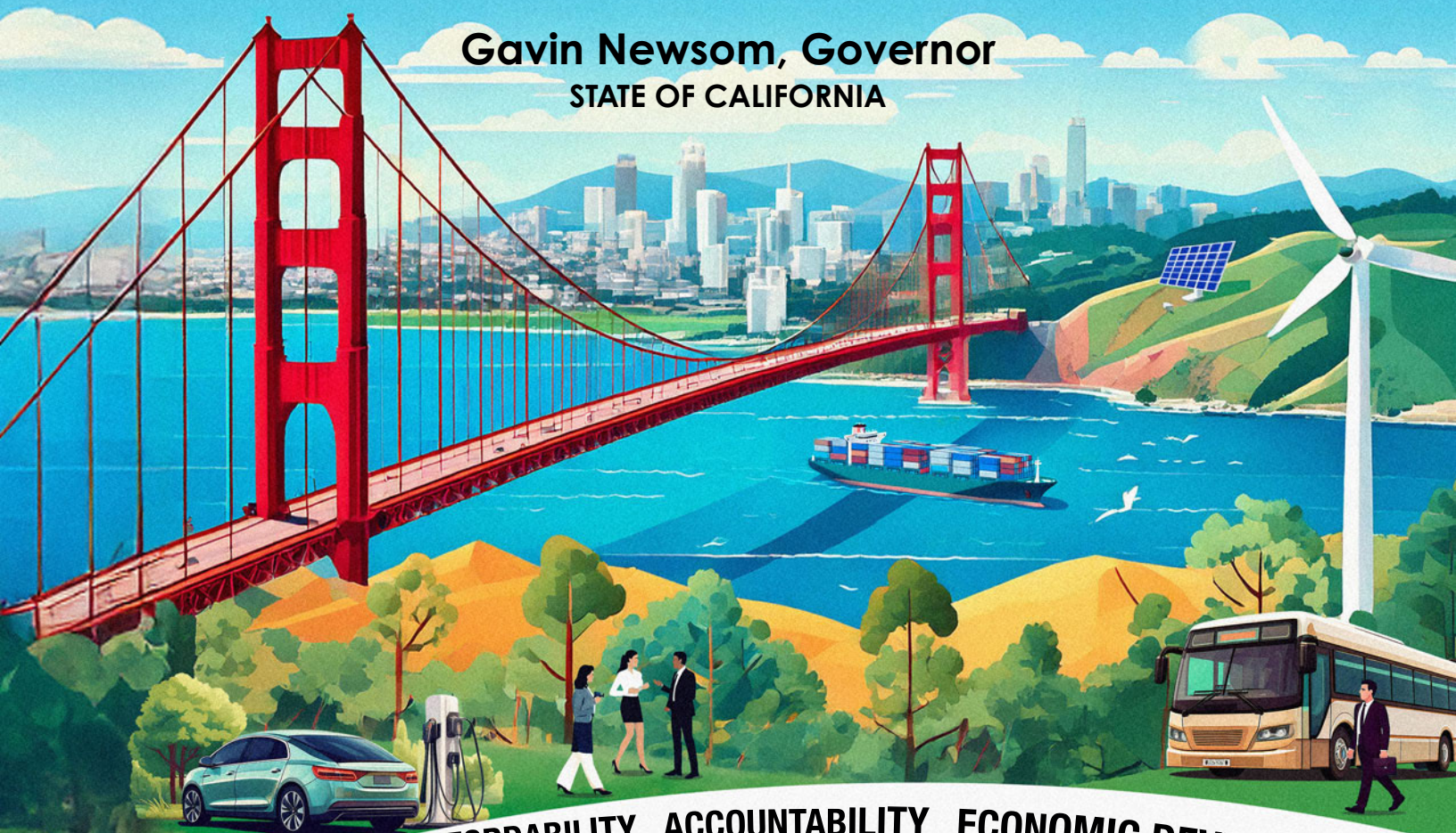


MAY REVISION

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.

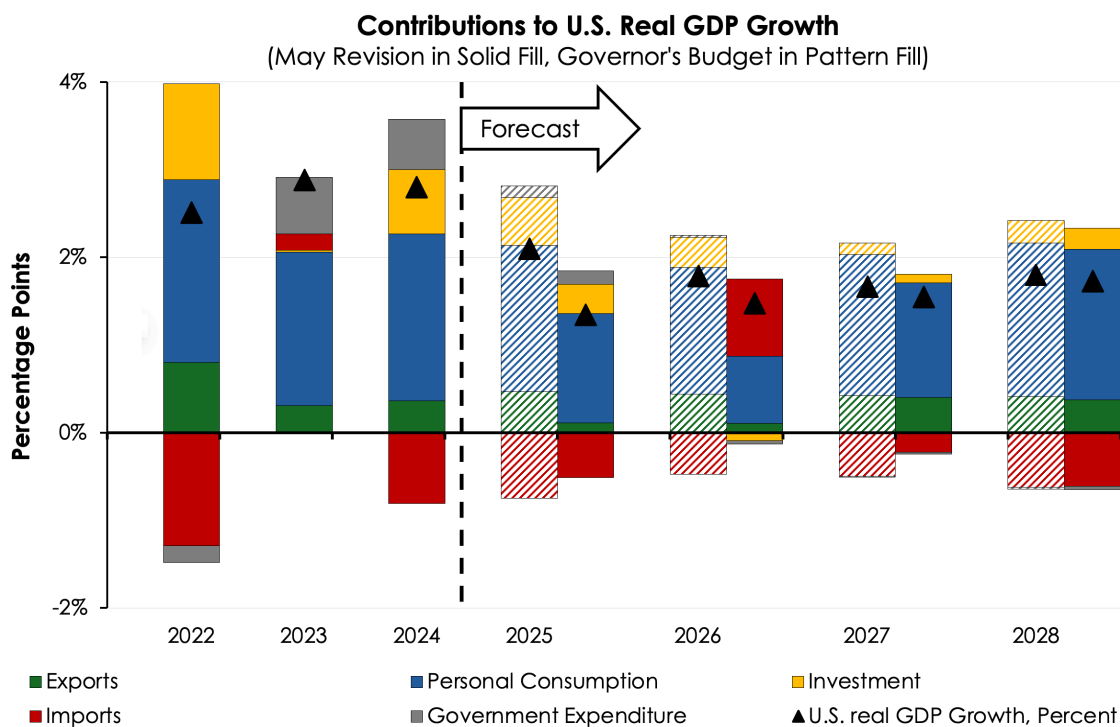
2025-26 May Revision Forecast based on data available as of April 2025. Figures in italics indicate forecasts.

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"

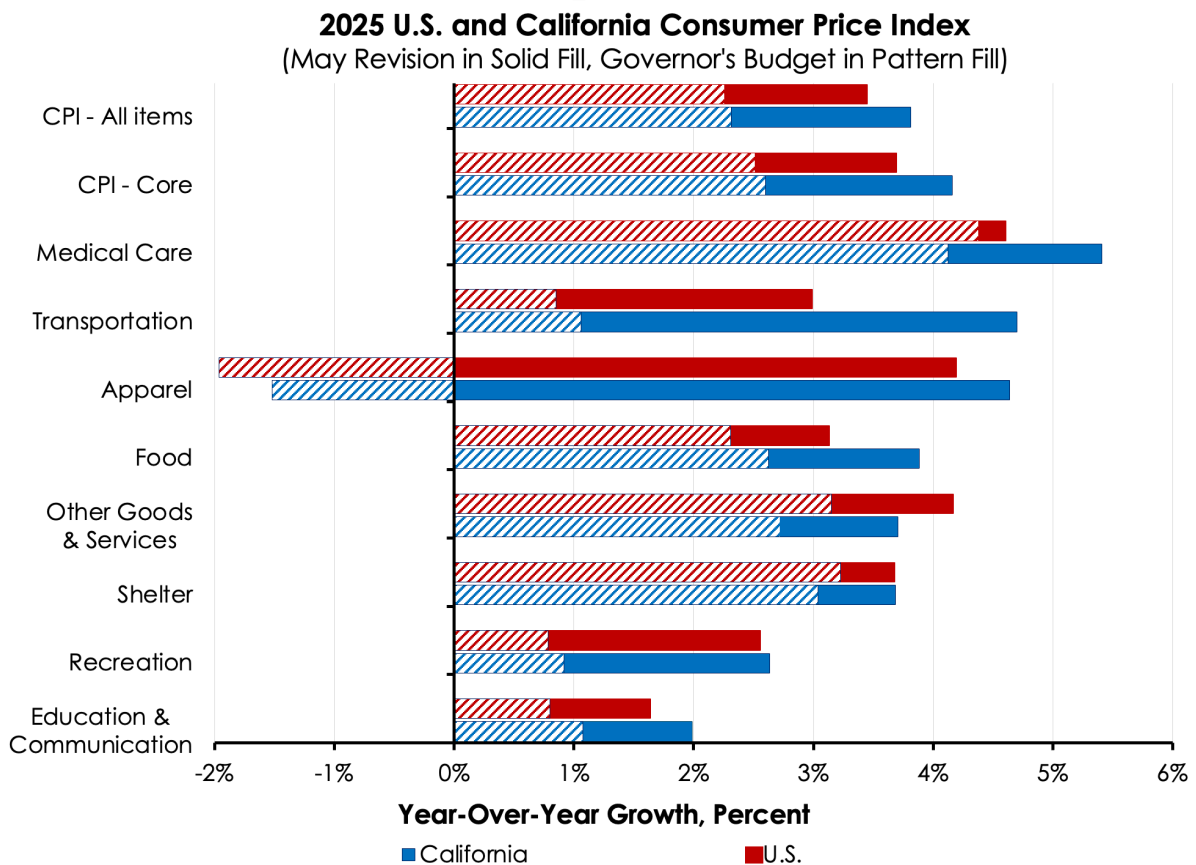
The U.S. is projected to be in a "growth recession", a period of below-trend growth and rising unemployment during the first three quarters of 2025. U.S. real GDP contracted by 0.3 percent in the first quarter of 2025 driven by a surge in imports as domestic producers and consumers stockpiled foreign 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.

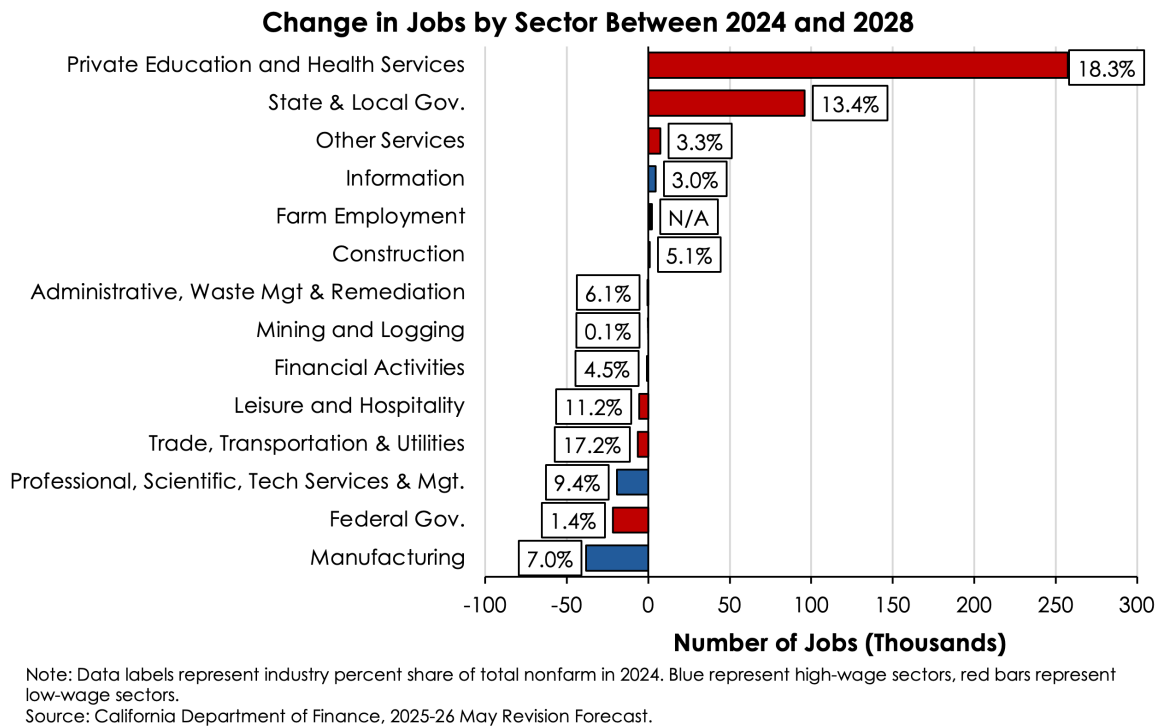
CALIFORNIA JOB GROWTH TO SLOW AND REMAIN SUBDUED

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.

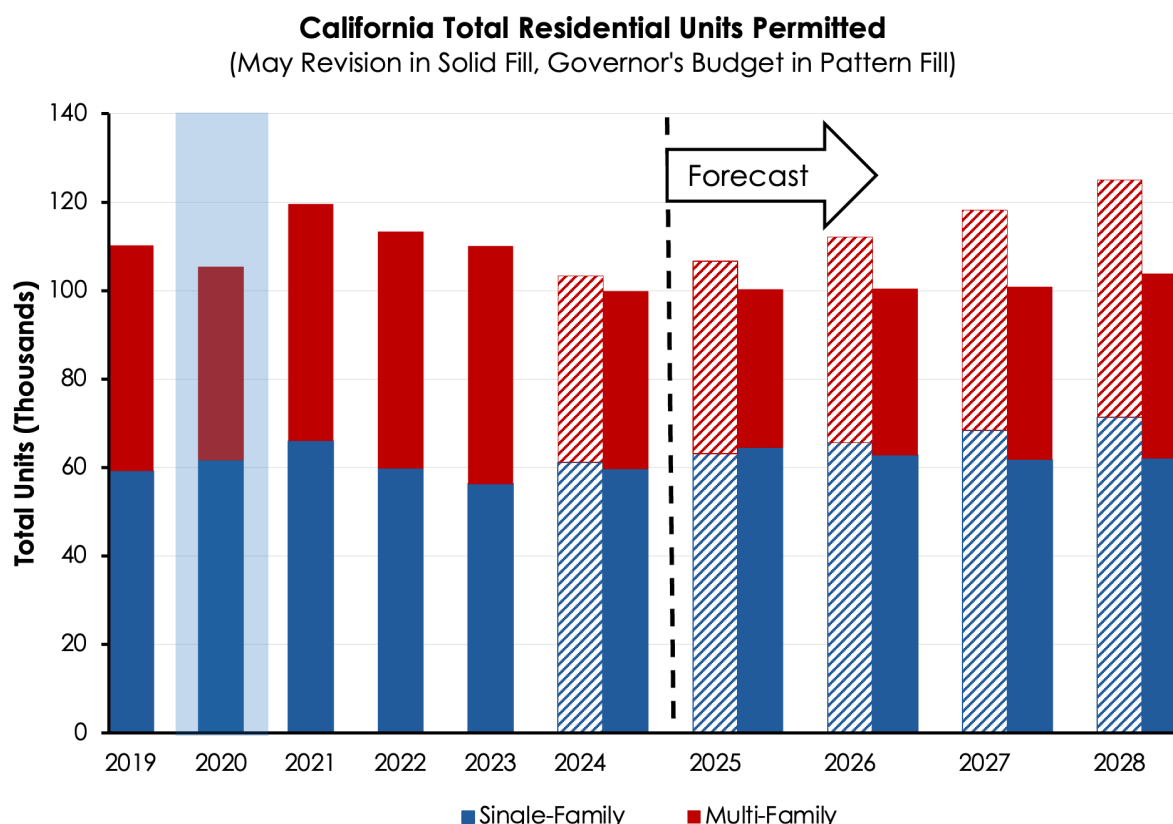
CALIFORNIA HOUSING PERMITS SIGNIFICANTLY DOWNGRADED

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

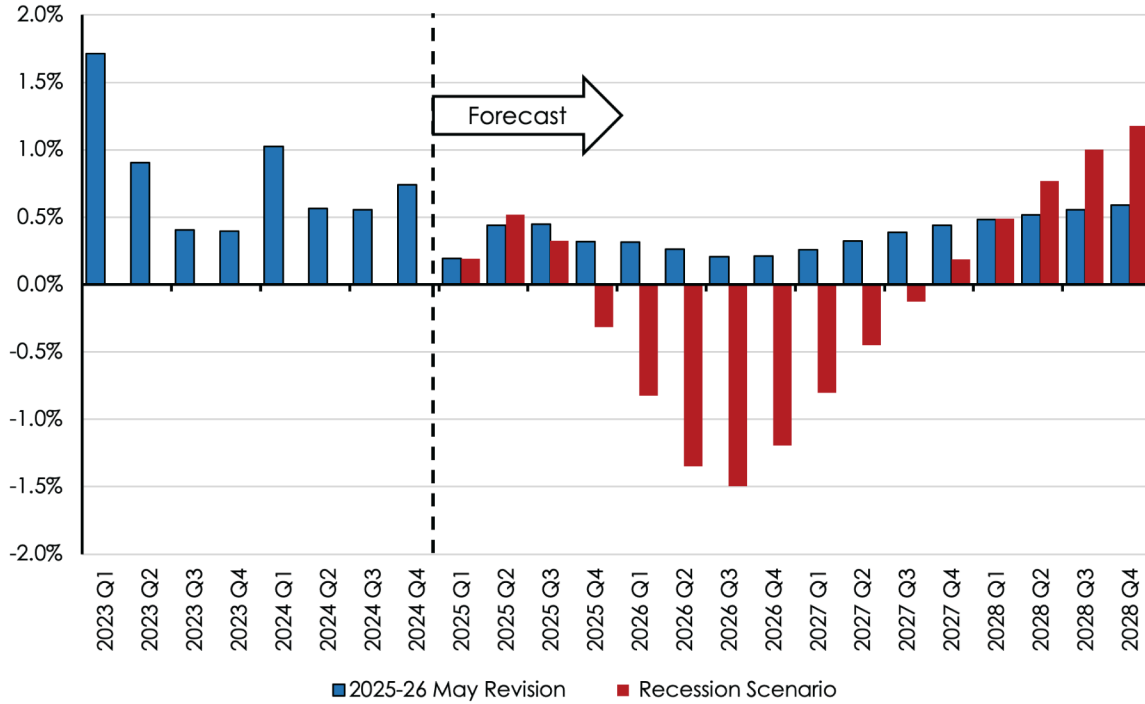
While there is more information on federal policy at the May Revision than at the Governor's Budget, risks and uncertainty remain elevated due to the fast-moving and changing landscape of federal policies. The federal administration has been inconsistent in its approach to tariffs, with actual and proposed 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.

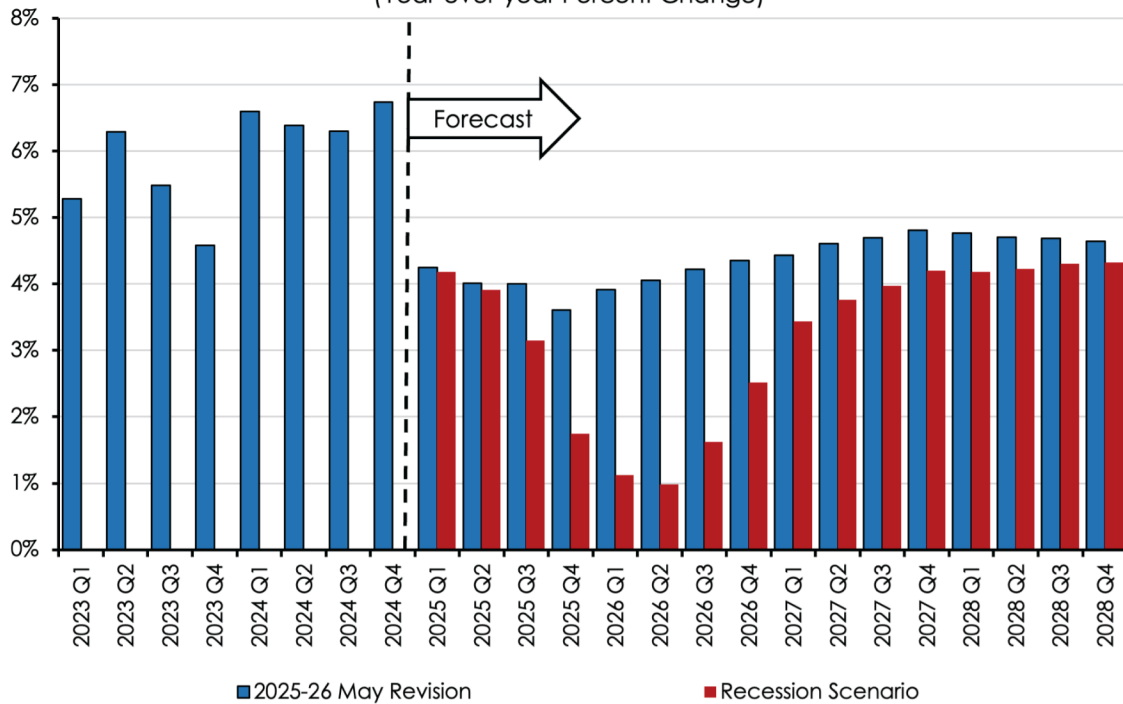
A mild recession along the lines described above driven by more stringent federal policies would result in a contraction in economic growth and payroll employment while leading to higher unemployment relative to the baseline forecast for the May Revision. The Department of Finance has modeled a mild 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

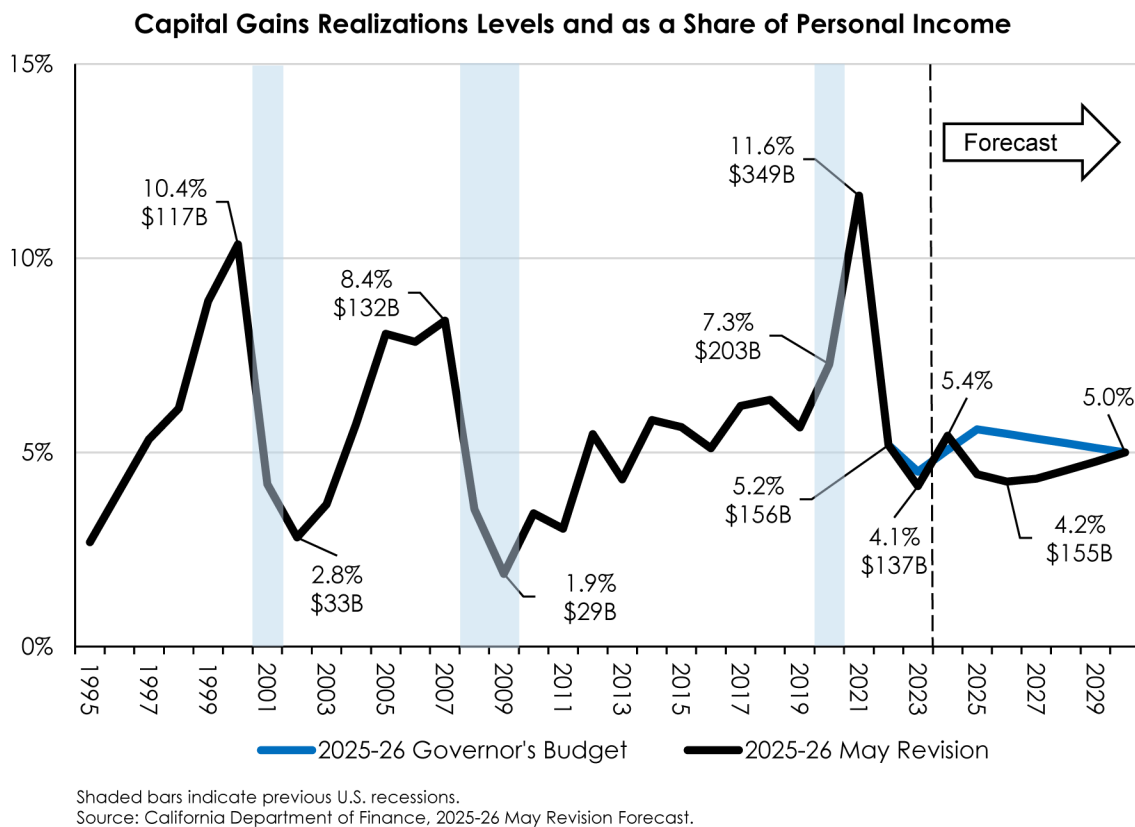
The personal income tax forecast is higher by \$1.8 billion in 2023-24 and \$4.6 billion in 2024-25, reflecting solid economic growth and gains in equity markets in 2024 as reflected in strong cash results through April 2025. However, due to downgrades to the economic forecast and to projected stock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

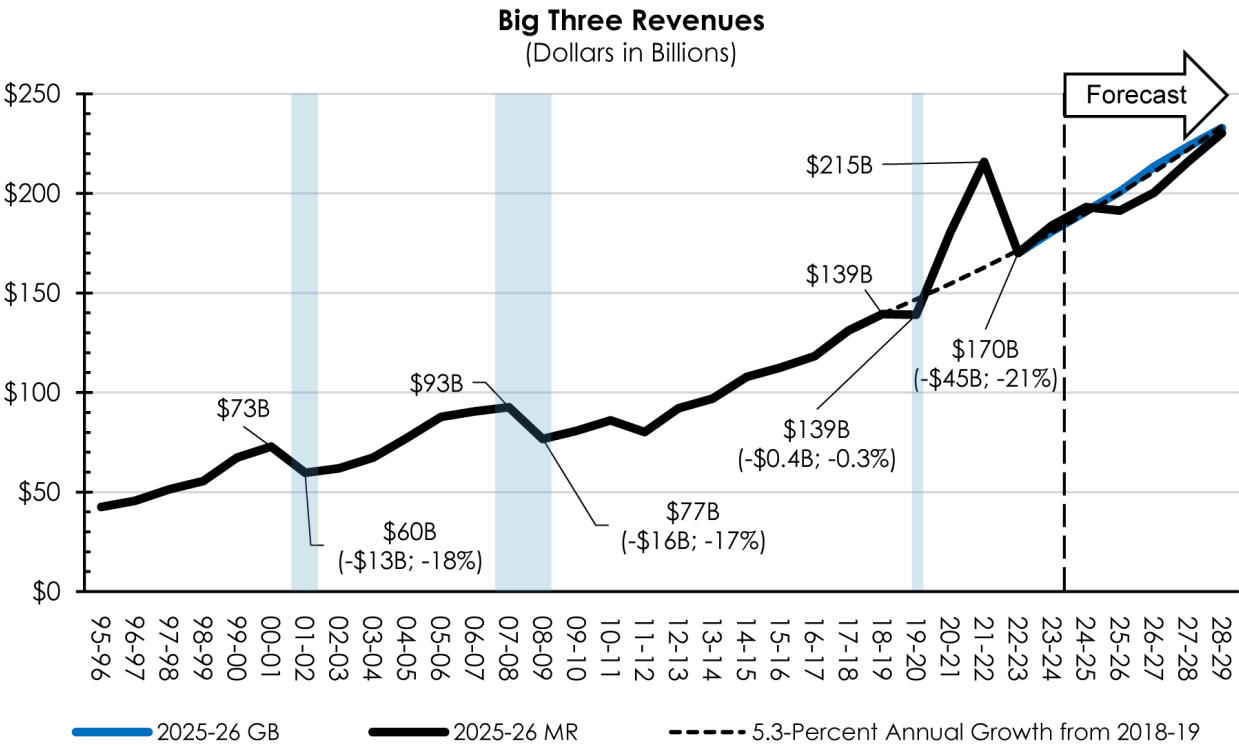
The sales tax forecast is \$2 million lower in 2023-24, \$405 million lower in 2024-25, and \$259 million lower in 2025-26.

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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STAFF ASSIGNMENTS

EXECUTIVE OFFICE

Joe Stephenshaw
Director of Finance
(916) 445-4141

Erika Li
Chief Deputy Director, Budget
(916) 445-9862

Jennifer Whitaker
Chief Operating Officer
(916) 445-4923

H.D. Palmer
Deputy Director, External Affairs
(916) 323-0648

Michele Perrault
Chief Deputy Director, Policy
(916) 445-8582

Kenny Louie
Chief Counsel
(916) 322-0971

Christian Beltran
Deputy Director, Legislation
(916) 445-8610

BUDGET PROGRAM AREAS

Budget Planning and Preparation, Cash Management, FISCAL Project Support, Statewide Budget Issues, and Statewide Accounting Policies and Training

Corrections and Rehabilitation, Justice, and General Government

Education

Employee Compensation and State Pensions, State Central Services Departments, and Information Technology and Consulting

Energy, Housing and Homelessness, Labor, Local Government, Tax Agencies, and Transportation

Health

Human Services

Natural Resources, Environment, and Capital Outlay

Revenues, Economy, and Demographics

Audits and Evaluations, Federal Funding Accountability and Cost Tracking, and Research and Analysis

PROGRAM BUDGET MANAGERS

Thomas Todd..... (916) 445-5332

Amy Jarvis..... (916) 445-8913

Jessica Holmes..... (916) 445-0328

Rosanna Nguyen..... (916) 445-3274

Teresa Calvert..... (916) 322-2263

Guadalupe Manriquez (916) 445-6423

Kris Cook (916) 445-6423

Matt Almy (916) 324-0043

Danamona Andrianarimanana..... (916) 322-2263

Frances Parmelee (916) 322-2985

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