

RCRC
*THE RURAL
RUNDOWN*
May 10, 2024

**GOVERNOR'S 2024-25
MAY REVISE**

RURAL COUNTY REPRESENTATIVES OF CALIFORNIA
1215 K STREET, SUITE 1650
SACRAMENTO, CA 95814
RCRCNET.ORG

RCRC'S SUMMARY OF GOVERNOR NEWSOM'S 2024-25 REVISED BUDGET

Earlier today, Governor Newsom released his Administration's 2024-25 [May Revision](#).

The Governor's 2024-25 May Revision proposes approximately \$288 in spending (\$201 billion General Fund) and reflects a \$27.6 billion budget shortfall. The Governor projected a \$37.9 billion budget shortfall in January, which was reduced by \$17.3 billion in budget adjustments adopted in April; however, revenues have fallen short of January projections by an additional \$7 billion, thereby leaving a \$27.6 billion remaining budget gap.

The May Revision would eliminate \$300M (\$200M earmarked for counties) in ongoing Future of Public Health funding for our state and local public health infrastructure, \$75.6M in one-time Public Health Equity and Readiness Opportunity (PublicHERO) workforce development and training funding, and proposes zero funding for CalCONNECT contact tracing and disease investigation infrastructure. The budget would turn back the clock on public health readiness and infrastructure that RCRC along with our county partners strongly advocated for in 2022.

The 2024-25 May Revision and projected budget incorporates roughly \$17.3 billion in early budget reductions included in [AB 106 \(Gabriel\)](#), which was signed into law in mid-April. That measure included \$3.6 billion in one-time funding reductions, \$5.2 billion in revenue and borrowing, \$5.2 billion from delayed expenditures, and reprograms \$3.4 billion in expenditures from the General Fund to various special funds. On April 30, the Department of Finance issued a [budget letter](#) suspending one-time spending authorized in the 2021, 2022, and 2023 Budget Acts. That Budget Letter impacts General Fund appropriations with an unallocated or encumbered balance of greater than \$1 million, that are not part of the Proposition 98 Guarantee, and are not for a state capital outlay project or emergency-related expenditure.

The Governor's 2024-25 May Revision proposes:

- Spreading out the use of \$12.2 billion in Budget Stabilization Act revenues over two fiscal years.
- Withdrawing \$8.4 billion from the Public School System Stabilization Account.
- \$10.7 billion in reductions.
- \$2 billion in revenues and borrowing.
- \$520 million in delays.
- \$3.9 billion in fund shifts

Additional May Revision 2024-25 Solutions and Adjustments

Category	Amount
Reserves*	- \$8.9 billion
Reductions	\$10.7 billion
Revenue/Borrowing	\$2.0 billion
Delays	\$520 million
Fund Shifts	\$3.9 billion
Total	\$8.2 billion

*Reflects the spreading of the proposed BSA withdrawal in the Governor's Budget of \$12.2 billion over two fiscal years: \$3.3 billion in 2024-25 and \$8.9 billion in 2025-26.

2024-25 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$7,582	\$5,168	\$262	\$13,012
Business, Consumer Services & Housing	631	1,341	538	2,510
Transportation	554	16,665	86	17,305
Natural Resources	5,410	3,040	516	8,967
Environmental Protection	624	4,723	11	5,358
Health and Human Services	70,194	40,452	10	110,657
Corrections and Rehabilitation	14,174	4,001	-	18,175
K-12 Education	76,323	123	16	76,462
Higher Education	21,830	109	599	22,538
Labor and Workforce Development	844	1,163	-	2,007
Government Operations	2,540	406	-	2,946
General Government:				
Non-Agency Departments	1,355	1,989	2	3,346
Tax Relief/Local Government	579	3,626	-	4,205
Statewide Expenditures	-1,666	2,333	3	670
Total	\$200,974	\$85,140	\$2,043	\$288,157

Note: Numbers may not add due to rounding.

The Governor's 2024-25 May Revision projects a \$3.5 billion budget surplus in Fiscal Year 2024-25 and a \$650 million surplus in Fiscal Year 2025-26 as a result of significant spending reductions in those years. The May Revision makes significant spending reductions in those years and spreads the use of Budget Stabilization Account funds over two budget years, rather than using the entire \$12.2 billion in a single year as proposed in the January Proposed Budget. To address the projected Fiscal Year 2025-26 budget deficit, the Governor's 2024-25 May Revision suggests using \$8.9 billion in reserves, \$14.6 billion in reductions, \$7.4 billion in revenue and borrowing, and \$743 million in fund shifts.

Sales and Use Tax Forecast. The Governor's 2024-25 May Revision includes the following observations pertaining to the anticipated revenues from sales and use tax:

- The three largest sources of revenue—personal income tax, corporation tax, and sales tax—are projected to be lower by \$10.5 billion, due largely to weak cash results since the Governor's Budget. The forecast for personal income tax is revised down by \$2.4 billion, corporation tax revenues are lower by \$5.8 billion, and the sales tax forecast is reduced by \$2.3 billion.
- General Fund revenue is projected to be approximately \$11.6 billion lower than assumed in the Governor's Budget over the budget window.
- Sales tax is projected to generate General Fund revenue of just \$33.3 billion in 2023-24 and \$34 billion in 2024-25. Compared to the 2022 Budget Act, these figures reflect a decrease of \$1.3 billion in 2022-23 and \$1.1 billion in 2023-24.
- Sales tax revenues are downgraded starting in 2023-24 due to lower-than-anticipated taxable sales in the second half of 2023, resulting in sales tax cash receipts falling short of projections by \$1 billion cumulatively through March.
- Sales tax revenues are projected to remain lower by approximately \$1 billion per year through the end of the multiyear due to the lower base in 2023-24.

Budget Solutions. The Governor's 2024-25 May Revision contains the following budget solutions:

- Spreading out Budget Stabilization Account revenues over two years and withdrawing \$8.4 billion from the Public School System Stabilization Account
- Reducing \$10.7 billion in spending, including:
 - \$510 million reduction in the Middle Class Scholarship Program, leaving \$100 million ongoing remaining for expenditure.
 - \$550 million for preschool, transitional kindergarten, and full-day kindergarten facilities grants, which may be considered for inclusion in an education bond.
 - \$72.3 million (FY 2023-24), \$348.6 million (FY 2024-25), and \$5 million (2025-26) for children and youth behavioral health.
 - \$80.6 million for Department of Corrections reflecting the reduction of 4,600 beds in 46 housing units across 13 prisons.
 - 7.95% reduction in state operations through cuts to personnel, operating costs, and contracting.
- \$2 billion in revenue and borrowing, including:
 - \$900 million (FY 2024-25) and \$5.5 billion (FY 2025-26) from suspending the carryover Net Operating Loss tax deduction for businesses with California income over \$1 million and limiting credit usage to \$5 million for tax years 2025-2027.
 - \$689 million (FY 2024-25), \$950 million (FY 2025-26), and \$1.3 billion (FY 2026-27) by increasing the allowable size of the Managed Care Organization (MCO) tax to include health plan Medicare revenue in the calculations.
 - Loaning \$300 million from the Air Pollution Control Fund to the General Fund.
- \$520 million resulting from program delays and pauses, including:
 - Delaying \$200 million in broadband last mile funding from FY 2025-26 to FY 2027-28.
 - \$489 million (FY 2024-25) and \$951 million (FY 2025-26) from pausing childcare slot expansion.
- Shifting \$3.9 billion in expenditures from the General Fund to other funds, including shifting \$450 million (FY 2024-25) and \$250 million (FY 2025-26) from cash to bonds and \$1.7 billion in transit, clean energy, zero-emission vehicle, and nature-based program expenditures to the Greenhouse Gas Reduction Fund.

Other Significant Highlights include:

- Declining to fund several programs that were contingent upon funds being available in 2024, including: union membership dues tax credit, Medi-Cal share of cost reform, continuous Medi-Cal coverage for children up to age 4, child support pass-through to

currently assisted CalWORKs families, Cal Grant reform and expansion, and victim compensation program.

- Eliminating approximately 10,000 state employee positions beginning in fiscal year 2025-26.
- Eliminating the remaining \$127.5 million allocated to the Adaptive Reuse Program.

STAY TUNED - MORE TO COME: RCRC expects significant additional details on the Governor's May Revision next week. As that information becomes available, RCRC will communicate it to member counties. These will likely include health and human services, public safety, broadband, housing, and cap and trade expenditures.

For additional detail about the Governor's 2024-25 May Revision, [see here](#) for analysis by RCRC's advocacy partners, *Hurst Brooks Espinoza, LLC*.

Community & Economic Development

Homelessness. The Governor's 2024-25 May Revision further reduces the Homeless Housing, Assistance and Prevention (HHAP) Round 5 Grant Program by \$260 million one-time in 2025-26 for HHAP Round 5 supplemental grant funding. In January, the Governor's Proposed Budget delayed from FY 2023-24 to FY 2025-26 \$260 million General Fund Homeless Housing, Assistance, and Prevention (HHAP) funding for the fifth round of HHAP grants.

Telecommunications. As with other areas of the budget, the Governor's 2024-25 May Revision lacks significant detail on the scope of cuts to state broadband funding. Outlined in the May 10th summary is the following:

- Further delays Federal Funding Account Last Mile funding, delaying \$200 million from FY 2025-26 to FY2027-28. In January, the Governor proposed delaying \$100 million General Fund from FY 2024-25 to FY 2026-27 for last-mile infrastructure grants at the CPUC. This maintains the previously appropriated \$1.45 billion and reflects future investments of \$550 million General Fund over three years. Because the May Revision does not include detail on current appropriation amounts, based on the January proposed budget, the following are estimates of scheduled appropriations: \$100 million will be available in 2024-25 and \$450 million in FY 2026-27, for a program total of \$2 billion.
- Modifies the additional \$1.5 billion in funding outlined in the Governor's Proposed budget for the Middle Mile Broadband Initiative (MMBI) from \$250 million in 2024-25, and \$1.25 billion in 2025-26, to instead add provisional language to allow the Director of Finance to augment MMBI's budget by up to \$1.5 billion upon notification to the Joint Legislative Budget Committee. This is in addition to the \$3.9 billion in funding already budgeted for the project.

Although cuts to the Broadband Loan Loss Reserve (BLLR) program are not included in the Governor's May Revision Summary released on May 10th, we expect significant cuts to this program during the May Revision process. In the Governor's Proposed Budget the BLLR was reduced by \$250 million, maintaining \$500 million for the program, with \$175 million General Fund in FY 2023-24, \$150 million in FY 2024-25, and \$175 million in FY 2025-26. The Legislature and Governor took early budget action in April, enacting Assembly Bill 106 (Chapter 9, Statutes of 2024) that reduced the BLLR fund by \$150 million in current and past year funding, leaving \$25 million available for award.

Economic Development. The Governor's May Revision further reduces the California Jobs First fund (formerly the Community Economic Resilience Fund) by \$150 million (\$50 million annually from 2024-25 through 2026-27). The Governor's 2024-25 Proposed Budget delayed \$300 million General Fund for the California Jobs First program, which was created to support resilient, equitable, and sustainable regional economies.

Health Care and Social Services

To address the projected budget shortfall and multiyear operating deficits the Governor's 2024-25 May Revision proposed numerous one-time and ongoing General Fund delays, cuts and reductions across Health and Human Services programs to achieve a balanced budget in both 2024-25 and 2025-26. Highlights impacting counties include:

- **Public Health.** Eliminates \$52.5 million in 2023-24 and \$300 million (\$200 million for counties) ongoing for state and local public health. RCRC along with our county partners advocated strongly for long-term funding for public health that would have supported investments in public health workforce and infrastructure.
- **Healthcare Workforce.** Eliminates \$300.9 million in 2023-24, \$302.7 million in 2024-25, \$216 million in 2025-26, \$19 million in 2026-27, and \$16 million in 2027-28 for various healthcare workforce initiatives including community health workers, nursing, social work and Health Professions Career Opportunity Program. The May Revision also eliminates \$189.4 million Mental Health Services Fund for programs proposed to be delayed to 2025-26 at Governor's Budget.
- **Behavioral Health Continuum Infrastructure Program.** Eliminates \$450.7 million one-time from the last round of the Behavioral Health Continuum Infrastructure Program, while maintaining \$30 million one-time General Fund in 2024-25.
- **Behavioral Health Bridge Housing Program.** Reduction of \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for the Behavioral Health Bridge Housing Program, while maintaining \$132.5 million General Fund in 2024-25 and \$117.5 million (\$90 million Mental Health Services Fund and \$27.5 million General Fund) in 2025-26.
- **CalWORKs Home Visiting Program.** Reduction of \$47.1 million ongoing for the CalWORKs Home Visiting Program.

- **CalWORKs Mental Health and Substance Abuse Services.** Reduction of \$126.6 million ongoing for the CalWORKs Mental Health and Substance Abuse Services.
- **California Food Assistance Program Expansion.** Delays for two years the California Food Assistance Program expansion automation to begin in 2026-27 with benefits beginning in 2027-28.

Managed Care Organization (MCO) Tax. In December 2023, the federal government approved California's MCO Tax, effective April 1, 2023, through December 31, 2026. The Governor's May Revision proposes an amendment to the MCO Tax to include health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax resulting in an additional net state benefit of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27. Overall, the May Revision includes an additional \$9.7 billion in MCO Tax funds over multiple years to support the Medi-Cal program. The May Revision reduces MCO commitments by \$6.7 billion over multiple years from the Medi-Cal provider rate increases planned for January 1, 2025, as well as Graduate Medical Education and Medi-Cal labor workforce.

Public Safety, Emergency Management, and Criminal Justice

To address the projected budget shortfall and multiyear operating deficits the Governor's 2024-25 May Revision proposed numerous one-time and ongoing General Fund reductions across criminal justice programs to achieve a balanced budget in both 2024-25 and 2025-26. Highlights impacting counties include:

- **Medication Assisted Treatment Grants.** Reduction of \$10.5 million in 2023-24 for competitive grants to counties to use for various purposes relating to the treatment of substance use disorders and the provision of medication-assisted treatment.
- **Post Release Community Supervision.** Reduction of \$4.4 million one-time in 2024-25 to eliminate funding provided to county probation departments for the temporary increase in the number of offenders released from prison to Post Release Community Supervision pursuant to Proposition 57, the Public Safety and Rehabilitation Act of 2016.

Resources

Cap and Trade Program Fund Shifts. The Governor's 2024-25 May Revision seeks to shift \$1.7 billion in transit, clean energy, zero-emission vehicle, and nature-based program expenditures from the General Fund to the Greenhouse Gas Reduction Fund (GGRF). This includes shifting an additional \$555 million for transit to the GGRF and shifting the remaining \$900 million for clean energy reliability investment plan projects to the GGRF. It is not immediately clear what impact those fund shifts will have on existing programs funded by Cap and Trade.

DTSC Toxic Site Cleanups. The Governor's 2024-25 May Revision makes a \$136 million reduction in expenditures to clean up contaminated hazardous waste sites in FY 2023-24 with

a total reduction of \$268.5 million over four fiscal years. This leaves just \$107 million for expenditure over three years, including \$65 million for this year.

Outdoor Equity Grants. The Governor's 2024-25 May Revision eliminates \$50 million from outdoor environmental education and access programs, leaving in place the \$40 million that has already been committed for this purpose.

Transportation

The Governor's 2024-25 May Revision largely maintains the formula funding required by state and federal law for disbursement to state and local agencies for roadway spending. However, the May Revision proposes a major change in the funding source for transit programs, shifting focus away from General Fund expenditures and instead sourcing those funds from Greenhouse Gas Reduction Fund proceeds. Those transit funding changes include:

- **Formula Transit and Intercity Rail and Zero Emission Transit Capitol Programs.** Shifting \$555.1 million from General Fund to the Greenhouse Gas Reduction Fund above what was proposed in the Governor's Budget, for a total of \$1.3 billion in proposed fund shifts for transit.
- **Competitive Transit and Intercity Rail Program.** Reduction of \$148 million in unused funds from the current budget year.

Water

In addition to the nearly \$2 billion (from a total of \$9 billion) in water-related spending proposed to be reduced in the Governor's 2024-24 Proposed Budget, the Governor's 2024-25 May Revision proposes a reduction of an additional \$500 million from Department of Water Resources for groundwater storage projects, instead pointing to available funds yet to be awarded for storage projects approved by the CA Water Commission under Proposition 1 (2014).

Wildlife & Habitat Conservation

The Governor's 2024-25 May Revision reverts \$45 million one-time in Fiscal Year 2023-24 and reduces \$20 million ongoing by accelerating the sunset date for the Habitat Conservation Fund, currently scheduled in 2030.