RCRC

THE RURAL RUNDOWN

May 14, 2025

GOVERNOR'S 2025-26 MAY REVISE

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RCRC'S SUMMARY OF GOVERNOR NEWSOM'S 2025-26 REVISED BUDGET

Earlier today, Governor Newson released his Administration's 2025-26 May Revision. *The Rural Rundown* captures highlights of the proposal as it relates to RCRC member counties. This revision signals the next step in the State's budget negotiations with lawmakers, who must pass a budget by June 15 for the July 1 start of the 2025-2026 fiscal year.

The Governor's 2025-26 May Revision proposes a budget of $226 billion, down from the $229 billion proposed in January, and reflects a $12 billion budget shortfall. The revenue forecast has been downgraded as well and is projected to be lower by $5.2 billion than originally predicted in the three-year budget window that began last year. While the Governor's 2025-26 May Revision does not reflect a recession, it does predict several risk factors that could have negative impacts on California's economy and revenues, including significant cuts in federal spending, stock market and asset price volatility, and the possible impacts of federal policies on international trade and immigration that could alter California's economic output. The Administration cautions that the chances of slowing growth have increased since the initial proposal in January. The Governor also highlighted that international tourism to California has slowed significantly since the beginning of the year.

Additionally, the Governor's 2025-2026 May Revision proposes two statutory changes to the Budget Stabilization Account, also known as the Rainy Day Fund, that would allow the State to increase its budget reserves for future deficit years: 1) An increase of the mandatory deposit level from the current 10 percent to 20 percent of General Fund revenue; and 2) an exemption of deposits into the Account from the State Appropriations Limit set by Proposition 4 in 1979, also known as the Gann Limit. These changes would have to be approved by the voters.

Overview. The Governor's 2025-2026 May Revision includes a proposed $226 billion General Fund, which includes $126 billion in personal income tax, $34.8 billion in sales and use tax, and $35.6 billion in corporation tax revenues. The proposal also draws $7.1 billion from the Budget Stabilization Account.

Revenue Forecast. The Governor's 2025-26 May Revision includes the following observations pertaining to the anticipated revenues:

- The May Revision revenue forecast is based on a scenario that assumes a "growth recession", a period of below-trend growth and rising unemployment.

- The three largest sources of revenue—personal income tax, corporation tax, and sales tax—are projected to be lower by $4.8 billion over the budget window due largely to the downgraded economic outlook and the decline in equity markets since the release of the Governor's January Budget proposal. The forecast for personal income tax has been reduced by $1.3 billion, corporation tax revenue projections are lower by $2.8 billion, and the sales tax forecast is downgraded by $666 million.

- 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 decreased by $11.1 billion, as the full impact of the lowered economic and stock market forecasts is realized.

- General Fund revenue is projected to be approximately $5.2 billion, lower than assumed in the Governor's 2024 Budget over the budget window.

- 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 more slowly 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.

Highlights Include:

- Creation of two new agencies for Consumer Protection and Housing and Homelessness through a larger Reorganization Plan, to be unveiled at a later date and submitted to the Little Hoover Commission for approval.

- Shifts from the General Fund of $1.54 billion in 2025-26, growing to $1.9 billion in 2028-29, from the Greenhouse Gas Reduction Fund (GGRF) for CAL FIRE operations while proposing $1 billion annually from the GGRF for High-Speed Rail.

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.

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.

Agriculture

The Governor's 2025-26 May Revision proposes a 4.52% cut to the Department of Food and Agriculture, largely in the special fund.

Air Quality

Cap-and-Trade. The Governor's 2025-26 May Revision proposes a 15-year extension of the state's Cap-and-Trade auction program, recasting it as "Cap-and-Invest." The proposal includes a commitment to working with the Legislature to design an expenditure plan to invest the program's proceeds.

High-Speed Rail. The Governor's 2025-26 May Revision proposes $1 billion annually from the Greeenhouse Gas Reduction Fund for the High-Speed Rail Project, asserting that it would give certainty to the project and help draw private investment in the absence of federal funding.

Community & Economic Development

Housing and Homelessness. The Governor's 2025 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. This reorganization includes the creation of the California Housing and Homelessness Agency (CHHA), the Housing Development and Finance Committee (HDFC) (within the CHHA) and the Business and Consumer Services Agency. This is consistent with the Governor's January Budget Proposal, which proposed to establish the new CHHA to focus on housing and homelessness challenges and aligning housing initiatives with complementary policy areas—such as transportation, health, climate, energy, and community planning. CHHA will include the following entities:

- Department of Housing and Community Development
- California Interagency Council on Homelessness
- California Housing Finance Agency
- Civil Rights Department
- HDFC Committee (newly created under this proposal)

The HDFC will administer multifamily affordable housing programs and streamline the administration and oversight of housing funding across the state.

The Governor states, in his 2025 May Revision, his openness "to working with the Legislature on a potential statewide bond measure to fund critical investments in housing and infrastructure."

The Governor's May Revision includes an increase of $416.6 million one-time Federal Trust Fund 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 through the Community Development Block Grant – Disaster Recovery.

Additionally, the Governor's May Revision also includes 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.

Ahead of the release of the May Revision, the Governor issued a Model Ordinance intended to "provide a starting point that jurisdictions may build from and adjust in creating their own policies" to address homeless encampments.

California Environmental Quality Act. In the Governor's budget presentation, he acknowledged and thanked Assembly Member Wicks and Senator Wiener for their efforts to undertake significant CEQA reform. He acknowledged both AB 609 (Wicks), which creates a clear statutory CEQA exemption for infill housing and SB 607 (Wiener), which makes much broader and transformative changes to CEQA to reduce the risk of litigation abuse, focus environmental reviews, and reduce the scope of the administrative record. The Governor noted that our biggest impediment to realizing these essential reforms is ourselves and noted an interest in addressing these issues in the budget or through a budget trailer bill.

Telecommunications. The Governor's 2025-26 May Revision does not include any additional funding for broadband efforts in fiscal year 2025-2026. In the 2024-2025 final budget, remaining appropriations for the Federal Funding Account were deferred to fiscal year 2027-2028.

Economic Development. The Governor's 2025-26 May Revision proposes withdrawal of $60 million in one-time General Fund dollars in 2025-2026 related to the California Competes grant program. The Governor's 2025-26 May Revision proposes to cut the Governor's Office of Business and Economic Development by 28.31%, largely in the General Fund and through the elimination of 10 positions.

County Operations

Cannabis. The Governor's 2025-26 May Revision proposes statutory changes to shift illicit enforcement funding from the Cannabis Control Fund to the Cannabis Tax Fund in order to sustain existing enforcement activities without imposing fee increases on existing licensees. The Governor's 2025-26 May Revision also proposes to support additional inspections and other department activities by adding 27 staff positions over the next three years, and 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.

The Governor's 2025-26 May Revision estimates $454.3 million will be available for Prop 64's "Allocation 3" continuously appropriated 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); and
- Public safety-related activities – 20 percent ($90.9 million).

This reflects a reduction of more than $215 million to the required $670 million baseline funding amount.

The Governor's 2025-26 May Revision proposes statutory changes to authorize the Board of State and Community Corrections' (BSCC) to award grants to local governments that authorize retail sales, even if they prohibit cannabis cultivation. These grants are intended to support law enforcement, fire protection, and other public health and safety programs, and BSCC will prioritize funding for efforts aimed at combatting illicit cannabis activity.

Energy

Expands California Energy Commission Opt-in Clean Energy Permitting Program. The Governor's 2025-26 May Revision provides $1.9 million and 9 positions through 2028-29 to support expediting clean energy and advanced manufacturing permitting. The May Revision also includes statutory changes to the program, but it is not yet clear if those changes include some of the concepts in SB 254 (Becker) that expand the scope and extend the program's sunset date.

Safe Battery Energy Storage Systems. The Governor's 2025-26 May Revision provides $3.7 million in 2025-26 and 2026-27, and $2.9 million ongoing (as well as 12 positions) to the California Public Utilities Commission (CPUC) to support compliance and enforcement of safety standards for large-scale, electric grid connected battery energy storage systems.

Community Renewable Energy and Storage. The Governor's 2025-26 May Revision reverts $33 million to General Fund, given that the CPUC received U.S. EPA funding for community renewable generation projects to support community renewable energy generation and storage projects.

Offshore Wind. The Governor's 2025-26 May Revision shifts $42.8 million General Fund to the Proposition 4 Climate Bond to support a program for the development of offshore wind generation at the California Energy Commission (CEC).

Forest and Public Lands Stewardship

California Department of Forestry and Fire Protection (CAL FIRE). The Governor's 2025-26 May Revision shifts $1.54 billion from the General Fund to the Greenhouse Gas Reduction Fund to support CAL FIRE's fire prevention, suppression, and resource management activities. The proposal also includes a General Fund backstop to protect CAL FIRE's operations in case the state's cap-and-trade auction does not meet projected revenues. Additionally, the proposal reverts back to the General Fund $31.5 million that was appropriated for the acquisition of property for a new CAL FIRE training center, while the department explores more cost-effective alternatives.

Health Care and Social Services

Expenditures in health and human services programs have significantly increased, from $161 billion in the 2017 Budget Act ($35 billion General Fund), to an estimated $283.9 billion in 2024-25 ($76.8 billion General Fund). 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.

Managed Care Organization (MCO) Tax. Proposition 35, approved by the voters in November 2024, requires DHCS to seek federal renewal and reauthorization of the Managed Care Organization (MCO) Tax added by Chapter 13, Statutes of 2023 (AB 119) to permanently continue the tax. Proposition 35 specifies permissible uses of tax revenues starting with the 2025 tax year, for which DHCS must consult with a stakeholder advisory committee to develop and implement. The Governor's 2025-26 May Revision reflects MCO Tax revenue of $9 billion in 2024-25, $4.2 billion in 2025-26, and $2.8 billion in 2026-27 to support the Medi-Cal program. Compared to the Governor's Budget, this is an increase of $1.1 billion in 2024-25, a decrease of $200 million in 2025-26, and a decrease of $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.

Behavioral Health. The Governor's 2025-26 May Revision includes $1.9 billion for the Department of Health Care Access and Information to implement the Behavioral Health Workforce Initiative beginning in January 2026:

- $143 million Behavioral Health Services Fund
- $808 million Designated State Health Program Funding
- $950 million Federal Funds

The Governor's 2025-26 May Revision includes a reduction of $232.5 million one-time General Fund for the Incompetent to Stand Trial Infrastructure Grant Program 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.

Medi-Cal. The Medi-Cal budget proposed the Governor's 2025-26 May Revision includes: $179 billion in 2024-25 ($37.4 billion General Fund) and $194.5 billion in 2025-26 ($44.6 billion General Fund).

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. To address the projected budget shortfall, the Governor's 2025-26 May Revision includes General Fund solutions to achieve a balanced budget. Highlights include:

- **Enrollment Freeze** – 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** - 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. 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** – Elimination of full-scope dental coverage for Medi-Cal members with certain statuses effective July 1, 2026. 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, 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.

Social Services. The Governor’s 2025-26 May Revision includes $53.4 for Department of Social Services programs in 2025-26 billion ($22.8 billion General Fund). The Governor’s 2025-26 May Revision assumes $9.5 billion in total Temporary Assistance for Needy Families (TANF) expenditures (state, local, and federal funds) in 2025-26. This amount includes $6.2 billion for California Work Opportunity and Responsibility to Kids (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.

CalWORKs. The average monthly CalWORKs caseload is estimated to be 363,766 families in 2025-26. The Governor’s 2025-26 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.

CalFresh. 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 Governor's 2025-26 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.

In-Home Supportive Services. The Governor's 2025-26 May Revision includes $28.3 billion ($10.3 billion General Fund) for the IHSS program in 2025-26. 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.

Public Safety, Emergency Management, and Criminal Justice

Prison Closure. The Governor's 2025-26 May Revision proposes to close one additional state prison by October 2026, for an annual General Fund savings of $150 million.

Community Corrections Performance Incentive Grant. The Community Corrections Performance Incentive Grant was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Governor's 2025-26 May Revision contains a $127.9 million General Fund allocation to support the program and includes statutory updates to provide stable funding for the program.

Proposition 47. Approved by California voters in 2014, Proposition 47 reduces penalties for a variety of specified offenses and dedicates the 'savings' from prosecuting and housing these offenders into programs that support K-12 truancy and dropout prevention, victim services, and recidivism reduction programs primarily focused on mental health and drug treatment. The Proposition 47 savings to the General Fund for 2025-26 total $91.5 million.

Court Facilities. The Governor's 2025-26 May Revision reduces the General Fund backfill of the State Court Facilities Construction Fund by $20 million.

Transportation

The Governor's 2025-26 May Revision proposes 2.9% in cuts across transportation agencies, largely under the Secretary for Transportation Agency special fund budget.

Water

The Governor's 2025-26 May Revision includes statutory changes to streamline administrative processes for the Delta Conveyance Project. The May Revision also proposes cuts across natural resources agencies including a 12.16% cut to the Coastal Commission and a 1.36% cut to the Department of Water Resources, largely in their special funds.

For additional detail about the Governor's 2025-26 May Revision, see here for analysis by RCRC's advocacy partners, *Hurst Brooks Espinoza, LLC.*