



**GOVERNOR'S 2025-26 PROPOSED BUDGET** 

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# RCRC'S SUMMARY OF GOVERNOR NEWSOM'S 2025-26 PROPOSED BUDGET

arlier today, Governor Newson released his Administration's 2025-26 <a href="Proposed Budget">Proposed</a>
<a href="Budget">Budget</a>. The Rural Rundown captures highlights of the proposal as it relates to RCRC member counties. This proposal is the first 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.

This year's \$229 billion proposed budget continues the multi-year approach proposed by the Governor in 2024 and reflects an economy that has performed better than was projected in the 2024-25 State Budget. The upgraded revenue forecast projects to be higher by \$16.5 billion in the three-year budget window begun last year. While the Governor's 2025-26 Proposed Budget does not reflect a recession, it does predict several risk factors that could have negative impacts on California's economy and revenues, including stock market and asset price volatility, geopolitical instability, and shortfalls in subsequent fiscal years. The proposal also considers possible impacts of federal policies in the areas on international trade and immigration that could alter California's economic output. The Administration cautions that additional decisions may be necessary in the May Revision to maintain a balanced budget in 2025-26 and beyond.

The Governor's 2025-26 Proposed Budget reflects ongoing commitments to education, public safety, and the Administration's policies on homelessness and housing. The proposal also assumes a budget reserve balance of roughly \$17 billion at the end of 2025-56, which includes \$10.9 billion in the Budget Stabilization Account; \$4.5 billion in the Special Fund for Economic Uncertainties; and \$1.5 billion in the Public School System Stabilization Account.

The Administration is also proposing 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.

**Overview.** At \$229 billion, the Governor's 2025-2026 Proposed Budget includes a proposed \$218 billion General Fund, which includes \$133 billion in personal income tax, \$35 billion in sales and use tax, and \$37.7 billion in corporation tax revenues. The proposal also draws \$7.1 billion from the Budget Stabilization Account.

The Governor's 2025-26 Proposed Budget includes detailed funding recommendations for the first year of the Climate Bond (Proposition 4) spending, including several shifts of prior General Fund obligations:

- Stewardship of State-Owned Land—\$68 million General Fund
- Water Recycling—\$51 million General Fund
- Dam Safety—\$47 million General Fund
- Watershed Climate Resilience—\$32 million General Fund
- Demand-Side Grid Support Program—\$18 million General Fund
- Systemwide Flood Risk Reduction Program—\$15 million General Fund
- Community Resilience and Heat Program—\$15 million General Fund

- Deferred Maintenance—\$14 million General Fund
- Home Hardening—\$13 million General Fund

In addition, the Governor's 2025-2026 Proposed Budget proposes a \$32 million shift of Greenhouse Gas Reduction Fund for the Clean Energy Reliability Investment Plan to the Climate Bond to address a projected shortfall within the Motor Vehicle Account.

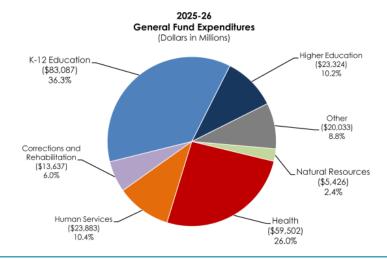
In contrast to the robust discussion on Climate Bond spending, the proposal is relatively light on detail on many other items as the Administration prepares to enter negotiations with the Legislature over the next several months.

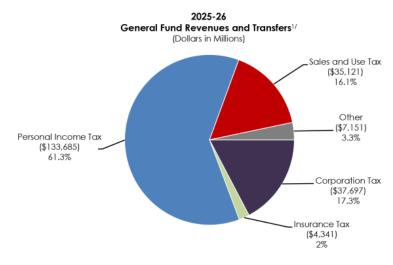
**Revenue Forecast.** The Governor's 2025-26 Proposed Budget includes the following observations pertaining to the anticipated revenues:

- The three largest sources of revenue—personal income tax, corporation tax, and sales tax—are estimated to be higher by \$15.3 billion over the budget window due to a \$12.6 billion upward revision to the personal income tax forecast, a \$2.5 billion upward revision to the corporation tax forecast, and a \$174 million upward revision to the sales tax forecast.
- General Fund revenue is projected to be approximately \$16.5 billion, or 2.7 percent, higher, over the budget window than predicted in the 2024 Budget Act.
- Taxable sales growth is projected to resume at a rate of roughly 3 percent annually in 2024-25 and 2025-26, consistent with the typical relationship between consumer spending, personal income, and taxable sales.
- The sales tax forecast is less than 1 percent, or just under \$200 million, higher in the budget window relative to the 2024 Budget Act forecast. After correcting for \$600 million in shifting from November to December, cash receipts through November are within 0.5 percent of the 2024 Budget Act forecast.
- Annual revenues for the Mental Health Service Fund are projected to be \$2.8 billion in 2023-24, \$3.2 billion in 2024-25, and \$3.6 billion in 2025-26. Over the budget window, these transfers to the Mental Health Services Fund are nearly \$900 million higher than predicted in the 2024 Budget Act forecast.
- The Governor's 2025-26 Proposed Budget notes that there is continued volatility in the amount of revenues generated by capital gains taxes, which are anticipated to be \$14 billion for 2023. That is slightly lower than what was generated in 2019, and is significantly lower than the \$36 billion generated in 2021.

#### 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.
- Expenditures from the Climate Bond in excess of \$2.7 billion to fund projects that bolster the State's water, forest resilience, and wildfire mitigation programs to help increase the climate resilience of California's natural systems.
- State tax exemptions for wildfire settlements paid in tax years 2025 through 2029, regardless of when the fire occurred.





1/ Excludes \$7.1 billion transfer in from the Rainy Day Fund.

# **Agriculture**

The Governor's 2025-26 Proposed Budget proposes \$24.9 million in one-time General Fund spending to the Department of Food and Agriculture for various farm to school programs, including the California Farm to School Network. In addition, the Governor's 2025-26 Proposed Budget includes the following climate-related agricultural spending:

 \$37.6 million from the Climate Bond for the State Water Efficiency and Enhancement Program for improving irrigation systems on farms and ranches to save water and reduce emissions from pumping.

- \$35.9 million from the Climate Bond for the Healthy Soils Program, for sequestering carbon and reducing emissions through the implementation of soil health practices on farms and ranches.
- \$19.9 million from the Climate Bond to fund invasive species projects and activities recommended by the Invasive Species Council of California. The Council provides interagency leadership and coordination to exclude or rapidly eradicate invasive species from California.
- \$40.6 million from the Climate Bond for various climate-smart agriculture projects and programs.

As with previous State Budgets, no funding—other than the nominal amount required to maintain the budget item—is proposed for the Open Space Subvention Program (Williamson Act).

### Community & Economic Development

**Housing.** The Governor's 2025-26 Proposed Budget proposes to establish a new California Housing and Homelessness Agency aimed at addressing the State's continued housing and homelessness challenges, with the stated goal of aligning housing initiatives with complementary policy areas—such as transportation, health, climate, energy, and community planning. The plan to create this new agency (not yet disclosed), along with the proposal to create a Consumer Protection Agency, will be reviewed by the Little Hoover Commission at a future date.

The Governor's 2025-26 Proposed Budget outlines the following guiding policy principles:

- Reduce Costs The State should help lower housing construction costs by streamlining
  processes and removing unnecessary barriers to development, including addressing
  delays in project approvals and permitting. Additionally, the State should pursue policies
  to reduce costs associated with existing laws that hinder housing production and increase
  costs and development risks.
- **Enhanced Accountability** The State should strengthen mechanisms to ensure jurisdictions meet their state housing obligations and comply with existing laws, including the Housing Accountability Act and Permit Streamlining Act.
- Housing and Transportation The State should advance policies that remove barriers
  to infill housing near transit, including efforts to align long-term housing and transportation
  planning, and further the ability to utilize housing as a mitigation strategy for infrastructure
  projects.

Further, the Governor's 2025-26 Proposed Budget suggests the Administration may pursue policy changes that will: 1) allow the Department of Housing and Community Development (HCD) the ability to recycle funding; 2) update housing programs to promote affordability; and, 3) expand existing California Environmental Quality Act streamlining tools to accelerate infill housing production.

**Homelessness.** The Governor's 2025-26 Proposed Budget includes \$100 million General Fund for Encampment Resolution Fund grants as committed to in the 2024-25 Budget. The Governor's 2025-26 Proposed Budget states that additional funding is contingent on local governments incorporating stronger accountability policies, including:

- Requiring local governments to have a compliant Housing Element and a local encampment policy, consistent with **S**tate guidance, to be eligible for funding.
- Prioritizing funding for local governments with Pro-Housing Designations where appropriate.
- Allowing the reallocation of funding from local governments that fail to meet program requirements or show progress on key metrics to those that are acting with the necessary urgency.

Further, the Governor's 2025-26 Proposed Budget states that the Department of Housing and Community Development (HCD) will increase scrutiny of local governments' fiscal and outcome reporting through the Homeless Data Integration System so that local grantees stay up to date on those reports and will take remedial action as necessary and HCD will continue to enforce requirements that local governments show progress on implementing activities funded by the Homeless Housing, Assistance and Prevention Program (HHAP).

The Governor's 2025-26 Proposed Budget also notes that the State will partner with select local governments to review their full suite of housing and homelessness programs to identify best practices and address opportunities for growth as well as hold regional convenings with the various HHAP regions to: strengthen data and reporting programs and policies; improve the construction and implementation of regional Memoranda of Understanding (MOUs); and, challenge each region to reach their goals to reduce homelessness.

**Telecommunications.** The Governor's 2025-26 Proposed Budget does not provide any new funding or changes to current funding for the State's broadband efforts.

**Economic Development.** The Governor's 2025-26 Proposed Budget includes \$17 million in one-time General Fund dollars for CalRISE, which provides financial and technical assistance to employment social enterprises providing jobs, on-the-job training, and specialized support to people who face high barriers to work, including homelessness, previous incarceration, substance use or mental health issues. These funds are intended to align with the thirteen California Jobs First Regional Collaboratives.

The Governor's 2025-2026 Proposed Budget includes \$60 million in one-time General Fund dollars to award new grants under the California Competes grant program. This program expands access to the California Competes Tax Credit program to businesses that provide job growth and economic development opportunities but may not benefit fully from the tax credit program.

**Extreme Heat and Community Resilience Program.** The Governor's 2025-26 Proposed Budget includes \$16.1 million to fund projects that reduce the impacts of extreme heat and build community resilience to extreme heat.

## **County Operations**

**Cannabis.** The Governor's 2025-26 Proposed Budget estimates \$468.2 million will be available for Prop 64's "Allocation 3" continuously appropriated programs, shown below.

- Education, prevention, and treatment of youth substance use disorders and school retention—60 percent (\$281 million);
- Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent (\$93.6 million); and
- Public safety-related activities—20 percent (\$93.6 million).

### **Energy**

The Governor's 2025-26 Proposed Budget references the need to address energy affordability and reduce electric rates. The proposal also includes the following:

**Demand-Side Grid Support Program.** The Governor's 2025-26 Proposed Budget includes \$50 million from the Climate Bond for load reduction and backup generation to support electric grid reliability during extreme weather events.

**Port Upgrades to Serve Offshore Wind Generation.** The Governor's 2025-26 Proposed Budget includes \$228.2 million for port upgrades to support the development of offshore wind generation and other activities.

# Forest and Public Lands Stewardship

California Department of Forestry and Fire Protection (CAL FIRE). The Governor's 2025-26 Proposed Budget includes \$137.9 million (\$14.3 million General Fund and \$123.6 million Public Buildings Construction Fund) for the continuation and addition of critical major capital projects, including the replacement of various fire stations, unit headquarters, helitack bases, and air attack bases.

**Wildfire and Forest Resilience.** The Governor's 2025-26 Proposed Budget maintains \$2.5 billion of prior allocated investments, including the \$200 million annual investment from the Greenhous Gas Reduction Fund mandated by Chapter 626, Statutes of 2018 (SB 901) and Chapter 258, Statutes of 2021 (SB 155). The proposal also includes \$1.5 billion from the Climate Bond for various forest resilience and wildfire mitigation programs.

Notable proposals in the Governor's 2025-56 Proposed Budget include:

- A state income tax exemption for all wildfire settlements paid in tax years 2025 through 2029, regardless of when the fire occurred.
- \$82.2 million from the Climate Bond for the Forest Health Program, which funds fuels reduction, forest restoration and prescribed fire projects.

- \$79.5 million from the Climate Bond for block grants to forest collaboratives in high-risk regions to support landscape-scale, multi-benefit projects.
- \$59.1 million from the Climate Bond for the Wildfire Prevention Grants Program, which provides funding to local projects in high-fire risk communities.
- \$33.4 million from the Climate Bond for resilience and restoration projects on stateowned lands.
- \$22.4 million from the Climate Bond to various state conservancies for watershed improvement, biomass utilization, forest health, chaparral and forest restoration, and workforce development.
- \$9.1 million from the Climate Bond for the California Wildfire Mitigation Program, the state's pilot program to help residents in high fire risk areas retrofit their homes to make them wildfire resistant.
- \$39.3 million from the Climate Bond for various wildfire and forest resilience projects and programs, including defensible space, wood utilization, home hardening, and reforestation.

**Nature-Based Solutions.** The Governor's 2025-56 Proposed Budget includes the following for the state's Nature-Based Solutions strategies:

- \$176 million from the Climate Bond for projects to protect and enhance fish and wildlife resources.
- \$79.9 million from the Climate Bond for regional actions through the State Conservancies.
- \$9.4 million from the Climate Bond for grants to California Native American tribes for multi-benefit projects.
- \$20.7 million from the Climate Bond for various biodiversity and nature-based solutions projects and programs.

**Outdoor Recreation.** The Governor's 2025-26 Proposed Budget includes \$11 million from the Climate Bond to enhance visitor access to and increase resilience of public lands by improving trails and facilities and completing wildfire preparedness and mitigation projects.

**State Parks.** The Governor's 2025-26 Proposed Budget includes \$84.4 million from the Climate Bond for deferred maintenance projects throughout the State Park System. In addition, the Governor's 2025-26 Proposed Budget proposes a one-time allocation of \$6.8 million in General Fund spending for the State Library Parks Pass Program. The Governor's 2025-26 Proposed Budget also identifies \$9 million in parks related funds for continuation of the construction of California Indian Heritage Center in West Sacramento (Yolo County).

**Statewide Park Program.** The Governor's 2025-26 Proposed Budget includes \$190 million from the Climate Bond to create new parks and improve existing parks in the state's most disadvantaged communities.

**California Tahoe Conservancy.** The Governor's 2025-26 Proposed Budget includes \$6.5 million for the initial phases of the Sunset Stables Reach 6: Upper Truckee River Restoration Project, opportunity acquisitions, and study and planning funds for possible future projects.

**Urban Greening.** The Governor's 2025-26 Proposed Budget includes \$46.8 million for greening communities through the creation and expansion of green streets, parks, and schoolyards.

### Health Care and Social Services

The Governor's 2025-26 Proposed Budget includes \$296.1 billion for all Health and Human Services programs in Fiscal Year 2025-26. General Fund dollars account for \$83.7 billion of that allocation.

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 Budget reflects MCO Tax revenue of \$7.9 billion in 2024-25, \$4.4 billion in 2025-26, and \$3.3 billion in 2026-27 to support the Medi-Cal program. Compared to the 2024 Budget Act, this is an increase of \$1 billion in 2024-25 and decreases of \$2.2 billion in 2025-26 and \$1.8 billion in 2026-27. The amendments to the MCO Tax pursuant to Chapters 6 and 39, Statutes of 2024 (SB 136 and AB 160) were approved by the federal government in late December 2024. The Governor's 2025-26 Proposed Budget includes the net benefit of funding associated with the MCO Tax amendments to entirely support the Medi-Cal program.

Behavioral Health. The Governor's 2025-26 Proposed Budget includes an adjustment to the Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Demonstration. In December 2024, the federal government approved approximately \$8 billion (state, local, and federal funds) for the BH-CONNECT Demonstration effective January 1, 2025, through December 31, 2029. The funding is to support activities and services administered by the DHCS, DSS, and the Department of Health Care Access and Information. The Demonstration includes statewide and county opt-in components to expand and strengthen the behavioral health continuum for Medi-Cal members living with significant behavioral health conditions, with a focus on children and youth, individuals experiencing or at risk of homelessness, and justice-involved individuals.

**Medi-Cal.** The Governor's 2025-26 Proposed Budget includes increased Medi-Cal expenditures of approximately \$2.8 billion General Fund in 2024-25 compared to the 2024 Budget Act. This increase is driven primarily by higher overall enrollment, due to continuing unwinding flexibilities and higher-than-projected caseload and pharmacy costs, offset by additional support from the MCO Tax. The Governor's 2025-26 Proposed Budget assumes a Medi-Cal caseload of 15 million in 2023-24, an increase of 450,000 individuals compared to the 2024 Budget Act. The increase is primarily due to a higher number of individuals remaining eligible for Medi-Cal after eligibility redeterminations, which results in increased costs of \$3 billion (\$1.1 billion General Fund) in 2024-25 compared to the 2024 Budget Act.

**Social Services.** The Governor's 2025-26 Proposed Budget includes \$62.1 billion (\$22.5 billion General Fund) for Department of Social Services programs in 2025-26. The Governor's 2025-26 Proposed Budget assumes \$9.5 billion in total TANF expenditures (state, local, and federal funds) in 2025-26. This amount includes \$6.4 billion for California Work Opportunity and Responsibility to Kids (CalWORKs) program expenditures and \$3.2 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 361,834 families in 2025-26. An approximate 0.2-percent increase to CalWORKs Maximum Aid Payment levels, with an estimated cost of \$9.1 million, is projected to begin October 1, 2025. A determination and update of the projected grant increase will be made in the Governor's 2025-26 May Revision. These projected increased costs would be funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the 1991 Local Revenue Fund and would be in addition to the 0.3-percent statutory increase in October 2024.

### Public Safety, Emergency Management, and Criminal Justice

**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. The Governor's 2025-26 Proposed Budget contains a \$126.5 million one-time General Fund to support the incentive 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 Governor's 2025-26 Proposed Budget estimates a net savings of \$88.3 million.

**Court Facilities.** The Governor's 2025-26 Proposed Budget includes funding for several court-related projects in RCRC counties, including:

- \$5.2 million to add and renovate dedicated court space at the Butte County Juvenile Hall in Oroville.
- \$5.2 million for the performance criteria phase of a new 12-courtroom Solano Hall of Justice in Fairfield, which is estimated to cost a total of \$333 million.
- \$7.9 million for the performance criteria phase of a new 12-courtroom San Luis Obispo Courthouse, which is estimated to cost a total of \$352 million.
- Reappropriation of \$1.5 million for the acquisition phase of a new 3-room courthouse in Quincy, with a total estimated project cost of \$130 million.

**Fairground Updates.** The Governor's 2025-26 Proposed Budget includes \$37.6 million from the Climate Bond to upgrade fairgrounds in order to enhance communities' emergency preparedness capabilities.

### **Transportation**

The Governor's 2025-26 Proposed Budget maintains spending proposed during previous budgets for multiyear transportation outlays. This includes:

- \$7.7 billion for high-priority transit and rail infrastructure projects that will improve rail and transit connectivity between state and local/regional services that are designed to provide options to opt-out of traffic congestion and reduce greenhouse gas emissions. A portion of these funds can also be used to support transit operations.
- \$4.2 billion of Proposition 1A monies for the High-Speed Rail Authority to continue building the 119-mile Central Valley Segment from Madera to just north of Bakersfield.
- \$1.2 billion for projects that improve goods movement on rail and roadways at port terminals, including railyard expansions, new bridges, and zero-emission modernization projects.
- \$1.1 billion for the Zero Emission Transit Capital Program.
- \$150 million for grade separation projects that support critical safety improvements and improve traffic and rail movement by separating the vehicle roadway from the rail tracks.
- \$2.3 million from special funds for the California Air Resources Board to implement appropriate regulatory changes to authorize the use of E15 ethanol fuel in California to augment the state's existing fuel supply and reduce gasoline prices.

The Governor's 2025-26 Proposed Budget also includes an additional \$25 million in one-time matching grants to communities with a Clean California Community designation. These funds can be used on litter remediation, graffiti removal, and job creation.

## **Water**

The Governor's 2025-26 Proposed Budget includes several spending priorities for water infrastructure, dam safety, water quality, and flood management—but all from revenues generated by the voter approved Climate Bond (Proposition 4).

The proposed spending from Climate Bond funds includes:

- \$231.5 million to the Dam Safety and Climate Resilience Local Assistance Program for competitive grants for projects that support dam safety and reservoir operations, such as funding for repairs, rehabilitation, and enhancements.
- \$183.2 million for grants and loans that improve water quality, such as water quality monitoring and remediation of perfluoroalkyl and polyfluoroalkyl substances, implementation of countywide drought and water shortage contingency plans, prevention and treatment of contaminated groundwater, consolidation or extension of

water or wastewater systems. This includes \$11.1 million for tribal water infrastructure projects.

- \$173.1 million for flood control projects to evaluate, repair, rehabilitate, reconstruct, expand, or replace levees, weirs, bypasses, and facilities of the State Plan of Flood Control, as well as funding for the Flood Control Subventions Program.
- \$153.4 million for water reuse and recycling projects that support treatment, storage, conveyance, or distribution facilities for potable and nonpotable use, infrastructure to serve retrofit projects, and multi-benefit projects that allow use of recycled water.
- \$148.2 million to implement the Salton Sea Management Program 10-year Plan and deliver projects that reduce dust emissions to improve local air quality.

**Coastal Resilience.** In addition to the proposed spending for water infrastructure from the Climate Bond, the Governor's 2025-26 Proposed Budget also proposes spending on the following:

- \$30.8 million for projects to protect coastal lands, public access facilities, and habitats, as well as an additional \$20 million for projects that address sea level rise, flood management, and wetland restoration, consistent with the San Francisco Bay Area Conservancy Program.
- \$20.3 million for planning and implementation of projects that help communities prepare for impacts of sea level rise and coastal flooding, and \$7.5 million for grants to increase resilience of coastal ecosystems and protect marine wildlife.
- \$8.5 million for removal of obsolete dams and modifications to related infrastructure to increase habitat connectivity, build climate resilience for culturally and economically important fisheries and improve coastal sediment supply for beaches and shorelines.

The Governor's 2025-26 Proposed Budget also includes \$86 million in new spending for several coastal resilience and sea-level rise related projects, such as additional spending for upgrading fish hatcheries for Central Valley Chinook.