CALIFORNIA SENATE REPUBLICANS

Highlights and Analysis of the 2025-26 Enacted Budget

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SENATE REPUBLICAN FISCAL OFFICE

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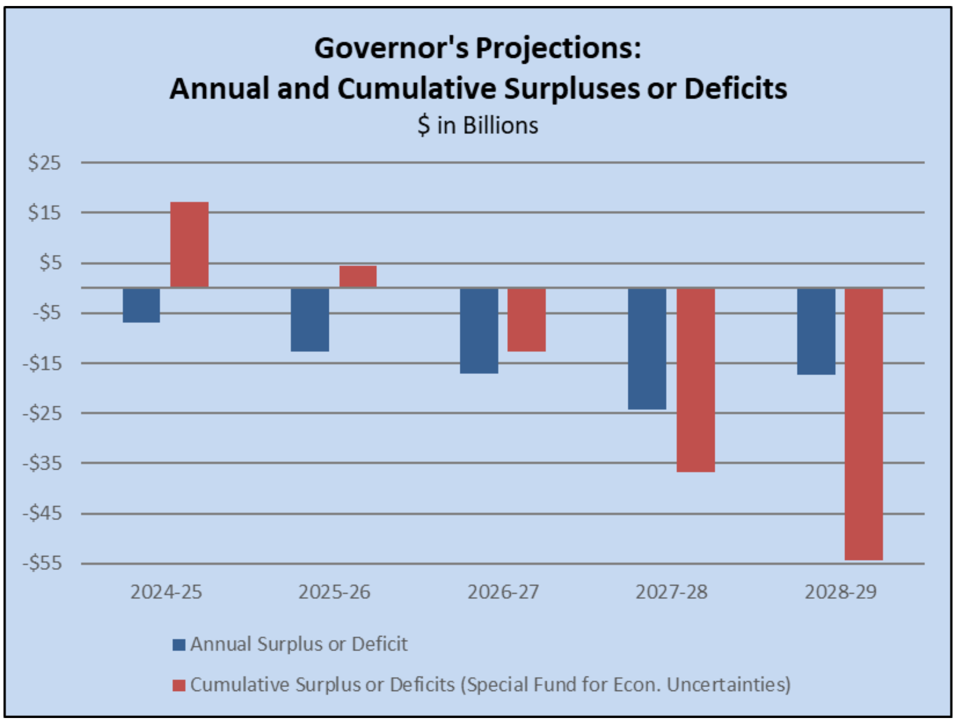
Executive Summary

Continues Long-Term Trend of Spending Growth and Deficits. The 2025-26 budget would spend $228 billion General Fund, a decline of about $5 billion from the updated prior year level. Despite the deficit, the budget would still spend $17 billion General Fund more than the enacted budget for 2024-25. The dominant factors driving spending growth are various expansions in Health and Human Services programs, most notably the recent Medi-Cal expansion to undocumented immigrants. General Fund revenues would drop by about $13 billion in 2025-26 to $209 billion compared to the prior year, but this level would remain $12 billion above the level seen just two years ago in 2023-24.

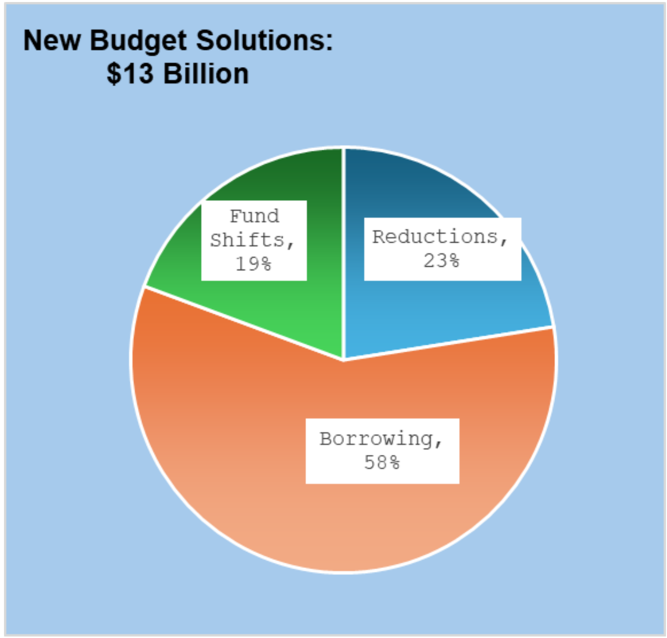
The three future years included in the forecast continue to reflect a long-term growth trend in spending, which would outpace revenues for years into the future. The budget is purportedly balanced in 2025-26, but the majority party has papered over the deficit for one year using largely short-term solutions, including $7 billion in new borrowing. The lack of ongoing spending adjustments puts California on pace to create annual operating deficits ranging from $17 billion to $24 billion over the next several years, as shown in the chart below, even without a decline in revenue or further increase in spending.



Budget "Solutions" Once Again Short-Term. The new deficit solutions in the enacted budget total nearly $13 billion through 2025-26. Unfortunately for the long-term sustainability of the state budget, over half these solutions are new borrowing, most notably including over $4 billion in loans to the Medi-Cal program. Less than one-fourth of the solutions are characterized as spending reductions. The $13 billion solutions package includes the components summarized in the chart on the next page.

The state also took preemptive actions during the 2024 budget process to address the deficit projected at that time for 2025-26. These actions included $27 billion in budget solutions for 2025-26, including the withdrawal of $7.1 billion from reserves as well as fund shifts, tax increases, and reductions, though some of those solutions have eroded in value.

While Governor Newsom and legislative Democrats have sought to blame the Trump Administration for California's budget woes, the reality is that massive deficits returned to California beginning in 2023-24, well before the 2024 presidential election. California's own overspending is the true culprit responsible for the state's ongoing budget deficits.



Housing and Homelessness

Significant Housing Reforms Could Increase State's Housing Production. After years of Senate Republicans calling for significant CEQA and housing policy reform, the 2025-26 budget includes a number of policy changes that could move the needle on housing production Environmental organizations and labor unions have weaponized CEQA to achieve their goals, resulting in policies that both delay housing development for years and drive up the cost to build. Two 2025 budget trailer bills include changes that revise CEQA requirements for projects that should result in expedited permitting and approval, reducing the cost to developers and increasing the number of both single and multifamily homes built across the state.

Additional Housing Funding. The budget provides $120 million for the Multi-Family Housing Program, which provides low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households. The budget also provides $300 million General Fund for the California Dream for All program in 2025-26. The program offers shared-mortgage loans to eligible first-time homebuyers for up to 20 percent in down payment or closing cost assistance, not to exceed $150,000, towards the purchase of a new home. Lastly, the budget provides $500 million in supplemental tax credits within the State Housing Tax Credit program, which works in conjunction with two federal tax credit programs to reduce funding gaps within development projects.

Minimal New Funding for Homelessness Programs. The budget provides $100 million General Fund in 2025-26 for the Encampment Resolution Grant Program, but does not include new funding for the Homeless Housing Assistance and Prevention Program (HHAP). Instead, a budget trailer bill would appropriate $500 million General Fund for HHAP in 2026-27, but only if the latest round of funding has been substantially completed.

Health

Medi-Cal Enrollment Freeze for the Undocumented. The enacted budget halts new Medi-Cal enrollments to undocumented adults starting in January 2026. All existing undocumented adults currently on Medi-Cal would remain in the program, and any new undocumented children ages 18 and under may still continue to enroll in Medi-Cal. This action is estimated to save $78 million General Fund in 2025-26 and $3.3 billion annually by 2028-29.

Medi-Cal Premiums, Benefit Cuts for "Unsatisfactory Immigration Status" Adults. The enacted budget imposes a $30 monthly premium for all adults with "unsatisfactory immigration status" (UIS) that remain in the Medi-Cal program, starting in July 2027. The UIS population is larger than just the undocumented population, as it includes legal entry individuals in pursuit of green cards and those in asylum status. The premium proposal provides no budget savings in the 2025-26 fiscal year, but is estimated to result in savings of $250 million in 2027-28 and $675 million annually thereafter.

Steals Proposition 35 Funds from Medi-Cal Providers. In violation of the will of the voters when they approved Proposition 35 in 2024, the Democrats take an additional $1.3 billion in Managed Care Organization (MCO) tax funds in 2025-26 away from funding new Medi-Cal provider rate increases and instead uses it as a General Fund budget solution. This sweeping of Proposition 35 funds could be challenged in court, but if it is maintained, it misses an opportunity to increase the number of providers serving the Medi-Cal population. Without dedicated funding for Medi-Cal provider rate increases, health care access for millions of vulnerable Californians is in jeopardy.

Public Safety

Bare Minimum for Proposition 36 Implementation. The enacted budget provides less than a quarter of the $344 million funding need identified by the various stakeholders that will be critical participants in ensuring the success of the Homelessness, Drug Addiction, and Theft Reduction Act (Proposition 36). This budget essentially ignores the will of the voters, nearly 70 percent of whom voted for Proposition 36 despite the Governor's vocal opposition to the measure.

Continuing to Soften the Prison Experience. The budget includes $9.4 million in 2025-26 and $13 million annually thereafter to convert the former Death Row housing block at San Quentin to an honor dorm, increase staffing and rehabilitative programming, and forge ahead with implementation of the California Model. The Governor's signature prison reform plan focuses on trauma-informed programming, normalization of the physical environment, and generally making prison feel less like prison. It seems unlikely these measures will enhance public safety in any measurable way over the long term.

Partial Reversal of Ill-Advised Trial Court Reduction. The budget reverses $42 million of a $97 million unallocated reduction to trial court operations that was included in the 2024 Budget Act. This unallocated reduction would have required courts to re-calendar cases to meet statutory timelines for criminal caseloads, which ultimately would have led to worsening backlogs of civil cases. While the $42 million reversal is an improvement, the trial courts still face a $55 million ongoing reduction, which unfortunately means civil case delays and backlogs are still likely.

Human Trafficking and Child Exploitation Investigations. The budget includes $5 million General Fund and 12 positions ongoing, beginning in 2025-26, for the California Highway Patrol to assist local law enforcement agencies with multi-jurisdictional investigations into human trafficking and the distribution of child sexual abuse material. The budget also includes $7 million General Fund to make

$5 million in baseline funding permanent for the Internet Crimes Against Children grant program administered by the Office of Emergency Services and to provide an additional $2 million to enhance the program.

Funding to Litigate Against Federal Administration. The budget provides another $20 million General Fund in 2025-26 for state and local prosecutors to step up their legal battles as the ruling party tries to thwart the policies of the current federal administration. $14.2 million ongoing is for the Attorney General's efforts, and $6 million is provided on a one-time basis for the Los Angeles and Santa Clara County Counsel's Offices and the San Francisco City Attorney's Office.

Tax Policy

Single Sales Factor. The budget requires financial institutions (including banks and savings and loan businesses) to use a mandatory single sales factor tax apportionment beginning with taxable year 2025. The budget includes a revenue increase of $330 million in 2025-26, $280 million in 2026-27, and $260 million in 2027-28 as a result of this tax policy change.

Expands the Hollywood Film Tax Credit. The budget prioritizes the Film and Television Tax credit program, increasing the available tax credits from $330 million to $750 million annually from 2025-26 through 2029-30. The budget assumes a revenue reduction of $15 million in 2025-26, growing to more than $200 million annually.

Wildfire Settlement Income Exclusion. The budget excludes from gross income any settlement amounts received by individuals or businesses for property damaged or destroyed by wildfires between January 1, 2021, and January 1, 2030.

Military Retirement Income. Beginning in tax year 2025 and through tax year 2029, the budget excludes from income for state tax purposes up to $20,000 in military retirement pay or Survivor Benefit Plan annuity payments.

Renters Tax Credit. AB 130, a 2025-26 budget trailer bill, increases the renters tax credit for qualified renters, but the increase would be subject to an annual appropriation in the budget act.

TK-12 Education

Proposition 98 TK-14 Funding. The Proposition 98 Guarantee for 2025-26 is $115 billion, a decline from 2024-25. The budget maintains a Proposition 98 funding level of $99 billion in 2023-24, and the revised 2024-25 Proposition 98 guarantee is calculated at $120 billion. The Proposition 98 Guarantee is funded at $118 billion for 2024-25, about $1.9 billion below the calculated guarantee. According to the Newsom Administration, this is to provide a buffer for changes in the guarantee due to revenue changes before the final calculations are made. If revenues remain the same, this would create a "settle-up obligation" of $1.9 billion that must be repaid in future years. If revenues decline, the obligation would also decline.

Spending per Pupil Continues to Increase. Proposition 98 spending per pupil would be $18,534 in 2025-26 and $25,155 per pupil from all funding sources. This is a Proposition 98 increase of $6,657 per pupil, or 56 percent, compared to six years ago in 2019-20, the year before the pandemic started. When accounting for all funds, it is an increase of $8,141 per pupil, or 48 percent. Despite the dramatic increase in per-pupil funding, the most recent student test scores remain similar to or below those achieved at much lower levels of funding. For example, California students were 33.5 points below the standard in mathematics in 2019 and 47.6 points below the standard in 2024.

Proposition 98 Rainy Day Fund and Local Reserves. The 2025 Budget Act leaves no funding in the Public School System Stabilization Account (school reserve) at the end of 2025-26. This reflects a withdrawal of the entire $455 million balance in 2025-26.

Local Control Funding Formula (LCFF). The budget includes a 2.3 percent cost-of-living adjustment (COLA) for the LCFF. When combined with population growth adjustments, this will result in a $2.1 billion increase in discretionary funds for schools. The budget also provides $174 million ongoing Proposition 98 General Fund for COLA adjustments for the LCFF Equity Multiplier and categorical programs such as Special Education, State Preschool, Youth in Foster Care, Child Nutrition, and the Charter School Facilities Grant Program.

Adds Billions in New Proposition 98 Deferrals. The budget defers $1.9 billion Proposition 98 General Fund from the 2025-26 fiscal year to the 2026-27 fiscal year. Deferrals are a way for the state to make late payments to schools when the state cannot meet its funding obligations. By pushing a portion of payments to schools into the following fiscal year, it allows the state to claim one-time savings.

Universal Transitional Kindergarten (TK) Full Implementation. The budget includes $2.1 billion ongoing Proposition 98 General Fund for the full implementation of universal transitional kindergarten. This total is inclusive of all prior years' investments. The funding is estimated to provide access for 51,000 additional children, bringing the total TK enrollment to over 228,000. An additional $1.2 billion ongoing Proposition 98 General Fund is provided to support lowering the student-to-adult ratio from 12:1 to 10:1.

Proposition 98 Funding Split Adjusted to Favor TK Over Community Colleges. The budget adopts a new funding split between TK-12 schools and community colleges for the additional Proposition 98 funding as a result of the universal TK expansion. Prior to this budget, the additional Proposition 98 funding for TK was split between community colleges and TK-12 schools following the traditional 11 percent for community colleges and 89 percent for TK-12 schools. This budget shifts the full amount of the TK Proposition 98 expansion to the TK-12 side of the budget in 2025-26 and ongoing. This results in $233 million in ongoing Proposition 98 going from community colleges to TK-12 schools.

Higher Education

Operations Cuts Switched to Deferrals and Cash Loans for University Systems. The Governor's May Revision proposed to cut the budgets for the University of California and California State University on an ongoing basis by 3 percent. Senate Republicans argued against these cuts to higher education. The final enacted budget instead reduces the systems' budgets by 3 percent but refers to these cuts as base deferrals from 2025-26 to 2026-27, intending to restore them next year. The budget also authorizes a no-interest loans for the systems in 2025-26. With the overall budget forecast showing a deficit of $17 billion for 2026-27, the state's claim that it will provide the funds that year lacks credibility.

Sonoma State Bailout. The CSU's Sonoma campus has experienced a dramatic decline in enrollment in recent years, leading that campus to discontinue some majors and sports programs. The enacted budget provides $45 million in one-time General Fund to Sonoma State University to support a long-term turnaround plan focused on student recruitment, academic expansion, and athletic program support.

Community College Funding Increases. Community colleges will receive a cost-of-living-adjustment as well as increases to the Student-Centered Funding Formula, consistent with Proposition 98 treatment for TK-12. In addition, the budget provides various discretionary program increases, such as $15 million in one-time Proposition 98 for Dreamer Resource Liaisons**.**

Certainty to Middle Class Scholarship Recipients, Uncertainty in State Spending. The enacted budget maintains funding for Middle Class Scholarships at the level seen 2024-25, rather than cutting funding by over $500 million as the Governor proposed. However, the budget will pay the entire $918 million cost for 2025-26 from the 2026-27 budget, claiming to fund the program on a cash flow basis. This should provide students with a stable grant level, but the use of cash flow loans for this purpose may create complications in future budgets.

Child Care and Early Education

"Cost-of-Care Plus" Rate Increases. The 2025 Budget Act provides $802 million (General Fund and Proposition 98 General Fund) to continue to provide so-called "Cost-of-Care Plus" payments. While the annual statutory cost-of-living adjustment (COLA) is suspended for the 2025-26 fiscal year, the budget redistributes the funding that was intended for the COLA as an addition to the monthly Cost–of-Care Plus rates for the 2025-26 fiscal year. This redistributes about $89 million (General Fund and Proposition 98 General Fund) across child care and preschool programs.

"Hold Harmless" Reimbursement Extension. The budget includes $89 million General Fund to extend the pandemic-era "hold harmless" policies through June 30, 2026 for child care and preschool reimbursement. The hold harmless policies give providers that directly contract with the state 100 percent of their maximum reimbursable contract amount or the actual reimbursable program costs, whichever is less. This means that providers are getting paid for empty slots. The pandemic-era hold harmless policy originally intended to keep providers open during the pandemic shut-down, but it makes no sense now and is overdue for expiration.

New Bargaining Agreement and Alternative Rates Still Pending. The Newsom Administration is still in negotiations with Child Care Providers United on a new bargaining agreement. The current bargaining agreement expired on June 30, 2025. While no potential cost estimates have been provided for the new agreement, the prior bargaining agreement resulted in costs exceeding $2 billion over two fiscal years. Complicating the situation, the focus of the new bargaining agreement will likely be centered on the implementation of an alternative methodology to set child care reimbursement rates, which could result in new spending in the range of tens of billions of dollars annually.

Human Services

Public Safety Could Be Compromised by Squeezing Funds for Juvenile Justice Facilities. The Democrats' budget alters the formula that allocates $209 million in annual funding to county probation departments for the operations of juvenile justice facilities, also known as the Juvenile Justice Realignment Block Grant (JJRBG), beginning in 2026-27. Under the new formula, the courts will have no choice but to send these youth (convicted of murder and rape) to less secure residential settings. Conditioning JJRBG on less restrictive programs in an attempt to manipulate judicial decisions is not appropriate or in the best interest of public safety.

"Reimagine" CalWORKs Changes. The budget continues the trajectory of the past decade with more reductions to accountability in the CalWORKs program, raising questions about whether or not the program still aligns with the original intent to help people become self-sufficient. The major changes to the CalWORKs program included in the budget are allowing verbal or written curing of sanctions, further expanding welfare-to-work activities, and making Job Club/Job Search optional. These changes result in a net General Fund savings of $17 million in 2025-26 and ongoing. There are additional savings of $4.6 million in 2025-26 and $14 million in 2026-27 and ongoing, with all of those savings remaining in the CalWORKs single allocation.

Increases the Potential Costs for California's Future Share of the CalFresh Program. The budget includes $200,000 General Fund to develop a strategic plan to maximize benefits to those eligible for CalFresh, which is currently entirely federally funded. However, the recent budget reconciliation bill adopted by the federal government would shift a portion of CalFresh benefit costs to the states beginning in 2028 if the state has a payment error rate over 6 percent. For California, that share of cost could be $650 million to $2 billion General Fund annually that would be needed in future years.

In-Home Supportive Services - Community First Choice Option Late Penalties on Counties. For the 2025-26 fiscal year, the budget would require the state and county to each pay 50 percent of the enhanced federal financial participation lost due to noncompliance of timely case reassessments for the In-Home Supportive Services (IHSS) Community First Choice Option (CFCO) program. This results in a General Fund reduction of $41 million. Beginning July 1, 2026, counties would be required to pay 100 percent of any reassessment late penalties.

Provides Funding for Californians at Risk of Homelessness. The budget provides a cumulative $210 million General Fund in one-time housing and homelessness investments meant to serve those at risk of or experiencing homelessness. The funding is provided across the Bringing Families Home, Home Safe, and Housing and Disability Advocacy Programs, and is available for encumbrance or expenditure until June 30, 2028.

Developmental Services

$75 million Cut to Disabled Service Providers. Current law states that until June 30, 2026, DDS will implement a hold-harmless policy for developmentally disabled service providers whose current reimbursement rates happen to exceed the recommended rates modeled in the 2019 rate study. Once the hold-harmless period ends, rates will be adjusted downward for these providers to align with the rate models for other providers within the same service category and region. This budget accelerates that timeline by four months, to February 28, 2026, in order to deny $75 million in funds to these providers. This hit not only disrupts the plans of these businesses, but it removes needed funding from the system that could have been used to provide services to the intellectually and developmentally disabled (I/DD) community.

Ongoing Cut to the Self Determination Program. The Self-Determination Program at DDS, created by a Senate Republican author in 2013, is an alternative way for individuals and families to have flexibility, control, and responsibility in managing their own services and supports. The enacted budget still curtails some client autonomy by making these individuals and families go through more bureaucratic hoops to obtain necessary services, resulting in cuts of $22.5 million in 2025-26 and $45 million annually thereafter. Rather than reinvesting these savings back into the program, the budget siphons these funds off for other General Fund priorities.

Environment and Natural Resources

Cap-and-Invest Extension Remains a Risk. Over $3 billion a year for High-Speed Rail, CAL FIRE, and other priorities depends on a new Cap-and-Trade plan, now to be known as Cap-and-Invest, which the Legislature still hasn't enacted. Discussions will continue over the summer on a potential plan to extend Cap-and-Invest past its 2030 sunset date.

Water Reliability Funding Reverted. The budget reverts $51 million for water recycling, $47 million for dam safety, and $15 million for flood projects—putting drought response and water reliability at risk. Delaying these investments contradicts repeated claims of prioritizing infrastructure.

Wildfire Preparedness Hinges on Auctions. More than $1 billion for CAL FIRE now rides on unpredictable Cap-and-Trade auction revenues. This is a risky approach that leaves rural communities and property at greater risk due to volatile auction revenues.

Environmental Review Streamlined—Finally Addressing Regulatory Gridlock. Streamlining for the Delta Conveyance and wildfire mitigation reflects Republican-led calls to rein in CEQA abuse and bureaucratic delays. This is a necessary shift, even if legal challenges from opponents continue.

Labor and Employment

Interest Payment for Unemployment Debt. The Governor's budget includes $643 million (General Fund) for the annual interest payment on the state's $21 billion Unemployment Insurance loan from the federal government. These interest payments and the increased tax burden on California businesses would have been avoided if the Governor had used past surplus funds to pay off the federal loan.

Borrowing to Subsidize State Spending. As a deficit solution, the budget includes a loan of $400 million from the Labor and Workforce Development Fund to the General Fund, thus using one-time loan funds to continue excessive ongoing state spending.

General Government

Los Angeles County Emergency General Fund Loan Authority. The budget includes authority for the Director of Finance to make up to $1 billion in General Fund loans to local government entities that have significant responsibilities for recovery from the January 2025 wildfires in Los Angeles County.

Agency Reorganization Creates New Duplication but Fails to Consolidate Homelessness Programs. The budget provides $4 million General Fund in 2025-26, and $6 million General Fund ongoing to split the current Business, Consumer Services, and Housing Agency into two distinct Agency bureaucracies: the California Consumer Protection Agency and the Housing and Homelessness Agency.

Tens of Millions in Wasteful Spending Provided in Budget. The budget includes $75 million in unnecessary General Fund spending for programs that will not enhance affordability, provide greater public safety, or improve educational outcomes for Californians. Notable expenditures include $20 million to hire an outside consultant to do the work of the Newsom Administration, $10 million to bail out the journalism industry, and $5 million to determine if Californians are happy.

National Semiconductor Technology Center's Design and Collaboration Facility. The budget provides $25 million General Fund to support capital expenditures incurred during the construction of the National Semiconductor Technology Center's Design and Collaboration Facility.

California Hope, Opportunity, Perseverance, and Empowerment (HOPE) for Children. The budget claws back $40 million General Fund from the HOPE for Children Trust Account Fund to the General Fund in 2025-26, leaving a balance of $90 million after the transfer.

Expands the Governor's College Corp Volunteer Program. The budget provides $68 million in 2025-26 and $84 million ongoing thereafter to permanently establish the College Corp Program within the Governor's Office of Service and Community Engagement.

Transportation

Short-Term Olympic VIP Lanes Receive Funds. The budget includes up to $38 million to the California Department of Transportation to create a network of exclusive lanes to transport executives, athletes, and other people associated with the 2028 Olympic and Paralympic Games in Los Angeles.

Continues to Bail Out Local Transit with General Fund. The budget continues the misguided policy of bailing out local transit agencies, despite the lack of sufficient demand for services or necessary operating efficiencies to make many of those systems viable. This budget provides $812 million General Fund for transit entities. Additionally, the budget authorizes loans of up to $750 million for various Bay Area transit agencies.

Gas Taxes Increase Again. Despite claims to prioritize affordability for Californians, the Governor proposes no changes to existing law, continuing the automatic annual tax increases to gasoline and diesel fuel. Gasoline taxes increased on July 1, 2025, by 1.6 cents per gallon (cpg), to 61.2 cpg, and diesel fuel taxes increased by 1.2 cpg, to 46.6 cpg.

Federal High-Speed Rail Funds Terminated. After review, federal government terminates $4 billion in federal funds, as California continues waste money on increasingly out-of-reach High-Speed Rail project, with $980 million budgeted for 2025-26.

Misguided Proposal for Cap-and-Trade Funds. Still pending is the Governor's proposal to allocate at least $1 billion annually to the high-speed rail project from Cap-and-Trade revenues. The Legislature plans to consider the reauthorization of the Cap-and-Trade program and funding allocations, including this proposal, later this year. The proposal to change the funding methodology is an effort to allow the Authority to sell bonds with future revenues as collateral.

Overall Budget

Key Points

- **Expenditure Growth Driven by Health and Human Services (HHS) Expansions.** Spending is up by nearly $17 billion compared to enacted 2024-25 budget, driven almost entirely by higher costs from major recent HHS expansions.
- **Deficit Papered Over for One Year with Mostly Short-Time Solutions.** Enacts new deficit solutions totaling nearly $13 billion that are mostly one-time in nature.
- **Deficits Persist Throughout Forecast.** Lack of ongoing budget-balancing actions mean that deficits of $17 billion to $24 billion persist throughout the forecast.
- **Reserves Severely Diminished As Budget Props Up Program Expansions.** Two years of reserve withdrawals leave California ill-prepared for actual economic crises, as the majority party props up program expansions with one-time reserves.

Budget Increases from Enacted 2024-25 Level. The 2025-26 budget spends nearly $228 billion General Fund, a decline of only about $5 billion from the revised 2024-25 level. However, compared to the 2024-25 budget enacted a year ago, spending would actually rise by nearly $17 billion General Fund, as illustrated in the table below. This apparent contradiction results in part from higher-than-expected spending on Medi-Cal in 2024-25, which ended up more than $5 billion above budget.

General Fund Expenditures by Agency
(Dollars in Millions)

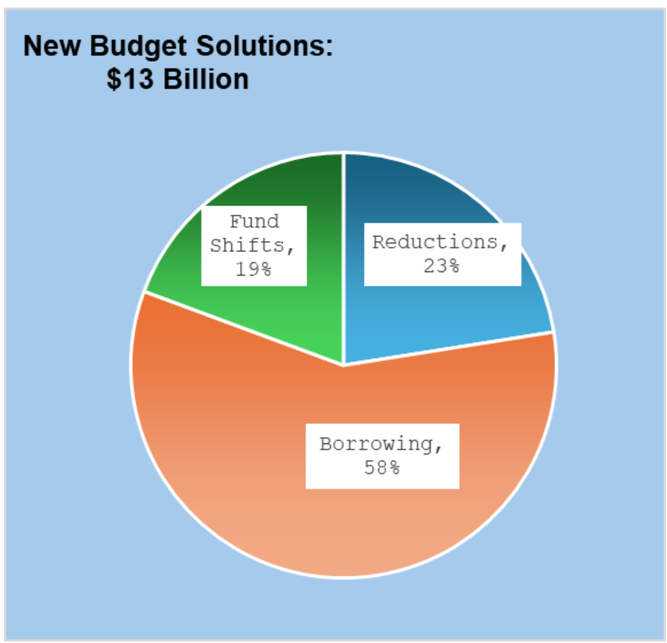
Agency	2024-25 Enacted June 2024	2024-25 Revised May 2025	2025-26 Enacted June 2025	2025-26 Change from Enacted 2024-25
Legislative and Executive	$4,367	$7,607	$4,794	$427
Courts	$3,222	$3,183	$3,318	$97
Business, Consumer Services, Housin	$1,324	$3,726	$720	-$604
Transportation	$209	$251	$166	-$43
Natural Resources	$3,786	$7,535	$2,690	-$1,096
Environmental Protection	$214	$643	$132	-$82
Health and Human Services	$71,193	$76,214	$86,869	$15,676
Corrections and Rehabilitation	$13,749	$13,608	$12,994	-$755
TK-14 Education (Proposition 98)	$82,612	$85,711	$80,738	-$1,875
Higher Education (Non-Prop. 98)	$20,170	$19,974	$19,134	-$1,036
Labor and Workforce Development	$949	$1,108	$958	$10
Government Operations	$2,467	$3,464	$2,465	-$2
General Government	$821	$4,255	$6,715	$5,894
Capital Outlay	$567	$773	$683	$116
Debt Service	$5,856	$5,525	$5,992	$136
Total, General Fund Expenditures	**$211,504**	**$233,577**	**$228,366**	**$16,862**

In addition, the extensive use of one-time solutions like reserve withdrawals and borrowing allows spending to remain relatively high in the short term, as discussed further below.

Expenditure Growth Driven by Health and Human Services (HHS) Expansions. The table on the previous page summarizes the changes by major program area. Most notably, spending for HHS programs grows by nearly $16 billion from the enacted 2024-25 level, demonstrating growth of an ***astonishing 22 percent in one year***. That increase explains nearly all the year-to-year growth in the overall budget.

The HHS increase is largely the result of dramatically higher-than-expected costs for the 2024 expansion of full Medi-Cal benefits for undocumented immigrants, as discussed further in the *Health* section. That expansion also created significantly higher costs in the In-Home Supportive Services program, as discussed in the *Human Services* section. Child care spending has also risen sharply due to recent budget actions. In short, the Governor and legislative Democrats have continued to ramp up major expansions in new or expanded HHS entitlement programs, even as they shortchange priority programs like fire prevention, ramp up borrowing, and withdraw over half the state's budget reserves.

Enacted Solutions Consist Mostly of Fund Shifts. The enacted budget authorizes nearly $13 billion in new budget solutions for 2025-26, which are summarized in the chart below. (Note that the Governor's total of $12 billion in solutions excluded a loan of $914 million for Middle Class Scholarships). About 58 percent of the solutions are one-time borrowing actions that will increase costs to repay in the future.



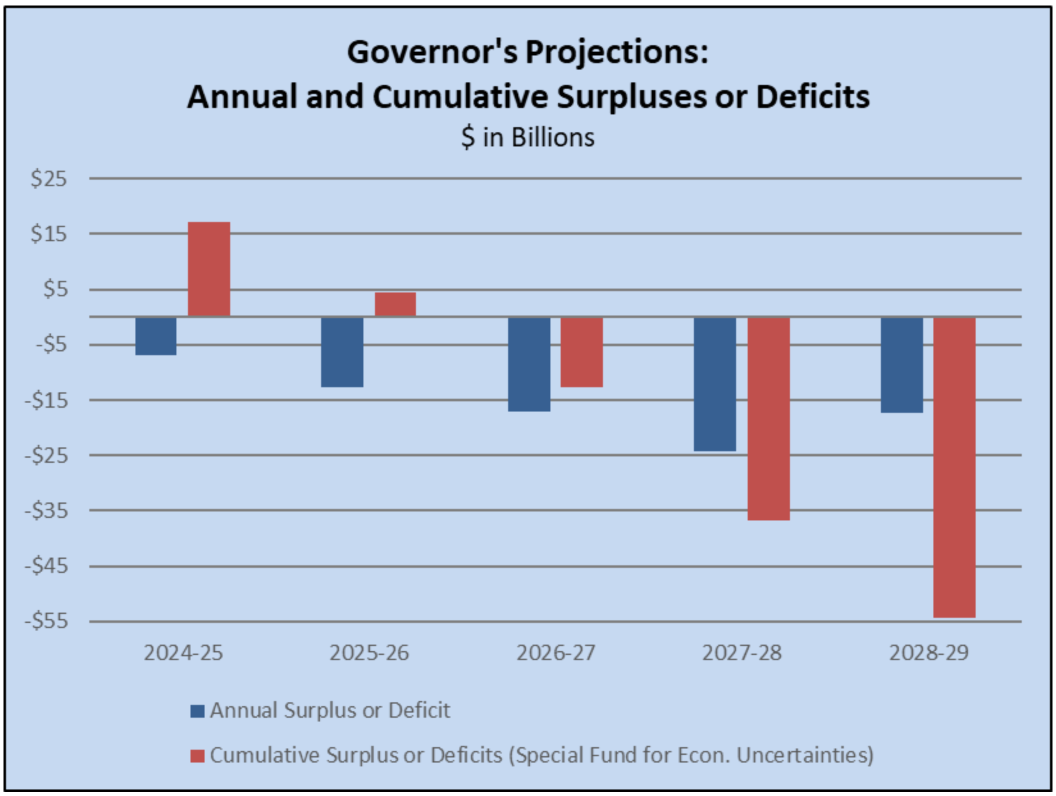
Major components of these solutions for 2025-26 include the following:

- Increased borrowing of $7.4 billion, primarily through a $4.4 billion loan to cover Medi-Cal costs that Democrats approved earlier this year. At that time, the Governor claimed that loan was for cash flow only, rather than a budget solution.
- Spending reductions of $2.9 billion, primarily through pharmacy rebates ($370 million) and state employee compensation savings ($280 million). Despite the massive expansion in Medi-Cal costs, the reductions have minimal effect on Medi-Cal in 2025-26, only generating $78 million in savings. The Medi-Cal reductions would phase in over time, potentially reaching $3.3 billion in 2025-29.

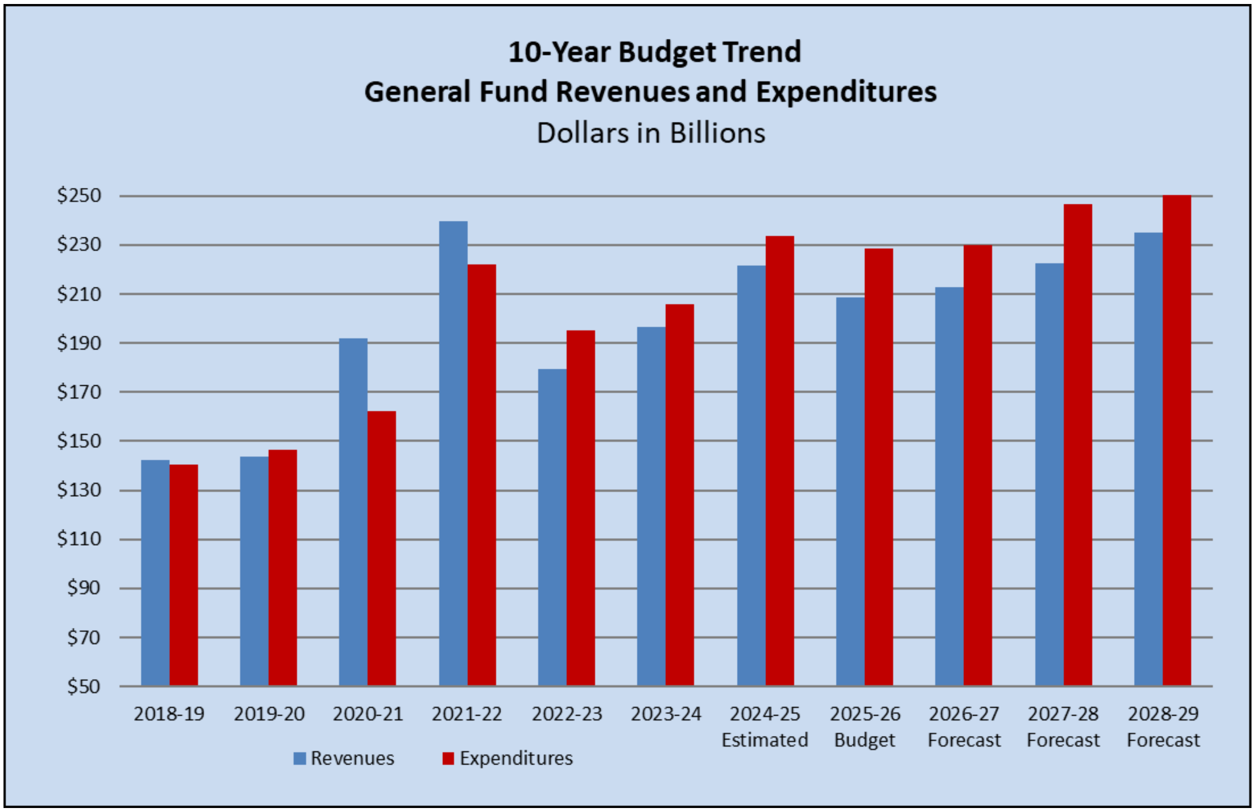
➢ Shifting $2.5 billion in costs from the General Fund to other state funds, including $1.0 billion for CalFIRE to Cap & Trade funds and $1.3 billion for Medi-Cal to the managed care organization tax authorized by Proposition 35.

The newly enacted solutions of $13 billion are in addition to the $27 billion in solutions that the state enacted for 2025-26 as part of the 2024-25 budget package. Those solutions included a $7.1 billion withdrawal from the state's Rainy Day Fund, which the new budget maintains.

Deficits Worsen in Forecast. The lack of ongoing spending reductions in this and previous budgets helps create annual operating deficits that persist throughout the Governor's forecast. As illustrated in the chart below, those deficits will range from $17 billion to $24 billion annually over the three years following the budget. Cumulatively, these deficits would reach $54 billion by 2028-29. While the Governor and Democrats are quick to blame the Trump administration for revenue and economic problems, California's supermajority is squarely to blame for spending the surpluses of previous years into annual multibillion dollar deficits. California's budget turned from surpluses to deficits in 2023-24, well before the 2024 election, despite no economic downturn. These deficits are clearly the result of overspending, combined with a subsequent refusal to reverse unsustainable program expansions.



Long-Term Spending Growth Continues After Pause. The spending level for 2025-26 would exceed the pre-pandemic level by $82 billion, a whopping 56 percent growth in just six years, despite three consecutive deficit years. The chart on the next page illustrates recent and forecasted revenues and expenditures. Looking forward, spending would continue to grow by an average annual rate of 3.4 percent over the next three years, while revenues would grow by 4.0 percent. However, because expenditures are currently so far above revenues, the budget never achieves structural balance within the forecast.



Reserves Severely Diminished After Recent Withdrawals. The enacted budget withdraws $7.1 billion from the state's Rainy Day Fund reserve in 2025-26, as planned during last year's budget process. This would leave $16 billion in total remaining reserves, which is a relatively low 6.3 percent of General Fund resources in 2025-26. The enacted changes and remaining reserve balances include the following:

- A withdrawal of $7.1 billion from the state's Rainy Day Fund in 2025-26, in addition to the prior year withdrawal of $4.9 billion. These withdrawals leave $11 billion remaining in the Rainy Day Fund.
- A withdrawal of $455 million from the Proposition 98 Rainy Day Fund, using the entire balance of that account, which can only be used for education funding.
- A $4.5 billion balance in the discretionary reserve (the Special Fund for Economic Uncertainty).

The common-sense purpose of reserves is to prepare for economic recessions or other unforeseen budget shortfalls. However, neither of those situations has been the case in California. Rather, Governor Newsom and legislative Democrats began expanding HHS programs and spending at unsustainably higher levels following the short-term infusion of federal money during the pandemic.

Although Democrats have sought to blame the federal government, California began experiencing major deficits in 2023-24, well before the second Trump administration began. Now, the Governor and legislative Democrats are using reserves to prop up those recent program expansions, rather than keep reserves for a true economic crisis.

Californians Took Their Taxes to Other States. The nonpartisan Legislative Analyst's Office (LAO) evaluated the tax revenue effects of Californians moving to other states in a July 2024 report. The data shows that the lost revenue in 2022 accounted for about 1.6 percent of personal income taxes that year. Recent emigrants from California to other states have higher incomes than past leavers, resulting in lost tax revenues tripling in 2022 compared to pre-pandemic levels. Additional information this office requested from the LAO indicates that the cumulative net effect of Californians moving to other states is about $7 billion less in tax revenue each year.

Federal Law Effects on State Budget

<u>**Key Points**</u>

- **Recent Federal Bill Has Wide-Ranging Effects.** New federal bill likely to have multibillion dollar effect on state budget, but costs will depend on state policy reactions.
- **Dramatic Changes for Health and Human Services (HHS) Programs.** State receives tens of billions of federal dollars for various HHS programs, and state policy changes could be needed to maintain that funding.
- **Change to State and Local Tax (SALT) Deduction Helps California Taxpayers.** Federal limit on the SALT deduction will increase, saving money for higher-income Californians.

New Federal Bill Will Have Wide-Ranging Effects. On July 4, 2025, the federal government enacted House Resolution 1 (H.R. 1), more commonly known as the One Big Beautiful Bill Act. This law affects numerous fiscal policies, and its effects on the state budget and the economy will not be known with certainty for years to come. Some federal changes that directly affect state programs will be more readily apparent within a couple years, but these will be influenced by whether California changes certain policies of its own to comply with new federal standards. The indirect economic effects from changes such as the income tax rate extensions or more stringent enforcement of immigration laws will be more difficult to assess. Such changes could actually increase state tax revenues and decrease state spending, depending again on California's own policy responses. More in-depth review over the coming months is necessary to determine how the state's 2025-26 budget will fare, though most effects appear to be further in the future.

State Receives $175 Billion from Federal Government. California is budgeted to receive nearly $175 billion from the federal government in 2025-26, a slight increase from the $172 billion estimated for 2024-25. When added to the state fund total of $321 billion, federal funds bring the overall budget total to $496 billion for 2025-26, an increase of 54 percent compared to the state funds alone.

Significant Changes for Health and Human Services (HHS) Programs. The majority of the federal $175 billion for state programs funds flows to HHS programs, which are slated to receive $137 billion, including $121 billion for Medi-Cal alone. The Department of Social Services will receive another $11 billion within the overall HHS total. Potential effects on state HHS programs include the following:

- ***Medi-Cal Provider Tax Limits.*** California makes wide use of various "provider taxes," which collect money primarily from hospitals, managed care plans, and nursing homes, use those proceeds to draw down federal matching funds, and then pay the combined amounts back to the providers. These arrangements often mean that the providers who paid the initial taxes receive net increases once they receive the federally-enhanced return payments. These rules are complicated, but H.R. 1's limits could mean that California would have to either cut payment rates to Medi-Cal providers or budget more state General Fund directly to maintain current payment levels. This could mean tens of billions of dollars in additional state cost or dramatic cuts to Medi-Cal's already dismal provider payment rates.

- ***Medi-Cal Eligibility Changes.*** H.R. 1 enacted changes to some Medi-Cal eligibility rules, including a new requirement that some able-bodied adults meet work requirements to maintain eligibility. Another change would bring back semi-annual eligibility confirmations for enrollees. These changes could reduce California's ballooning Medi-Cal costs.

- ***State Share of CalFresh Benefits.*** Californians currently receive $13 billion in federal CalFresh benefits, and the state does not share in those costs. However, beginning in 2028, states that fail to hold their payment error rates below 6 percent will begin to incur a state share-of-cost. California's error rate is near 11 percent, so without dramatic improvement, the state may incur costs in the low billions of dollars annually.

Apart from changes to HHS programs, H.R. 1 could impact funds across a range of other programs, including various climate and natural resources issues such as wildfire prevention. More analysis is needed to assess these and other potential effects.

Change to SALT Deduction Helps Higher-Income California Taxpayers. Ever since the 2017 federal tax law changes limited the SALT deduction to $10,000 per household, high-tax states like California and New York have been clamoring for a reversal. High-tax states benefited from the previous lack of any limit on SALT deductions because higher-income earners could offset a portion of their high state taxes with lower federal taxes. In essence, lower-tax states were subsidizing higher-tax states by paying a larger share of the federal tax total than they would in the absence of the SALT deduction.

H.R. 1 increases the limit from $10,000 to $40,000 for taxpayers with incomes up to $500,000 and indexes it to inflation. This higher limit will once again allow many higher-income California taxpayers to lower their federal tax bill, thus reaping a benefit that is unavailable to lower-income taxpayers. Notably, this is a basically a "tax cut for the rich" that Democrats have advocated. Somehow, the same Democrats have failed to praise the federal tax change that doubled the standard deduction for most lower-income taxpayers, saving them potentially thousands of dollars per household per year.

Tax Policy

Key Points

- **Tax Increases on Banks and Financial Institutions.** Requires financial institutions to use a single sales factor tax apportionment methodology.
- **Expands the Hollywood Film and TV Tax Credit.** Increases the Hollywood Film and TV tax credit to $750 million annually.
- **Exempts Wildfire Settlements from Income.** Excludes from gross income settlement amounts received for property damaged or destroyed by wildfires.
- **Exempts Military Retirement from Income.** Excludes from gross income up to $20,000 in military retirement pay or Survivor Benefit Plan annuity payments, similar to a bill proposed by Republican Senator Kelly Seyarto in 2025.
- **Renters Tax Credit.** Increases the renters tax credit to $250 and $500 for those without and with dependents, but only upon an annual appropriation in the budget.
- **Federal Tax Changes.** Recently enacted federal tax policy changes would provide relief to California taxpayers and businesses, but state tax relief requires conforming action.

Single Sales Factor. The budget requires financial institutions (including banks and savings and loan businesses) to use a mandatory single sales factor tax apportionment beginning with taxable year 2025. The budget includes a revenue increase of $330 million in 2025-26, $280 million in 2026-27, and $260 million in 2027-28 as a result of this tax policy change. The single sales factor is calculated using only a company's sales in California divided by its sales in the U.S. or the world. The policy change shifts more tax liability onto financial firms with significant California sales, regardless of their in-state property or payroll. Requiring financial firms to use the single sales factor would reward those California-based businesses compared to businesses located elsewhere who are benefitting from doing business in the state but do not have significant payroll or property in the state.

Expands the Hollywood Film Tax Credit. The budget prioritizes the Film and Television Tax credit program, increasing the available tax credits from $330 million to $750 million annually from 2025-26 through 2029-30. The budget assumes a revenue reduction of $15 million in 2025-26, growing to more than $200 million annually.

The 2023 Budget Act extended the Film and Television Tax Credit program for an additional five years, starting in 2025-26 through 2029-30. At that time, SB 132, a budget trailer bill, made the tax credit refundable, meaning businesses without sufficient tax liability to offset the credit would now be able to participate in the program. Although several other states, as well as several other countries, now offer 100 percent refundable tax credits, this expansion was the first business tax credit program that California made refundable.

Wildfire Settlement Income Exclusion. The budget excludes from gross income any settlement amounts received by individuals or businesses for property damaged or destroyed by wildfires between January 1, 2021, and January 1, 2030. These settlements must come from a "settlement entity" approved by a class action settlement administrator. The budget provides certainty on the taxation of wildfire settlements for California families experiencing hardship after a wildfire disaster instead of requiring separate legislation for each separate settlement. There is no budgetary impact because the bill is prospective and future wildfire settlements are generally not included in the state's revenue forecasts due to the unpredictability and volatility of disasters.

Military Retirement Income. Beginning in tax year 2025 and through tax year 2029, the budget excludes from income for state tax purposes up to $20,000 in military retirement pay or Survivor Benefit Plan annuity payments. The income exclusion is available for individuals or heads of household with up to $125,000 in income and joint filers who do not exceed $250,000 in adjusted gross income. The budget includes revenue losses of $130 million in 2025-26 and $85 million annually thereafter. Republican Senator Kelly Seyarto proposed a similar policy through SB 1 (2025), though legislative Democrats blocked his bill. This action to benefit military personnel is a rare bright spot for the 2025-26 budget.

Renters Tax Credit. AB 130, a 2025-26 budget trailer bill, includes a contingency to increase the renters tax credit for qualified renters from the current level of $60 for individuals ($120 for spouses filing jointly) to $250 for those without dependents and to $500 for those with dependents, irrespective of filing status. Senate Republicans previously proposed increasing the renters tax credit, including in a 2022 caucus budget letter, as a way to improve affordability in high-cost California. Unfortunately, the Governor and legislative Democrats made the increase in the renters tax credit subject to an annual appropriation in the budget act. If the budget does not provide dollar amounts for these increases, the renters tax credit remains at the current levels of $60 and $120 respectively. Thus, the budget gives higher priority to Hollywood film companies than to regular Californians who rent homes.

Recent Federal Tax Policy Changes. The 2025 federal budget bill, H.R. 1, also known as the "One Big Beautiful Bill Act (OBBBA)," enacts tax changes focused on extending and expanding tax changes made in the 2017 federal Tax Cuts and Jobs Act. It permanently extends lower individual tax rates, raises the standard deduction (with an added senior bonus), increases the child tax credit, and temporarily raises the Sales and Local Use Tax (SALT) cap. The bill introduces new deductions for tips, overtime, charitable giving, and interest on auto loans for cars made in the United States. Business tax breaks from the TCJA would be extended, while clean energy tax credits are largely repealed. California law does not automatically conform to federal tax policy. The changes included in the OBBBA would affect federal tax liability only, unless California takes an action to conform to specific tax provisions of the bill.

Pass-Through Entity Elective Tax. The budget extends the Pass-Through Entity Elective Tax (PTET) from 2026 through 2031, continuing to allow pass-through entities (like S corporations and partnerships) to pay tax at the entity level while providing a corresponding credit to individual taxpayers. The budget authorizes business entities to make a late payment and still be eligible to participate in the program, but the entity would be subject to a reduced credit as a penalty for the late payment (12.5 percent reduction in the credit).

The recent federal reconciliation bill includes an extension of the SALT deduction limit included in the 2017 Tax Cuts and Jobs Act, but the federal bill also temporarily increases the SALT deduction limit to $40,000 for taxpayers with under $500,000 in income, reverting back to the current $10,000 cap after 2029. It is unclear what these federal changes would mean for the state's PTET program at this time.

Covered Battery-Embedded Waste Recycling Fees. The budget requires marketplace facilitators (such as Amazon) to collect and remit the covered battery-embedded (CBE) waste recycling fee on behalf of marketplace sellers, consistent with the collection process of the eWaste fee. Without this change, marketplace sellers would be required to register, report, and make payments for the CBE fee, which would greatly increase the number of taxpayer accounts CDTFA would have to establish and administer. Requiring marketplace facilitators to collect and remit the fee in lieu of the sellers would reduce administrative workload and costs, and provide consistency between the CBE and eWaste recycling fee programs within CDTFA.

Used Car Dealers Sale and Use Tax Reporting. The budget allows the California Department of Tax and Fee Administration (CDTFA) and the Department of Motor Vehicles to jointly agree to exempt large used car dealers from the AB 85 Program, which requires reporting of sales and use tax (SUT) information to CDTFA. The risk of under-reporting SUT information by large used car dealers is extremely low, as determined by prior CDTFA audits that found no reporting errors. Exempting these large dealers from the reporting requirement would reduce program overhead and streamline workload within CDTFA.

Historic Rehabilitation Tax Credit. The budget authorizes any unallocated tax credits within the Historic Preservation tax credit program to be allocated within 90 days to applicants with qualified rehabilitation expenditures of $1 million or more for affordable housing projects that were eligible for, but did not receive, a previous tax credit award. The Historic Rehabilitation tax credit program was established by SB 419 (Atkins, Statutes of 2019), and sunsets on January 1, 2027. The program provides tax credits for the rehabilitation of certified historic structures.

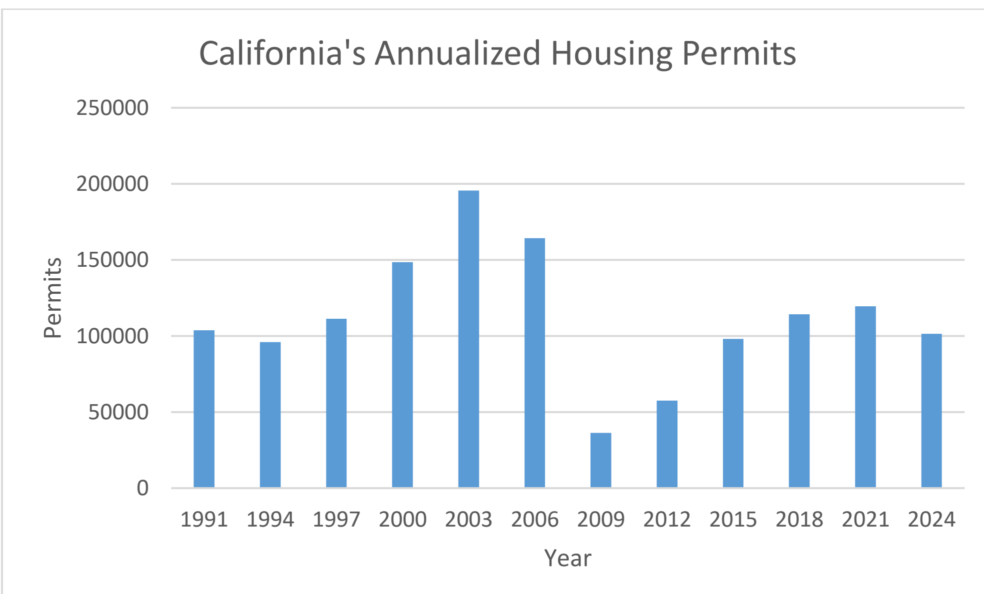
Chiquita Canyon. For taxable years beginning on or after January 1, 2024, and before January 1, 2029, the budget provides an exclusion from gross income for amounts received as compensation for losses related to the Chiquita Canyon elevated temperature landfill event in the County of Los Angeles. The budget also exempts the compensation amount from consideration when determining eligibility or benefit amounts for any of the state's means-tested programs such as Medi-Cal or CalWORKs.

Housing

Key Points

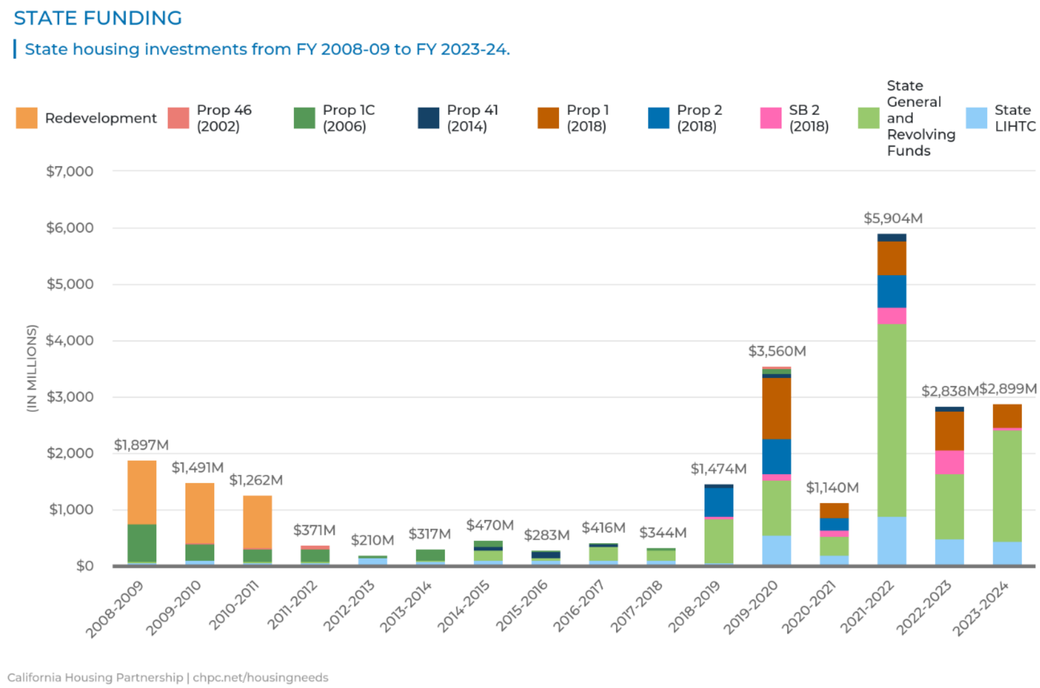
- **Governor's Woeful Housing Results.** Data shows that Governor Newsom's housing policies have fallen dramatically short in delivering results thus far.
- **Housing Policy Reform.** Finally includes significant California Environmental Quality Act (CEQA) and housing policy changes through budget vehicle, following years of inaction.
- **Multi-Family Housing.** Provides $120 million for the multifamily housing program.
- **Low-Income Housing Tax Credit.** Provides $500 million in supplemental tax credits within the State Housing Tax Credit program.
- **California Dream for All Program.** Provides $300 million General Fund for the California Dream for All program.

Governor Newsom's Failed Housing Efforts Thus Far. On October 20, 2017[1] Governor Newsom initially claimed that he would lead California to produce 3.5 million housing units by 2025, then dramatically revised that claim to a statewide goal of permitting (not building) roughly 2.5 million new units by the end of the decade,[2] or roughly 315,000 per year. While the goal is admirable, the state has never come close to building that much that quickly. According to the most recent data, California is on pace to permit 102,000 housing units in 2024, far short of the 315,000 estimated to meet the Newsom administration's goal. As shown in the chart below[3], California has repeatedly failed to build sufficient housing, despite pouring billions of dollars into subsidies each year.



[1]1Medium, The California Dream Starts at Home | by Gavin Newsom | Medium
[2]Governor Newsom Announces Three State Sites Identified for Affordable Transit-Oriented Housing in Sacramento | Governor of California
[3] U.S. Census Building Permit Data, BPS - Permits by State

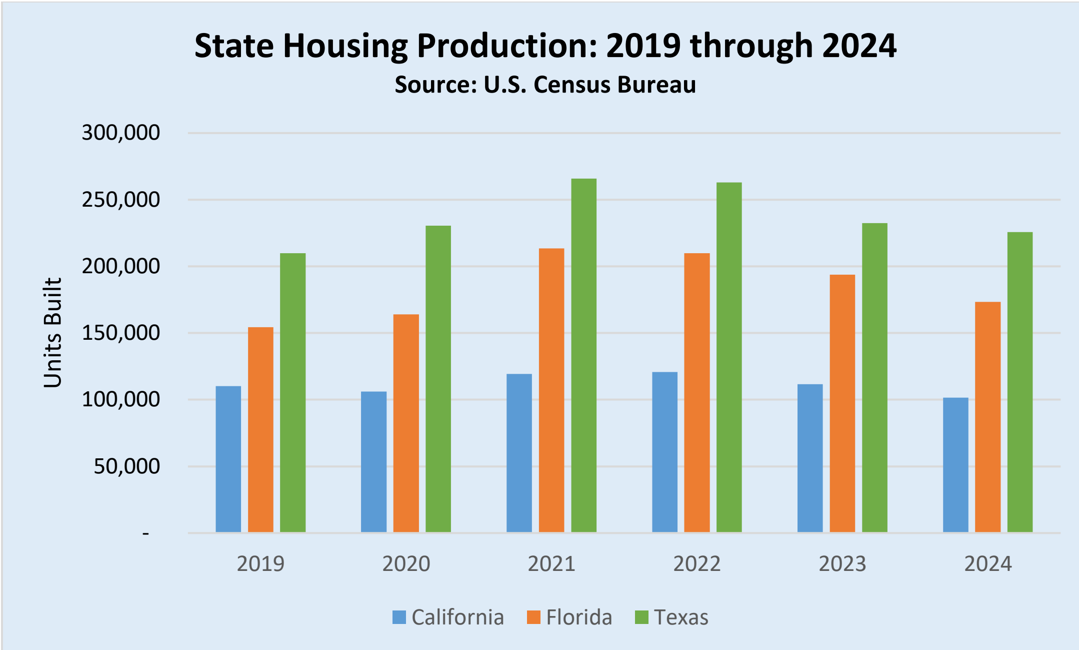
State Spending on Housing Has Not Produced Results. Historically, the Democrats' have tried to spend their way out of California's policy-induced housing affordability crisis, but this path has clearly not worked. As noted in the chart below, the state has significantly increased housing subsidies in recent years, totaling nearly $18 billion from 2018-19 through 2023-24, and yet housing production has averaged only 102,000 annual units during that same time. Construction costs, delays in permitting and approvals, as well as stringent labor and wage requirements have all contributed to the state's long-term failure to meet the housing needs of Californians.



Competitor States Dramatically Outperform California. Texas and Florida have outpaced California in housing production despite having significantly smaller populations, as illustrated in the chart below. Texas has a population that is about three-fourths California's, but Texas has built twice as many homes as California for at least the past six years. Florida's population is scarcely half of California's, but Florida's housing production is 66 percent higher than California's over the past six years. California's policy-induced housing shortage makes life dramatically more expensive for its residents. In the first quarter of 2025, the median home prices in Florida ($412,000) and Texas ($338,000) were both less than half that seen in California ($833,000).[4]

These contrasts highlight deep-rooted policy failures and political inaction in Sacramento. While Democratic leaders frequently acknowledge California's housing crisis, they have repeatedly avoided the policy reforms necessary to address the problem, apparently unwilling to enact real, meaningful change, which could alienate labor unions, environmental groups, or local governments. This lack of action contrasts with Texas and Florida, where policymakers have prioritized economic growth and housing supply. Texas and Florida demonstrate that when housing is treated as a priority, and not just a talking point, states can meet demand and improve affordability.

[4] World Population Review, Median Home Price by State 2025



Significant Housing Reforms Could Increase State's Housing Production. After years of Senate Republicans calling for significant reforms to the often-abused California Environmental Quality Act (CEQA) and other housing policies, the 2025-26 budget finally includes a number of policy changes that could move the needle modestly on housing production. Republicans have been critical of both CEQA's misuse to block housing and other projects, as well as the mandate from majority Democrats to require developers to hire unionized labor. Environmental organizations and labor unions have weaponized the law to achieve their own interests, resulting in policies that both delay housing development for years and drive up the cost to build.

AB 130 and SB 131, two 2025 budget trailer bills, include several major housing reform policies that are significant and encouraging. These bills include changes that could help expedite permitting and approval of projects, reducing the cost to developers and increasing the number of both single and multifamily homes built across the state. Now the question is whether this overdue policy shift will actually result in more homes being built where housing is needed. CEQA is just one factor of many determining whether proposed projects proceed or fail, and other factors may still find a way to slow housing development. The Legislature will need to monitor results in order to ensure implementation is consistent statewide.

Highlights from AB 130: AB 130, a 2025-26 housing trailer bill, made a number of significant housing policy revisions, including the following highlights:

- **CEQA Exemptions**: The bill exempts most infill housing developments from CEQA review, which is intended to accelerate the approval process for housing projects in urban areas. The bill also requires that projects that utilize the CEQA exemption undertake identified actions with regards to California Native American tribes. Upon request by a California Native American tribe, the project must include tribal monitoring during all ground-disturbing activities.

- **Temporary Freeze on Building Standards and Codes:** The bill prohibits the California Building Standards Commission and any other adopting agency, from October 1, 2025, until June 1, 2031, from considering, approving, or adopting any proposed building standards affecting residential units, unless specified conditions are met. The bill would also prohibit a city or county from making changes or modifications to building standards affecting residential units, including to green building standards, from October 1, 2025 until June 1, 2031, unless specified conditions are met.

- **Streamlined Approvals**: The bill creates new exemptions for environmentally friendly housing projects that meet local zoning and planning standards.

- **Labor Standards**: The bill established labor standards for all projects that utilize the CEQA exemption provided by this bill, including (1) requires that construction workers be paid the prevailing wage for projects that are 100 percent affordable housing, and (2) requires the use of a skilled and trained construction workforce for buildings that are over 85 feet in height, among other changes.

- **Accessory Dwelling Units (ADUs):** The bill ensures that private covenants (like HOA rules or deed restrictions) cannot block or significantly burden the creation of ADUs or junior ADUs on single-family lots. The bill also invalidates private restrictions that effectively prohibit or unreasonably limit ADU/JADU construction, and protects reasonable restrictions that do not significantly increase cost or prevent construction.

- **Mortgage Lender Restrictions:** The bill establishes a list of unlawful practices for mortgage servicers and legal remedies for borrowers facing foreclosure. It requires servicers to provide clear documentation and notice before initiating non-judicial foreclosure, and allows courts to halt foreclosure proceedings if violations have been found. Mortgage servicers and lenders are concerned the bill introduces burdensome documentation and legal risk, and may slow down the foreclosure process, affecting timelines for debt recovery.

- **Statewide Vehicle Miles Traveled Mitigation Bank Program**: The bill establishes an optional program to meet vehicle miles traveled (VMT) mitigation obligations under CEQA by paying into the Department of Housing and Community Development's (HCD's) Transit-Oriented Development program fund to support VMT-efficient affordable housing and related infrastructure projects.

- **Regional Housing Needs Assessment Process**: The bill requires additional information from local Councils of Government on regional housing needs assessment (RHNA) data assumptions, and requires a draft RHNA allocation methodology be developed in consultation with HCD.

- **State Lands Act (SLA):** The bill removes school district and community college district real property from the definition of "exempt surplus land," requiring this land to be disposed of in accordance with the SLA.

- **Permit Streamlining Act (PSA)**: The bill provides that the PSA applies to an entitlement for a housing development project regardless of whether the permit is discretionary or ministerial, and requires a local agency to approve or disapprove a ministerial permit within 60 days from the date of receipt of a complete application.

- **California Residential Mitigation Program (CRMP**): The bill would fund the seismic retrofitting of affordable multifamily housing serving low- and moderate-income households, but only upon appropriation of funding by the Legislature.

- **Annual Homeless Shelter Inspections:** The bill requires a city or county to perform annual inspections on every homeless shelter in its jurisdiction, and permits a city with a population under 100,000 to partner with its county to conduct the inspection. The bill amends the annual report that each city and county is required to submit to HCD, adding the number of complaints received by the city or county of substandard shelters, including if the city or county did not receive any complaints. The bill also requires HCD to withhold state funding from any city or county that fails to comply with reporting requirements or fails to take action to correct a substandard shelter violation.

- **Modifications to Streamlining for Housing Developments on Religious or Educational Property:** The bill requires local jurisdictions, as part of their General Plan Annual Progress Reports, to provide data about the number of applications submitted, the location and number of developments approved, and the total number of building permits issued pursuant to the Affordable Housing on Faith and Higher Education Lands Act.

- **Additional Time for Balcony Asbestos Inspections:** The bill extends by up to one year the amount of time that the owner of a multifamily building has to complete required balcony inspections when the discovery of asbestos prevents timely inspection completion.

- **Climate-Aligned Housing Policy:** The bill subjects the California Coastal Commission's review of housing project permit applications to the shorter CEQA timelines that apply to other lead agencies under the Permit Streamlining Act.

- **Consolidation of the Default Reserve Funds for Affordable Housing Programs.** The bill consolidates the existing default reserve funds from specified programs at HCD into a single, continuously appropriated backstop against the loss of affordable housing due to loan payment defaults.

- **Proposition 1 Affordable Housing Projects.** The bill adds affordable housing projects funded by Proposition 1 of 2024, including Homekey+, to the list of affordable housing projects that is not subject to Article 34 of the California Constitution's requirement that specified affordable housing projects be subject to public vote.

- **Accessing Equity in Affordable Housing:** The bill allows affordable housing developers funded by HCD to utilize equity in their affordable housing projects to finance further investments in other affordable housing projects.

Highlights from SB 131: SB 131, also a 2025-26 budget trailer bill, included several CEQA reform policy changes, among the most significant CEQA revisions in recent history. Notable housing highlights of SB 131 include the following:

- **CEQA Streamlining for Infill Housing Projects.** The bill creates a new categorical CEQA exemption for qualifying infill housing developments, modeled on AB 609 (Wicks, 2025). This exemption is intended to significantly accelerate urban housing by removing the need for environmental impact reports or even negative declarations, provided projects meet strict siting criteria. It targets infill locations with existing infrastructure, helping to reduce development pressure in wildfire-prone areas and discourage sprawl.

- **CEQA Exemption for Housing Element–Compliant Rezoning.** The bill exempts from CEQA rezonings that implement a jurisdiction's adopted housing element. The bill also removes CEQA review for rezonings tied to state-mandated housing goals, making it easier and faster for jurisdictions to up-zone parcels for housing.

- **Updates Infill CEQA Guidelines.** The bill requires the Governor's Office of Land Use and Climate Innovation to update guidelines by January 1, 2027, and biennially thereafter, in order to ensure clarity, reduce litigation risk, and promote sustainable infill development.

Other Housing Program Highlights

Multi-Family Housing. The budget provides $120 million for the Multi-Family Housing Program, which provides low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households. Previously, the program received $1.5 billion in bond funds authorized by the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1), but as those bond funds have been fully expended, the state has provided General Fund to support the program in recent years.

Low-Income Housing Tax Credit. The budget provides $500 million in supplemental tax credits within the State Housing Tax Credit program, which works in conjunction with two federal tax credit programs to reduce funding gaps within development projects. The program offers developers nonrefundable and transferable tax credits to subsidize the construction and rehabilitation of housing developments that have strict income limits for eligible tenants.

California Dream for All Program. The budget provides $300 million General Fund for the California Dream for All program in 2025-26. The program offers shared-mortgage loans to eligible first-time homebuyers for up to 20 percent in down payment or closing cost assistance, not to exceed $150,000, towards the purchase of a new home. When the participants sell their home, the Dream for All program receives the money contributed to the down payment, plus 20 percent of any accrued value in the home. These funds are returned to the pool of funds available to assist other first-time homebuyers.

The program received $500 million in the 2022-23 budget, and $20 million in 2023-24. So far, corresponding to expenditures of $245 million, the state has helped 2,182 new homeowners purchase a home. (It can take several months for loans to close, especially if the loan is for new construction). The average Dream for All loan amount was $113,000 with an average sales price of $564,000.

A 2024-25 budget trailer bill, AB 166, included direction to the California Housing Financing Agency to assess outcomes from the two rounds of funding, but this report is not due until January 31, 2026. In typical fashion, the Governor and legislative Democrats have provided more funding for the program before receiving information on whether the program actually works and how it might be improved.

Homelessness

<u>Key Points</u>

- **Shortchanges Local Governments This Year but Promises Funds Next Year.** Budget shortchanges cities and counties for flexible homelessness funds this year but claims state will provide $500 million General Fund in 2026-27.
- **Encampment Resolution Grant Program.** Includes $100 million General Fund for the Encampment Resolution Grant Program.

Dubious Promise of More Homeless Funds Next Year. The budget does not include new funding in 2025-26 for the Homeless Housing Assistance and Prevention Program (HHAP), but SB 131, a budget trailer bill, would appropriate $500 million General Fund for HHAP in 2026-27, including $8 million General Fund for the administration of the new round of funding. However, the overall budget deficit is projected to be $17 billion in 2026-27, casting significant doubt on the promise of new funding that year. Governor Newsom has repeatedly pointed the finger at local governments for California's ongoing homelessness problems but has neglected to provide reliable funding for programs in his budget proposals. In contrast, he has willingly ramped up spending by billions of dollars per year to provide full Medi-Cal benefits for undocumented individuals.

Still Looking for Accountability. The SB 131 language requires the Department of Housing and Community Development and the Department of Finance to declare that funding for Round 6 of HHAP must be substantially completed prior to the Round 7 disbursement, and requires future legislation to include program parameters, including data collection and reporting, as well as performance outcome measures.

The 2024-25 budget included new requirements for Round 6 of HHAP funding that was intended to address the severe criticism leveled by the State Auditor in a recent report regarding the lack of accountability for homelessness programs. Further oversight and review will be necessary to ensure critical state resources are utilized efficiently and effectively, and that ongoing audit recommendations are being implemented statewide. Unfortunately, California's track record in this area is poor: despite spending $27 billion for homelessness programs during Governor Newsom's tenure, homelessness in California actually grew worse, rising from 129,972 in 2018 to 187,084 in 2024, according to the annual federal count. California's rate of homelessness remains the highest in the country at 44 per 100,000 residents.

Encampment Resolution Grant Program. The budget provides $100 million General Fund in 2025-26 for the Encampment Resolution Grant Program. The program works with local governments and provides grant funding to assist them with resolving critical encampment concerns and transitioning individuals into safe and stable housing. The program was established in 2021-22 with $50 million General Fund, and received another $300 million in 2022-23, $400 million in 2023-24, and $150 million in 2024-25.

The program requires participating entities to develop a detailed service delivery plan, including a description of how individuals will be served with permanent housing solutions. Combined with new legal tools available following the U.S. Supreme Court's *Grants Pass* ruling in June 2024, the program provides local governments with resources that should enable the prioritization of clean-up efforts, but performance and outcome measures will be critical in subsequent years to ensure the program is an effective tool in supporting efforts to reduce homelessness.

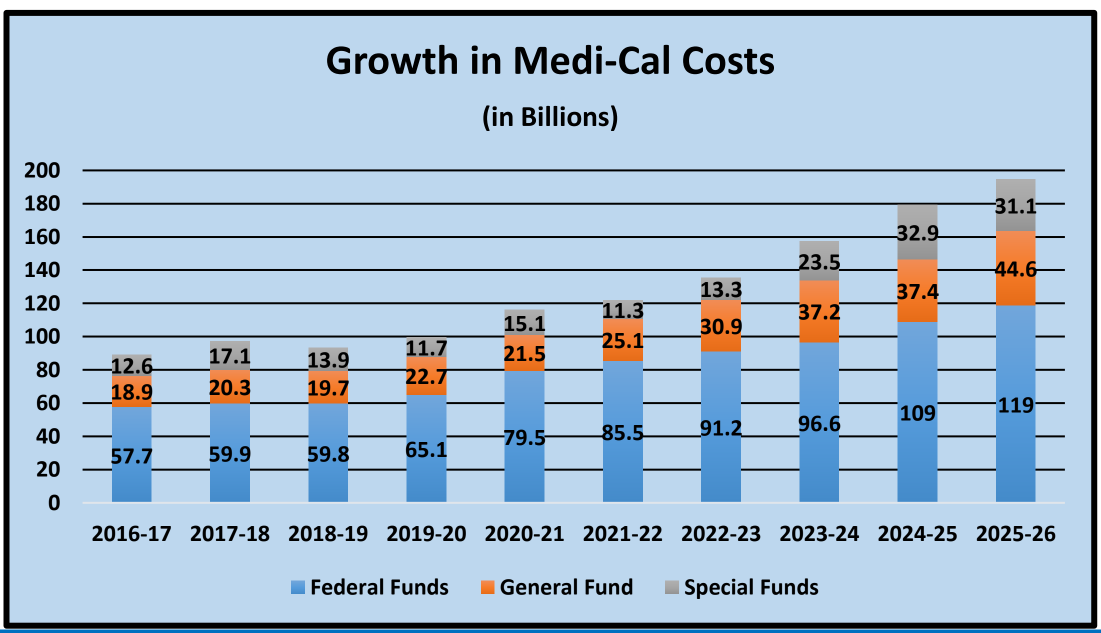
Health

Key Points

- **General Fund Costs for Medi-Cal More Than Double Under Newsom.** General Fund costs for Medi-Cal total nearly $45 billion in 2025-26, up from $19.7 billion in 2018-19, the year before Governor Newsom took office.
- **Medi-Cal Expansion to the Undocumented Proven Too Costly.** Democrats' expansion of Medi-Cal to 1.7 million undocumented individuals costs nearly $11 billion in General Fund annually, requiring eligibility and service rollbacks.
- **Raid of Proposition 35 Funds will Limit Health Care Access.** Democrats divert Managed Care Organization (MCO) tax revenues away from enhanced Medi-Cal provider rates.
- **Return of the Medi-Cal Asset Test.** Caps eligibility to those seniors with less than $130,000 in non-exempt assets.
- **Inadequate Funding for Proposition 36 Related Treatment Costs.** Democrats' plan for battling substance addictions doesn't match voter mandate.

Newsom's Legacy: Out-of-Control Medi-Cal Costs. Last year, the 2024 Budget Act projected a Medi-Cal caseload of 14.5 million individuals at a cost of $161 billion ($35 billion General Fund). The enacted 2025-26 budget now estimates the caseload to be 15 million individuals at a record cost of $195 billion ($45 billion in General Fund, a whopping $10 billion more than the amount allocated in June 2024).

As reflected in the following chart, while much of the program cost growth is attributable to a massive influx in federal funds into the program (largely due to the federal fund matching of Managed Care Organization (MCO) tax funds), the General Fund cost for Medi-Cal in 2025-26 is now at a record $44.6 billion. During the years of the Newsom administration (which started in 2019-20), total costs for Medi-Cal have grown by an astounding $101 billion, including General Fund costs that have more than doubled over that period.



Costs for Undocumented Medi-Cal Coverage Skyrocket, Crowding Out Other Budget Priorities. The enacted budget estimates that more than one out of every five General Fund dollars spent in Medi-Cal goes towards coverage of the undocumented population. In January 2025, the Governor estimated that the cost of full-scope Medi-Cal coverage for the undocumented in the current 2024-25 fiscal year was $8.4 billion General Fund. Now the budget estimates that the costs of the eligibility expansion, before adopting any budget solutions, are a shocking $11.8 billion General Fund for 2025-26 fiscal year, nearly the amount of the entire General Fund deficit. This cost increase stems from skyrocketing undocumented enrollment, which is now estimated at 1.7 million individuals.

The chart below displays the estimated cost growth of funding this expansion over time (accounting for budget solutions). Had this expansion never occurred, it can be argued that the Governor's budget would not need to rely on a $7.1 billion withdrawal from the Budget Stabilization Account (the state's rainy day fund) to help balance the budget. Notably, Governor Newsom and Legislative Democrats proceeded with these expansions over the last several fiscal years with no delays even after realizing the budget surpluses had disappeared.

Annual General Fund Costs of the Medi-Cal Expansion to Undocumented Population (in billions)

Age Cohort	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	Totals
0-18	1.0	0.9	0.5	0.5	0.3	0.6	0.5	0.4	0.7	0.7	**6.1**
19-25	N/A	N/A	N/A	0.1	0.3	0.4	0.5	0.5	0.4	0.4	**2.6**
26-49	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.2	5.2	5.7	**12.1**
50+	N/A	N/A	N/A	N/A	N/A	0.1	0.6	1.7	3.3	4.0	**9.7**
Totals	**1**	**0.9**	**0.5**	**0.6**	**0.6**	**1.1**	**1.6**	**3.8**	**9.6**	**10.8**	**30.5**

There is no doubt that these cost escalations need to be curtailed. Unfortunately, the Governor and Legislative Democrats chose to adopt only modest budget solutions to reduce these costs by less than $1 billion in 2025-26, while continuing to spend nearly $11 billion in General Fund on the population, even while making painful cuts elsewhere in the budget. While the costs are an indictment of an out-of-control program, the Democrats' continued spending on this expansion in a deficit year indicates their willingness to prioritize undocumented individuals over many other programs that serve legal California residents. For example, for less than the cost of Medi-Cal for the undocumented population, the state could reduce tuition to zero for every student in the University of California and the California State University systems.

Medi-Cal Enrollment Freeze for the Undocumented. The enacted budget takes very modest steps to slow the rapid increase in Medi-Cal costs for the undocumented population. The budget will freeze new Medi-Cal enrollments to undocumented adults starting in January 2026. All existing undocumented adults currently on Medi-Cal would remain in the program, and any new undocumented children ages 18 and under may still continue to enroll in Medi-Cal. This action is estimated to lower growth by $78 million General Fund in 2025-26 and $3.3 billion annually by 2028-29. Notably, this action is only General Fund cost avoidance, rather than an actual reduction in costs. The action is badly needed, though insufficient, if the state is to close the massive deficits estimated in future fiscal years.

Medi-Cal Premiums, Benefit Cuts for "Unsatisfactory Immigration Status" Adults. The enacted budget imposes a $30 monthly premium for all adults with "unsatisfactory immigration status" (UIS) that remain in the Medi-Cal program. The UIS population is larger than just the undocumented population, as it includes legal entry individuals in pursuit of green cards and those in asylum status. This premium policy would not begin until July 2027, so it provides no budget savings in the 2025-26 fiscal year, but is estimated to result in savings of $250 million in 2027-28 and $675 million annually thereafter. The budget also removes coverage of certain benefits to UIS adults on Medi-Cal, including dental benefits starting in July 2026, as well as eliminating payments to Federally Qualified Health Centers and Rural

Health Clinics for services to the UIS population—resulting in roughly $1 billion in savings in the 2025-26 fiscal year.

Steals Proposition 35 Funds from Medi-Cal Providers. In violation of the will of the voters when they approved Proposition 35 in 2024, the Governor and Legislative Democrats take an additional $1.3 billion in Managed Care Organization (MCO) tax funds in 2025-26 and roughly $300 million for 2026-27 away from funding new Medi-Cal provider rate increases and instead use it as a General Fund budget solution. This sweeping of Proposition 35 funds could be challenged in court—it certainly violates the spirit of the proposition, if not the letter of the law. If the sweep is maintained though, it misses an opportunity to increase the number of providers serving the Medi-Cal population. Without dedicated funding for Medi-Cal provider rate increases, health care access for millions of vulnerable Californians is in jeopardy. Without providers willing to serve enrollees, Medi-Cal becomes a broken promise to the people it claims to help.

Fails to Repay Mysterious Medi-Cal Loan and Borrows $1 Billion More. In March 2025, the Governor mysteriously announced that he was unilaterally borrowing a whopping $3.44 billion General Fund for Medi-Cal "cash flow" purposes. While the loan was permissible under law, the law also required the Governor to provide a fiscal analysis on the need for the loan. That analysis was never provided despite a direct written request by Senate Republicans.

Furthermore, current law requires the loan to be paid back in full in the following fiscal year. Instead of repaying the $3.44 billion within the 2025-26 fiscal year as required by law, the Democrats' budget pushes out repayments on the loan to multiple future fiscal years, which clearly makes the borrowing a budgetary loan rather than a cash flow loan as described to the public. To make matters worse, the Democrats use this shady mechanism to borrow an additional $1 billion to fuel their irresponsible spending. The LAO criticized this maneuver stating that it "obfuscates the budget's true condition." It's yet another example of their hidden budget trickery rather than responsible governing.

Return of the Medi-Cal Asset Test. The enacted budget reinstates the Medi-Cal asset limit on seniors and disabled adults that was fully eliminated in 2024. The budget does not reinstate the pre-2022 asset limits of $2,000 per individual and $3,000 per couple that would negatively impact many of the newly enrolled seniors and disabled individuals that are potentially dependent on Medi-Cal. Instead, it reinstates the $130,000 non-exempt property limit that was in place during the 2022 and 2023 years. That limit allows for some personal savings for emergencies to be maintained, but does not permit an unlimited amount of assets that would defy the intent behind a safety net health insurance program.

Fails to Fully Fund Proposition 36 Drug Treatment Costs. The enacted budget provides only $50 million in one-time funding to California's 58 county (and two city) behavioral health departments for mandatory drug treatment for those arrested for drug crimes under Proposition 36. This came after Governor Newsom proposed zero funding in both his January budget and his May Revision. Fortunately for the California voters who approved Proposition 36 in every county, Republican Senators tirelessly fought throughout the budget process for full permanent funding. While some funding is a start, sadly the Democrats' minimal one-time funding ignores the strong voter mandate to help those trapped in debilitating addictions.

No General Fund for Counties' Proposition 1 Implementation. The 2024 Budget Act provided $50 million General Fund for counties to begin administering the behavioral health treatment reforms found within Proposition 1, which was approved by the voters in March 2024. The enacted budget for 2025-26 continues to provide implementation funding at an amount of $55 million, but uses Behavioral Health Services Act (BHSA) funds (aka the millionaire's tax) instead of General Fund. As outlined in Proposition 1, these funds will be used to focus behavioral health treatment services on the homeless or those at risk of homelessness. Given the tremendous need to help treat tens of thousands of mentally ill and addicted individuals living on California's streets, even this funding is likely a fraction of what is actually needed.

Free Diapers for All Newborns. The enacted budget creates a new state program to supply three months of diapers for every family with a newborn baby, at a cost of $7.4 million in General Fund in 2025-26 and $13 million in future years. The first year of the program would flow through short-term contracts with hospitals, while future years would fund an Amazon-like purchasing website. It is odd that this program should be open to all Californians with newborns, regardless of income, given California's unaffordability to the middle class. It is also unclear how this new program will overlap with existing health and human services entitlements and recent state efforts to fund non-profit diaper banks.

State to Buy More Abortion Pills and Expand State-Run Manufacturing Power. Despite the fact that abortion is extremely accessible in California, the budget expands the CalRx program at the Department of Health Care Access and Information to allow the purchase of brand name drugs, including any brand name medication abortion drugs. In addition, the language greatly expands the powers of the CalRx program beyond drugs to include the ability for CalRx to develop, manufacture, procure, and distribute medical supplies, medical devices (including reproductive related devices like IUDs), and vaccines.

The CalRx program was originally created in 2022 with $100 million General Fund to build and run a factory to produce insulin for sale in the pharmaceutical market. Because of predictable years-long delays (including the FDA review process) that effort has been greatly scaled down with plans for a factory scrapped, and $95 million has been clawed back for other General Fund needs.

Despite our projected budget woes over the next decade, the CalRx "empire building" is not only unnecessary because the private sector can, and does, readily supply these health care items every day, but is a completely misguided use of limited General Fund.

Licensure of Pharmacy Benefit Managers (PBMs). The enacted budget includes language to require PBMs to be licensed and regulated by the Department of Managed Health Care (DMHC), starting January 1, 2027. The language also requires drug pricing and other data collection. This policy change is similar to the one found in SB 41 (Wiener), which was approved by the Senate 37-0 in May 2025, but the budget trailer bill language makes the DMHC the regulatory body. While the Legislature may have been supportive of the overarching policy, with a policy bill on the topic still in the legislative process, it is unclear why the Democrats jammed this complex policy issue in an already massive budget trailer bill that impacts many health stakeholders.

Federal Changes will Impact Medi-Cal, Covered California. With the recent passage of the federal budget reconciliation legislation, H.R. 1, California will soon experience new federal requirements that will alter how some of the state's health programs will be run and funded in upcoming fiscal years. Some Medi-Cal reforms in the federal bill include the following:

- Work requirements for the Obamacare expansion population (childless adults without disability below age 65).
- Eligibility redeterminations every six months rather than every year.
- A limitation on provider tax funding mechanisms (like the MCO tax).

Notably, despite the claims of some advocates, none of these changes are anticipated to affect Medi-Cal eligibility for disabled Californians or families with children. Federal changes affecting Covered

California will alter the rules around federal (and state) subsidies provided to health insurance policyholders. Implementation will take multiple fiscal years, and the full fiscal impact to California is unclear. While a reduction in federal funding to California is possible, the changes may help refocus these health safety net programs back towards the vulnerable populations they were originally intended to serve.

Human Services

Key Points

- **Impairing County Probation Departments.** Alters the formula for juvenile justice facilities, in order to squeeze funding for high security facilities in favor of less restrictive placements.
- **Reducing CalWORKs Accountability.** Undermines the original intent of CalWORKs by continuing to loosen standards and requirements, including sanctions, welfare-to-work, and job preparation activities.
- **Increases Risk of Growing State Costs Under CalFresh.** Initiates the development of a strategic plan to increase CalFresh enrollment, raising the risk of massive future state costs for the CalFresh program under new federal requirements in 2028.
- **Housing and Homelessness One-Time Funding.** Provides a cumulative $210 million General Fund in one-time housing and homelessness investments meant to serve those at risk of or experiencing homelessness.

Health and Human Services Agency

Public Safety Could Be Compromised by Squeezing Funds for Juvenile Justice Facilities. The Democrats' budget alters the formula that allocates $209 million in annual funding to county probation departments for the operations of juvenile justice facilities, also known as the Juvenile Justice Realignment Block Grant (JJRBG), beginning in 2026-27. The new formula gradually decreases the portion of the funding allocated for the administration of high security placements over the next several fiscal years, while gradually increasing the portion for low-restriction placements in residential communities.

While juvenile offender placements should be in the least restrictive settings possible given that these youth will most likely be reintegrated back into the public, the Democrats' budget cannibalizes the funding counties need for the operation of secure juvenile facilities. By steadily decreasing the needed funding for secure placements, the courts will have no choice but to send these youth (who committed heinous crimes such as murder and rape) to less secure residential settings. This disregards overall public safety concerns to a California electorate that just passed Proposition 36 and has ongoing concerns about crime. Conditioning JJRBG on less restrictive programs in an attempt to manipulate judicial decisions is not in the best interest of public safety.

Department of Social Services

The 2025-26 budget for Department of Social Services (DSS) is projected to be over $56 billion ($25 billion General Fund). This is $2.4 billion ($1.9 billion General Fund) more than the revised 2024-2025 funding levels. It should be noted that DSS also oversees $21 billion in federal benefits that are not reflected in the DSS budget and go directly to beneficiaries. Benefits administered by DSS are currently provided to over 8.2 million Californians. More details are provided below on the major changes under DSS-administered programs.

California Work Opportunity and Responsibility for Kids (CalWORKs)

CalWORKs Budget and Caseload. The budget includes $6.4 billion total funds ($1 billion General Fund) in 2025-26 for CalWORKs program expenditures, a decrease of $569 million total funds and an increase of $399 million General Fund from the 2024 Budget Act. The average monthly caseload is estimated at 363,766 families. This represents a 2.5 percent increase over the 2024 Budget Act caseload of 354,772. The total CalWORKs funding does not include CalWORKs Stage One Child Care and CalWORKs housing programs, which are accounted for in the child care and social services housing. The increase in General Fund is due to a lower amount of Federal Temporary Assistance for Needy Family (TANF) carryforward funds available in 2025-26.

"Reimagine" CalWORKs Changes Reduce Accountability. Over the past decade, numerous policy changes have significantly altered accountability metrics in CalWORKs, including the elimination of the Maximum Family Grant rule, extension of the lifetime limits for adult recipients from 48 to 60 months, and increased "flexibility" in work participation requirements. The budget continues that trajectory with more reductions to accountability, raising questions about whether or not the program still aligns with the original intent to help people become self-sufficient. The major changes to the CalWORKs program included in the budget are below, and result in nominal net General Fund savings of $17 million in 2025-26 and ongoing. There are additional savings of $4.6 million in 2025-26 and $14 million in 2026-27 and ongoing, with all of those savings remaining in the CalWORKs single allocation.

- **Changes the Sanction Curing Process.** Under the typical CalWORKs process, a recipient is subject to sanctions, such as a decrease to their cash aid, if that person fails to comply with program requirements. Previously, those sanctions were terminated if the CalWORKs recipient changed course and performed the welfare-to-work activities that they previously refused to perform. This new budget instead requires sanctions to be terminated if the participant only indicates verbally or in writing that they want to cure the sanction and begin participating in welfare-to-work activities. Sanctions are now also prohibited during the first 90 days after an individual is determined eligible for CalWORKs. While these changes provide more flexibility for participants, and reduce county administrative burdens, there is a clear erosion to making sure individuals are being held accountable for not performing their required activities.

- **Expands Welfare-to-Work Activities.** The budget significantly expands the list of welfare-to-work activities, including adding barrier removal services, such as mental health services, financial literacy classes and coaching, as well as activities related to legal issues or housing stability. While the addition of activities such as these could be beneficial in providing a holistic improvement to a CalWORKs participants' opportunity for self-sufficiency, the expansion of the activities does not align with federal welfare-to-work requirements, nor are they aligned with the original goals of the CalWORKs program.

- **Makes Job Club and Job Search Optional.** Previously, CalWORKs participants were required to participate in Job Club/Job Search, which are meant to help participants obtain or retain employment. This is done through activities such as preparing a resume or job application, life skills training, and practicing interviewing skills. Under the changes in the budget, Job Club/Job Search are now optional. One could argue that instead of making Job Club/Job Search optional, the process should have shifted to apply Job Club/Job Search when the assessment for welfare-to-work activities indicates it would beneficial in helping the participant obtain self-sufficiency.

The expansion of the allowable welfare-to-work activities continues to misalign California's activities with those allowed by the federal government. California is not at an immediate risk of Work Participation Rate (WPR) penalties because we benefit from "caseload reduction credits", which reduce a state's WPR requirements if the state's TANF/CalWORKs caseload declined within a certain period.

The federal government recently updated the caseload comparison to 2015, which was significantly higher at 497,000 participants than 2024, which had 359,000 participants. This major difference in caseload will likely result in California earning more caseload reduction credits for the foreseeable future. However, if there were to be an economic downturn, resulting in a significant increase in the CalWORKs caseload, California could be at risk of a penalty.

Federal Penalty General Fund Backfill. The Budget includes $21 million General Fund to backfill the Temporary Assistance for Needy Families (TANF) block grant reduction in 2026 as a result of not meeting the Work Participation Rate (WPR) for federal fiscal years 2012 through 2014. A portion of the penalty will be passed on to counties based on their role in not meeting the WPR. The Legislative Analyst's Office (LAO) noted in their summary of the proposal that the originally assessed penalty totaled over $1 billion. The penalty was significantly reduced after DSS disputed a portion of the penalty and completed corrective actions.

Food and Nutrition Programs

Food and Nutrition Programs Budget and Caseload. The 2025 budget includes $18 billion ($1.4 billion General Fund) for food and nutrition programs. It should be noted that $13 billion of those funds are federal funds provided directly to recipients, and are outside of the DSS budget. The total figure also includes county funds used to administer the programs. The CalFresh caseload for 2025-26 is projected to be over 3.3 million, an increase of eight percent from the 2024 Budget Act.

Increases the Potential Costs for California's Future Share of the CalFresh Program. The budget includes $200,000 General Fund to develop a strategic plan to encourage all those who are eligible for CalFresh benefits to enroll. CalFresh benefits are currently entirely federally funded, but the recent federal budget reconciliation bill, H.R. 1, would shift a portion of CalFresh benefit costs to the states beginning in 2028 if the state has a payment error rate over six percent. The error rate measures the accuracy of the states' eligibility and benefit payments, and California's error rate for 2024 was nearly 11 percent.

California residents currently receive $13 billion in CalFresh benefits directly from the federal government. Under the new federal law, states could have to cover five to fifteen percent of those costs. For California, that would be $650 million to $2 billion General Fund annually beginning in 2028. The General Fund risk for California would grow as more residents receive CalFresh benefits. Rather than try to increase enrollment in this program, California should focus on trying to improve its error rate in order to avoid potentially billions of dollars in additional state costs in 2028.

CalFresh Fruit and Vegetable Electronic Benefit Transfer EBT Pilot Project Extension. The budget includes $36 million General Fund to extend the CalFresh Fruit and Vegetable EBT Pilot Project. The pilot provides CalFresh recipients with a dollar-for-dollar match of up to $60 per month on fresh fruits or vegetables purchased at select farmers' markets and grocery stores. The 2023 Budget Act included $9.9 million one-time General Fund, and the 2024 Budget Act included $11 million one-time General Fund for the pilot. The program was paused in February 2025 due to prior funding being fully expended. This new funding will allow the program to continue, providing CalFresh recipients with more buying power to purchase fresh fruits and vegetables.

CalFood Program. The budget includes $52 million General Fund for the CalFood Program, which provides funding for food banks to purchase, store, and transport California-grown and produced food. In recent years the program has received additional one-time funding, for an average yearly funding of $63 million since 2022-23. Without the additional $52 million, funding for the program would have dropped back down to its baseline of $8 million. The California Association of Food Banks noted that in

2023, their network saw a 20 percent year-over-year increase in the number of Californians served, and they have continued to see growing demand. As Democratic policies have raised the cost of many goods in California, including groceries, more residents face challenges making ends meet and may turn to food banks to feed their families. This program bolsters California farmers and food producers while simultaneously assisting families.

In-Home Supportive Services (IHSS)

Caseload and Cost Growth in IHSS. The budget includes $30 billion ($11 billion General Fund) in 2025-26 for the IHSS program, reflecting a $5 billion ($2 billion General Fund) increase compared to the 2024 Budget Act. The increase in costs reflects continued projected caseload growth, cost per hour, and number of hours per case for IHSS overall. Estimates put the projected caseload at 793,316 in 2025-26, representing a 13 percent increase over the 2024 Budget Act. At the May Revision, the average individual provider hours per case were projected at 126.4 in 2025-26. For comparison, at the 2021-22 Governor's budget, the average individual provider hours per case were 115.2 for 2020-21.

Community First Choice Option Late Penalties on Counties. For the 2025-26 fiscal year, the budget would require the state and county to each pay 50 percent of the enhanced federal financial participation lost due to noncompliance of timely case reassessments for the IHSS Community First Choice Option (CFCO) program. This results in a General Fund reduction of $41 million. Beginning July 1, 2026, counties would be required to pay 100 percent of any reassessment late penalties. IHSS cases eligible for the CFCO program receive an enhanced Federal Medical Assistance Percentage (FMAP) of six percent. However, when CFCO recipients are not reassessed on time, those IHSS cases are no longer eligible to receive the additional six percent FMAP. The lost six percent FMAP has been covered with state General Fund since 2017.

Conforms With Medi-Cal Asset Limit Reinstatement. The budget includes a reduction of $16 million General Fund in 2025-26 to conform IHSS with the reinstatement of the Medi-Cal asset limits of $130,000 for individuals and $195,000 for couples.

Children and Family Services

Mandated Reporting Training Updates and Uniformity. This budget establishes the Mandated Reporting Advisory Committee (MRAC) under the California Child Welfare Council with the intent to ensure the transformation of mandated reporting and address disparities in the child welfare system. The budget also requires DSS to develop a standardized curriculum for mandated reporters. The creation of a standardized curriculum could be beneficial in facilitating the training of mandated reporters, helping to create more uniformity across the mandated reporter system and less disparities in reporting. Disparities in reporting can have negative impacts when there is unnecessary contact with the child welfare system.

Foster Care Tiered Rate Structure Clean-Up. A plan for a foster care tiered rate structure was adopted in the 2024 Budget and eventually will provide foster care rates based on the needs of a child or youth, rather than their placement type. The budget adds language making the implementation of the new Foster Care rate structure contingent upon an appropriation by the Legislature, and also makes mostly technical and clarifying changes. The changes are necessary to continue the process towards implementing the new rate structure. The intent is to implement the new rates by July 1, 2027.

Adoption Assistance Program Out-of-State Facilities. This budget adds requirements for Adoption Assistance Program payments made on behalf of a child placed in an out-of-state residential treatment facility. For payments to be made, one or more of the adoptive parents must reside in the state in which the residential treatment facility is located, and DSS or a licensed county adoption agency has confirmed that placement is necessary for the temporary resolution of the mental, behavioral, or emotional health needs of the child and related to a condition that existed before the adoptive placement. The Adoption Assistance Program provides financial and medical coverage and was created to encourage the adoption of special needs children, helping to remove the financial disincentives for families to adopt.

Housing and Homelessness Programs

Provides Funding for Californians at Risk of Homelessness. The budget provides a cumulative $210 million General Fund in one-time housing and homelessness investments. The funding is provided across the following programs, and is available for encumbrance or expenditure until June 30, 2028:

- $81 million for the **Bringing Families Home Program**, which serves families in the child welfare system and seeks to prevent foster care placements and keep families together.
- $84 million for the **Home Safe Program** that provides housing supports for individuals in adult protective services, usually as a result of elder abuse, neglect, or financial exploitation.
- $45 million for the **Housing and Disability Advocacy Program**, which provides housing supports, among other services, for individuals that are likely eligible for disability benefits and struggling with housing or homelessness. The funding provided is in addition to $25 million General Fund ongoing for the program.

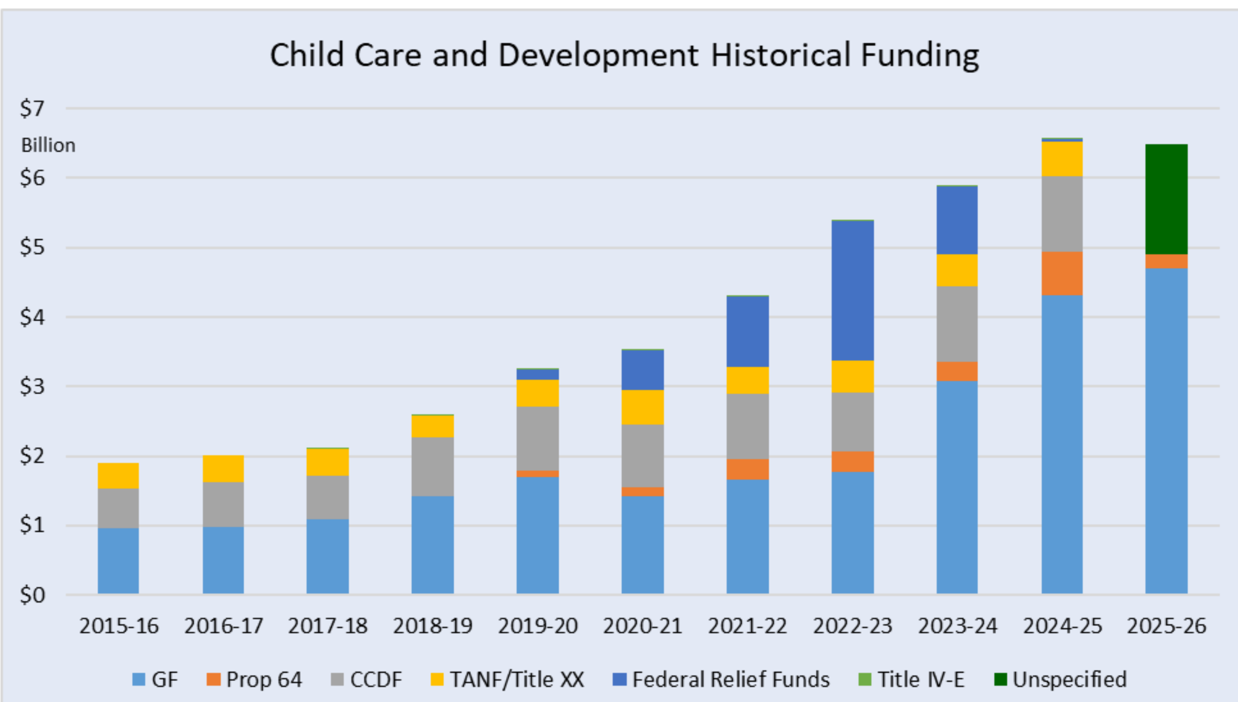
The budget indefinitely extends the dollar-for-dollar match requirement for the Bringing Families Home and Home Safe programs. It also indefinitely extends the waiver for a Housing and Disability program grantee to seek reimbursement.

Child Care and Early Education

Key Points

- **Increases Cost of Care Monthly Payments.** Includes $89 million to increase the "Cost-of-care Plus" monthly payments for child care and preschool providers. These payments were established in the previous 2023 collective bargaining agreement with Child Care Providers United.
- **Continues "Hold Harmless" Policies.** Extends pandemic "hold harmless" policies until June 30, 2026 for child care program and preschool reimbursements to be 100 percent of their maximum contract amount or the actual program costs, regardless of attendance.
- **California State Preschool Program.** Includes $2.9 billion ($1.9 billion Proposition 98 General Fund and $1 billion Non-Proposition 98 General Fund) for the California State Preschool Program.

Child Care Overall Budget. The 2025-26 budget provides $6.5 billion ($4.7 billion General Fund) for child care programs administered by the Department of Social Services (DSS), including CalWORKs Stages One, Two, and Three, Alternative Payment Programs, Migrant Child Care, General Child Care, Child Care for Children with Severe Disabilities, the Emergency Child Care Bridge Program, and local supports for the programs. This reflects an increase of $400 million General Fund over the 2024-2025 revised funding levels, indicating astonishing growth of nine percent in one year. Below is a chart showing historical child care and development funding by source. Just during Governor Newsom's tenure, child care General Fund costs have grown by 176 percent, or $3 billion. An exact breakdown of all the funding for 2025-26 was not available at the time this report was written.



CCDF is the federal Child Care and Development Fund, Tittle IV-E is federal funding related to Foster Care, Proposition 64 is Marijuana Tax Funding, and TANF/Title XX is the federal Temporary Assistance for Needy Families and Social Services funding.

"Cost-of-Care Plus" Rate Increases. The 2025 Budget Act provides $802 million (General Fund and Proposition 98 General Fund) to continue to provide Cost-of-Care Plus payments.[5] While the annual statutory cost-of-living adjustment (COLA) is suspended for the 2025-26 fiscal year, the budget redistributes the funding that was intended for the COLA as an addition to the monthly Cost–of-Care Plus rates for the 2025-26 fiscal year. This redistributes about $89 million (General Fund and Proposition 98 General Fund) across child care and preschool programs. While increasing the Cost-of-Care Plus payments is not necessarily opposable, the way in which the payments are being increased is convoluted, and further complicates an already confusing rate system.

"Hold Harmless" Reimbursement Extension. The budget includes $89 million General Fund to extend the pandemic-era "hold harmless" policies through June 30, 2026 for child care and preschool reimbursement. The hold harmless policies give providers that directly contract with the state 100 percent of their maximum reimbursable contract amount or the actual reimbursable program costs, whichever is less. The LAO has previously noted that this policy has merit for voucher-based providers, but does not incentivize direct contract providers to fill child care slots, and it disconnects program funding from the number of children served. This means that providers are getting paid for empty slots. The pandemic-era hold harmless policy originally intended to keep providers open during the pandemic shut-down, but it makes no sense now and is overdue for expiration. However, it will remain in place until the state moves to reimbursing child care and preschool providers based on enrollment, as described in the next paragraph.

Enrollment-Based Reimbursement Starts Next Year. Beginning July 1, 2026, the state will move to establish reimbursements based on enrollment, though not actual attendance, for direct contract child care providers and preschool providers. Currently, due to the extension of the hold harmless policy, direct contract providers are being reimbursed based on the maximum contract amount or the actual reimbursable program costs, whichever is less. After the expiration of the extended hold harmless rates, reimbursements would revert back to being based on attendance. While one could argue that providers should only be reimbursed for the children that attend, there are fixed costs that child care and preschool providers have regardless of the number of children attending. Basing reimbursements on attendance can create volatility for providers as they contend with fluctuating attendance levels. There is also a recent federal rule that requires states to modify child care reimbursement policies to be based on enrollment rather than actual attendance.

New Bargaining Agreement Still Pending. The Newsom Administration is still in negotiations with Child Care Providers United on a new bargaining agreement. The current bargaining agreement expired on June 30, 2025. While no potential cost estimates have been provided for the new agreement, the prior bargaining agreement resulted in costs exceeding $2 billion over two fiscal years. Note that child care providers are not state employees, but the Newsom administration authorized the union in 2019 and began bargaining with them in 2021, thus driving state costs dramatically upward. Complicating the situation, the focus of the new bargaining agreement will likely be centered on the implementation of an alternative methodology to set child care reimbursement rates, as discussed in the following paragraphs.

Billions in Additional Costs Possible from New Rate Setting. Along with seeking a new bargaining agreement, the budget states that it is the intent of the Legislature, beginning July 1, 2025, to cease

[5] The 2023 Budget Act provided all subsidized child care providers with a monthly "cost of care plus rate" per child as part of the bargaining agreement with Child Care Providers United (CCPU). The amount of the "add on" is determined by region and whether the provider is licensed or license-exempt. These payments range from $98 for license-exempt providers in the Central Region to $211 for licensed providers in the Bay Area.

using a regional market rate and instead use the alternative methodology (single rate structure). The budget also provides $22 million one-time federal funds to begin automation needed to support the development of the single rate structure based on the alternative methodology. The alternative methodology is meant to set rates based on the cost to deliver services, instead of being based on the market rates. Using an alternative methodology based on costs (with “costs” heavily influenced by unions), opens the door for the union to obtain significant pay raises at taxpayer expense, while removing any incentive for providers to control costs. The actual rates to be paid could be adjusted to be less than 100 percent of the calculated costs, but the budget impact associated with 100 percent of total cost of care is anticipated to be in the tens of billions of dollars annually.

A report by the nonpartisan Legislative Analyst’s Office shows child care to be one of the fastest growing major programs in the state, with a growth rate of about 20 percent annually. If the push to fund child care rates at the alternative methodology continues, General Fund spending on child care will grow at an even more startling rate. The state is also facing a bleak fiscal outlook, and will be faced with major cuts in the future to vital programs and services. This raises concerns about whether or not this is the appropriate time to push forward with policies that put additional cost pressures on the General Fund.

California State Preschool Program (CSPP). The budget includes $2.9 billion ($1.9 billion Proposition 98 General Fund and $1 billion Non-Proposition 98 General Fund) for the CSPP. It should be noted that the CSPP will also utilize the new alternative methodology rate structure once implemented.

Other Child Care and Preschool Program Adjustments:

- **Alternative Payment Agencies Administrative Support.** Provides $70 million General Fund for Alternative Payment Program Agencies to cover the administrative and support costs needed to continue implementing the provisions of the Memorandum of Understanding with Child Care Providers United.
- **Implements Prospective Pay.** The budget includes $30 million General Fund for implementation costs associated with paying child care and development providers prospectively, based on enrollment. This is in alignment with federal regulations that require state to pay providers before the delivery of child care services.

Cuts the Emergency Child Care Bridge Program. The budget includes a reduction of $30 million General Fund in 2025-26 and ongoing to the Emergency Child Care Bridge Program, which facilitates the immediate placement of foster children into child care until long-term child care solutions are achieved. According to the Newsom administration, this would align the funding with program spending, and the program would continue to receive $57 million General Fund ongoing.

Developmental Services

Key Points

- **Ongoing Cut to the Self-Determination Program**. Imposes an ongoing cut to the Self-Determination Program that may decrease access to some services.
- **$75 Million Cut to Service Providers**. Accelerates a planned compliance deadline on certain service providers in order to score $75 million in one-time savings.
- **Record Number of Regional Center Consumers Drives up Costs**. Nearly 40,000 more Californians to be served by the Department of Developmental Services (DDS) results in a $2 billion increase in General Fund costs.
- **Continues Costly "Warm Shutdown" of Fairview Developmental Center.** Despite plans to use the property for public and private sector alternatives, DDS still spends millions for facility to sit vacant.

$75 million Cut to Disabled Service Providers. Current law states that until June 30, 2026, DDS will implement a hold-harmless policy for developmentally disabled service providers whose current reimbursement rates happen to exceed the recommended rates modeled in the 2019 rate study. The current hold-harmless policy timeline allows providers time to revise their business practices to align with the new rate models. Once the hold-harmless period ends, rates will be adjusted downward for these providers to align with the rate models for other providers within the same service category and region. This budget accelerates that timeline by four months, to February 28, 2026, in order to deny $75 million in funds to these providers. This hit not only disrupts the plans of these businesses, but it removes needed funding from the system that could have been used to provide services to the intellectually and developmentally disabled (I/DD) community.

Ongoing Cut to the Self Determination Program. The Self-Determination Program at DDS, created by a Senate Republican author in 2013, is an alternative way for individuals and families to have flexibility, control, and responsibility in managing their own services and supports, rather than relying solely on the purchases of the regional center. Although advocates did negotiate out the worst proposals, the enacted budget still curtails some client autonomy by making these individuals and families go through a few more bureaucratic hoops to obtain necessary services. This complication could reduce access to some services, and the Democrats are accounting for that by scoring $22.5 million in savings in 2025-26 and $45 million annually thereafter from these changes. Rather than reinvesting these savings back into the program, the budget siphons these funds off for other General Fund priorities, proving yet again that the Democrats are willing to hurt the most vulnerable to secure resources for their preferred special interests.

Rapidly Growing Regional Center Caseload Driving up General Fund Costs. DDS is currently experiencing a rapidly growing regional center caseload. As shown in the table on the following page, the number of individuals served by regional centers is expected to reach more than 491,000 in 2025-26, a nearly 40,000 (or nine percent) increase from 2024-25. DDS states that much of the caseload growth is attributable to a large post-pandemic cohort of toddler-aged children entering the system. The caseload increase is a factor in the sizable growth in General Fund costs as well. The Governor's budget includes $12.2 billion General Fund for 2025-26, a $2 billion increase from 2024-25. The department projects that both caseload and costs will level off in subsequent fiscal years.

DDS Caseload and General Fund Costs			
	2024-25	2025-26	Difference
Caseload	452,188	491,080	38,892 (+8.6 %)
General Fund (in billions)	$10.2	$12.2	$2.0 (+ 19.6%)

First Full Year of Provider Rate Reform. After years of prioritizing spending on favored special interests, the Democrats are finally providing the necessary funding for full implementation of reimbursement rate reforms for I/DD service providers. The enacted budget includes $1.7 billion in 2025-26 to implement the final year of the long-awaited service provider rate increases.

This is the final full year of a multi-year roll-out of the service rate reforms. Under the timeline the Democrats endorsed in the 2022 Budget Act, this full final year was to take place in the 2024-25 fiscal year, but in the 2024 Budget Act, the Democrats chose to break their promise to the developmentally disabled community and delayed funding by six months. This created a disruptive impact in the delivery of services, given that service providers had already made hiring decisions reliant on the July 2024 scheduled rate increase. Now with full funding, service providers can plan to scale up their workforce to effectively serve consumers.

Senate Republicans have long advocated for improving rates for those serving families with developmentally disabled individuals and for improving the quality of disabled individuals' lives, including a comprehensive set of reforms proposed in 2015, but killed by the Democrats. Now, a decade later, Senate Republicans will continue to monitor the overdue improvements as the new rates are implemented.

Repeals Fee Program on Families with Developmentally Disabled Children. The budget eliminates the Parental Fee Program at DDS, which assesses a monthly fee on parents of children under 18 who receive 24-hour out-of-home care services. Although the fee was designed to reflect shared parental responsibility by offsetting state costs for out-of-home placement expenses that parents otherwise would bear if the child remained at home, in practice it seems like a cruel tax on families just trying to obtain necessary care for their vulnerable children.

Implementing the Master Plan on Developmental Services. The budget adds additional requirements to fully explore the 167 recommendations made in the recently released Master Plan on Developmental Services. The budget ensures that the Master Plan committee will continue to meet over the next 10 years in order to assess implementation challenges of the Master Plan recommendations, including whether additional appropriations or statutory changes are necessary. This analysis is important if some of the ideas in the Master Plan, which were generated by the I/DD community themselves, are ever to come to fruition.

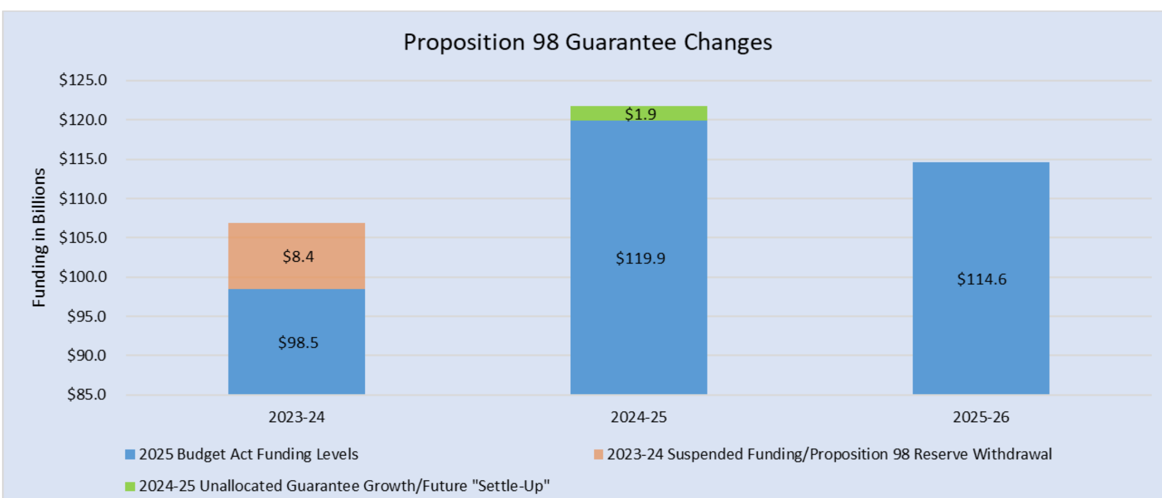
Continues "Warm Shutdown" of Fairview Developmental Center. The 2025-26 budget includes yet an another extension of the warm shutdown funding for Fairview Developmental Center in Costa Mesa at a cost of $10.8 million General Fund to maintain 52 staff there. Even though the last resident moved out of Fairview in January 2020, the Democrats still maintain the warm shutdown status of an empty facility for the sixth straight fiscal year. DDS's argument for the spending is that the facility could be needed at any time, as was the situation with the closure of the Sonoma Developmental Center over a decade ago. But this worry is exaggerated, and the use of this much money to maintain empty facilities should be a concern to the public. There are a number of better uses of this valuable property, and the state should consider ways to use this asset to help close future budget deficits.

TK-12 Education

Key Points

- **Creates a Settle-Up Obligation.** Funds the 2024-25 Proposition 98 Guarantee at $118 billion, $1.9 billion less than the calculated guarantee, creating a "settle-up obligation" that must be paid back in the future.
- **2025-26 Proposition 98 Guarantee and Deferral.** Funds the Proposition 98 Guarantee for 2025-26 at $115 billion, slightly below 2024-25, but also defers $1.9 billion from 2025-26 to the 2026-27 fiscal year.
- **Universal Transitional Kindergarten Full Implementation.** Includes $2.1 billion ongoing Proposition 98 General Fund for the full implementation of universal transitional kindergarten.
- **New Discretionary Block Grant.** Includes $1.7 billion one-time Proposition 98 General Fund for a Student Support and Professional Development Discretionary Block Grant.
- **Literacy Coaches and Screening Training.** Includes $200 million one-time Proposition 98 General Fund to support evidenced-based professional learning for elementary school teachers aligned with the English Language Arts/English Language Development Framework.
- **Student Teacher Stipend Program.** Includes $300 million one-time Proposition 98 General Fund to establish the Student Teacher Stipend Program.

Proposition 98 TK-14 Funding. The budget maintains a Proposition 98 funding level of $99 billion in 2023-24, and the revised 2024-25 Proposition 98 guarantee is calculated to be $120 billion, but the budget funds the guarantee at $118 billion, about $1.9 billion below the calculated guarantee. According to the Newsom Administration, this is to provide a buffer for changes in the guarantee due to revenue changes before the final calculations are made. If revenues remain the same, this would create a "settle-up obligation" of $1.9 billion that must be repaid in future years. If revenues decline, the obligation would also decline. The Proposition 98 Guarantee for 2025-26 is $115 billion, a slight decline from 2024-25. The table below summarizes these comparisons.



Spending per Pupil Continues to Increase. Proposition 98 spending per pupil would be $18,534 in 2025-26 and $25,155 per pupil from all funding sources. This is a Proposition 98 increase of $6,657 per pupil, or 56 percent, compared to six years ago in 2019-20, the year before the pandemic started.

When accounting for all funds, it is an increase of $8,141 per pupil, or 48 percent. Despite the dramatic increase in per-pupil funding, the most recent student test scores remain similar to or below those achieved at much lower levels of funding. For example, California students were 33.5 points below the standard in mathematics in 2019 and 47.6 points below the standard in 2024.

Proposition 98 Funding by Segment and Source
(Dollars in Millions Except Funding Per Student)

	2023-24 Final	2024-25 Revised	2025-26 Enacted	Change From 2024-25 Amount	Change From 2024-25 Percent
K-12 Education					
General Fund[a]	$67,295	$76,015	$72,672	-$3,343	-4.4%
Local property tax	27,336	28,086	29,382	1,297	4.6%
Subtotals	**$94,630**	**$104,101**	**$102,055**	**-$2,046**	**-2.0%**
California Community Colleges					
General Fund	$8,133	$9,242	$8,520	-$721	-7.8%
Local property tax	4,135	4,232	4,438	207	4.9%
Subtotals	**$12,267**	**$13,473**	**$12,959**	**-$514**	**-3.8%**
Reserve Deposit/Withdrawal (+/-)[b]	-$8,413	$455	-$455	-$910	-200.0%
Settle Up (Unallocated Funds)[c]	-	$1,917	-	-$1,917	-100.0%
Totals	**$98,484**	**$119,946**	**$114,558**	**-$5,387**	**-4.5%**
Enrollment					
K-12 attendance	5,451,748	5,453,903	5,479,503	25,600	0.5%
Community College FTE students	1,094,169	1,090,297	1,072,066	-18,231	-1.7%
Funding Per Student					
K-12 Education	$17,358	$19,087	$18,625	-$463	-2.4%
California Community Colleges	11,211	12,357	12,088	-270	-2.2%

[a] Includes funding for instruction provided directly by state agencies and the portion of State Preschool funded through Proposition 98.

[b] Proposition 98 Reserve established by Proposition 2 (2014). Amounts consist entirely of General Fund.

[c] The state would be required to allocate this amount for schools and community colleges in the future, assuming no changes to the estimate of the Proposition 98 guarantee. Amount consists entirely of General Fund.

FTE = full-time equivalent.

Proposition 98 Rainy Day Fund and Local Reserves. The 2025 Budget Act leaves no funding in the Public School System Stabilization Account (school reserve) at the end of 2025-26. This reflects a revised deposit of $455 million in 2024-25 and a withdrawal of $455 million in 2025-26, both of which are mandatory. Under current law, there is a cap of 10 percent on local school district reserves in fiscal years immediately succeeding those in which the school reserve balance is equal to or greater than 3 percent of the total TK-12 share of the Proposition 98 guarantee. The balance of $455 million in 2024-25 does not trigger school district reserve caps in 2025-26.

Local Control Funding Formula (LCFF). The budget includes a 2.3 percent cost-of-living adjustment (COLA) for the LCFF. When combined with population growth adjustments, this will result in a $2.1 billion increase in discretionary funds for schools. The budget also provides $174 million ongoing Proposition 98 General Fund for COLA adjustments for the LCFF Equity Multiplier and categorical programs such as Special Education, State Preschool, Youth in Foster Care, Child Nutrition, and the Charter School Facilities Grant Program.

Adds Billions in New Proposition 98 Deferrals. The budget defers $1.9 billion Proposition 98 General Fund from the 2025-26 fiscal year to the 2026-27 fiscal year. Deferrals are a way for the state to make late payments to schools when the state cannot meet its funding obligations. By pushing a portion of payments to schools into the following fiscal year, it allows the state to claim one-time savings. This is a form of borrowing that creates out-year cost pressures until the deferrals are paid. However, deferrals allow schools to avoid cuts and operate as if no reduction has occurred.

Universal Transitional Kindergarten Full Implementation. The budget includes $2.1 billion ongoing Proposition 98 General Fund for the full implementation of universal transitional kindergarten. This total is inclusive of all prior years' investments. The funding is estimated to provide access for 51,000 additional children, bringing the total TK enrollment to over 228,000. An additional $1.2 billion ongoing Proposition 98 General Fund is provided to support lowering the student-to-adult ratio from 12:1 to 10:1. Note that the state's mandate for universal TK, which launched in 2021, expanded the overall Proposition 98 guarantee, thus shifting more General Fund under the Proposition 98 umbrella and away from the discretionary side of the budget. Over 2023-24, 2024-25, and 2025-26 combined, the Proposition 98 guarantee is $4.5 billion higher than it would have been without the expansion of TK.

Proposition 98 Funding Split Adjusted for TK. The budget adopts a new funding split between TK-12 schools and community colleges for the additional Proposition 98 funding, described above, as a result of universal TK. Prior to this budget, the additional Proposition 98 funding for TK was split between community colleges and TK-12 schools following the traditional 11 percent for community colleges and 89 percent for TK-12 schools. This budget shifts the full amount of the TK Proposition 98 expansion to the TK-12 side of the budget in 2025-26 and ongoing. This results in $233 million in ongoing Proposition 98 going from community colleges to TK-12 schools. Moving the TK expansion funding to the TK-12 side of the budget is in line with ensuring the additional funding follows the costs, which are borne by TK-12 schools. Notably, Governor Newsom proposed to retroactively shift two years' worth of funds from community colleges to TK, but Senate Republicans argued against this shift, which would have nonsensically cut colleges for funds they'd already received. The enacted budget rejected the retroactive portion of the shift.

Student Support and Professional Development Discretionary Block Grant. The budget includes $1.7 billion one-time Proposition 98 General Fund for a new Student Support and Professional Development Discretionary Block Grant. The funding is intended to help with rising costs, career pathways and dual enrollment expansion efforts, teacher recruitment and retention, and professional development for teachers on the frameworks in mathematics, English language arts, and literacy. Providing a one-time discretionary block grant provides LEAs with more flexibility to cover costs that are specific to that LEA's priorities without creating ongoing funding pressure.

Literacy Instruction Professional Development. The budget provides $200 million one-time Proposition 98 General Fund to support evidenced-based professional learning for elementary school teachers aligned with the English Language Arts/English Language Development Framework. According to the Department of Education (CDE), "Curriculum frameworks provide guidance to educators, parents, and publishers, to support implementing California content standards." The budget also establishes a process for approval of criteria and guidance for the selection or development of professional development programs for use statewide and a list of programs deemed to meet those criteria. The funding provided is available for expenditure by LEAs from the 2026–27 fiscal year to the 2029–30 fiscal year. The nonpartisan Legislative Analyst's Office (LAO) noted that in 2024, only 44 percent of California's fourth graders met or exceeded state standards in English language arts. Over the past few years, California has made significant investments in literacy. It will take time to see the impacts of these investments, but with the abysmal test scores over the years, it is important to take these steps to help improve literacy.

Student Teacher Stipend Program. The budget includes $300 million one-time Proposition 98 General Fund to establish the Student Teacher Stipend Program, which will provide stipends of $10,000 for teacher candidates completing 500 or more hours of student teaching. The funding provided in the budget is one-time, but intent language was included to make the program ongoing. To the extent funds are available, beginning July 1, 2026, the program would have $100 million appropriated annually. While the program does not target subject areas and schools with the most significant shortages, there is intent language to increase stipends in future years for prospective educators who commit to teaching in a priority school or high needs field.

Universal School Meals (Kitchen Infrastructure) Support Grant. The budget appropriates $160 million Proposition 98 General Fund to establish the Universal School Meals Support Grant. With the implementation of universal school meals, many schools have been in need of kitchen infrastructure upgrades, and staff recruitment and retention. The grant also sets aside $5 million for the Marin County Office of Education to conduct and study and provide a report on particularly harmful ultra-processed foods being offered in school meals in California. It should be noted that there have been significant investments in recent years with $750 million previously provided for kitchen infrastructure grants ($150 million in the 2021 Budget Act and $600 million in the 2022 Budget Act). An additional $15 million was provided in the 2023 Budget Act for commercial dishwasher grants, and the 2022-23 budget also included $100 million for schools to implement various initiatives referred to as school food best practices.

Increase for the Expanded Learning Opportunities Program. This budget increases ongoing Proposition 98 General Fund for the Expanded Learning Opportunities Program (ELOP) by $525 million, for a total of $4.5 billion ongoing. These funds go to “Rate 1” schools which currently means at least 75 percent of the enrollment consists of low-income or non-English-speaking students (referred to as “unduplicated” pupils). The budget package amends eligibility for Rate 1 ELOP funds by lowering the threshold from 75 percent unduplicated pupils to 55 percent, and increases the minimum grant amount from $50,000 to $100,000 per local educational agency. Schools that are in Rate 1 are required to offer access to ELOP to all pupils and to provide access to any pupil whose parent or guardian requests their placement in a program. Considering the fiscal situation facing the state, expanding programs with ongoing funding obligations can put a strain on the overall TK-12 budget. With that said, the increase in the minimum grant amount per LEA is laudable and will make implementing the program more manageable for some LEAs.

Other TK-12 Budget Adjustments. The budget also includes the following changes.

- **Literacy Coaches and Reading Specialists Grant Program.** The budget includes $215 million one-time Proposition 98 General Fund for the Literacy Coaches and Reading Specialists Grant Program. This is in addition to $250 million provided for the program in the 2022 Budget Act.

- **Secondary School Redesign Pilot Program.** The budget provides $10 million one-time Proposition 98 General Fund to establish the Secondary School Redesign Pilot Program. The pilot seeks to redesign middle and high schools to better serve the needs of all students and increase student outcomes, including personalizing the learning environment, integrating experiential education and new uses of technology, and promote measurable pupil engagement growth. While the pilot program might be laudable, the state is already biting off more than it can chew and has a lot of projects going at the same time. It is unclear where this proposal came from and why it is a priority when the state is in such a precarious fiscal position.

- **Plumas Unified School District Emergency Loan.** The budget authorizes an emergency loan to the Plumas Unified School District of up to $20 million over a loan term of up to 30 years. The Plumas Unified School District is facing fiscal and cash insolvency as a result of governance challenges, organizational decision making, understating employee compensation expenses, and continued deficit spending. The district is projected to run out of cash to support its routine operations and expenditures at the end of August 2025. This emergency loan will allow the district to continue the delivery of educational services to pupils enrolled in the school district.

- **Partially Restores Funding for the Learning Recovery Emergency Block Grant.** Restores $379 million Proposition 98 General Fund for the Learning Recovery Emergency Block Grant. This block grant was previously reduced in the 2023 Budget Act by $1.6 billion. Intent language was included in the 2023-24 budget to begin restoring the funding by $379 million per year beginning in 2025-26 to 2027-28 for a total restoration of $1.1 billion. This restoration is the first installation in that restoration process.

- **LGBTQ Plus Online Trainings Implementation Deadline Extensions.** This budget extends the encumbrance deadline for $435,000 appropriated in the 2021 Budget Act, to June 30, 2025, for the Department of Education to contract with an LGBTQ+ organization to serve as the lead partner in the development of an online LGBTQ+ cultural competency training platform. The funds would also help establish an advisory committee to inform the development and content of the LGBTQ+ cultural competency training curriculum. The budget also extends the encumbrance deadline, through June 30, 2030, for $770,000 provided in the 2024 Budget Act to develop an online training delivery platform and curriculum to support LGBTQ+ cultural competencies for teachers and other certificated employees in grades 7 through 12.

- **Childhood Sexual Assault Claims Financial Reporting.** This budget requires district accounting systems to capture LEAs' settlements, judgments, or special assessments from claims of childhood sexual assault. Claims against LEAs have risen dramatically following enactment of AB 218 (Lorena Gonzalez, 2019) and AB 452 (Addis, 2023). AB 218 extended the statute of limitations for claims of childhood sexual abuse, which has significantly impacted LEAs across the state. A January report by the Fiscal Crisis and Management Assistance Team (FCMAT) notes that a comprehensive analysis of claims is not available, but "the best estimate of the dollar value of claims brought to date because of AB 218 is $2 billion to $3 billion for local education agencies." The budget's mandate creating a specified accounting for these claims will allow a more comprehensive picture of the fiscal impact facing LEAs to emerge.

Impact of Federal Funding on TK-12 Education. The potential impacts of the federal budget bill on funding provided to the TK-12 education system are not yet fully understood. While there does not seem to be any direct funding impact for TK-12, some information indicates that cuts in other areas such as Medicaid and the Supplemental Nutritional Assistance Program (SNAP), also known as CalFresh, will impact TK-12 schools through reimbursements and eligibility requirements for benefits. It should be noted that at the time this report was written, hundreds of millions of dollars in federal funding has been frozen. While not related to the federal budget bill, H.R. 1, the funding freeze is expected to impact both schools and the California Department of Education.

Higher Education

Key Points

- **Cuts University Budgets for One Year.** Reduces funding by 3 percent for one year for both pubic university systems, but permits them to access no-interest loans in 2025-26.
- **University Base Increase Deferrals Amended.** Maintains the 2024 action to defer a 5 percent base increase by two years. Additionally promises a 2 percent increase in 2026-27 and a 3 percent increase in 2028-29.
- **Rejects Retroactive Community College Reduction.** Rejects the Governor's proposed shift of $259 million in prior-year and current-year funding from community colleges but shifts funds to transitional kindergarten going forward.
- **Promises Stable Middle Class Scholarships but Funds with Cash Loans.** Increases scholarship award amounts to previous level but funds the program with cash flow loans.

University of California (UC)

Operations Cut Switched to a Deferral. The Governor's May Revision proposed to cut the UC budget on an ongoing basis by 3 percent or $130 million. Senate Republicans argued against these cuts to higher education. The final enacted budget instead reduces the UC budget by 3 percent but refers to it as a deferral from 2025-26 to 2026-27.The budget also authorizes a no-interest loan for UC in 2025-26. While the budget improved from an ongoing cut, with the overall budget forecast showing a deficit of $17 billion for 2026-27, the state's claim that it will provide the funds that year lacks credibility.

UC Compact Increase Deferrals Partially Amended. In 2022 the Governor entered into compacts with both UC and CSU to provide base increases of 5 percent annually in exchange for meeting certain enrollment goals. However, in 2024 the state changed course, and the budget authorized deferrals of those increases. The enacted budget maintains deferral of the 5 percent increase for 2025-26 until 2027-28, amounting to $241 million. In addition, the budget modifies the deferral schedule plan by stating intent to provide a 2 percent base increase ($145 million) in 2026-27 (instead of 5 percent) and another 3 percent increase in 2027-28. The deferred increases would then be provided in 2028-29.

Unfortunately, given that the state already projects General Fund deficits of at least $17 billion every year going forward, the likelihood of the state providing those increases in the future is significantly in doubt. Senate Republicans fought to fund our state's public higher education institutions' publications fully in this budget, but the majority party continued to defer increases and approve cuts. Notably, the cost of the Medi-Cal expansion to undocumented residents, as described in the *Health* section, is more than enough to eliminate tuition for every California resident student in the UC and CSU systems.

Resident Undergraduate Enrollment Growth Support Deferred. The enacted budget defers $31 million of the ongoing General Fund to continue the 5-year program to replace nonresident students with California students at the Berkeley, Los Angeles, and San Diego campuses. It also includes language allowing UC to count additional reductions of nonresident students beyond the yearly target for the following year.

UC College of Law Funding. The budget approves the Governor's proposal to provide $10 million ongoing General Fund to support debt service costs associated with the second phase of the McAllister Tower renovation. Senate Republicans agree with the nonpartisan Legislative Analyst's Office that the state should not have funded this proposal. It seems unfair that the state supports 85 percent of the

College of Law, San Francisco's student housing projects, while in recent years, the other UC campuses have had their state support clawed back and were asked to fund the project costs with school-issued bonds.

Local News Handouts. Legislative Democrats approved a $15 million one-time General Fund expenditure for the UC Berkeley Journalism Fellowship Program. Local news is a sympathetic cause, but considering all the other cuts approved in the budget, this legislative action shows misplaced priorities. UC Riverside will receive $430,000 annually to support the California Newspaper Project, which digitizes and archives California newspapers published from 1846 to the present.

Various UC Student Housing Projects. The enacted budget provides $43 million using revenue bond funding issued by the UC to UC Davis for the Segundo Infill Student Housing project and $43 million to UC Santa Barbara for the East Campus Student Housing project. Using existing debt service funding to construct additional student housing is reasonable.

California State University (CSU)

Operations Cut Switched to a Deferral. The Governor's May Revision proposed to cut the CSU budget on an ongoing basis by 3 percent or $144 million. Senate Republicans argued against these cuts to higher education. The final enacted budget instead reduces the CSU budget by 3 percent but refers to it as a deferral from 2025-26 to 2026-27.The budget also authorizes a no-interest loan for CSU in 2025-26. While the budget improved from an ongoing cut, with the overall budget forecast showing a deficit of $17 billion for 2026-27, the state's claim that it will provide the funds that year lacks credibility.

CSU Compact Increase Deferrals Partially Amended. In 2022 the Governor entered into compacts with both UC and CSU to provide base increases of 5 percent annually in exchange for meeting certain enrollment goals. However, in 2024 the state changed course, and the budget authorized deferrals of those increases. The enacted budget maintains deferral of the 5 percent increase for 2025-26 until 2027-28, amounting to $252 million. In addition, the budget modifies the deferral schedule plan by stating intent to provide a 2 percent base increase ($101 million) in 2026-27 (instead of 5 percent) and another 3 percent increase in 2027-28. The deferred increases would then be provided in 2028-29.

However, given that the state already projects General Fund deficits of at least $17 billion every year going forward, the likelihood of the state providing those increases in the future is significantly in doubt. Senate Republicans fought to fund our state's public higher education institutions' publications fully in this budget, but the majority party continued to defer increases and approve cuts.

Looming Deficit Recently Reported. The CSU reported a deficit of $2.3 billion at its July 2025 board meeting.[6] The annual 6 percent tuition increase plan that is in place does not appear sufficient to address the shortfall, particularly when combined with the state's operations cut and deferral of base increases. The CSU has already taken some early actions to address the financial strain such as cutting staff, reprioritizing activities by focusing on core operations and reducing course offerings. CSU is further strained by their bargaining units claiming they are owed raises.

The reality is that the Governor and legislative Democrats have prioritized other programs over the public universities. The cost of expanding Medi-Cal to undocumented immigrants, even when just considering the most recent expansion to adults (launched in 2024), is more than enough to reduce tuition to zero for every student in the CSU system. Instead, majority party applauded themselves for limiting the cuts to CSU to only 3 percent.

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[6] CalMatters, July 24, 2025 [Cal State faces huge budget deficit despite tuition increase - CalMatters]

Sonoma State Bailout. The CSU's Sonoma campus has experienced a dramatic decline in enrollment in recent years, leading that campus to discontinue some majors and sports programs. The enacted budget provides $45 million in one-time General Fund to Sonoma State University to support a long-term turnaround plan focused on student recruitment, academic expansion, and athletic program support. Although propping up some of the campus's critical activities may offer stability in the short term, expanding academic programs in an under-enrolled university may not be prudent.

Capitol Fellows Stipend Increase. The enacted budget provides $1.3 million in ongoing General Fund to the Center for California Studies to provide a 50 percent salary increase for Capitol Fellows, bringing those salaries up to $58,656 annually. This salary increase may assist in attracting talented applicants and slow the trend of declining applications that has persisted in recent years.

<u>Community Colleges</u>

Increased Operating Funds. The budget provides a 2.3 percent Cost of Living Adjustment to apportionments (enrollment-driven funds) and categorical programs, consistent with TK-12 funding, representing a $217 million Proposition 98 General Fund increase.

Proposition 98 Split Adjusted Moving Forward, but Retroactive Shift Rejected. When the implementation of universal transitional kindergarten (TK) was adopted, the state began to "rebench" (adjust) the Proposition 98 guarantee upward to cover the cost of the expansion. The Proposition 98 guarantee is split each year to allocate roughly 11 percent of the total Proposition 98 funds to community colleges and the rest to TK-12 schools. However, the state's calculation provided community colleges with a share of the increase.

The Governor's May Revision proposed to pull back $492 million in Proposition 98 General Fund from community colleges and shift it to TK-12 schools. This action would have shifted funds retroactively for 2023-24 ($108 million) and 2024-25 ($152 million), as well as a prospective $233 million shift in 2025-26. Irrespective of the original intent for TK, Senate Republicans argued it was unfair to penalize community colleges in this manner, and obviously impractical to shift funds two years after the fact. The enacted budget rejected the retroactive portion of the Governor's proposal and shifted the funds to TK from 2025-26 onward.

IT Projects Reduced and Withdrawn. The enacted budget reduces the Common Cloud Data Platform proposal to provide shared access to student data across participating districts by $151 million Proposition 98 leaving $12 million one-time for Proposition 98. In addition, the budget approves the Governor's plan to withdraw the Collaborative Enterprise Resource Planning project proposal at the California Community Colleges, which would have standardized data and information across the community college system and cost $168 million in Proposition 98 General Fund. Although both projects have been significantly reduced compared to their original proposals, Senate Republicans concur with the LAO's concerns that these projects should have been rejected entirely.

Student Centered Funding Formula (SCFF) Increases. The budget includes several adjustments to the SCFF to support enrollment growth in the CCC system. It provides nearly $139.9 million to fund 2.35% enrollment growth. The enacted budget includes a one-time allocation of $210.2 million to fund the SCFF in 2024-25 fully, and provides $104.7 million in ongoing funding to fund SCFF in 2025-26 fully. This will be done by deferring, $408.4 million in apportionment funding from 2025-26 to 2026-27and using $49.7 million from the Proposition 98 Rainy Day Fund to support SCFF costs in 2025-26.

Career Passport and Credit for Prior Learning. The budget provides $25 million one-time Proposition 98 General Fund for the development of a Career Passport, and $15 million one-time and $5 million ongoing Proposition 98 General Fund for the Credit for Prior Learning Initiative. Credit for prior learning allows individuals to receive academic credit for knowledge and skills gained through experiences outside of traditional classroom settings, such as military service. Career Passports enable individuals to display their skills and credentials, such as a resume or LinkedIn profile. Senate Republicans agree with the LAO that these proposals should have been rejected because there are still many unknowns about their usefulness and effectiveness.

Student Support Block Grant. As a component of the Master Plan for Career Education, the budget allocates $60 million, one-time Proposition 98, for establishing the Student Support Block Grant. Each community college district will receive $150,000; the remainder of the appropriation is divided based on student numbers and financial need. The purpose of the block grant is to assist students with food, housing, transportation, and other basic needs.

Community College Proposition 2 Projects. The enacted budget funds 29 projects, equaling $55 million in FY 2025-26, using bond funds from Proposition 2. In November 2024, voters approved a new education facilities bond, Proposition 2, which provides $1.5 billion for facilities at the California Community Colleges. The bond funds can be used for various purposes, such as constructing new facilities, renovating current structures, acquiring property, and purchasing equipment.

Dreamer Resource Liaisons. The budget provides $15 million, one-time Proposition 98 to community colleges for Dreamer Resource Liaisons**.** Dreamer Resource Liaisons assist undocumented students by connecting them to resources and support services, such as navigating financial aid and accessing legal assistance.

Rising Scholars Expansion. The budget provides $10 million in ongoing Proposition 98 General Fund for expanding the Rising Scholars Network and eliminating the cap on the number of campuses that can operate a Rising Scholars program. The Rising Scholars Network is a statewide initiative within the CCC system that supports current or formerly incarcerated students.

Financial Aid

Certainty to Middle Class Scholarship Recipients, Uncertainty in State Spending. The Governor initially proposed to cut funding for the Middle Class Scholarship program from $918 million in 2024-25 down to $405 million. The enacted budget instead maintains funding for Middle Class Scholarships at the higher level from 2024-25, but it does so using an unclear method of budgeting the entire $918 million from the 2026-27 budget, claiming to fund the program on a cash flow basis. The budget also provides students with a stable grant level, and indicates an intent to covers 35 percent of students' remaining financial need with the grants. To facilitate these changes, the Student Aid Commission could access short-term, no-interest loans throughout the year to provide the grant funds to universities. Senate Republicans opposed cuts to financial aid, and the budget's approach is an improvement, though the use of cash flow loans for this purpose may create complications in future budgets.

Emergency Financial Assistance Grants. The budget includes $20 million, one-time, Proposition 98 to provide flexible emergency financial aid assistance to California Dream Act Application filers.

California State Library

Braille Institute Funding. The enacted budget provides $500,000 in State Library funds to support the Braille Institute and $800,000 in one-time General Fund.

Federal Funding Foregone. The federal government withheld $3.3 million from grant funds that the California State Library planned to receive in fiscal year 2024–25, resulting from President Trump's Executive Order on Continuing the Reduction of the Federal Bureaucracy from March 2025. In response to the funding gap, the State Library issued a hiring and spending freeze and furloughed temporary help. It is worth noting that 34 permanent positions at the State Library are supported by federal funds.

ScholarShare Investment Board

CalKIDS. The enacted budget rejects trailer bill language to require tax software providers to notify eligible families about CalKIDS, but requires local educational agencies to inform students about the CalKIDS program when they notify students about the Free Application for Federal Student Aid process. In addition, the budget extends the data-sharing pilot project aimed at increasing participation in the CalKIDS program with the Riverside County Office of Education until 2029-30. It authorizes the San Diego Unified School District to join the pilot.

Fire Relief and Disaster Preparedness Proposals

The budget includes several fire relief and disaster preparedness proposals in response to the destructive Los Angeles fires, as follows:

First Responder Apprenticeship Funding. The budget provides $10 million one-time Proposition 98 General Fund to community colleges for the California Firefighter Joint Apprenticeship Council to support Emergency Medical Technician and Paramedic Pre-apprenticeship Training Academies, and includes $6.3 million one-time Proposition 98 for funding Firefighter Apprenticeship reimbursements.

Los Angeles Career Technical Education Workforce Development. The Budget provides $5 million in Proposition 98 funds to community colleges within the Los Angeles Regional Consortium to support workforce recovery initiatives and career technical education development dedicated to assisting with the Los Angeles region's recovery from the Palisades and Eaton fires.

Fire-Related Property Tax Backfill. The Budget provides $3.8 million Proposition 98 General Fund for supporting fire-related property tax backfill in 2024-25 and $8.1 million Proposition 98 General Fund in 2025-26 for properties damaged in the Los Angeles fires.

Altadena Library. The budget includes a $3.6 million one-time General Fund for the Altadena Library District, which sustained damage from the Eaton fire.

Santa Rosa Junior College Fire Tower. The enacted budget provides $125,000 one-time Proposition 98 General Fund to support the construction costs of the replacement fire tower at Santa Rosa Junior College.

Other Higher Education Proposals

California Indian Nations College. The budget includes $10 million in one-time General Fund to the California Indian Nations College. In March 2025, Senator Ochoa Bogh submitted a letter requesting funding for this college.

Private Art School Giveaway. The budget includes $20 million in one-time General Fund to the California College of the Arts (CCA). CCA is a private college located in San Francisco. It is unclear why the state would single CCA out to receive assistance like this, which it does not provide to any other private college. At a time when the state is cutting UC and CSU, as well as funds for disabled Californians elsewhere in the state, this is a poor choice. It is also worth noting that on February 14, 2025, CCA announced it had raised nearly $45 million in new philanthropic donations, raising more concerns about the state offering a handout to a private college more than capable of receiving large-scale charitable contributions.

Labor and Workforce Development

Key Points

- **California Unemployment Debt Continues to Challenge Employers.** Despite larger principal payments via increased federal employer taxes, California continues to carry a balance of $21 billion for unemployment insurance (UI) loans from the federal government.
- **UI Debt Interest Payment.** Includes $643 million to pay the annual interest payment on the federal UI loans.
- **Borrowing to Subsidize State Spending.** Authorizes a loan of $400 million from the Labor and Workforce Development Fund to the General Fund, thus using one-time funds to continue excessive ongoing state spending.
- **Employment Development Department (EDD) Modernization.** Includes $124 million in funding for EDD IT systems, improved service for claimants, and fraud prevention, continuing a five-year modernization plan initially funded in 2022-23.

California UI Debt Continues to Challenge Employers. California is the only deadbeat state neglecting to pay off its UI debt to the federal government following the pandemic (New York recently prioritized sufficient funding in their newly enacted budget to eliminate their debt). Employers must pay down the debt principal through increased federal employer taxes, which ratchet up each year until the debt is paid off. As of June 2025, California's unemployment rate was 5.4 percent, tied with Nevada for the highest in the nation. California's debt balance of $21 billion remains relatively flat despite increased payments from these employer taxes, reflective of continued borrowing to pay benefits.

This year employers paid $63 more per employee, when compared to the baseline federal employer taxes with no UI debt. Next year the tax will increase another $21 to $84 for each worker.[7] Governor Newsom likes to claim he does not support broad tax increases, but by refusing to pay off California's UI debt when a surplus was available, the Governor and other Democrats chose to let those tax increases go into effect.

UI Debt Interest Payment. While increased federal employer taxes pay down the principal on the federal UI loans, the state is responsible for the interest payments. The budget includes $643 million General Fund to pay the annual interest payment. As noted above, these interest payments would have been avoided entirely if the Governor and legislative Democrats had done what nearly every other state did: using past surplus funds to pay off the federal loan.

Borrowing to Subsidize State Spending. As a deficit solution, the budget includes a loan of $400 million from the Labor and Workforce Development Fund to the General Fund, thus using one-time loan funds to continue excessive ongoing state spending. The Governor asserts this funding is "not currently projected to be used for operational and programmatic purposes." However, these funds originate from penalties paid by employers found to have committed labor violations, and they are meant to educate employers and employees about state labor laws and employee rights. If these funds are not needed for this purpose, they could instead be used to benefit employers, employees, and

[7] This reflects a total federal tax of $105 per employee for the 2024 taxable year and $126 per employee for the 2025 taxable year, with taxes for each year due the following January. Absent a UI debt, employers pay $42 per employee in federal taxes.

California taxpayers by making supplemental principal payments on the UI debt owed to the federal government.

Increases for Workforce Development and Employee Protection Programs. The budget includes an increase of $55 million ($15 million General Fund) to support various workforce development and employee protection grant programs. The workforce development grant programs provide training, apprenticeships, and employment opportunities to various populations. The employee protection grant programs provide outreach and education related to employee rights to workers in various industries. While some of these programs may sound meritorious, others reflect a one-sided view of private employment. Also, California's efforts to shore up employment often appear to be throwing money at a list of feel-good programs that have overlapping goals and suffer from a lack of accountability. Moreover, the budget does nothing to ease the regulatory burdens or tax burdens that businesses face in California, all of which contribute to the state's higher unemployment rate, as noted above. The programs receiving funds include the following:

- *Apprenticeship Training Grant Expansion*—$18 million one-time from the Apprenticeship Training Contribution Fund to support apprenticeship training in construction and related trades.
- *California Workplace Outreach Project*—$13 million one-time Labor and Workforce Development Fund for the California Workplace Outreach Project, which promotes awareness and education for labor protections for California workers.
- *Helping Justice-Involved Reenter Employment (HIRE) Program*—$10 million one-time General Fund for the HIRE Program, which provides grants to eligible organizations to support formerly incarcerated and justice-involved individuals in accessing employment opportunities, workforce training programs, and supportive services
- *Garment Worker Wage Claim Pilot Program*—$8.5 million one-time Labor and Workforce Development Fund for the Garment Worker Wage Claim Pilot Program, which provides grants to eligible organizations to support labor protection education and facilitate the filing and processing of wage claims for impacted workers
- *Supporting Los Angeles Area Fire Recovery*—$5 million one-time General Fund to support workforce development in Los Angeles and Ventura Counties.

Continues Funding to Modernize the EDD. The budget includes $124 million ($62 million General Fund) for the fourth year of EDDNext, a five-year plan to modernize the EDD. This includes efforts to modernize EDD's benefit systems, improve customer service delivery, simplify forms and notices, develop anti-fraud analysis tools, and speed up application processing. This work is long overdue. The majority party knew over a decade ago that EDD's systems were inadequate for its mission, but Democrats prioritized many other programs in the budget. This neglect set the stage for EDD's horrendous performance and billions in fraudulent claims paid during the pandemic.

Public Safety and Judiciary

Key Points

- **Experiment in Softening Prison Experience Takes to the Shadows.** Budget includes additional millions to make prison feel less like prison while reducing oversight of rehabilitation programs.
- **Ruling Party Only Pays Lip Service to Popular Mandate.** Governor and legislative Democrats all but ignore voters' Proposition 36 mandate to crack down on crime and support treatment, as budget covers less than a quarter of funding need.
- **Cannabis Enforcement Improvements Support Legal Market.** Fund shift and rule change provide additional state and local enforcement against illegal players.
- **Ramps up Efforts to Resist Federal Administration.** Budget provides additional funds to Attorney General and blue population center prosecutors to take on America First federal policies.
- **Reversal of Court Funding Reduction Provides Some Relief, but Not Enough.** Budget partially reverses ill-advised trial court reduction, but specter of civil court delays remains.
- **Services for Crime Victims Protected.** Budget provides significant one-time funding to backfill dwindling federal support for crime victim programs.

Department of Corrections and Rehabilitation (CDCR)

The enacted budget includes total funding of $13.6 billion ($13.2 billion General Fund) for CDCR in 2025-26. This is a decrease of $655 million compared to the 2024-25 budget at enactment.

Governor's Prison Rehabilitation Experiment Funded… The 2025-26 budget continues implementation of the Governor's so-called "California Model" – his plan to improve outcomes for convicted felons by making life behind bars more like life on the outside, similar to the "Norway Model." The first phase of the California Model is a $239 million construction project at the San Quentin Rehabilitation Center, first budgeted in 2023-24 and currently scheduled to be completed in early 2026. The aim is to create a less harsh physical environment where inmates will find ample rehabilitative programming, professional development opportunities, and a security environment that focuses on building positive relationships between staff and incarcerated individuals rather than rigid enforcement of rules and barriers. The budget includes $9.4 million in 2025-26 and $13 million annually thereafter to convert the former Death Row housing block to an honor dorm and to increase staffing and expand rehabilitative programming to continue implementation of the California Model at San Quentin. While the Norway model has worked in socialist Scandinavian countries, it is untested in the United States. It remains to be seen whether it will have a positive or negative impact on public safety in the long term.

…But Oversight of Rehabilitative Programs Diminished. At the same time he is rolling out sweeping reform to drastically change the way the state rehabilitates serious and violent felons, the Governor is simultaneously deleting the California Rehabilitation Oversight Board (C-ROB). The C-ROB is a board within the independent Office of the Inspector General (OIG) with a mandate to:

- Regularly examine the various mental health, substance abuse, educational, and employment programs for inmates and parolees operated by CDCR.
- Report annually on the effectiveness of treatment efforts, rehabilitation needs of offenders, gaps in rehabilitation services, and levels of offender participation and success in the programs.

- Make recommendations to the Governor and the Legislature regarding changes to offender rehabilitation and treatment programs.

The administration claims that eliminating C-ROB is necessary to achieve the reductions scored against OIG's budget in the 2024 Budget Act. This means that the Governor is okay with sacrificing oversight and accountability for prison rehabilitative programs to marginally reduce costs while spending hundreds of millions of taxpayer dollars on an experimental rehabilitation philosophy that is untested and unproven in the United States. Apparently, legislative Democrats support that through their budget votes as well.

Unnamed Prison Closure. Although not reflected in total expenditures for 2025-26, the budget assumes that another prison will be closed by October 2026 (in addition to the three already shuttered by the Newsom administration). The Governor has yet to identify the prison he intends to close, but the budget assumes annual General Fund savings of about $150 million beginning in 2026-27. While current prison population trends suggest that a fourth prison could be closed without further jeopardizing public safety, Senate Republicans have long argued that these closures would not have been possible but for recent misguided criminal justice reforms, including the 2011 Public Safety Realignment's shifting of responsibility for custody and supervision of tens of thousands of felons from the state to counties, Proposition 47's easing of criminal sanctions in 2014, and Proposition 57's virtually unlimited expansion of sentence-reducing credits in 2016. If the state were to begin holding criminals accountable again, CDCR could quickly find itself in a position of needing more prison capacity.

Unrealistic Savings Assumptions. The budget assumes $125 million in General Fund savings in 2025-26 from "operational improvements" at CDCR, growing to $635 million in 2028-29. The administration assumes these savings will be achieved through changes to its headquarters, contract management, overtime, and health care operations. The savings have yet to be allocated to specific programs, which raises a red flag regarding CDCR's ability to achieve them. The 2024 Budget Act directed CDCR to reduce its spending by $392 million per year through efficiencies. During deliberations on the 2025-26 budget, CDCR was only on track to achieve savings of $268 million in 2024-25, $186 million in 2025-26, and $194 million ongoing. With many of the one-time actions that might yield savings already taken to meet last year's mandate, and given the fact that the ongoing savings from last year's budget directive are less than half of their target level, it is doubtful that there are many achievable savings opportunities left within CDCR's budget.

Proposition 36 Implementation

Proposition 36 Implementation Shockingly Underfunded. California voters enacted Proposition 36 (Prop 36) in November 2024 to address problems created by the false promises of Proposition 47 (Prop 47) in 2014. Prop 47 was approved with almost 60 percent of the vote. Prop 36 was approved with **more than 68 percent** of votes cast last year, receiving more than twice as many Yes votes as Prop 47 (10.3 million for Prop 36 compared to 4.2 million for Prop 47).

Despite this clear voter mandate, the budget deal struck between legislative Democrats and the Governor fails to fully fund Prop 36. Stakeholders, through requests submitted to the Senate Budget Committee, identified a need for roughly $350 million annually – potentially more – to fully implement the measure. As reflected in the table on the following page, the ruling party managed to scrape together only $80 million for this overwhelmingly supported voter initiative. The Governor's January and May budget proposals included nothing for Prop 36 enforcement and services; the final budget only includes partial, temporary funding because Senate Republicans and some Democratic legislators fought to include funding. Senate Republicans first called for full funding in a December letter from Senate Budget Vice Chair Niello[8] and again in April in a caucus-wide budget priority letter.[9] However, despite support from a few of their members, legislative Democrats stopped short of securing the hundreds of millions of dollars that are needed each year to implement the will of the voters. Yet they somehow managed to continue spending billions upon billions of dollars annually providing full Medi-Cal benefits for undocumented immigrants, as well as tens of millions of dollars on pet causes elsewhere in the budget.

Perhaps even more shocking than the magnitude of the Prop 36 funding gap is the disparity with which the budget treats the various stakeholders. To wit, the courts are getting all that they said they needed, and county behavioral health departments are getting the low end of the range of their anticipated funding need. On the other hand, front line law enforcement is getting nothing. Probation departments, which will be absolutely critical in overseeing treatment-mandated felons to ensure treatment participation and success, are also not getting any new funding. To the contrary, they actually lose $5 million in 2025-26 and $20 million annually thereafter from an existing grant program that is currently used to provide some Prop 36 services. It is abundantly clear that the Governor gave local law enforcement a very low priority and chose to elevate his own views over the will of the voters. Legislative Democrats ultimately were not willing to give Prop 36 a high priority either.

Proposition 36 Funding Need vs. Budget

	Identified Need*	Included in Budget*
County Behavioral Health ($50 m to $600 m, requested $105 m)	$105	$50
County Public Defenders ($120 million over three years)	40	15
Local Law Enforcement (City Police, County Sheriffs)	85	-
Probation Departments	44	(5)
County Administration	50	-
Courts	20	20
Totals	$344	$80

* Dollars in Millions

Other Statewide Law Enforcement Issues

Internet Crimes Against Children (ICAC) Task Force. The budget includes $7 million General Fund ongoing to sustain the five regional task forces in San Diego, Los Angeles, San Jose, Sacramento, and Fresno. This makes the existing baseline funding permanent and increases it by $2 million per year.

Human Trafficking and Child Sexual Abuse Investigations. The budget provides $5 million General Fund annually, beginning in 2025-26, for the California Highway Patrol (CHP) to expand its Computer Crimes Investigation Unit. CHP will increase its recent focus on assisting state agencies and local law enforcement partners in combatting human trafficking and distribution of child sexual abuse material (child pornography) throughout California. Aside from the totally inadequate funding for Prop 36

[8] https://sr06.senate.ca.gov/sites/sr06.senate.ca.gov/files/Budget%20Request%20-%20Fully%20Funding%20Prop%2036%20Implementation_0.pdf
[9] https://sr06.senate.ca.gov/sites/sr06.senate.ca.gov/files/2025%20Caucus%20Budget%20Letter%20%20-%20Statewide%20Priorities%204.1.25.pdf

implementation described above and the $2 million augmentation for ICAC, this is the only truly new funding proposed by the Governor to reduce crime.

Cannabis Enforcement Modestly Improved. The fee-based Cannabis Control Fund can no longer sustain the costs of enforcement against illicit cannabis activities. Revenues to the fund have plateaued around $130 million annually, while expenditures have risen to nearly $175 million. The budget redirects some of the Department of Cannabis Control's (DCC) enforcement costs – including its $25 million Track-and-Trace System – from the Cannabis Control Fund to the Cannabis Tax Fund. The fund shift will support increasing DCC enforcement staff over the next three years, allowing for more robust enforcement than would be possible using the limited fee revenues in the Cannabis Control Fund. In addition, the budget authorizes the Board of State and Community Corrections (BSCC) to award cannabis enforcement grants to local law enforcement agencies in jurisdictions that do not allow legal cultivation or brick-and-mortar retail sales. These jurisdictions were previously barred from accessing BSCC grant funds. These two changes will moderately improve enforcement against illegal producers and sellers, which should help to bolster the legal cannabis market. Also, the Newsom Administration claims this shift will avoid the need to raise license fees, which can reach over $300,000 annually, on legal actors.

Department of Justice (DOJ)

The 2025-26 budget includes total funding of $1.3 billion ($500 million General Fund) for DOJ, which reflects no significant change from the 2024-25 enacted budget.

Lawfare Against Federal Administration Continues. The budget provides an additional $14 million General Fund for the Attorney General to intensify his legal battles with the Trump Administration on matters including environmental protections, tariffs, abortion, and termination of federal grants. This funding is more than twice the amount originally provided to the Attorney General in 2016 to litigate against the first Trump Administration. It is provided on top of the $50 million appropriated in the 2025-26 First Extraordinary Session of the Legislature for similar purposes. In addition, the budget appropriates $6 million to DOJ to be distributed to the Office of the County Counsel of Los Angeles and Santa Clara Counties, as well as the City Attorney of San Francisco, for the same purpose.

During the first Trump Administration, DOJ filed at least 123 lawsuits against the federal government and had some success thwarting the President's agenda. However, to date, this Trump Administration has been much more successful in its legal battles, which suggests that the antagonistic posture the Governor and the Attorney General have assumed this time around may bring more harm than good for California.

Attorney General "Slush Fund" Loan. The Litigation Deposit Fund, once referred to by some as the Attorney General's slush fund due to its discretionary uses and lack of public accounting, provided nearly half a billion dollars in budgetary loans to the General Fund, beginning in 2023-24. However, after the first $400 million loan, the remaining balance in the fund that was "not required for currently projected operational or programmatic purposes" was transferred to the Unfair Competition Law Fund to provide better transparency. Now the 2025-26 budget includes another $150 million loan to the General Fund from funds under the Attorney General's purview that are not required for currently projected operational or programmatic purposes. The availability of these significant amounts of money suggests that far greater transparency is still needed for revenues taken in by the Attorney General from settlements and judgments.

Concealed Carry Licensure Increase. The U.S. Supreme Court's 2022 decision in *New York State Rifle & Pistol Association v. Bruen* found that laws requiring "good cause" or "proper cause" for issuance of Carry Concealed Weapon (CCW) license violate the Second Amendment, and that law enforcement has an affirmative duty to issue CCW licenses to all applicants who are not prohibited. Since that decision, DOJ has seen a 34 percent increase in CCW applications and a 15 percent increase in renewals. The budget includes $3.2 million ongoing ($2.7 million General Fund, $519,000 special funds) and 26 positions to backfill expiring limited-term resources and ensure adequate staffing for DOJ to conduct the background investigation workload associated with the increase in CCW applications.

Judicial Branch

The enacted budget includes total funding of $5.1 billion ($3.1 billion General Fund) for the Judicial Branch in 2025-26, including $4 billion to support the trial courts. Relative to the 2024 Budget Act, Judicial Branch spending is $150 million higher, with funding for the trial courts approximately $120 million higher.

Partial Reversal of Ill-Advised Trial Court Reduction. The 2025-26 budget reverses $42 million of a $97 million unallocated reduction to the trial courts' baseline budget, imposed in the Budget Act of 2024, by redirecting available reserves in the Trial Court Trust Fund. At some point, the Newsom administration will need to revisit the topic to determine if a permanent General Fund backfill is warranted to sustain the restoration on an ongoing basis. While the partial restoration is an improvement, the trial courts must still implement a $55 million ongoing reduction, which unfortunately means civil case delays and backlogs are likely.

Community Assistance, Recovery, and Empowerment (CARE) Court Changes. Legislation passed last year, SB 42 (Umberg, 2024), made changes to the CARE Act to facilitate better implementation of services for those with severe mental illness. The 2025-26 budget includes a $1 million General Fund augmentation for the trial courts to process and mail notices to CARE Court petitioners and for additional hearing time to handle referrals between courts, consistent with the requirements of SB 42. While these changes will certainly improve the court process, it is becoming increasingly apparent that counties lack adequate resources to provide the services necessary for CARE Courts to succeed, especially with new competition for those resources from Prop 36. The ruling party's decision to severely underfund Prop 36 threatens not only that initiative's success, but also risks undermining CARE Courts and other existing programs that compete for the same limited pool of resources.

Court Construction Projects. The budget includes a $37 million General Fund augmentation and a $34 million General Fund reappropriation to continue six courthouse construction projects in San Luis Obispo, Solano, Butte, Fresno, Plumas, and Los Angeles Counties. All projects except for Butte County are in pre-construction phases. The Butte County project is moving to the working drawings and construction phase. The existing facilities these projects will modify or replace are all considered "immediate and critical need", meaning they are deficient in all criteria used to evaluate the priority level of the project, including fire-life-safety, court security, and threat of catastrophic events. As such, the projects are critical to ensuring the safety of court users and staff, as well as providing for efficient court operation.

The budget also reflects the withdrawal of $3 million for the new Tracy Courthouse project in San Joaquin County, which has been suspended for now, and includes a $9.5 million one-time General Fund augmentation to cover increased construction costs for the San Diego Hall of Justice.

Office of Emergency Services (OES)

The enacted budget includes total funding of $4.4 billion ($690 million General Fund) for OES in 2025-26. This is an increase of $1.2 billion compared to the 2024-25 budget at enactment and reflects an additional $1.2 billion in federal funds mostly associated with the January 2025 Los Angeles fires.

Backfills Federal Funds for Crime Victims. The federal Victims of Crime Act (VOCA) grant program provides important funding to support crime victims' recovery. California's allocation has decreased from $396 million in 2019 to just $87 million in 2024. Recent state budgets have included one-time backfills to support victim services. The 2021 budget included $100 million one-time General Fund available over three years, and the 2024 budget included an additional $103 million one-time General Fund. For 2025-26, Cal OES estimates that maintaining current service levels would require around $224 million. The 2025 Budget Act includes $100 million General Fund one time to supplement available federal VOCA grant funds.

Legislative Priorities. The budget includes nearly $20 million in one-time General Fund expenditures through OES's budget for various legislative priorities, as follows:

- $10 million for security for the World Cup in the Bay Area and Los Angeles
- $5 million for upgrades and expansion of the Fresno County Fire Protection District's Mid Valley Regional Fire Training Center
- $4 million for the Foothill Municipal Water District in Los Angeles County for impacts on local water systems caused by the Eaton Fire
- $500,000 for mosquito abatement in the areas impacted by the Eaton Fire
- $150,000 for the fire hydrant system in the town of Covelo in Mendocino County

While these projects may be meritorious, they appeared in the budget with no transparency and no explanation from legislative Democrats or the Governor regarding why these particular projects received priority over other needs in the state. The nearly $20 million identified here could help provide services under Prop 36, for example.

Next Generation 9-1-1. The budget includes provisional language to ensure that funding is available to continue supporting the state's legacy 9-1-1 system while rollout of the Next Generation 9-1-1 system is paused pending OES's review of recent implementation challenges.

Resources and Environmental Protection

Key Points

- **Wildfire Readiness Now Tied to Unstable Revenues.** Over $1 billion for CAL FIRE now depends on uncertain Cap-and-Invest revenue.
- **Climate Budget Hinges on Unpassed Cap-and-Invest Bill.** More than $3 billion in annual funding for climate and wildfire programs hinges on a Cap-and-Invest extension the Legislature hasn't enacted, leaving essential services exposed to auction volatility.
- **Additional Fire Recovery Loan Authority.** Allows state loans of up to $1 billion to Los Angeles agencies for fire recovery, subject to future legislation to establish terms.
- **Delays Proposition 4 Climate Bond Spending.** Delays a spending plan for most of the voter-approved $10 billion bond to future discussions later this summer, though early budget bills allocated some funds.
- **Water Infrastructure Delayed Despite Drought Warnings.** Reverts $298 million in water recycling, dam safety, and flood projects—undermining drought resilience efforts despite repeated infrastructure promises.
- **CEQA Streamlining Delivers Long-Overdue Reform. I**ncludes long-sought California Environmental Quality Act (CEQA) streamlining for wildfire mitigation, reflecting Republican-led calls to cut red tape and accelerate project delivery.

Wildfire Preparedness Shifts to Auctions and Bonds. Over $1 billion for CAL FIRE baseline operations and another $181 million for forest resilience grants are now funded through a mix of Cap-and-Invest revenue and expected bond proceeds. This marks a shift away from the General Fund, a decision driven by deficit pressures. However, relying on volatile markets to fund emergency response and fire prevention is a high-risk strategy, particularly in the current wildfire season. The budget includes intent language to backfill Cap-and-Invest revenues should they fall short, but with General Fund deficits looming, that guarantee is flimsy. The most notable features of the wildfire-related spending in the budget package are detailed below.

- Shifts $1 billion from General Fund to Greenhouse Gas Reduction Fund (GGRF) for CAL FIRE operations (2025-26).
- Adopts intent language to fund shift future GGRF revenue to CAL FIRE baseline operations if a General Fund deficit exists (which the current forecast shows will be likely), including:
  - $1.25 billion in 2026-27,
  - $500 million in 2027-28, and
  - $500 million in 2028-29.
  - The intent language specifies that if a deficit does not exist, $500 million in 2026-27 shall still be shifted.
- Allocates $181 million from the 2024 climate bond to various conservancies and Cal FIRE, as enacted earlier this year through AB 100, a 2024 budget amendment.
- $39 million General Fund in 2025-26 and $78 million General Fund ongoing to convert seasonal firefighter positions to permanent.

- Promises future legislation to increase hourly pay for incarcerated fire crews.
- Over $150 million in capital outlay for fire station and helitack base projects statewide.

Additional Loan Authority for Los Angeles Fires. Budget actions taken earlier this year through SB X1 3 (Wiener) and SB X1 4 (Wiener) provided up to $2.5 billion to respond to the Los Angeles fires. The most recent report from the Newsom Administration shows the state has spent a total of $338 million as of July 21, 2025. The budget also provides authority for the state to loan LA-area government agencies up to $1 billion for more fire recovery efforts, but these funds are contingent on passage of future legislation that sets up a loan repayment schedule and a reliable funding source for repayment.

Cap-and-Invest Extension Still Under Negotiation. California's climate budget is now heavily dependent on the extension of the Cap-and-Invest program (formerly Cap-and-Trade). Over $3 billion annually is earmarked for High-Speed Rail, CAL FIRE wildfire operations, zero-emission incentives, and community climate resilience—all contingent on auction proceeds that may decline without a legislative extension beyond the currently scheduled expiration in 2030. The Newsom Administration has proposed an extension through 2045 and expressed the intent to enact the new spending plan this year, but the Legislature has yet to act, in part due to disagreements over spending guardrails, emissions caps, and regulatory oversight. In the meantime, some agencies are front-loading expenditures, assuming future revenue will materialize.

The budget also redirects $166 million ($85 million from Air Pollution Control Fund and $81 million from the GGRF to backfill the Motor Vehicle Account (MVA) to address its structural deficit. While the nexus between transportation and reducing greenhouse gas emissions exists, using pollution-reduction dollars to patch budget holes in transportation is just another example of an irresponsible approach to the state's budget deficit.—especially when auction results have been increasingly volatile due to uncertainty about the program's future. This uncertainty has caused credit prices to drop from $42 at an auction in February 2024 to around $26 in the May 21 auction. As a result, the May 21 auction brought in $595 million—half of what was generated in last May's auction—a preview of what is at stake.

Delays Spending Plan for $10 Billion Climate Bond. Voters approved Prop 4 by over 60 percent, signaling the urgency of climate, water, and natural resource infrastructure. The budget package does not yet include an expenditure plan for most of the bond funds, providing another example of the ongoing friction within the majority party over bond implementation and budget balancing. While an early budget bill enacted in April, AB 100, appropriated $181 million in bond funds for various activities across the state's conservancies, negotiations between the legislature and the Governor's office over the details of the spending plan for the remaining $9.8 billion in bond funds has been pushed back to late summer.

The legislative Democrats' initial budget bill would have provided $140 million in General Fund to bridge delayed bond rollouts, but the enacted budget package strikes those funds. The delay for most of the expenditure plan leaves bond-funded programs in limbo for now, particularly for local water agencies and wildfire mitigation partners who were expecting funding to backfill expiring GGRF or federal sources. To date, minor appropriations approved are limited to basic administrative functions, including staff to draft grant guidelines, build tracking systems, and coordinate with finance agencies—meaning no new projects or construction will move forward in the near term unless a more comprehensive plan is approved before the Legislature adjourns later this year.

Reverts Previously Committed Climate Funds. Despite touting climate leadership, the Newsom Administration proposed to walk back key General Fund investments. Instead, the Administration would rely on future negotiations over how to spend the 2024 $10 billion Climate Bond (Proposition 4), which carries higher long-term costs than direct General Fund support.

While the Administration indicates it will work with the Legislature over the summer to craft a comprehensive bond expenditure plan, the 2025-26 budget reverts $298 million in previously appropriated General Fund support, including:

- **State-Owned Lands:** Cuts $68 million for fuels reduction and forest management—despite growing wildfire threats and state liability.
- **Water Recycling:** Reverts $51 million for drought-resilient reuse projects as Colorado River supplies decline.
- **Dam Safety:** Pulls $47 million from dam upgrades, ignoring aging infrastructure and downstream risks.
- **Offshore Wind:** Axes $42.8 million for offshore wind development, stalling progress as federal efforts ramp up.
- **Watershed Resilience:** Strips $32 million from local adaptation grants that support biodiversity and flood control.
- **Flood Risk Reduction:** Reverts $15 million from multi-benefit flood projects, leaving vulnerable regions exposed.
- **Community Resilience and Heat:** Eliminates $15 million for heat adaptation in frontline communities amid rising fatalities.
- **Deferred Maintenance:** Delays $14 million for state park repairs, compounding infrastructure backlogs.
- **Home Hardening:** Reverses $13 million for wildfire home hardening, despite increased threats in wildland urban interface areas across the state.

The Administration attributes these cuts to “project readiness” delays, yet the reversions contradict key objectives of the state’s own Water Resilience Portfolio and undermine claims that infrastructure is a top priority. These are not marginal programs—they are essential investments in public safety, water security, and climate resilience. Several may also lose regional or federal matching funds, compounding the impact. Delays not only slow down shovel-ready projects but risk eroding public trust in bond measures and the state’s ability to deliver on climate promises.

Other Water Reliability Funding. Other notable spending for the Department of Water Resources (DWR) includes:

<u>Reappropriations from Previous Years</u>:

- $125 million for Voluntary Agreements restoration.
- $8.7 million to sustain Delta Levee Maintenance and Special Flood Control Projects.

<u>New Appropriations</u>:

- $178 million federal funds for aquatic/wetland habitat compliance.

- $12.5 million General Fund for the United States Army Corps of Engineers (USACE) and Urban Flood Risk Reduction coordination.

Federal alignment is a priority, but key state-level investments remain deferred. The Delta Conveyance delay signals ongoing political sensitivity. Meanwhile, local flood and levee resilience gets piecemeal support—enough to tread water, not enough to lead.

Environmental Review Streamlined—Finally Addressing Regulatory Gridlock. The budget includes long-sought CEQA streamlining through SB 131, a budget trailer bill that not only impacts the state's housing stock, but will have a major impact for wildfire mitigation activities, including vegetation treatment plans and defensible space efforts. This represents a tangible response to Republican and bipartisan calls for targeted CEQA reform to prevent frivolous litigation and delay tactics that stall high-priority environmental projects. The changes mirror recent federal streamlining under National Environmental Policy Act (NEPA), reducing duplicative reviews and accelerating permitting. While environmental groups are expected to litigate, the state has begun shifting away from blanket exemptions toward conditional streamlining paired with performance-based accountability, aiming to preserve integrity without paralyzing progress.

Delta Plan Still Under Negotiation. The budget package does not include language for the Delta Conveyance Project specifically. The Newsom Administration indicates it plans to continue discussing ways to streamline administrative processes with the Legislature over the summer.

Transportation

Key Points

- **Olympic VIP Lanes.** Includes up to $38 million from gas tax revenues to create exclusive lanes for Olympic participants.
- **Transit Bailout.** Includes $812 million and an additional $750 million in loans to continue to bail out transit entities.
- **Gasoline Taxes Increase Again.** The automatic annual gas tax increase raised the price of gas by 1.6 cents per gallon on July 1, 2025.
- **High-Speed Rail Cap and Trade Proposal Still Unresolved.** Governor's proposal to commit Cap and Trade funds is misguided and insufficient but remains under debate in the Legislature.
- **Federal High-Speed Rail Funds Terminated.** After review, federal government terminates $4 billion in federal funds, as California continues to waste money on increasingly out-of-reach High-Speed Rail project.

Short-Term Olympic VIP Lanes Receive Funds. The budget includes up to $38 million to the California Department of Transportation (Caltrans) to create a network of exclusive lanes to transport executives, athletes, and other people associated with the 2028 Olympic and Paralympic Games in Los Angeles. This funding comes from the State Highway Account, which is the depository for gasoline tax revenue. While these activities appear to meet the legal threshold for the use of state gas tax funds, some may argue that traffic management or projects for a special event are not the best use of gas tax dollars. As described below, Californians pay the highest gas taxes in the country but are forced to drive on some of the worst roads. Furthermore, transportation funding is a zero-sum game; a dollar spent on traffic management is one less dollar spent on road maintenance or repairs. Thus, diverting gas tax dollars for short-term traffic management project may leave California motorists fuming. Advocates project the Olympics will generate up to $14 billion in economic activity. Perhaps a small portion of those dollars should be used to reimburse the state so the funds can actually provide permanent improvements to the roads.

Continues to Bail Out Local Transit with General Fund. The budget continues the misguided policy of bailing out local transit agencies, despite the lack of sufficient demand for services or necessary operating efficiencies to make many of those systems viable. This budget provides $812 million General Fund for transit entities. Additionally, the budget authorizes loans of up to $750 million for various Bay Area transit agencies. The budget makes the loans contingent upon future trailer bill legislation establishing the loan and repayment terms. Notably a bill currently being considered by the Legislature, SB 63 (Wiener) would place a local measure authorizing a half-cent sales tax for transit in Bay Area counties on the 2026 ballot. Should this measure be added to the ballot and pass, it would first be used to repay these loans. Presumably, the loan terms would either require passage of this local tax prior to loans being made, or provide an alternative repayment source should the measure fail.

Transit ridership was declining prior to COVID-19, but COVID-19 eviscerated ridership. Though some riders have returned, overall ridership remains significantly below pre-pandemic levels. This has caused financial hardship for transit agencies as operating revenues remain below amounts needed to support the systems.

Gasoline and Diesel Taxes Rise Again. Despite claims to prioritize affordability for Californians, the Governor and legislative Democrats made no changes to the existing law that automatically raises gasoline and diesel taxes every year. On July 1 the tax on gasoline increased by 1.6 cents per gallon, and the diesel excise tax increased by 1.2 cents per gallon. These increases and the resulting revenues are reflected in the chart below.

July 1, 2025 Gas and Diesel Fuel Tax Increases					
	June 30 Tax Amount (per gallon)	Increase (per gallon)	July 1 Tax Amount (per gallon)	Increased Tax Revenue (in millions)	Total Tax Revenue (in millions)
Gasoline	$0.596	$0.016	$0.612	$208	$7,972
Diesel	$0.454	$0.012	$0.466	$38	$1,600
Total				$245	$9,572

(Compiled with data from Department of Finance)

California's Gasoline Prices and Taxes Are Nation's Highest. California leads the way in many dubious categories, including the nation's highest gas prices and highest gas taxes. The average price for a gallon of gasoline in California is currently $4.57, the highest in the country, and 44 percent higher than the national average. California's gas tax of 61.2 cents per gallon, also the highest in the country, increased on July 1st. Furthermore, an additional $2.8 billion is collected for transportation purposes from the Transportation Improvement Fee and the Road Improvement Fee, which are added to vehicle registration charges, bringing state transportation revenues to $12.3 billion annually. Even with all this money, Californians are subjected to some of the worst roadways, ranking 49th out of 50 in the most recent Annual Highway Report[10] issued by the Reason Foundation.

Regulations Drive Prices Higher. In addition to these taxes there are various environmental fees built in to the price of gasoline, including costs related to the state's Cap and Trade and Low Carbon Fuel Standards programs, as well as the increased cost of producing the state's special summer blend. Additionally, legislation authorizing refiner penalties to prevent unsubstantiated "price gouging" (SB x1-2, Skinner 2023) and requiring certain gasoline supply reserves, subject to penalties (AB x2-1, Hart 2024), has added to the regulatory and cost burden on refineries. However, neither of these bills address California policies that have driven refineries out of business, resulting in reduced refining capacity. In fact, since the passage of these bills, two California oil refineries have decided to cease operations by early 2026, which would reduce California's refining capacity by nearly 300,000 barrels-per-day, or 17.5 percent. This drop in gasoline supply will certainly impact gas prices, with some studies[11] estimating gasoline prices over $8 per gallon by the end of 2026.

California High-Speed Rail

High-Speed Rail Remains Wildly Beyond Reach. The budget includes $980 million for the High-Speed Rail Authority to continue construction of a high-speed train, nearly all of which is from Cap-and-Trade funds. Expenditures are summarized in the table on the next page.

The 2024 Business Plan indicated the total cost of completing the train system is up to $128 billion, with no estimated completion date, though much of the data remains based on operations from San Francisco to Los Angeles beginning in 2033, which is implausible. More realistically, operations

[10] Feigenbaum et al. Reason Foundation. (2025). 28th Annual Highway Report.
[11] Mische, Michael A. Ensuring California's Gasoline Security for the 21st Century. (2025). https://drive.google.com/file/d/1CeyN6siIoKfP6KD-sV4GCaLYaNuLNoyH/view

between Merced and Bakersfield may commence within this time period. The 2025 Project Update Report did not provide updated cost estimates, but instead promised that information in a future addendum to the report. That addendum remains pending, but a one-page cost update provided to the Senate Budget Committee for the Merced to Bakersfield segment indicates overall costs for that segment are up by $3.2 billion on net, despite a cost decrease of $12.5 billion related to “engineering optimizations and resequencing.” Although the Legislature has requested additional details on these cost-reducing efficiencies, that information also remains unavailable.

High-Speed Rail Expenditures

(Dollars in Millions)

Fund Type	2023-24	2024-25	2025-26
Federal Funds	$3,296	-	-
Cap and Trade Funds	$165	$4,336	$936
Bond Funds (Proposition 1A)	$28	$35	$39
High-Speed Rail Property Fund	$2	$9	$2
Reimbursements	-	$651	$3
Total	$3,491	$5,031	$980

(Compiled with data from Department of Finance)

New Federal Review Terminates Funds. In December 2023, the federal government announced an award of $3.1 billion to the High-Speed Rail Authority. Despite these additional funds, California remains more than $100 billion short of the total needed to build a San Francisco-to-Los Angeles train. Additionally, the Federal Railroad Administration (FRA) conducted a compliance review of the project, as it relates to the federal grant agreements, including the December 2023 award, and found the project to be out of compliance. As a result, the federal government has terminated two existing agreements totaling $4 billion. Upon FRA’s final determination to terminate the funding agreements, Governor Newsom has vowed the state will be “exploring all options to fight this illegal action.” Final resolution of this dispute may be years in the future.

Misguided Proposal for Cap-and-Trade Funds. Also still pending is the Governor’s proposal to allocate at least $1 billion annually to the project from Cap-and-Trade revenues. The Legislature plans to consider the reauthorization of the Cap-and-Trade program and funding allocations, including this proposal, later this year. Under existing law, the project receives 25 percent of Cap-and-Trade revenues annually, which in most years is near or slightly more than $1 billion. The proposal to change the funding methodology is an effort to allow the Authority to sell bonds with future revenues as collateral. As an example, bonds of $15 billion would result in estimated interest costs of over $5 billion, further increasing the project’s price tag. While this may close the funding gap for the Merced to Bakersfield segment, absent further cost updates, the system-wide project would continue to have a funding gap of about $90 billion.

Despite this dim outlook and years of valid criticism, Democrats have yet to offer any plausible plan for how to obtain funds to complete the entire project. Instead, they continue to throw good money after bad in their high-speed rail fantasyland, and call on California taxpayers to foot the bill.

Local Government

Key Points

- **Emergency General Fund Loan Authority.** Includes authority to provide up to $1 billion in General Fund loans to entities responsible for LA County wildfire recovery efforts.
- **Fresno's Infrastructure Project Prioritized.** Provides $100 million General Fund for Fresno's public infrastructure plan, including funds for a high-speed rail station.
- **Insufficient Educational Revenue Augmentation Fund.** Provides $79 million General Fund to San Mateo County, Mono, and Alpine County for vehicle license fee insufficiencies.
- **Local Governments Get Minor Relief for Mandates.** Includes $92 million General Fund to repay local agencies for some costs related to state mandates**.**

Los Angeles County Emergency General Fund Loan Authority. The budget includes authority for the Director of Finance to make up to $1 billion in General Fund loans to local government entities that have significant responsibilities for recovery from the January 2025 wildfires in Los Angeles County. Local government entities would include the county, cities, special districts, public school and community college districts, and offices of education that are located in Los Angeles County. The budget would make the loans contingent upon a future trailer bill that requires a clearly defined repayment revenue mechanism and schedule, including full repayment of the loan principal and any agreed-upon interest rate. Future legislation could also further define allowable uses of the monies, but those specifics are unclear at this time.

City Of Fresno Infrastructure Plan Prioritized. The budget provides $100 million General Fund in 2025-26 for the City of Fresno's Public Infrastructure Plan, and would provide an additional $100 million General Fund in 2026-27 for the project. The 2023-24 budget included $50 million for the Plan, with a total projected General Fund allocation of $250 million. The funds would be used to support several infrastructure projects, including for investment in a high speed rail station, parking, green space, walkability, and water supply projects in the downtown area. Many local governments have infrastructure needs, and Governor Newsom and Democrats never provided a rationale as to why they selected Fresno to receive a unique allocation of state General Fund.

Educational Revenue Augmentation Fund Backfills. The budget provides $79 million General Fund to reimburse San Mateo County, Mono County, and Alpine County for Vehicle License Fee (VLF) shortfalls driven by insufficient Educational Revenue Augmentation Fund (ERAF) revenues. ERAF revenues generally provide relief to counties for lost VLF revenue as a result of previous state law changes.

Local Governments Get Minor Relief for Mandates. The budget includes $92 million General Fund to repay local agencies for some costs related to state mandates. The state continues to owe local agencies hundreds of millions of dollars in outstanding mandate costs. Unfortunately, the state missed an opportunity to repay this debt while budget surpluses were in the tens of billions of dollars, and now, given the long-term deficits facing the state, it is unclear when local governments will receive full payment of these debts.

General Government

Key Points

- **Governor Continues Bureaucratic Expansions.** Governor Newsom is nothing if not consistent in his strategy to increase government bureaucracy in the name of transparency and innovation.
- **Creates New Bureaucracy Without Consolidation of Homelessness Programs**. New Housing and Homelessness Agency is intended to improve coordination, but the plan fails to consolidate the state's 30+ homelessness programs.
- **Tens of Millions in Wasteful Spending Included.** The budget includes tens of millions in unnecessary spending, totaling $75 million General Fund, for programs that will not enhance affordability, provide greater public safety, or improve educational outcomes for Californians.
- **$20 Million to Identify Government Efficiency.** Includes $20 million General Fund to hire outside consultants to analyze and improve state administrative processes.
- **Belonging Campaign Reveals Misplaced Priorities.** Includes $5 million for a "happiness" campaign, a tone-deaf use of taxpayer dollars in the midst of budget deficits.
- **Millions in Support for National Semiconductor Technology Design Facility.** Provides $25 million General Fund to support capital expenditures of a new semiconductor design and collaboration facility.
- **Financial Entities Hit With Fee Increases.** Provides statutory authority for fee and assessment increases across various financial entities.
- **Regional Initiatives for Social Enterprises.** Provides $17 million General Fund to extend the wage subsidy program prior to receipt of performance outcome data.
- **Journalism Bail Out**. Includes $10 million General Fund to provide financial relief to the journalism industry.
- **Commission on Home-Hardening.** Includes $12.5 million General Fund within the California Department of Insurance to establish a Commission on Home-hardening.

Agency Reorganization Creates New Duplication but Fails to Consolidate Homelessness Programs. The budget provides $4 million General Fund in 2025-26, and $6 million General Fund ongoing to split the current Business, Consumer Services, and Housing Agency into two distinct Agency bureaucracies: the California Consumer Protection Agency (CCPA) and the Housing and Homelessness Agency (HHA). Additionally, the California Interagency Council on Homelessness (CalICH) will be a separate state entity with its own staffing and budget, a change that will likely lead to even higher administrative costs in the future.

In addition to several existing entities moving under the umbrella of HHA (Department of Housing and Community Development, California Housing Finance Agency, California Interagency Council on Homelessness, and the Civil Rights Department), the reorganization plan also creates a new state department; the Housing Development and Finance Committee (HDFC). The new entity would administer developer-facing multifamily affordable housing programs intended to streamline the management and oversight of housing funding across the state. It is unclear if this separate financing-focused department will improve efficiency and reduce the administrative burden for housing developers. The Legislature will need to ensure that the consolidation of various financing programs under one new entity results in the alignment of programmatic requirements, and improvement in the state's long-term monitoring and compliance activities in order to improve accountability.

While the Newsom Administration claims the new Housing and Homelessness Agency will improve homelessness coordination, it fails to consolidate the state's 30+ homelessness programs. Instead of streamlining efforts under one accountable entity, the reorganization plan leaves fragmented programs scattered across multiple departments, perpetuating inefficiency, duplication, and confusion. Californians deserve results, not just rebranding.

The Newsom Administration asserts that the reorganization aims to consolidate and align funding decisions across housing entities to increase efficiency for both government operations and development applicants. However, Governor Newsom's record of delivering on his housing promises is dismal, as shown by his claim in 2017, while on the campaign trail, that California would build 3.5 million houses. Since then, California has permitted only 822,754 through May 2025. Simply creating new state entities and increasing administrative costs does not inherently guarantee improved efficiency or streamlined funding access for developers. In fact, the coming years will likely bring additional requests for staffing and resources under the banner of "efficiency." It will be essential for the Legislature to exercise ongoing oversight to ensure that this expanded bureaucracy translates into more user-friendly application processes and quicker disbursement of funds. Clear, improved housing performance metrics will be necessary to determine whether the reorganization delivers on its promises.

Tens of Millions in Wasteful Spending Included. The budget includes tens of millions in unnecessary spending, totaling $75 million General Fund, for programs that will not enhance affordability, provide greater public safety, or improve educational outcomes for Californians. Notable expenditures include $20 million to hire an outside consultant to do the work of the Newsom Administration, $10 million to bail out the journalism industry, and $5 million to determine if Californians are happy. Further details on these wasteful General Fund expenditures are provided below.

Governor Seeks Outside Contractor to Identify Government Efficiency. The budget includes a $20 million General Fund allocation for the Department of Finance (DOF) to hire outside consultants to analyze and improve administrative processes, focusing on the Department of Health Care Services and the Department of Corrections and Rehabilitation.

While improving efficiency is a worthy goal, it is unclear why an outside contractor is necessary to do the Newsom Administration's job. Process improvement and government efficiency are core responsibilities of the Department of Finance and the Department of Human Resources, and providing $20 million on outside consultants to perform duties already assigned to these agencies is redundant and undermines accountability. Additionally, the administration has not identified what specific outcomes are expected from this contract. Without defined performance benchmarks or measurable goals, it is unclear how success will be determined or whether the investment will produce any meaningful results.

"Belonging" Campaign Reveals Misplaced Priorities Amid a Budget Crisis. The budget includes $5 million in one-time General Fund to launch the Governor's "Belonging Campaign," aimed at assessing how connected Californians feel to their communities and promoting civic engagement. While community connectedness is important, this campaign appears to be a tone-deaf use of taxpayer dollars in the midst of an affordability crisis and major budget cuts to other state programs, such as services for disabled people. With Californians facing record housing costs, rising crime, and economic uncertainty, directing millions to study abstract concepts like "belonging" amounts to a "feel-good" initiative that offers no tangible relief. State resources should be prioritized for programs that directly address urgent needs, not funding costly campaigns to define happiness.

National Semiconductor Technology Center's Design and Collaboration Facility. The budget provides $25 million General Fund to support capital expenditures incurred during the construction of the National Semiconductor Technology Center's (NSTC) Design and Collaboration Facility. Natcast is the nonprofit organization tasked with running the NSTC, and one of Natcast's initial assignments was the establishment of three research and development facilities, including a design and collaboration facility (DCF). In late 2024, Natcast announced the selection of Sunnyvale, California as the host for the DCF. As part of California's bid for the project, Governor Newsom unilaterally pledged state support for the capital project expenditures, without first obtaining the Legislature's approval for the funds. Despite being treated like an inferior branch of government, the Democratic-majority Legislature approved the inclusion of $25 million General Fund for this effort. This action may set a precedent for empowering the Governor to continue negotiating outside the budget process, leaving the Legislature to choose between going along or undermining the state's trustworthiness as a bargaining partner.

Department of Financial Protection and Innovation (DFPI) Fee Increases. A 2025-26 budget trailer bill, AB 137, provides statutory authority for fee and assessment increases across various financial entities regulated by DFPI. The increases affect securities filings, broker-dealers, franchise registrations, escrow agents, mortgage lenders, and other financial service providers. The budget allows DFPI to set hourly examination rates based on its estimated average cost, including overhead, for the Money Transmitters, Banking, and Credit Union programs. Some of the proposed fee increases, such as the $15,000 maximum in the prorated Mortgage Bankers assessment and the $7,215 per office location Escrow assessment, outpace inflation by some measures. Given the magnitude of these fees, they may not have significant effects on decisions (such as whether to start a franchise in the state) by some of the more well-established and well-financed firms, but could have a more substantial impact on smaller firms.

Regional Initiatives for Social Enterprises. The budget provides $17 million General Fund to extend operation of the California Regional Initiatives for Social Enterprises (CA RISE) program for two years. CA RISE is a program administered by the Governor's Office of Business and Economic Development (GO-Biz) that provides financial and technical assistance to Employment Social Enterprises (ESEs). Some well-known examples of ESEs include Homeboy Industries and the Goodwill. The 2022 Budget Act established CA RISE and provided $25 million General Fund. The program made its first round of awards in 2024, awarding 61 ESEs a total of just over $17 million in direct support grants. Individual grants ranged from $100,000 to $500,000. Additional funding is premature at this time, as the first round of grants were only recently awarded, and the state has not required an independent evaluation of the effectiveness and long-term benefits of the program.

Journalism Bail-Out. The legislative Democrats included a last-minute addition of $10 million General Fund as a special item of expense intended to provide financial relief to the journalism industry. Unfortunately, the budget is short on details as to eligibility criteria for awards or allowable activities for expenditure of funds. Many California businesses are struggling under the weight of California's oppressive regulations, and it is unclear why Democrats prioritized $10 million for a particular group.

Budget Establishes a Commission on Home-Hardening. The budget includes $12.5 million General Fund within the California Department of Insurance (CDI) for one-time startup and implementation costs of a Commission on Home-Hardening. These funds were a late addition to the budget by legislative Democrats. It is unclear how CDI will allocate these funds, or if CDI will seek additional resources as part of the 2026-27 budget to further implement the Commission.

Social Entrepreneurs for Economic Development (SEED). The budget provides $7.5 million General Fund for the SEED Initiative within GO-Biz. The program provides support to immigrant entrepreneurs and individuals with limited English proficiency in starting or growing businesses.

Initiating Change in Our Neighborhoods. The budget provides $2 million General Fund to GO-Biz's Office of Small Business Advocate for allocation to one of the state's small business development centers. The Initiating Change in Our Neighborhoods, Community Development Corporation, is a community-based non-profit organization located in Los Angeles' Northeast San Fernando Valley that provides free business development services to local entrepreneurs and small business owners in the interest of spurring job creation, financial literacy and local economic development.

California Education Interagency Council. The budget provides $1.5 million General Fund to establish the Office of the California Interagency Council within the Government Operation's Agency to bring together education entities and state workforce development entities to improve planning and coordination across state programs.

California Education Learning Lab. Established in 2018 under the Governor's Office of Land Use and Climate Innovation (GO-LUCI), the Education Learning Lab was intended to improve learning outcomes and close equity gaps across California's public higher education segments, particularly in the Science, Technology, Engineering, and Math (STEM) disciplines. The Learning Lab awards grants to support faculty-led innovations in teaching and learning that leverage technology in the teaching process. The budget continues to provide $5.3 million for the Lab in 2025-26, but would eliminate the program and funding beginning in 2026-27.

California Hope, Opportunity, Perseverance, and Empowerment (HOPE) for Children. The budget claws back $40 million General Fund from the HOPE for Children Trust Account Fund to the General Fund in 2025-26, leaving a balance of $90 million after the transfer. Through the HOPE Program, every low-income COVID-bereaved and long-term foster child will receive an account and annual deposits, with the goal of reaching $4,500 when they turn 18. The amount of funds each participant accrues may vary based on when they turn 18. For instance, youth turning 18 in 2025 will receive $4,500, while younger children with more time before they reach 18 will receive a smaller initial deposit. Participants who will reach 18 in the distant future may receive more than $4,500, as the goal is to ensure that each participant has the purchasing power equivalent to $4,500 in 2025, adjusted for inflation.

The program received $100 million General Fund in the 2022 Budget Act, and receives $15 million annually as part of the base budget, but the program has yet to disburse the local assistance funding. With the $40 million reduction in program funding, seed deposits would be reduced. Set to launch in the latter part of 2025, HOPE will contract an investment consultant who will work with the HOPE Board to create an investment plan that meets the specific and unique needs of the program.

Governor's Office of Service and Community Engagement (GO-Serve). GO-Serve was shifted from within GO-LUCI to become a separate state department as part of the 2024-25 budget. GO-Serve consists of the Office of Community Partnerships and Strategic Communication, California Volunteers programs, and the Youth Empowerment Commission. Following are budget allocations provided within GO-Serve for these program:

- **Office of Community Partnerships and Strategic Communication:** The budget provides $15 million and continues 29 positions for 2025-26 to manage community engagement and public awareness efforts around climate justice, water conservation, and extreme heat. The budget would eliminate the program beginning in 2026-27 but it is unclear if the 29 positions will be redirected or eliminated going forward.

- **CalVolunteers:** CalVolunteers was established in 2018-19 and has quickly ballooned to tens of millions in General Fund expenditures within several volunteer programs, including the College

Corps (ongoing base funding of $84 million General Fund), Youth Corps (ongoing base funding of $78 million General Fund), Climate Action Corps (ongoing base funding of $9.3 million General Fund), and the California Student Success Coach program ($5 million General Fund provided in 2025-26).

- **Youth Empowerment Commission:** The 2024-25 budget provided $1.5 million and four positions to establish the Youth Empowerment Commission. The Commission is advisory in nature, for the main purpose of providing opportunities for civic engagement to improve the quality of life for California's youth.

The LAO had recommended that the Legislature eliminate funding for lower-priority programs such as these CalVolunteer programs, but legislative Democrats fully funded all of the volunteer programs as part of the three party budget negotiations. The elimination of all funding for the Office of Community Partnerships and Strategic Communication is a positive step, but with the state facing severe budget shortfalls both in the budget year and beyond, prioritizing feel-good volunteer programs with no measurable outcomes is irresponsible, especially given the reductions in several critical areas such as programs for the developmentally disabled and the lack of funding for Proposition 36.

State Employee Compensation and Retirement

Key Points

- **Savings Through Collective Bargaining.** Implements savings of $280 million General Fund through contracts or amendments with 21 state bargaining units.
- **Employee Personal Leave Plans Offset Pay Raises.** Multiple employee contracts provide days off through personal leave plans, thus temporarily offsetting new pay raises.
- **Suspended Prefunding Payments Provide Short-Term Savings.** Contracts with multiple unions suspend prefunding payments for retiree health liabilities, providing short-term savings in exchange for increases in future liabilities.
- **Vacant Position Elimination Delayed.** Delays the previously approved elimination of vacant positions until January 1, 2026, and allows the Legislature time to review specific positions planned for elimination.

Savings Through Collective Bargaining Rather Than Unilateral Cuts. The state approved either new memoranda of understanding or addenda known as “side letters” with its 21 bargaining units, including correctional officers, highway patrol officers, state firefighters, and various others. The Legislature approved these contracts through three trailer bills: AB 138, SB 139, and SB 140. While Governor Newsom proposed authority to unilaterally impose pay cuts in his May Revision, the enacted budget rejected that approach in favor of using negotiated contracts to generate savings. The budget reflects savings of $280 million General Fund from these state employee contracts, plus another $520 million from other state funds.

Employee Personal Leave Plans Offset Pay Raises. While detail vary somewhat for the various contracts, most of the bargaining units include employee compensation increases ranging from 2 percent per year to 4.6 percent per year. Some bargaining units, including nine represented by the Service Employees International Union, deferred the Governor’s “return to office” executive order until July 2026.

To offset the costs of the raises in the near term, the contracts also include “personal leave plans” that allow employees to take an additional five or eight hours per month off from work, depending on the contract. Employees can either use this time or accrue it and receive payouts later on for unused hours. The personal leave plans cease after two years, but the raises continue to accumulate, meaning that significant costs hit the budget starting in the third year.

Suspended Prefunding Payments Provide Short-Term Savings. The employee contracts also typically include suspension of the employer and the employee contributions to prefunding retiree health obligations, also referred to as Other Post-Employment Benefits (OPEB). Suspending the employer (state) contribution provides short-term savings to the state, while suspending the employee contribution leaves more money in workers’ pockets. However, these suspensions mean that the state’s unfunded long-term liabilities for retiree health will increase. The amount of the increase will be determined through an actuarial valuation, but the specifics will not be measurable until late 2026. While the exact amount of the increase is unknown, it is clear that the state is trading short-term savings for higher long-term obligations. In effect, this is another form of borrowing: the majority party once again is papering over current deficits by increasing long-term costs.

Vacant Position Savings Erode, Actual Eliminations Delayed. The 2024 Budget Act authorized the elimination of 10,000 vacant positions, estimated at that time to generate General Fund savings of $763 million, as part of budget-balancing actions. While eliminating vacant positions is justifiable given the dramatic growth in state employment and the current deficits, Senate Republicans raised doubts in 2024 that the Governor would be able to actually achieve the savings projected.

The Governor's January budget proposal reduced the estimate of vacant positions it could eliminate to roughly 6,500. The Newsom Administration subsequently issued a letter dated May 14, 2025, in which it identified General Fund savings of only $195 million for 2024-25 and further reduced the number of vacant positions to about 6,000. However, the Newsom Administration was unable to provide lists of specific positions it would eliminate, raising concerns among the Legislature.

The enacted budget amends the vacant position elimination process further. Specifically, AB 102 requires the Newsom Administration to issue a list of specific vacant positions for elimination by September 30, 2025. The Joint Legislative Budget Committee would then have until January 1, 2026, to review the list and non-concur with any proposed eliminations associated with 2023-24 and 2024-25 budget proposals that might harm implementation of recent legislation. It remains to be seen how much General Fund savings the state will achieve once this process plays out.

Statewide Debts and Liabilities

Key Points

- **Budgetary Borrowing Increases to Help Paper Over Deficit.** Borrows another $7 billion from special funds or cash reserves to pay for ongoing spending.
- **California Now Only State with Unemployment Insurance (UI) Debt Remaining.** Provides $643 million General Fund to make the annual interest payment on the state's UI debt as California is now the last remaining deadbeat state that has failed to pay off its UI debt.
- **Bonds Authorized in 2024 Mostly Unissued.** Bonds approved by voters in 2024 are mostly unissued but stand to add over a billion dollars per year in debt service payments once fully sold.

Budgetary Borrowing Rises Again to Paper Over Deficit. The Governor and legislative Democrats once again turned to borrowing to paper over the deficit for one more year. The enacted budget approves $7 billion in additional loans from various special funds or cash reserves, the largest of which is $4.4 billion from the Medical Providers Interim Payment Fund. This new borrowing follows on the heels of $2.1 billion borrowed as part of the 2024 Budget Act. Borrowing provides one-time resources, but the Governor and legislative Democrats are using these loans to pay for ongoing spending, thus kicking the can down the road and helping to create deficits every year in the foreseeable future. This leaves future governors and legislatures to clean up the mess.

Rebuilding the "Wall of Debt." During the Great Recession budget crisis, California borrowed substantially from internal sources, building up $34 billion in obligations that Governor Jerry Brown labeled the "Wall of Debt." Republicans had long advocated a stronger mandatory reserve policy, and in 2014 Governor Brown and Democrats joined that effort and supported Proposition 2. That measure, known best for establishing the Rainy Day Fund, also required payments to reduce the Wall of Debt. Unfortunately, Governor Newsom and legislative Democrats have resumed borrowing substantially in this budget and last year's budget, building that Wall of Debt back up to $21 billion, even as they simultaneously make mandated payments to long-term obligations under Proposition 2. The majority party of today does not appear to have learned the lessons of just a decade ago.

State Debt Totals Increase to $277 Billion. The state continues to face voluminous debts from various sources, which are estimated to reach $277 billion in 2025-26. This is an increase of $12 billion in estimated state liabilities compared to last year. The most significant cause of the increase is the discretionary rise in state borrowing to close the budget deficit. These state debt totals do not count pension and other retiree debts faced by the University of California ($38 billion) or teacher pension debts held by local school districts ($75 billion). The table on the following page summarizes these debts and other liabilities.

California Is Sole Remaining Deadbeat on Unemployment Insurance (UI) Debt. As described in the *Labor and Workforce Development* section of this report, the budget provides $643 million to meet the annual interest payment on the state's UI debt. The default course of action under federal law is for employers to repay this debt via a surcharge on each employee, which began in 2023. The state itself is legally responsible only for the interest on the UI debt, not the principal, but nearly all other states used federal stimulus funds or their own resources to pay off their debts entirely. California is now the only state that still has a UI debt balance, after the only other previous remaining state, New York, paid off its outstanding $7 billion debt in June 2025. California's failure to use federal funds or other temporary surplus state funds in 2021 or 2022 to pay down its UI debt directly led to tax increases on California employers that will likely continue for decades to come, further weakening prospects for employment in California.

State and Other Public Debts and Liabilities				
(Dollars in Millions)	**2023-24**	**2024-25**	**2025-26**	**2025-26: Change from Prior Year**
State Budgetary Borrowing				
Special Fund Loans	$2,736	$2,089	$6,032	$3,943
Medi-Cal Loan	-	$2,150	$4,441	$2,291
Proposition 98 Deferral Maneuver	-	$6,213	$6,213	-
Proposition 98 Underfunding (Settle-Up)	-	$1,917	$1,917	-
Payroll Deferral	-	$1,577	$1,577	-
Middle Class Scholarship Loan	-	-	$918	$918
Subtotal, Budgetary Borrowing	$2,736	$13,946	$21,098	$7,152
State Retirement Unfunded Liabilities (1)				
State Retiree Health	$95,510	$82,413	$92,027	$9,614
State Employee Pensions	$70,818	$69,515	$64,088	-$5,427
Teachers' Pensions (state portion)	$10,256	$8,391	$10,169	$1,778
Judges' Pensions	$2,771	$2,646	$2,437	-$209
SB 84 Loan from Surplus Money Invst. Fd.	$2,780	$2,264	$1,419	-$845
Subtotal	$182,135	$165,229	$170,140	$4,911
Other State Liabilities				
Long-Term Bonds - General Obligation & Lease-Revenue	$79,159	$84,613	$84,658	$45
Suspended Local Mandates	$486	$549	$550	$1
Education Mandates	$785	$785	$785	-
Subtotal	$80,430	$85,947	$85,993	$46
Total State Debt	**$265,301**	**$265,122**	**$277,231**	**$12,109**
<u>Other Public Debts</u>				
Unemployment Insurance (2)	$18,002	$20,468	$20,564	$96
Teachers' Pensions (Local Districts)	$75,547	$77,180	$75,363	-$1,817
University of California Liabilities (3)				$0
UC Employee Pensions	$21,800	$19,600	$17,300	-$2,300
UC Retiree Health	$19,600	$21,900	$20,300	-$1,600
UC Total	$41,400	$41,500	$37,600	-$3,900
Total - Other Public Debts	**$176,349**	**$180,648**	**$171,127**	**-$9,521**

(1) Unfunded liabilities for pensions and retiree health are determined by actuarial valuations as well as state budget choices. They may change based on stock market performance or demographic factors, as well as state payments.

(2) The state pays the interest on the Unemployment Insurance debt, while employers pay the principal through higher payroll taxes. However, the state could chooose to pay down the debt principal, as most other states chose to do following the pandemic-related debt increases.

(3) UC liabilities technically belong to the UC system alone, not the State of California, due to UC's constitutional autonomy, but these liabilities are nonetheless included as eligible for repayment under Proposition 2.

Unfunded Long-Term Liabilities Set to Rise. As noted in the *State Employment* section, Governor Newsom negotiated union employment contracts that suspend the state and employee contributions to prefund post-employment benefits. Suspending the prefunding payments means that the amounts owed in the future will rise, but the specific amounts are still unknown. The state is not likely to obtain updated actuarial valuations that account for the suspended payments until late 2026. It is clear, however, that suspending these payments is another means by which Governor Newsom and legislative Democrats are papering over the deficit temporarily and kicking the can down the road, all to the detriment of future budgets.

Proposition 2 Debt Payments. The Budget Act includes nearly $1.6 billion to pay down the state's long-term debts and liabilities, as required by the state constitution under Proposition 2, which voters enacted in 2014. Without this constitutional mandate, it is unlikely that Governor Newsom would choose to pay down these debts, as shown by his willingness to rack up ever-more short-term debt to paper over the state's deficits. The Proposition 2 debt payments include $584 million for state employee pension liabilities, $385 million for state retiree health debt, and $590 million to pay the SB 84 state pension loan from 2017.

Standard Bond Debt Service. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling $72 billion and has authorization to issue $43 billion more. Additionally, outstanding lease-revenue bonds total nearly $13 billion. The state must pay nearly $11 billion in interest for these bonds in 2025-26, as required by the constitution and debt covenants. Among the ten most populous states, California has the third-highest debt per capita at $2,528, according to the State Treasurer, behind only Illinois and New York. This debt is nearly four times higher than Texas and 3.6 times higher than Florida, both of whom have perfect AAA bond ratings. California's ratings of Aa2/AA-/AA from the three major agencies have remained the same since at least 2019.

Recent Bonds Authorized by Voters Not Yet Issued. The amount of authorized-but-unissued debt, which totals $43 billion, increased dramatically in 2024 through the enactment of three general obligation bonds on the ballot, as listed below. As of June 2025, the Treasurer had sold only $300 million of these bonds. State debt service costs (principal and interest combined) following issuance of all these bonds could total more than $1 billion per year over the next 30 to 40 years.

- *Proposition 2, School Facilities Bond.* Placed on the ballot by AB 247 (Muratsuchi), this measure authorized $10 billion in bond debt for various K-12 and community college facilities. When eventually issued, these bonds would cost about $500 million per year for 35 years to repay.
- *Proposition 4, Natural Resources and Climate Bond.* Placed on the ballot by SB 867 (Allen), this measure authorized $10 billion in bond debt for various water, forest, and climate-related purposes. When eventually issued, these bonds would cost about $400 million General Fund per year for 40 years to repay.
- *Proposition 1, Mental Health Facilities.* Enacted in March 2024, this measure authorized $6.4 billion in bond debt for mental health treatment facilities, of which $300 million had been issued as of June 2025. This debt will result in repayments of about $310 million per year for 30 years. In the spring of 2022, Senate Republicans proposed using $10 billion from that year's surplus[12] to provide these much-needed facilities and treatment beds faster and without interest expenses. Instead, Democrats chose to spend the surplus elsewhere and issue debt, thus

[12] Senate Republican letter, April 2022.

delaying new treatment bed availability by two years and incurring hundreds of millions of dollars in interest expenses annually.

Appendix A: Early Action Trailer Bills

Bill	Subject (Date Chaptered)
SBX1 1	**Budget Act of 2024 (Budget Bill Jr. #6 of 2024) (Chaptered Feb 7, 2025)** Appropriates up to $25 million for augmentation of any state agency's budget to litigate against the federal government or take administrative actions to mitigate impacts of federal actions.
SBX1 2	**Budget Act of 2024 (Budget Bill Jr. #7 of 2024) (Chaptered Feb 7, 2025)** Appropriates $25 million to provide primarily immigration-related legal services.
SBX1 3	**Budget Act of 2024 (Budget Bill Jr. #5 of 2024) (Chaptered Jan 23, 2025)** Provides up to $1 billion for emergency wildfire response and recovery. Appropriates $4 million for grants to local agencies for housing-related planning, review, and building inspection purposes resulting from the January 2025 wildfires. Also appropriates $1 million to assist local school districts with specified recovery and rebuilding activities.
ABX1 4	**Budget Act of 2024 (Budget Bill Jr. #4 of 2024) (Chaptered Jan 23, 2025)** Provides up to $1.5 billion for wildfire response and recovery activities associated with the January 2025 wildfires.
AB 100	**Budget Acts of 2023 and 2024 (Chaptered April 14, 2025)** Amends the 2023 and 2024 budget acts to add $2.8 billion General Fund for the Medi-Cal program, allow more uses of state funds for L.A. County and city fire assistance, and spend $181 million in bond funds for fire resilience, among other provisions.

Appendix B: June Trailer Bills

Bill	Subject (Date Chaptered)
SB 101	**Budget Act of 2025 (Chaptered June 27, 2025)** Enacts the preliminary June 15 budget agreement between Senate and Assembly Democrats, reflecting General Fund revenues of $209 billion and expenditures of $232 billion.
AB 102	**Budget Act of 2025 (Budget Bill Jr. #1 of 2025) (Chaptered June 27, 2025)** Updates the budget to enact legislative Democrats' agreement with the Governor. Reflects General Fund revenues of $209 billion and expenditures of $228 billion.
SB 103	**Budget Acts of 2022, 2023, and 2024 (BBJ #9 of 2022, BBJ #8 of 2023, BBJ #9 of 2024) (Chaptered June 27, 2025)** Amends the Budget Acts of 2022, 2023, and 2024 for various programs, including adding $148 million in Managed Care Organization (MCO) tax funds for retroactive managed care capitation rate adjustments in the Medi-Cal program, and $12 million for reparations-related efforts.
AB 104	**Budget Act of 2025 (Budget Bill Jr. #2 of 2025)** Amends the Budget Act of 2025 to provide loan repayment relief to district hospitals along with a variety of technical adjustments.
AB 116	**Health omnibus trailer bill (Chaptered June 30, 2025)** Makes various health policy changes, including a Medi-Cal enrollment freeze for undocumented individuals, reinstating the Medi-Cal asset test, and creating a licensing and regulatory oversight program for Pharmacy Benefit Managers (PBMs).
AB 118	**Human Services (Chaptered June 27, 2025)** Makes various changes to human services programs, including altering the county allocation formula of the Juvenile Justice Realignment Block Grant, adding requirements for out-of-state placements for the Adoption Assistance Program, and shifting the cost of the In-Home Supportive Services Community First Choice Option late penalties on to counties.
SB 119	**Public social services trailer bill** Makes changes to numerous human services programs, including making the implementation of the new Permanent Foster Care Rate Structure contingent upon an appropriation, changes the sanction process and welfare-to-work activities in the CalWORKs program, and directs the

	Department of Social Services to develop a standardized curriculum for mandated reporter training.
SB 120	**Early childhood education and childcare (Chaptered June 27, 2025)** Makes a number of policy and administrative changes pertaining to preschool and subsidized child care programs, including extending "hold harmless" policies for child care and preschool programs, increasing the Cost-of-Care Plus monthly payments, and furthers the implementation of the costly alternative methodology for rate setting.
AB 121	**Education finance: education omnibus budget trailer bill (Chaptered June 27, 2025)** Authorizes billions in funding and makes a number of policy and administrative changes pertaining to transitional kindergarten, and K-12 Education, including funding for a discretionary block grant, literacy instruction professional development, student teacher stipends, and student Special Olympics. The bill also implements $1.9 billion in deferrals, and extends the encumbrance deadline for LGBTQ+ online trainings implementation.
AB 123	**Higher education budget trailer bill (Chaptered June 27, 2025)** Makes funding and policy changes primarily related to the University of California, California State University, and California Community Colleges.
SB 124	**Public Resources Trailer Bill (Chaptered June 27, 2025)** Makes various changes in the Energy arena, including adding various new groups to the workgroup for the Transportation Fuels Transition Plan, as well as financing projects aimed at lowering greenhouse gas emission through procuring renewable energy and zero carbon resources.
SB 127	**Climate Change (Chaptered June 27, 2025)** Makes various changes to programs within the California Energy Commission, the Department of Water Resources, and the State Air Resources Board including but not limited to: (1) provides for a 5 percent pay raise for the Chair of the California Energy Commission in each of the next three fiscal years; (2) expands eligibility for certain Clean Transportation Program grant funds to for-profit entities to further the transition to zero-emission vehicles; and (3) grants CARB expanded authority to impose regulatory "deficiency" fees without defining the term or setting specific limits.
SB 128	**Transportation (Chaptered June 27, 2025)** Makes various statutory changes related to transportation programs, including but not limited to: (1) authorizes the Department of Transportation (Caltrans) to create an exclusive network of traffic lanes for the 2028 Olympic and Paralympic Games; (2) delays the implementation of three recently-enacted Republican-supported bills; and (3) reinstates a Department of Motor Vehicles (DMV) fee on private industry business partners.
AB 129	**Labor (Chaptered June 30, 2025)**

	Addresses labor and pension issues, including paying pension liabilities as required by the state constitution, establishing a contingency provision for studying a potential transition to statewide bargaining for In-Home Supportive Services (IHSS), and providing a single-project exemption from newly implemented lead exposure standards.
AB 130	**Housing (Chaptered June 30, 2025)** Includes extensive housing policy changes, including CEQA streamlining, expedited permitting, equity extraction on housing projects, increases renter's tax credit upon appropriation, creates a state vehicle miles traveled mitigation program, among other changes.
SB 131	**Public Resources (Chaptered June 30, 2025)** Makes sweeping statutory changes that would 1) accelerate housing development through reforms to the California Environmental Quality Act (CEQA), and 2) provide a $500 million appropriation in 2026-27 for the Homeless Housing, Assistance and Prevention grant program as part of the state budget.
SB 132	**Taxation (Chaptered June 27, 2025)** Increases to $750 million the Hollywood Film and TV tax credit, requires banking and financial institutions use single sales factor, exempts wildfire settlement funds from income tax, exempts military retirement from income tax, extends the SALT-cap work around, among other changes.
AB 134	**Public Safety (Chaptered June 27, 2025)** Makes various changes related to inmate-students, mandatory tuberculosis testing of Corrections employees, and pre-licensure requirements for various behavioral health-related position classifications. Establishes a Tribal Police Pilot Program temporarily making certain tribal police officers peace officers whose authority extends anywhere in the state. Provides additional enforcement authority to BSCC with respect to the suitability of juvenile detention facilities. Eliminates several criminal justice functions and entities, including the California Rehabilitation Oversight Board.
AB 136	**Courts (Chaptered June 27, 2025)** Makes various changes, including streamlining of various Judicial Branch reporting requirements, elimination of a jury pay pilot, and authorization for Judicial Council to sell four specified court properties in Plumas and Stanislaus Counties, and backfilling a revenue shortfall in the State Court Facilities Construction Fund.
AB 137	**General Government (Chaptered June 30, 2025)** Makes various changes, including fee increases within the Department of Financial Protection and Innovation, pushes CDCR toward forced divestiture of vacant prison facilities, expands the definition of eligible child within the HOPE program, among other changes.

AB 138	**Various State Bargaining Units** Approves memoranda of understanding or side letters with 18 different bargaining units, enacting pay raises, suspending prefunding of retiree health benefits, and implementing personal leave plans.
SB 139	**State Bargaining Unit 9 and State Bargaining Unit 12 (Chaptered June 30, 2025)** Ratifies a memorandum of understanding with Bargaining Unit (BU) 9, Professional Engineers in California Government, as well as a side letter with BU 12, International Union of Operating Engineers.
SB 140	**State Bargaining Unit 6, Correctional Officers (Chaptered June 30, 2025)** Approves a memorandum of understanding with the California Correctional Peace Officers Association.
SB 141	**California Cannabis Tax Fund: Department of Cannabis Control: Board of State and Community Corrections grants (Chaptered June 27, 2025)** Modifies allocations from the California Cannabis Tax Fund to support 1) the Department of Cannabis Control's track-and-trace program and enforcement activities, and 2) provide authority to the Board of State and Community Corrections to issue grants to local jurisdictions that ban cannabis cultivation or retail, under certain circumstances.
SB 142	**Deaf and Disabled Telecommunications Program (Chaptered June 27, 2025)** Reinstates the expired surcharge on lines of telecommunications service, which funds the Deaf and Disabled Telecommunications Program (DDTP), until December 31, 2034. The surcharge, historically 11-12 cents monthly per line, expired on January 1, 2025.
AB 143	**Developmental services (Chaptered June 27, 2025)** Makes a number of policy changes related to the Department of Developmental Services, including changes to the Self Determination Program and an acceleration of a compliance deadline for certain disability service providers.

Senate Republican Fiscal Staff Assignments

Kirk Feely, Fiscal Director

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Assignment Area	Consultant
Overall Budget, Higher Education, and Employee Compensation	Kirk Feely
K-12 Education and Social Services	Megan De Sousa
Public Safety, Judiciary, Corrections	Matt Osterli
Natural Resources & Environment	Emilye Reeb
Health & Veterans Affairs	Anthony Archie
Revenue, General Government & Housing	Chantele Denny
Transportation, Energy, and Labor	Heather Wood
Fiscal Assistant	Spencer Winkle

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