

INTRODUCTION

Emerging from the COVID-19 Pandemic, California has experienced significant revenue volatility—seeing unprecedented revenue growth that was quickly followed by a sharp and deep correction back toward historical trends. Additionally, the unprecedented Internal Revenue Service tax filing and payment postponement in 2023—affecting 99 percent of California taxpayers—significantly clouded the state's revenue forecast. With the revenue picture now clearer, the Budget takes steps to ensure California is on sound fiscal footing by setting the state on a fiscally responsible long-term path that protects vital programs assisting millions of Californians.

In addressing a \$46.8 billion deficit, the Budget maintains the multiyear fiscal structure of the May Revision, providing positive balances in the state's operating reserve, the Special Fund for Economic Uncertainties (SFEU), not only in the 2024-25 fiscal year—but also for the fiscal year that follows, 2025-26.

The Budget includes commitments to support further budget resilience. Part of the budget agreement reached proposes additional legislation requiring the state to set aside a portion of anticipated surplus funds to be allocated in a subsequent Budget Act—adding further fiscal protection so the state does not commit certain amounts of future anticipated revenues until those revenues have been realized.

RESERVES

Over the past decade, the state has built historic levels of reserves to better prepare for economic downturns and to mitigate against the volatility in the state's revenue structure. In particular, the Budget Stabilization Account (BSA), also known as the Rainy Day Fund, met its constitutional maximum mandatory deposit limit of 10 percent of General Fund tax proceeds at the 2023 Budget Act.

The Budget utilizes funds from the BSA, but does so over two fiscal years, assuming the use of approximately \$5.1 billion in 2024-25 and approximately \$7.1 billion in 2025-26. Spreading the use of the BSA over two years allows more of the structural budget issues to be addressed in 2024-25 and provides greater budget resiliency.

The Budget reflects total reserve balances of \$22.2 billion at the end of 2024-25. This includes \$17.6 billion in the BSA, \$3.5 billion in the SFEU, and \$1.1 billion in the Public School System Stabilization Account.

In addition to the balance of \$3.5 billion in the SFEU in the 2024-25 fiscal year, the Budget includes a positive SFEU in 2025-26 of \$1.5 billion, putting the state on more solid fiscal footing by balancing the budget through the next two fiscal years.

SOLUTIONS

The Budget solves a \$46.8 billion deficit for the 2024-25 through a mix of broad-based solutions.

- **Reductions—\$16.0 billion.** The Budget reduces funding for various items. Significant solutions include:
 - **Ongoing Reductions to State Operations**—A reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. The reduction involves all operational categories, including personnel, operating costs and contracting for General Fund savings of \$2.17 billion.
 - **Vacant Position Sweep**—A permanent reduction of \$1.5 billion (\$762.5 million General Fund) in 2024-25 by reducing departments' budgets for vacant positions.
 - **California Department of Corrections and Rehabilitation**—A reduction of \$358 million above the statewide reductions (state operations and vacant positions), for a total of \$750 million from 2022-23 through 2024-25.

- **California Student Housing Revolving Loan Program**—A reduction of approximately \$500 million.
- **Learning-Aligned Employment Program**—A reduction of \$485 million one-time, which reflects the balance of unspent one-time Learning-Aligned Employment Program resources.
- **Middle Class Scholarship Program**—An ongoing reduction of \$110 million beginning in 2025-26.
- **Housing**—A reduction of \$1.1 billion to various affordable housing programs.
- **Healthcare Workforce**—A reduction of \$746.1 million for various healthcare workforce programs.
- **Reductions of State and Local Public Health**—A reversion of \$41.5 million one-time in 2023-24 and an ongoing reduction of \$8 million and \$15.9 million for state and local public health efforts, respectively, which aligns with all other state 7.95-percent efficiency reductions.
- **Revenue/Internal Borrowing—\$13.6 billion.** The Budget includes additional revenue sources and borrows internally from special funds. Significant solutions in this category include:
 - **Net Operating Loss (NOL) Suspension and Credit Limitation**—Suspends NOL for companies with over \$1 million in taxable income and limits business tax credits to \$5 million in 2024, 2025, and 2026, which is projected to increase revenues by \$5.95 billion, \$5.5 billion, and \$3.4 billion in fiscal years 2024-25, 2025-26 and 2026-27, respectively. The solution includes a refundability component to ensure taxpayers subject to the temporary credit limitation can fully utilize their credits after the limitation period ends, as well as mechanisms to trigger the suspension off if certain events occur for tax years 2025 and 2026.
 - **Managed Care Organization (MCO) Tax**—The Budget reflects increased MCO Tax of \$5.1 billion in 2024-25, \$4.6 billion in 2025-26, and \$4.0 billion in 2026-27 to support the Medi-Cal program compared to the 2023 Budget Act, including the Early Action and Medicare revenue amendments to increase the MCO Tax.
- **Reserves—\$6.0 billion.** The Budget withdraws \$12.2 billion from the BSA over the next two fiscal years—\$5.1 billion in 2024-25 and \$7.1 billion in 2025-26—and \$900 million from the Safety Net Reserve in 2024-25.

- **Fund Shifts—\$6.0 billion.** The Budget shifts certain expenditures from the General Fund to other funds. Significant solutions include:
 - **Proposition 2 Supplemental Payment**—Applies a prior CalPERS Supplemental Pension Payment to the state's overall pension liability which reduces the required employer contributions in 2024-25 by \$1.7 billion (\$1.3 billion General Fund).
 - **Formula and Competitive Transit and Intercity Rail Capital Program**—Shifts \$958 million General Fund from 2023-24 and 2024-25 to the Greenhouse Gas Reduction Fund.
 - **Clean Energy and Other Climate Programs**—Shifts \$3 billion from 2023-24 and 2024-25 General Fund to the Greenhouse Gas Reduction Fund.
- **Delays and Pauses—\$3.1 billion.** The Budget minimizes the use of delays to avoid both increased future obligations and potential shortfalls. Delays include:
 - **California Food Assistance Program Expansion**—Delays for two years the California Food Assistance Program expansion automation to now begin in 2026-27 with benefits beginning in 2027-28.
 - **Department of Developmental Services Provider Pay Delay**—Delays implementation of increased provider pay by six months to January 1, 2025.
 - **Child Care Slots**—Funds approximately 11,000 new slots that received tentative awards and pauses additional expansion slots by two years (2026-27). After two years, additional slots are subject to appropriation.
 - **Broadband Last Mile**—Delays \$550 million to 2027-28.
- **Deferrals—\$2.1 billion.** The Budget defers certain payments to later years. These include:
 - **Payroll Deferral**—Defers \$3.2 billion (\$1.6 billion General Fund) for one month of state employees' payroll costs.
 - **UC/CSU Compact Deferral**—Defers \$524 million from 2025-26 to 2026-27 and from 2026-27 to 2027-28.

MAINTAINS CORE PROGRAMS

The Budget maintains core programs serving millions of California's most vulnerable populations.

- **Proposition 98**—Protects education now and in the future. Funds the minimum guarantee at \$115.3 billion (\$82.6 billion General Fund) for 2024-25 for Pre-K-12 schools and community colleges.
- **Medi-Cal**—Maintains funding for the expansion of health care to all income eligible Californians regardless of immigration status, including In-Home Supportive Services.
- **Behavioral Health**—Largely preserves funding across multiple programs supporting the expansion of the continuum of behavioral health treatment and infrastructure capacity for providing behavioral health services to Californians (\$7.1 billion total funds).
- **Supplemental Security Income/State Supplemental Payment (SSI/SSP) Base Grants**—Maintains the 9.2-percent SSP increase, which took effect on January 1, 2024. These adjustments raise the maximum SSI/SSP grant levels to \$1,183 per month for individuals and \$2,023 per month for couples.
- **CalWORKs Base Grants**—Maintains a cumulative 31.3-percent increase in CalWORKs Maximum Aid Payment levels since 2021.
- **In-Home Supportive Services**—Maintains benefit levels, including those provided to individuals regardless of their immigration status.
- **Broadband Middle and Last Mile**—Preserves \$250 million for the Middle Mile Broadband Initiative in 2024-25 and allows the Director of Finance to augment the budget for an additional \$250 million with concurrence from the Legislature. Additionally, preserves \$2 billion for Last Mile projects over 2024-25, 2025-26, and 2026-27 in order to connect unserved and underserved communities to broadband service.

CONTINUING PRIORITIES

The Budget includes continued investments in vital programs.

- **Homeless Housing Assistance and Prevention Program**—\$1 billion one time to provide local governments funding to combat the homelessness crisis—tied to increased accountability measures.
- **Encampment Grants**—\$250 million (\$150 million in 2024-25 and \$100 million in 2025-26).
- **Managed Care Tax Investments**—\$133 million in 2024-25, \$728 million in 2025-26, and \$1.2 billion in 2026-27 for increases and investments in the Medi-Cal program.
- **SUN Bucks (Formerly Summer EBT)**—\$146.8 million (\$73.4 million General Fund) for outreach, automation, and administration to allow California to provide an estimated \$1 billion in 2024-25 in federal food assistance. SUN Bucks provides \$40 per month for food in June, July and August (\$120 total).
- **Victims Assistance Grants/backfill of federal VOCA funds**—\$103 million one time.
- **Nonprofit Security Grants**—\$80 million annually for two years for physical security enhancements for certain nonprofit organizations.
- **Foster Care Rates**—\$20.5 million (\$13.3 million General Fund) to begin automation for updated foster care rates. Implementation of the new foster care rates will begin in 2027-28.