

ADDRESSING THE BUDGET AND OPERATING DEFICIT PROBLEM

To address the projected budget shortfall and multiyear operating deficits, the Budget proposes one-time and ongoing General Fund solutions to achieve a balanced budget in both the 2024-25 and 2025-26 fiscal years and significantly reduce the projected operating deficit over the multiyear forecast. These include:

EDUCATION

- **Learning Aligned Employment Program**—Reducing \$485 million one-time, which reflects the balance of unspent one-time Learning-Aligned Employment Program resources.
- **Golden State Teacher Grant Program**—Reducing \$60.2 million one-time support for the Golden State Teacher Grant Program. Combined with a technical adjustment, \$50 million one-time support for this program would remain.
- **Middle Class Scholarship Program**—Reducing \$510 million ongoing support for the Middle Class Scholarship program. Combined with a technical adjustment, \$100 million ongoing support for this program would remain.
- **California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program**—Reducing a planned 2025-26 investment of \$550 million that would have supported the California Preschool, Transitional Kindergarten, and Full-Day

Kindergarten Program. Such an investment could be considered for inclusion in education facilities bond proposals being contemplated by the Legislature.

- **School Facilities Aid Program**—Eliminating the remaining \$375 million one-time in planned support for the School Facilities Aid Program. The Early Action package previously reduced a planned investment of \$875 million one-time General Fund by \$500 million one-time General Fund.
- **Preschool Inclusivity**—Eliminating the planned General Fund investments of \$47.9 million in 2025-26 and \$97.9 million ongoing starting in 2026-27 that would have supported California State Preschool Program adjustment factor costs for State Preschool to serve at least 10 percent of students with disabilities by 2026-27. Providers would continue to be required to serve at least 5 percent of students with disabilities.

HEALTH AND HUMAN SERVICES

- **Managed Care Organization (MCO) Tax**—Reducing \$6.7 billion over multiple years from the Medi-Cal provider rate increases planned for January 1, 2025, as well as Graduate Medical Education and Medi-Cal labor workforce. The May Revision proposes an amendment to the MCO Tax to include health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax resulting in an additional net state benefit of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27. Overall, the May Revision includes an additional \$9.7 billion in MCO Tax funds over multiple years to support the Medi-Cal program.
- **Healthcare Workforce Reduction**—Eliminating \$300.9 million in 2023-24, \$302.7 million in 2024-25, \$216 million in 2025-26, \$19 million in 2026-27, and \$16 million in 2027-28 for various healthcare workforce initiatives including community health workers, nursing, social work, Song-Brown residencies, Health Professions Career Opportunity Program, and California Medicine Scholars Program. The May Revision also eliminates \$189.4 million Mental Health Services Fund for programs proposed to be delayed to 2025-26 at Governor's Budget.
- **Children and Youth Behavioral Health Initiative**—Reducing \$72.3 million one-time in 2023-24, \$348.6 million in 2024-25, and \$5 million in 2025-26 for school-linked health partnerships and capacity grants for higher education institutions, behavioral health services and supports platform, evidence-based and community-defined grants, public education and change campaign, and youth suicide reporting and crisis response pilot.

- **Behavioral Health Continuum Infrastructure Program**—Eliminating \$450.7 million one-time from the last round of the Behavioral Health Continuum Infrastructure Program, while maintaining \$30 million one-time General Fund in 2024-25.
- **Behavioral Health Bridge Housing Program**—Reducing \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for the Behavioral Health Bridge Housing Program, while maintaining \$132.5 million General Fund in 2024-25 and \$117.5 million (\$90 million Mental Health Services Fund and \$27.5 million General Fund) in 2025-26.
- **Equity and Practice Transformation Payments to Providers**—Eliminating \$280 million one-time over multiple years for grants to Medi-Cal providers for quality, health equity, and primary care infrastructure. The May Revision maintains \$70 million General Fund included in the 2022 Budget Act.
- **Elimination of Public Health Funding**—Eliminating \$52.5 million in 2023-24 and \$300 million ongoing for state and local public health.
- **Foster Care Permanent Rate Structure**—Including statutory language that would make the proposed foster care rate structure subject to a trigger-on, based on the availability of General Fund in spring 2026.
- **CalWORKs Home Visiting Program**—Reducing \$47.1 million ongoing for the CalWORKs Home Visiting Program.
- **CalWORKs Mental Health and Substance Abuse Services**—Reducing \$126.6 million ongoing for the CalWORKs Mental Health and Substance Abuse Services.
- **Child Care Slot Expansion Pause at Current Level**—Approximately, 119,000 slots have been added; a pause at the current level until fiscal conditions allow for resuming the expansion will result in a revenue gain of \$489 million in 2024-25 and \$951 million in 2025-26.
- **In-Home Supportive Services for Undocumented Individuals**—Reducing \$94.7 million ongoing by eliminating the In-Home Supportive Services (IHSS) undocumented expansion coverage for all ages.
- **California Food Assistance Program Expansion**—Delaying for two years the California Food Assistance Program expansion automation to begin in 2026-27 with benefits beginning in 2027-28.

CORRECTIONS, PUBLIC SAFETY AND GENERAL GOVERNMENT

- **Trial Court Operations: Ongoing General Fund Reduction**—Reducing \$97 million ongoing consistent with the statewide ongoing reduction to state operations.
- **California Competes Grant Program**—Eliminating \$60 million one-time provided in the Governor's Budget to extend the California Competes Grant program for an additional year in 2024-25.
- **Department of Justice Law Enforcement and Legal Services Reductions**—Reducing \$10 million ongoing for the Division of Law Enforcement and \$5 million ongoing for the Division of Legal Services.
- **California Department of Corrections and Rehabilitation**
 - **Housing Unit Deactivations**—Reducing \$80.6 million ongoing to reflect the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.
 - **Peace Officer Training Reduction (Block Training and Northern California Women's Training Facility)**—Reducing \$8.5 million in 2023-24, \$13.8 million in 2024-25, and \$22.6 million ongoing to reflect a reduction in annual training for correctional officers from 48 hours to 40 hours, and a discontinuation of the use of the California Reality Based Training Center.
 - **Los Angeles County Fire Camp Contract**—Reducing \$2.4 million in 2024-25 and \$4.8 million in 2025-26 and ongoing to reflect the proposed cancellation of the fire suppression services contract with Los Angeles County.
 - **Level IV Visiting Reduction**—Reducing \$4.1 million ongoing associated with the reduction of in-person visiting from three days to two days at Level IV institutions.
 - **Return Data Collection Analysis and Outcomes Funding**—Reducing \$6 million one-time added in the 2022 Budget Act to conduct a study on parole data and outcomes.
- **Board of State and Community Corrections**
 - **Medication Assisted Treatment Grants**—Reducing \$10.5 million in 2023-24 for competitive grants to counties to use for various purposes relating to the treatment of substance use disorders and the provision of medication-assisted treatment.

- **Post Release Community Supervision**—Reducing \$4.4 million one-time in 2024-25 to eliminate funding provided to county probation departments for the temporary increase in the number of offenders released from prison to Post Release Community Supervision pursuant to Proposition 57, the Public Safety and Rehabilitation Act of 2016.
- **Adult Reentry Grant**—Reducing \$54.1 million in 2023-24 and \$57 million one-time in outyears that was proposed to be delayed in the Governor's Budget. The Governor's Budget included an additional reduction of \$7.8 million in 2022-23. The Adult Reentry Grant provides competitive funds to community-based organizations to deliver reentry services to assist formerly incarcerated individuals reentering communities.

RESOURCES, ENVIRONMENT, AND CAPITAL OUTLAY

- **Capitol Annex Project**—Shifting \$700 million over two years from the State Project Infrastructure Fund to the General Fund and implementing statutory changes that would support the construction of the Capitol Annex Projects with lease revenue bond financing.
- **Cap and Trade Fund Shifts**—Shifting \$1.7 billion in 2024-25 from the General Fund to the Greenhouse Gas Reduction Fund for various climate programs. Over the next five years, the May Revision includes shifting \$3.6 billion from the General Fund to the Greenhouse Gas Reduction Fund, including transit programs, clean energy programs, zero-emission vehicle programs, and nature-based solutions programs.
- **Outdoor Equity Grants**—Reducing \$50 million one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program under Chapter 675, Statutes of 2019 (AB 209). Approximately \$40 million has already been committed for this purpose.
- **Vulnerable Community Toxic Clean-up**—Reducing \$136 million in 2023-24 (\$268.5 million over four years) for the Department of Toxic Substances Control's Cleanup in Vulnerable Communities Initiative Program. The May Revision maintains \$65 million (\$107.5 million over three years) for this program through a fund shift to the Greenhouse Gas Reduction Fund.
- **Habitat Conservation Fund**—Reverting \$45 million one-time in 2023-24 and reducing \$20 million ongoing starting in 2024-25 by accelerating the sunset date for the Habitat Conservation Fund, which is currently scheduled to sunset in 2030.

- **Water Storage**—Reducing \$500 million one-time in 2025-26 to support water storage facilities. Proposition 1 of 2014 dedicated \$2.7 billion for investments in water storage projects, and significant funding is still available for this purpose.
- **Air Pollution Control Fund Loan**—Providing a budgetary loan of \$300 million from the fund balance of the Air Pollution Control Fund to the General Fund.

ENERGY, TRANSPORTATION, HOUSING, LABOR AND LOCAL GOVERNMENT

- **Active Transportation Program**—Reducing \$300 million in 2025-26 and \$99 million in 2026-27 for funds appropriated for active transportation grants.
- **Transit**—Shifting \$555.1 million from General Fund to the Greenhouse Gas Reduction Fund above what was proposed in the Governor's Budget, for a total of \$1.3 billion in proposed fund shifts for transit. These fund shifts are not expected to have any program impact and the May Revision maintains the Formula Transit and Intercity Rail Capital Program (\$4 billion) and the Zero Emission Transit Capital Program (\$1.1 billion) funding levels. The May Revision also reduces \$148 million not used for awarded projects from the Competitive Transit and Intercity Rail Capital Program and maintains 96 percent of the Competitive Transit and Intercity Rail Capital Program (\$3.5 billion of the originally planned \$3.65 billion).
- **Clean Energy Reliable Investment Plan (CERIP)**—Shifting the remaining \$900 million for this program to Greenhouse Gas Reduction Fund over multiple years, beginning in 2025-26.
- **California Jobs First**—Reducing \$150 million (\$50 million annually from 2024-25 through 2026-27) for the California Jobs First Program, an inter-agency partnership to support resilient, equitable, and sustainable regional economies.
- **Women In Construction**—Reducing \$10 million on an ongoing basis, in addition to the \$5 million ongoing reduction proposed at Governor's Budget, which would result in the elimination of the program.
- **Homeless Housing, Assistance and Prevention (HHAP) Round 5 Grant Program**—Reducing \$260 million one-time in 2025-26 for HHAP Round 5 supplemental grant funding.
- **Multifamily Housing Program**—Eliminating the remaining \$75 million in 2023-24 for this program, in addition to the \$250 million proposed at Governor's Budget.

- **Adaptive Reuse Program**—Reducing \$127.5 million in 2023-24, which will eliminate the program.
- **Foreclosure Intervention Housing Preservation Program**—Eliminating the remaining \$236.5 million in 2023-24 for this program, in addition to the \$237.5 million proposed at Governor's Budget, which would result in the elimination of the program.

STATE ADMINISTRATION, EMPLOYEE COMPENSATION AND OTHER STATEWIDE ADJUSTMENTS

- **Middle Mile Broadband Initiative (MMBI)**—Modifying the MMBI Budget Change Proposal requesting \$250 million in 2024-25, and \$1.25 billion in 2025-26, and instead adds provisional language to allow the Director of Finance to augment MMBI's budget by up to \$1.5 billion upon notification to the Joint Legislative Budget Committee. This is in addition to the \$3.9 billion in funding already budgeted for the project.
- **Vacant Positions Funding Reduction and Elimination of Positions**—Chapter 9, Statutes of 2024 (AB 106) adopted the Governor's Budget proposal to reduce departmental budgets in 2024-25 by \$1.5 billion (\$762.5 million General Fund) for savings associated with vacant positions. The May Revision proposes making the reduction permanent. The Department of Finance will work with agencies and departments in the fall on the appropriate budget reductions starting in 2024-25 and will eliminate approximately 10,000 positions starting in 2025-26 and ongoing.
- **Ongoing Reductions to State Operations**—Proposing an across-the-board reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. The planned reduction involves all categories, including personnel, operating costs, and contracting. The Department of Finance will work with agencies and departments in the fall on the appropriate budget reductions.
- **Net Operating Losses (NOL) Suspension and Limitation of Credits to \$5 million**—Suspending the carryover NOL tax deduction for businesses with California income over \$1 million and limiting business credit usage to \$5 million for tax years 2025, 2026, and 2027, with a trigger to restore if sufficient revenues are determined to be available in the 2025-26 May Revision. The credit limitation does not apply to the Low-Income Housing and Pass-through Entity Elective tax credits. Both the NOLs and credits carryover periods would be extended by three years. This solution replaces the Governor's Budget proposal to limit NOLs to 80 percent of taxable income.

- **Budget Stabilization Account (BSA)**—Shifting \$8.9 billion of the \$12.2 billion proposed BSA withdrawal from fiscal year 2024-25 to 2025-26. The Governor’s Budget proposed withdrawing \$12.2 billion from the BSA in fiscal year 2024-25. The May Revision proposes to withdraw \$3.3 billion from the BSA in 2024-25 and \$8.9 billion in 2025-26.