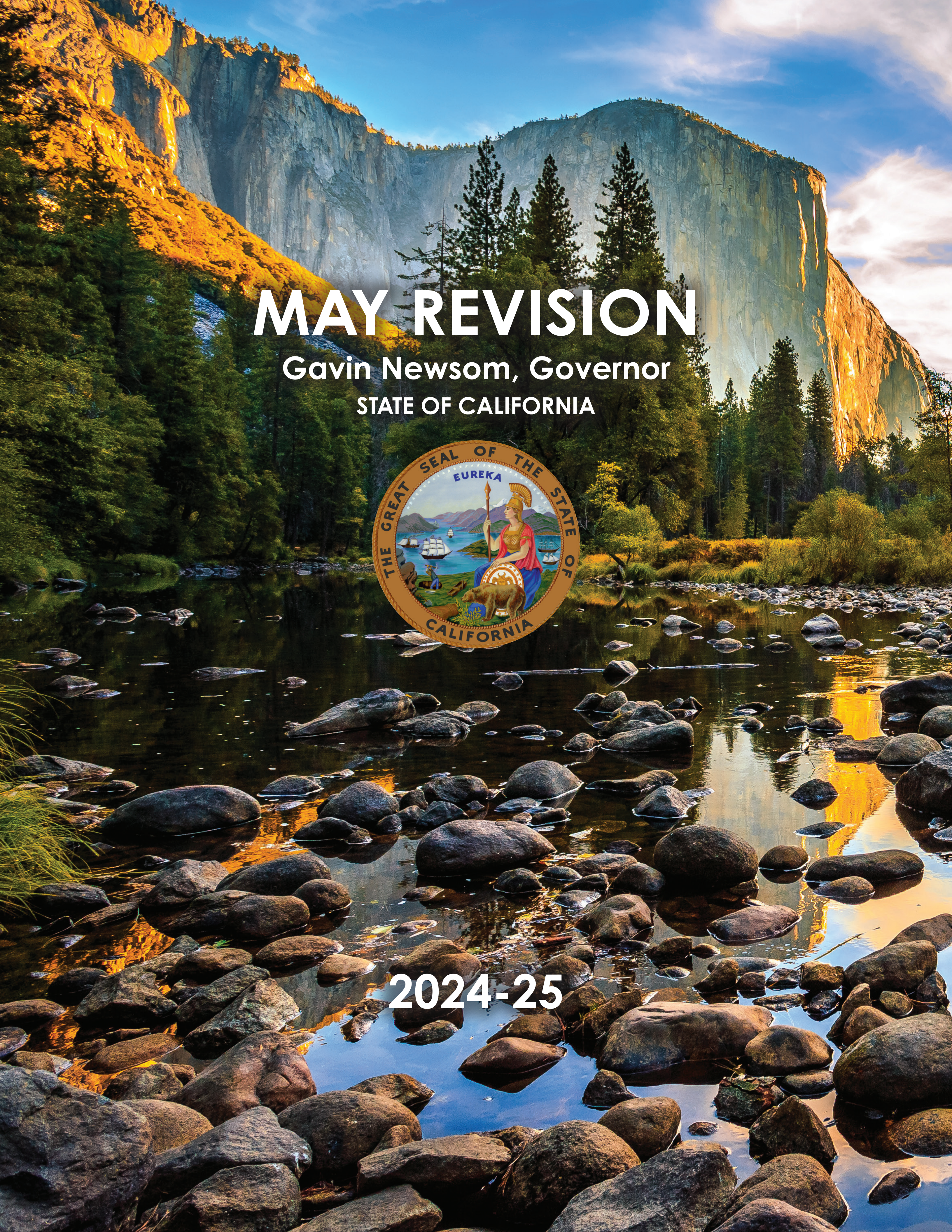

MAY REVISION

Gavin Newsom, Governor

STATE OF CALIFORNIA

2024-25

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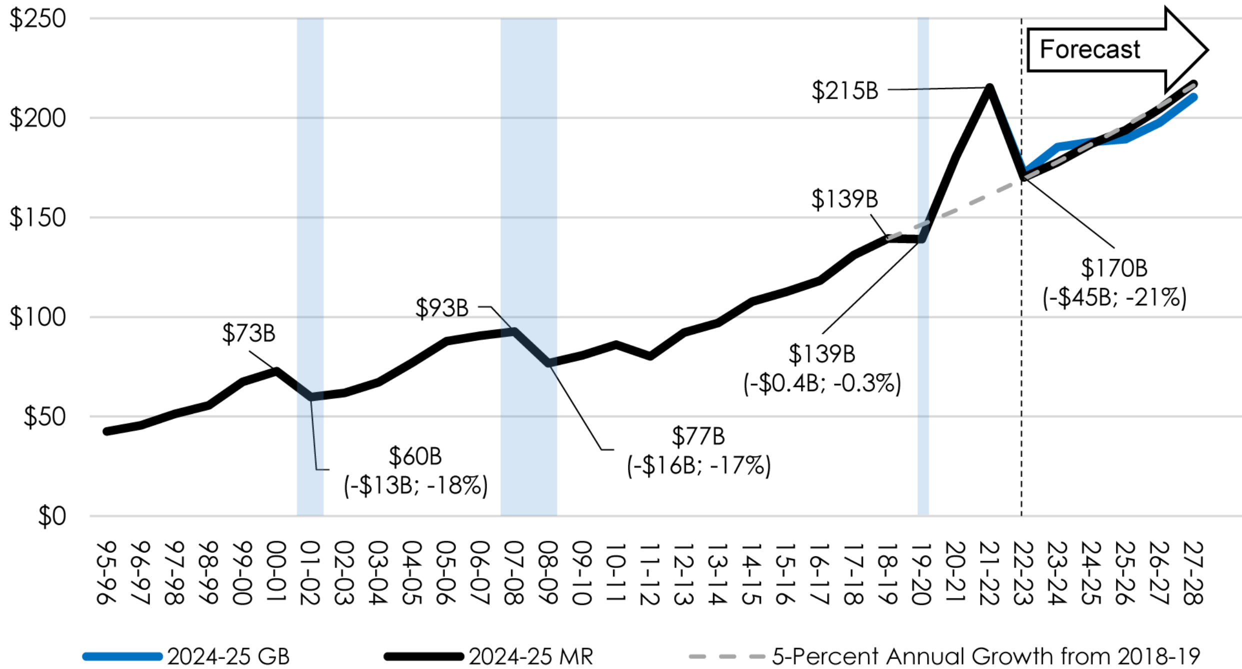
INTRODUCTION

This year's May Revision puts the state on a long-term, fiscally responsible path that protects vital programs assisting millions of Californians. Although the economy remains strong and revenue volatility has stabilized after the tumultuous COVID-19 Pandemic, the May Revision addresses anticipated shortfalls in both the 2024-25 and 2025-26 fiscal years. This multiyear focus presents a balanced approach that results in positive operating reserves in the 2024-25 and 2025-26 fiscal years—transforming a cumulative two-year deficit into an operating reserve surplus. To achieve this outcome, the May Revision includes significant spending cuts to government operations, reductions to programs and pauses of new investments. Despite these necessary cuts, reductions, and pauses, the May Revision maintains current service levels for key health care, social services and other critical programs.

Emerging from the pandemic, the state's economy has been resilient but has behaved in ways that have defied traditional forecasts and historical precedent. During this time California has experienced significant revenue volatility—seeing unprecedented revenue growth that was quickly followed by a sharp and deep correction back toward historical trends. This volatility resulted in the 2021 and 2022 Budget Acts reflecting higher growth assumptions, which created a misalignment between expenditures and revenues in the last two fiscal years that will continue unless corrective action is taken. Despite this volatility and the resulting need to take corrective actions, revenues in the coming fiscal year are forecasted to be higher than pre-pandemic levels in 2018-19 and reflect a level consistent with a more typical annual growth pattern of five percent (see the Big Three Revenue—personal income, corporation, and sales tax—figure below).

Big Three Revenues
(Dollars in Billions)



Projected revenue figures exclude the impact of tax policy proposals and solutions.
Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 May Revision Forecast.

At last year's May Revision, significant uncertainty clouded the state's revenue forecast, driven by the unprecedented Internal Revenue Service (IRS) tax filing and payment postponement—affecting 99 percent of California taxpayers—that delayed critical cash receipts for more than half a year. With the revenue picture now clearer for the 2022 and 2023 tax years, actions must be taken to bring the budget's expenditures and revenues into alignment—an essential step so programs and services that Californians rely upon can be protected. Without action, these programs and services will be at risk of more consequential reductions in the coming years.

In response, the May Revision includes budgetary solutions that address the near-term budget shortfall for 2024-25 and result in a positive operating reserve in 2025-26. Without question, difficult decisions are required to accomplish this. However, these decisions are necessary to stabilize California's financial plan. Without them, significant shortfalls are projected to persist.

HOW WE GOT HERE

Following the stock market run-up through the end of 2021, asset prices dropped in 2022, with the S&P 500 declining by 19 percent and the NASDAQ Composite Index—concentrated in stocks in technology companies that are a California mainstay—declining by 33 percent. As a result, the state's Big Three General Fund revenue sources—personal income, sales, and corporation taxes—declined by 21 percent in 2022-23 after increasing by a remarkable 55 percent from 2019-20 to 2021-22. While the stock market rebounded and recovered nearly all of its losses by the end of 2023, cash receipts for the year remained weak, due in part to increased capital loss carryovers originating from the asset market declines in 2022. New tax data for 2022 show capital loss carryovers grew by 62 percent in 2022, exceeding the 58 percent increase in 2008 during the Great Recession.

Due to the revenue spike from 2019-20 to 2021-22, the Budget Acts of 2021 and 2022 were based on forecasts that projected substantially greater revenues in the last two fiscal years than occurred.

To illustrate:

- The 2022 Budget Act projected that Big Three revenues would be $210 billion in 2022-23 and $220.9 billion in 2023-24.
- As of the May Revision forecast, 2022-23 revenues, excluding solutions and policy proposals, are now estimated at $170.1 billion and 2023-24 revenues are at $177.7 billion.
- This is a difference of $83.1 billion between the 2022 Budget Act projection for the 2022-23 and 2023-24 fiscal years and what has materialized based on the latest projections.

Big Three Revenue Forecast Comparison
2022 Budget Act vs. 2024 May Revision
(Dollars in Billions)

Fiscal Year	2022-23	2023-24	2024-25	2025-26
2022 Budget Act	$210.0	$220.9	$230.6	$232.2
2024 May Revision	$170.1	$177.7	$187.0	$193.8
Difference	-$39.9	-$43.2	-$43.6	-$38.4

The total difference across the four fiscal years is a negative $165.1 billion.

THE BUDGET PROBLEM

The 2023 Budget Act addressed a budget shortfall of approximately $32 billion. As previously noted, significant uncertainty surrounded the revenue forecast due to the IRS tax filing and payment delay. Once additional tax receipts for 2022 were received in late November 2023, it was clear that 2022 revenues were weaker than projected when the 2023 Budget Act was adopted. As a result, the Governor's Budget projected an additional budget shortfall of $37.9 billion.

Since then, 2023 tax year cash receipts have been weaker than expected. In addition, inflation has been slower to cool, defying earlier expectations. As a result, interest rates have remained higher to longer than expected. Compared to January's revenue forecast, the May Revision revenue forecast reflects a decrease of $10.5 billion in the Big Three revenues, excluding solutions and policy proposals, through the 2024-25 fiscal year—with personal income tax lower by $2.4 billion, corporation tax lower by $5.8 billion, and sales tax lower by $2.3 billion.

The May Revision estimates that the budget shortfall has grown by approximately $7 billion. Combined with the Governor's Budget, the budget shortfall for the 2024-25 fiscal year is approximately $44.9 billion. However, after accounting for the early action budget package that included $17.3 billion of solutions, the remaining budget problem is approximately $27.6 billion.

Budget Problem at the May Revision

Governor's Budget	$37.9 billion
Shortfall Since Governor's Budget	$7.0 billion
Early Action Budget Package	-$17.3 billion
Remaining Budget Problem	**$27.6 billion**

The Governor's Budget reflected a negative operating reserve balance in the 2025-26 fiscal year of $33.1 billion. Such levels of negative reserves in budget out-years are not manageable and put state investments at further risk, particularly ongoing programs and services. The May Revision addresses the 2025-26 shortfall and reflects positive operating reserve balances in both the 2024-25 and 2025-26 fiscal years.

EARLY ACTION BUDGET PACKAGE

Recognizing the importance of addressing the shortfall ahead of schedule, the Legislature passed an early action budget package in April that reduced the size of the budget shortfall by approximately $17.3 billion (Chapter 9, Statutes of 2024 (AB 106)). This package was comprised primarily of solutions included in the Governor's Budget, and also accounted for the use of $12.2 billion from the Budget Stabilization Account (BSA).

BUDGET RESERVES AND SOLUTIONS

USE OF RESERVES

The scope of the current shortfall presents the conditions for which the BSA was designed—mitigating volatility in revenues, specifically from fluctuations in capital gains.

To help address this volatility, capital gains tax revenues that exceed eight percent of total general fund revenues are deposited into the BSA. The BSA is structured to capture revenue from capital gains during market upswings to mitigate the impact of market—and corresponding revenue—downswings on the state budget.

California experienced this type of swing in revenue from capital gains in 2021 when capital gains realizations spiked to an all-time high of $349 billion. Conversely, the May Revision forecast projects that capital gains realizations fell to approximately $156 billion in 2022 and $137 billion in 2023.

While challenging, the current shortfall is more manageable because of the state's foresight in building the combined budgetary reserves to a record level in 2023. Withdrawals from the BSA will help the state maintain fiscal stability, continue its ongoing efforts to address priority issues such as homelessness and combatting the effects of climate change, and avoid more harmful cuts in programs that are essential to the well-being of Californians throughout the state.

The May Revision maintains the Governor's Budget withdrawal of approximately $12.2 billion from the BSA, as well as $900 million from the Safety Net Reserve. However, the May Revision spreads the use of the BSA withdrawal over two fiscal years, utilizing $3.3 billion in the 2024-25 fiscal year and $8.9 billion in the 2025-26 fiscal year. This action will assist in balancing the budget through the 2025-26 fiscal year.

In addition, the May Revision includes withdrawals from the Public School System Stabilization Account of approximately $8.4 billion to maintain predictable support for local educational agencies and community college districts.

By spreading the use of reserves over two fiscal years, total budget reserves in the coming fiscal year will remain substantial at $22.8 billion. This includes $19.4 billion in the BSA and $3.4 billion in the Special Fund for Economic Uncertainties.

SOLUTIONS

In January, the Governor's Budget proposed to close the estimated $37.9 billion shortfall through the following mix of balanced solutions:

Governor's Budget 2024-25 Solutions

Category	Amount
Reserves	$13.1 billion
Reductions	$8.5 billion
Revenue/Borrowing	$5.7 billion
Delays	$5.1 billion
Fund Shifts	$3.4 billion
Deferrals	$2.1 billion
Total	**$37.9 billion**

As mentioned above, the early action budget package addressed $17.3 billion of the budget problem. Accounting for the increased budget problem of $7 billion and erosions of Governor's Budget solutions of $1.2 billion, the May Revision includes $8.2 billion of additional solutions. The following is a breakdown of solutions by category that net to address the $8.2 billion incremental increase in the 2024-25 fiscal year budget problem at the May Revision.

Additional May Revision 2024-25
Solutions and Adjustments

Category	Amount
Reserves*	- $8.9 billion
Reductions	$10.7 billion
Revenue/Borrowing	$2.0 billion
Delays	$520 million
Fund Shifts	$3.9 billion
Total	**$8.2 billion**

*Reflects the spreading of the proposed BSA withdrawal in the Governor's Budget of $12.2 billion over two fiscal years: $3.3 billion in 2024-25 and $8.9 billion in 2025-26.

The May Revision also ensures that there is a positive operating reserve in the 2025-26 fiscal year. The solutions to address the 2025-26 fiscal year budget problem total $28.4 billion and are listed by category below:

May Revision 2025-26
Solutions and Adjustments

Category	Amount
Reserves	$8.9 billion
Reductions	$14.6 billion
Revenue/Borrowing	$7.4 billion
Pauses/Delays*	-$1.1 billion
Fund Shifts	$743 million
Deferrals*	- $2.1 billion
Total	**$28.4 billion**

*Reflects delays and deferrals proposed in the Governor's Budget.

Some of the new solutions at the May Revision are:

- **Reductions.** The May Revision reduces funding for various items in addition to the reductions made in the Governor's Budget. Significant solutions in this category include:
    - **Middle Class Scholarship Program**—Reduce $510 million ongoing General Fund 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**—Pull back a planned 2025-26 General Fund 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.
    - **Children and Youth Behavioral Health Initiative**—A reduction of one-time $72.3 million General Fund in 2023-24, $348.6 million General Fund in 2024-25, and $5 million General Fund 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.
    - **California Department of Corrections and Rehabilitation Housing Unit Deactivations**—An ongoing reduction of $80.6 million General Fund to reflect the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.
    - **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 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.
- **Revenue/Internal Borrowing.** The May Revision includes additional and adjusted support from revenue sources and borrows internally from special funds. Significant solutions in this category include:
    - **Net Operating Loss (NOL) Suspension and Limit Credit to $5 Million**—The Governor's Budget NOL suspension proposal is modified to begin in 2025-26 and include an opportunity to trigger the suspension off if revenues improve, resulting

in $900 million revenue gain ($558 million net of Proposition 98) in 2024-25 and $5.5 billion ($3.4 billion net of Proposition 98) in 2025-26.

- **Additional Managed Care Organization (MCO) Tax (Medicare Revenue)**—Increase the MCO Tax to achieve additional net state benefit of $689.9 million in 2024-25, $950 million in 2025-26, and $1.3 billion in 2026-27 by including health plan Medicare revenue in the total revenue limit calculation, which increases the allowable size of the tax.

- **Delays and Pauses.** The May Revision minimizes the use of delays to avoid both increased future obligations and potential shortfalls, and some delays proposed in the Governor's Budget have been changed to reductions. There are limited exceptions in which funding is spread over a multiyear period. These include:
  - **Broadband Last Mile**—Delay $200 million from 2025-26 to 2027-28.
  - **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.
- **Fund Shifts.** The May Revision shifts certain expenditures from the General Fund to other funds in addition to those shifted in the Governor's Budget. Significant solutions in this category include:
  - **Capitol Annex Projects**—Shift $450 million in 2024-25 and $250 million in 2025-26 from cash to bonds.
  - **Cap and Trade Fund Shifts**—A number of General Fund commitments are shifted into the Greenhouse Gas Reduction Fund, with a focus on equity programs, priorities to help meet climate goals, and programs that support greenhouse gas reductions for a total shift of $1.7 billion in 2024-25.

2022 TRIGGER

The 2022 Budget Act included a trigger that anticipated expenditures for certain programs would be included in the 2024 Budget Act if the Department of Finance first determined that estimated General Fund resources reflected in the 2024 May Revision could support such ongoing increases over the multiyear forecast. Given the negative multiyear projections, the following investments that were part of this trigger are not included in the May Revision:

- Union Membership Dues Tax Credit
- Medi-Cal Share of Cost Reform
- Continuous Medi-Cal Coverage for Children Aged 0 through 4
- Child Support Pass-Through to Currently Assisted CalWORKs Families
- California State Student Aid Commission – Cal Grant Reform Act
- California Community College Cal Grant Expansion Program
- Victim Compensation Program

PRIOR BUDGET SAFEGUARDS WORKING AS PLANNED

The May Revision fortifies California's fiscal foundation by more closely aligning projected expenditures with the state's revenue forecast. While difficult reductions and pullbacks of funding are required to accomplish this, they are proposed in a manner intended to protect nearly all of the state's core programs and services.

Specifically, the May Revision relies upon the following budget resiliency measures and other tools to provide for a balanced budget in 2024-25 and 2025-26:

- **Budget Stabilization Account**—Prudent use of the BSA to stabilize the budget during a period of revenue decline.
- **Reductions of One-time Spending**—While the budget shortfall necessitates some ongoing solutions, the May Revision maximizes the pullback of one-time spending, which prevents far deeper reductions to ongoing programs.
- **Trigger Mechanism**—By including a trigger mechanism in the 2022 Budget Act instead of automatic spending increases on new programs, state expenditures did not grow further in the 2024-25 fiscal year and beyond.

Difficult decisions regarding spending reductions are necessary to create a path for long-term fiscal sustainability. Making these decisions now will significantly reduce the risk of more difficult decisions in the months and years ahead that could have substantial effects on core state programs and services.

SAVING MORE DURING FUTURE UPWARD SWINGS IN REVENUE

As the Governor's Budget stated in January, the Administration and the Legislature should explore legislation to allow the state to save more during economic upswings, enhancing the state's ability to protect vital programs and services during future budget downturns. This includes amendments to Proposition 2 (2014) to allow increased deposits into the BSA.

The May Revision proposes additional legislation that would require the state to set aside a portion of anticipated surplus funds to be allocated in a subsequent budget act. This will ensure that the state does not commit certain amounts of future anticipated revenues until such revenues have been realized. This proposal does not replace the need to explore changes to Proposition 2; rather, it provides an additional tool to manage future revenue volatility.

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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.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2024-25 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2023-24	2024-25
Prior Year Balance	$46,260	$9,726
Revenues and Transfers	$189,354	$205,249
Total Resources Available	**$235,614**	**$214,975**
Non-Proposition 98 Expenditures	$153,450	$124,368
Proposition 98 Expenditures	$72,438	$76,606
Total Expenditures	**$225,888**	**$200,974**
Fund Balance	**$9,726**	**$14,001**
Reserve for Liquidation of Encumbrances	$10,569	$10,569
Special Fund for Economic Uncertainties	-$843	$3,432
Public School System Stabilization Account	**$2,590**	**-**
Safety Net Reserve	**$900**	**-**
Budget Stabilization Account/Rainy Day Fund	**$22,555**	**$19,429**

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

(Dollars in Millions)

	2023-24	2024-25	Change from 2023-24 Dollar Change	Change from 2023-24 Percent Change
Legislative, Judicial, Executive	$12,704	$7,582	-$5,122	-40.3%
Business, Consumer Services & Housing	2,868	631	-2,237	-78.0%
Transportation	1,041	554	-487	-46.8%
Natural Resources	11,686	5,410	-6,276	-53.7%
Environmental Protection	2,333	624	-1,709	-73.3%
Health and Human Services	73,622	70,194	-3,428	-4.7%
Corrections and Rehabilitation	15,312	14,174	-1,138	-7.4%
K-12 Education	73,739	76,323	2,584	3.5%
Higher Education	21,635	21,830	195	0.9%
Labor and Workforce Development	1,248	844	-404	-32.4%
Government Operations	4,770	2,540	-2,230	-46.8%
General Government:				
Non-Agency Departments	2,770	1,355	-1,415	-51.1%
Tax Relief/Local Government	595	579	-16	-2.7%
Statewide Expenditures	1,565	-1,666	-3,231	-206.5%
Total	**$225,888**	**$200,974**	**-$24,914**	**-11.0%**

Note: Numbers may not add due to rounding.

2024-25 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$7,582	$5,168	$262	$13,012
Business, Consumer Services & Housing	631	1,341	538	2,510
Transportation	554	16,665	86	17,305
Natural Resources	5,410	3,040	516	8,967
Environmental Protection	624	4,723	11	5,358
Health and Human Services	70,194	40,452	10	110,657
Corrections and Rehabilitation	14,174	4,001	-	18,175
K-12 Education	76,323	123	16	76,462
Higher Education	21,830	109	599	22,538
Labor and Workforce Development	844	1,163	-	2,007
Government Operations	2,540	406	-	2,946
General Government:				
Non-Agency Departments	1,355	1,989	2	3,346
Tax Relief/Local Government	579	3,626	-	4,205
Statewide Expenditures	-1,666	2,333	3	670
Total	**$200,974**	**$85,140**	**$2,043**	**$288,157**

Note: Numbers may not add due to rounding.

General Fund Revenue Sources
(Dollars in Millions)

	2023-24	2024-25	Change from 2023-24 Dollar Change	Change from 2023-24 Percent Change
Personal Income Tax	$111,203	$116,304	$5,101	4.6%
Sales and Use Tax	33,320	34,045	725	2.2%
Corporation Tax	33,282	37,759	4,477	13.5%
Insurance Tax	3,905	4,016	111	2.8%
Alcoholic Beverage Taxes and Fees	417	422	5	1.2%
Cigarette Tax	43	41	-2	-4.7%
Motor Vehicle Fees	46	46	0	0.0%
Other	7,985	9,490	1,505	18.8%
Subtotal	**$190,201**	**$202,123**	**$11,922**	**6.3%**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-847	3,126	3,973	469.1%
Total	**$189,354**	**$205,249**	**$15,895**	**8.4%**

Note: Numbers may not add due to rounding.

2024-25 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2023-24
Personal Income Tax	$116,304	$2,923	$119,227	$5,404
Sales and Use Tax	34,045	15,665	49,710	989
Corporation Tax	37,759	-	37,759	4,477
Highway Users Taxes	-	9,475	9,475	159
Insurance Tax	4,016	-	4,016	111
Alcoholic Beverage Taxes and Fees	422	-	422	5
Cigarette Tax	41	1,390	1,431	-42
Motor Vehicle Fees	46	12,432	12,478	448
Other	9,490	34,748	44,238	-2,903
Subtotal	**$202,123**	**$76,633**	**$278,756**	**$8,648**
Transfer to the Budget Stabilization Account/Rainy Day Fund	3,126	-3,126	-	-
Total	**$205,249**	**$73,507**	**$278,756**	**$8,648**

Note: Numbers may not add due to rounding.

ECONOMIC OUTLOOK

The first months of 2024 have continued the trend of steady but slowing economic growth, notwithstanding stubborn inflation and elevated interest rates. U.S. real gross domestic product (GDP) grew at an annualized rate of 1.6 percent in the first quarter of 2024 following six consecutive quarters of higher than 2-percent growth, buoyed by strong personal consumption. With a relatively strong and stable economy, the May Revision forecast projects U.S. GDP to grow at a steady but slowing rate from mid-2024 into early 2025 amid still-tight financial conditions driving lower levels of consumption. Credit conditions are projected to ease starting in mid-2024 with loosening monetary policy as the Federal Reserve cuts target interest rates. U.S. GDP is then projected to grow at steady-state rates between 1.5 and 1.9 percent starting in mid-2025 through the end of the forecast window in 2027.

While both U.S. and California inflation have slowed from their respective June 2022 peaks, U.S. inflation experienced a recent uptick to 3.5 percent year-over-year growth in March 2024 while California inflation stood at 3.3 percent in February 2024 (the latest data available), driven mainly by lagged shelter inflation. At the time the May Revision forecast was finalized, the Federal Reserve was widely expected to start cutting rates by June 2024. However, expectations have since shifted, and the Federal Reserve may instead hold rates steady until later in 2024 or even raise rates if inflation remains persistently elevated above the target 2-percent rate.

The biggest near-term threat to the forecast continues to be the likelihood that interest rates will stay higher for longer, especially if inflation does not resume its deceleration. The current high interest rates could curtail interest-sensitive consumer spending and business investment which would hamper economic activity more than projected. Moreover, if interest rates stay higher for longer, businesses and consumers' sanguine economic outlooks could falter, and increased concerns of a near-term recession could resurface.

LABOR MARKET UPDATES SINCE THE GOVERNOR'S BUDGET

The May Revision forecast incorporates the March 2024 benchmark revisions from the U.S. Bureau of Labor Statistics (BLS) and the California Employment Development Department (EDD). The annual benchmark revisions indicated October 2022 was an inflection point where the strong job recovery from the COVID-19 Pandemic was followed by stagnation, especially in the sectors that drove the recovery. As a result, nonfarm payroll employment in the state was 231,800 lower than the pre-benchmarked estimates as of December 2023. Even with the revisions, as of March 2024, California nonfarm jobs were 1.8 percent (319,200 jobs) above the February 2020 level, with six of the eleven major sectors having surpassed their respective pre-pandemic levels. The number of nonfarm jobs added in recent months suggests California payroll employment growth in the last eight months has been in line with the nation, and appears to be rebounding from essentially flat growth in prior months.

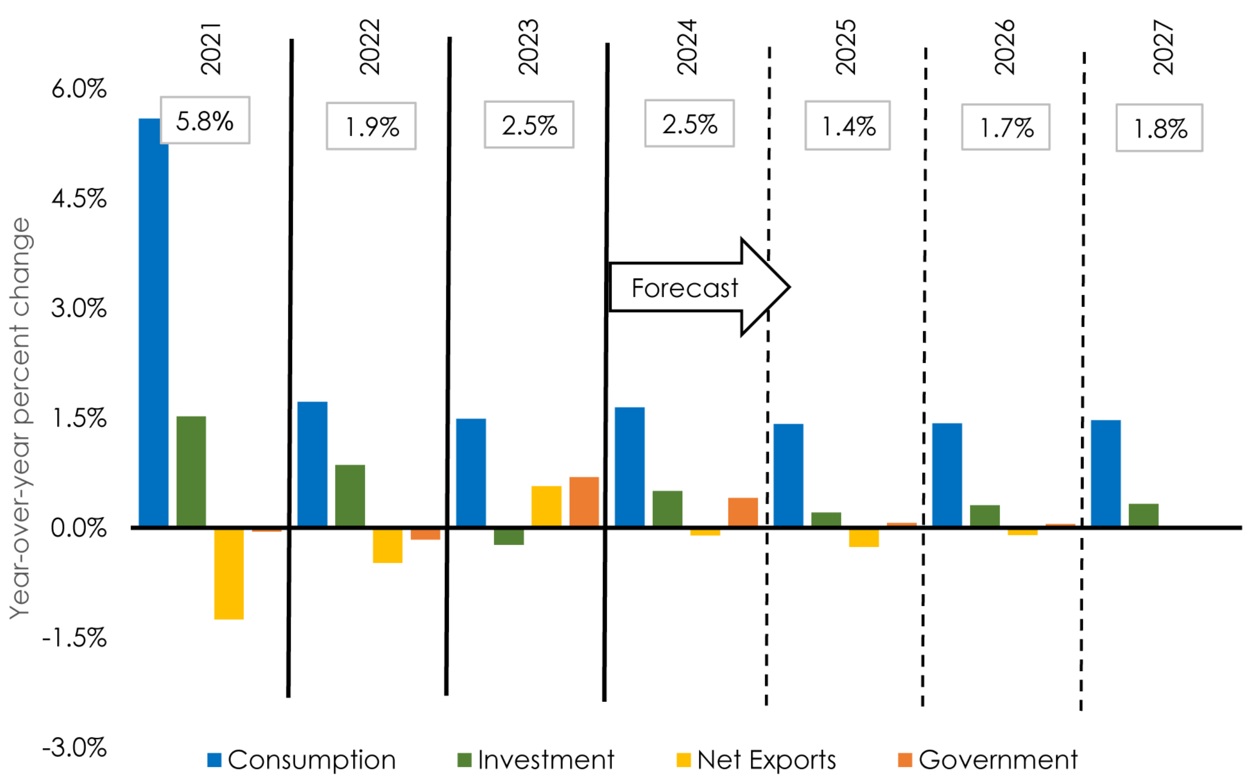
Unlike the swift nonfarm job recovery, the state's labor force has not yet recovered to its pre-pandemic level as of March 2024. Nevertheless, the labor force grew steadily in 2023, growing by 0.7 percent, slightly lower than the Governor's Budget projection of 0.9 percent but still higher than the 2019 pre-pandemic growth of 0.5 percent. Despite relatively healthy labor force growth, only 76 percent of the just over 1 million people that left the workforce at the beginning of the COVID-19 Pandemic have returned. While at lower levels, California's labor force participation rate has also continued its recovery, driven primarily by participation amongst prime-age workers (those between the ages of 25 to 54) which surpassed its pre-pandemic rate in September 2022 and remained 0.7 percentage point higher than its February 2020 level, further emphasizing the state's slow but ongoing labor force recovery.

As of March 2024, California's unemployment rate had risen 1.5 percentage points to 5.3 percent since falling to a record-low rate of 3.8 percent in August 2022. In comparison, the nation's unemployment rate fell to a historical low of 3.4 percent more recently in January and April 2023 and has since increased to 3.8 percent as of March 2024. California's civilian employment growth has been essentially flat since the second half of 2022 while the U.S. has remained relatively healthy, resulting in the state's unemployment rate rising faster than the nation. However, while California's unemployment has risen by about 300,000 since August 2022, more than 75 percent of this increase can be attributed to labor force growth as opposed to reduced civilian employment. In other words, the increase in the unemployment rate is more attributable to those entering or re-entering the labor force to look for work rather than to employers laying off workers.

THE ECONOMIC OUTLOOK THROUGH 2027: SLOWING BUT STEADY GDP GROWTH

As with the Governor's Budget forecast, economic growth is projected to continue in the May Revision forecast, driven by strong but slowing personal consumption. Growth is projected to moderate into 2025 due to the impacts of restrictive monetary policy and then return to around 1.9 percent by 2027 in line with steady-state growth trends after the widely expected rate cuts from the Federal Reserve.

Contributions to U.S. Real GDP Growth

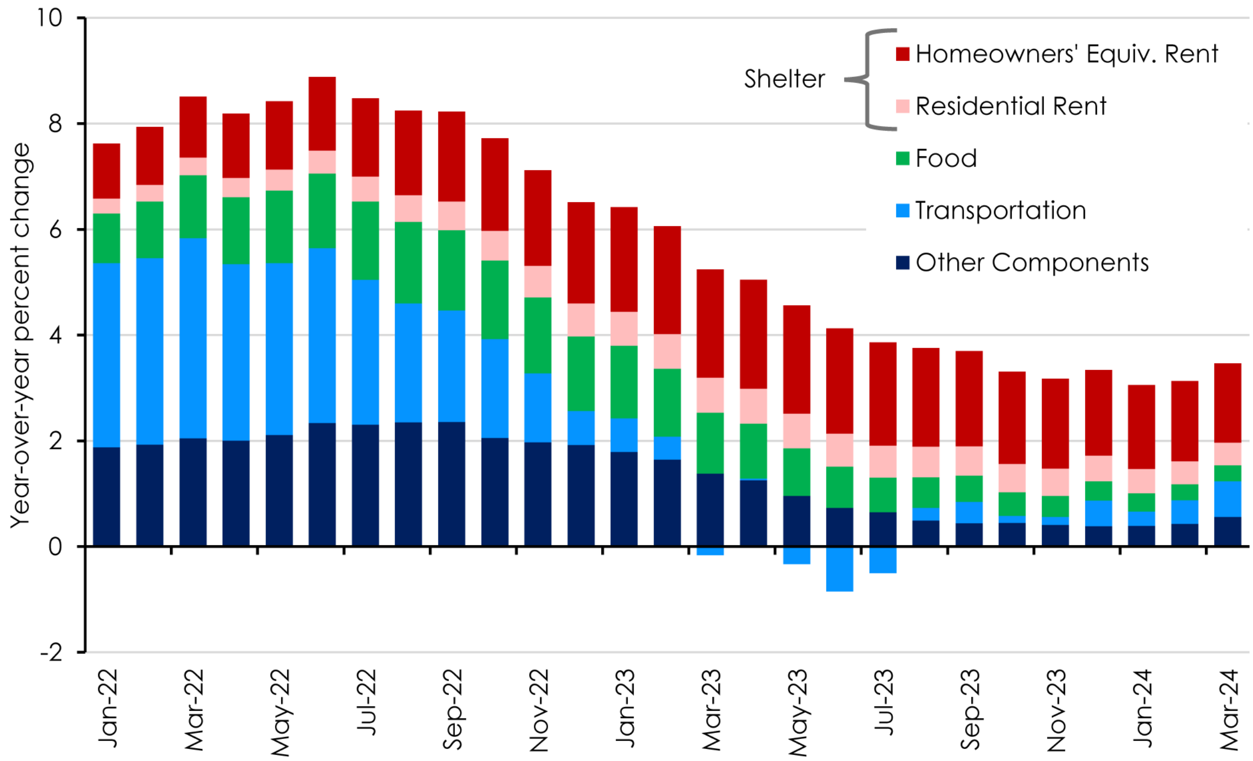


Sources: U.S. Bureau of Economic Analysis; California Department of Finance, 2024-25 May Revision Forecast.

STUBBORN INFLATION SLOW TO COOL

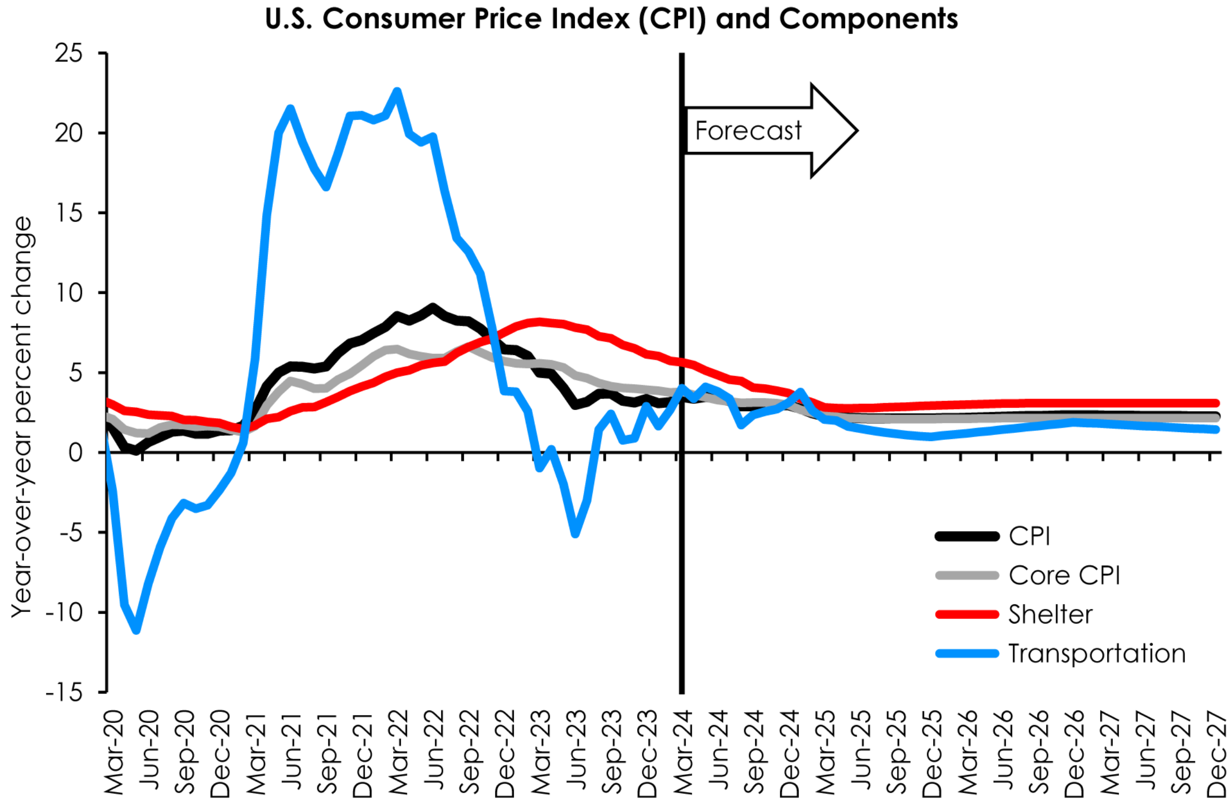
Inflation slowed sharply from its peak of 9.1 percent for the U.S. and 8.3 percent for California in June 2022 but has since hovered above 3 percent for both, more than a full percentage point higher than the Federal Reserve's target rate of 2 percent. Shelter inflation, the largest component of services, generally lags other components and has declined slower than projected. It peaked at 8.2 percent in March 2023 in the U.S. and stood at 5.7 percent in March 2024. The slower decline in shelter prices has kept overall inflation for the U.S. and California elevated.

Contribution to U.S. Consumer Price Index



Sources: U.S. Bureau of Labor Statistics; California Department of Finance, 2024-2025 May Revision Forecast.

The May Revision forecast projects U.S. headline inflation will continue to moderate as the Federal Reserve maintains its tight monetary policy stance through the middle of 2024. Shelter inflation is still projected to decelerate but at a slower rate than in the Governor's Budget forecast. Inflation is projected to then slow to historical rates of between 2 and just below 3 percent for both the nation and the state by early 2025.



Sources: U.S. Bureau of Labor Statistics; California Department of Finance, 2024-25 May Revision Forecast.
Core CPI excludes food and energy.

JOB GROWTH TO RETURN TO STEADY-STATE

California's nonfarm payroll job growth is projected to slow from late 2024 into the second half of 2025, a one-quarter lag from the projected slowdown in U.S. real GDP growth. Given the typical lag between economic activity and employment growth, the May Revision forecast projects job growth to be slowest in the second half of 2025, a slightly delayed time frame from the Governor's Budget forecast. This is due mainly to the robust U.S. real GDP growth in 2023, and relatively healthy nonfarm employment growth in the first few months of 2024. California-based firms will likely continue to attract their historical share of nationwide venture capital investment which is generally expected to fuel job growth in nascent industries. However, due to some lingering layoffs and the current high interest rate environment, the technology sector, which includes some of the most highly compensated workers in the state, is projected to add fewer jobs in 2024 than it did in 2023. As economic activity rebounds with looser monetary policy, the state's nonfarm payroll employment is projected to return to a steady-state average growth rate of 0.7 percent in 2026 and 2027.

California's labor force growth is projected to continue albeit at a slowing rate as it approaches its pre-pandemic level. Due to lower-than-expected actuals in 2023 and downward benchmark revisions, labor force growth projections through the forecast window (2024 to 2027) have been revised slightly lower than the Governor's Budget. California's labor force is projected to grow by 0.5 percent in 2024 before slowing to 0.3 percent growth by 2027, in line with the state's population projections, particularly amongst working-age individuals (those between the ages of 16 to 64) whose numbers are projected to decline through the forecast window. California's unemployment rate is projected to remain at 5.3 percent through the first half of 2025 as tight financial conditions continue to soften the labor market before moderating as credit conditions ease. See the Economic Indicators figure at the end of this chapter.

WAGE GROWTH TO CONTINUE AT A MODERATE PACE

California average wage growth contracted by 0.7 percent in 2022 and then recovered to 4.3 percent in 2023, due largely to higher levels of various irregular payments such as bonuses and options as stock prices saw renewed strength in 2023. These payments account for a disproportionate share of high-wage earners' pay and as they fluctuate, state revenues can also be affected. The information sector, with some of the highest earners in the state, in particular saw very strong average wage growth even with a decline in employment.

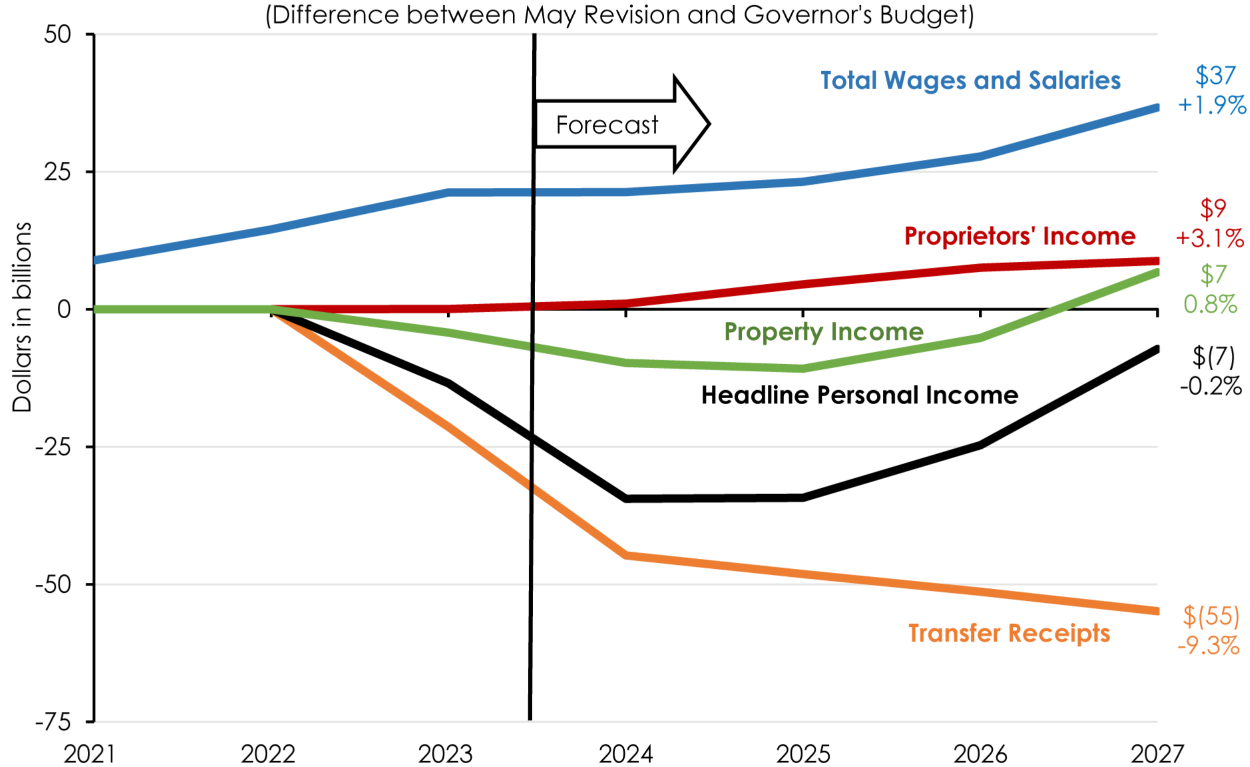
California annual average wage growth for all sectors is projected to remain close to its 2023 (and pre-pandemic) pace with growth rates of 3.5 to 3.9 percent over the forecast window. Wages in the high-paying information sector are projected to grow at their historical average annualized rate of 6 percent over the forecast window after crashing in 2022 and recovering strongly in 2023.

PERSONAL INCOME GROWTH DRIVEN BY STRONGER WAGE GROWTH

The May Revision forecast incorporates two additional quarters of personal income data through the fourth quarter of 2023 and also includes revisions to historical data. California personal income growth was slightly slower in the second half of 2023 than projected in the Governor's Budget. The downward revision to the 2023 estimate was driven by a notably lower level of Medicare transfers than estimated in the second quarter of 2023, pushing down the level of personal income growth.

The downgrade in transfers more than offset the upward revision of total wages and salaries which generally drives headline growth. Historical total wages and salaries were revised up, including $21 billion in 2023. The components of property income, which is the sum of interest, rental, and dividend income, saw minor revisions to actuals. The May Revision forecast projects interest income will have a more pronounced lagged effect compared to the Governor's Budget forecast as interest income has not been as high as previously projected even though interest rates remain high. Rental income, which tends to be driven by shelter inflation trends, remained elevated and is now projected to peak at 7.3 percent in 2025 and slow to 4.9 percent in 2027 as rental prices begin to ease. Dividend income saw a minor upward revision in 2023 and has been upgraded relative to the Governor's Budget with the assumption that the stock market continues to perform well based on its strength to date.

Personal Income Components
(Difference between May Revision and Governor's Budget)



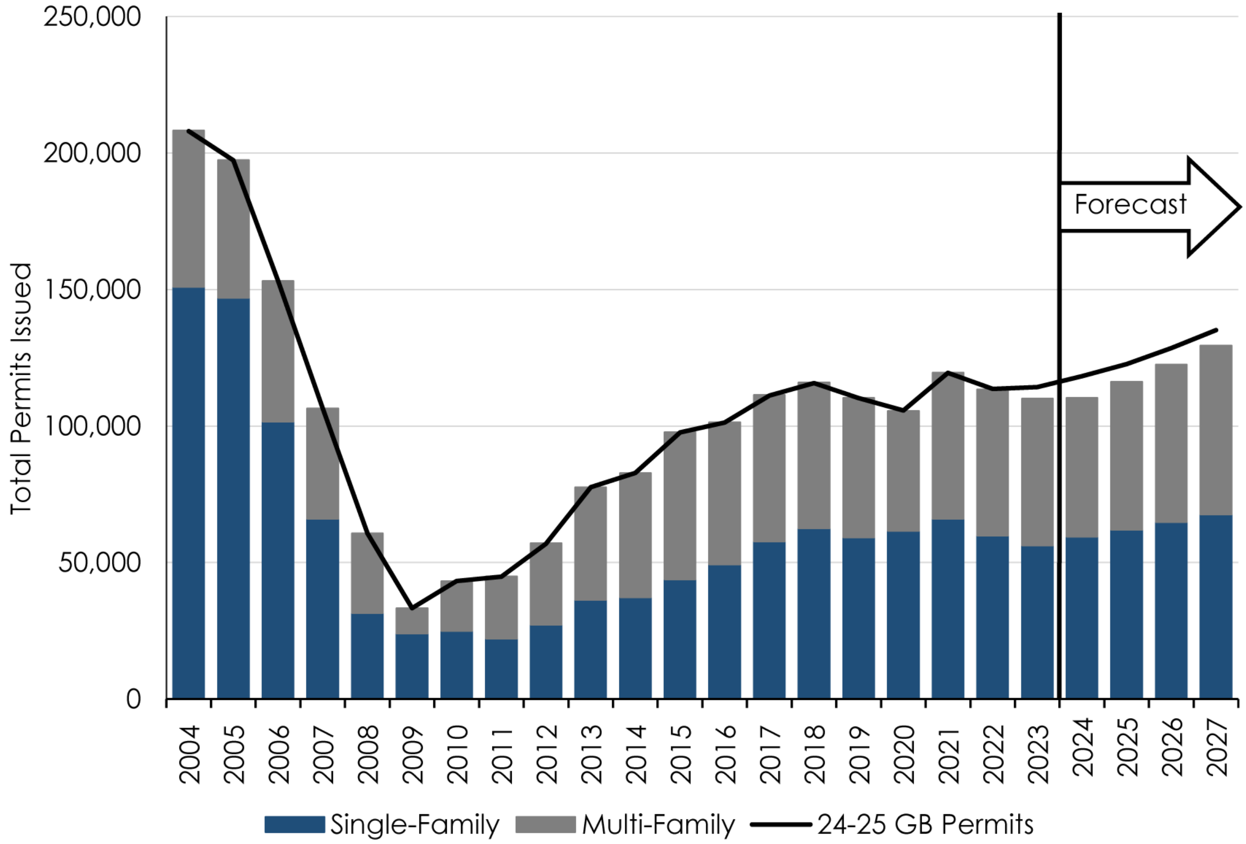
Note: Changes to projections reflect revisions to historical data.
Sources: U.S. Bureau of Economic Analysis; California Department of Finance, 2024-25 May Revision Forecast.

Headline personal income growth is projected to average 4.9 percent annually throughout the forecast window. Total wages and salaries are projected to continue growing, averaging 4.5 percent through the forecast window, likely boosting personal income tax revenues. As interest rates begin to ease in 2025, the majority of the personal income components are projected to revert to their historical growth trends by the end of the forecast window in 2027.

PERMITS PROJECTED TO SEE SLOW GROWTH IN 2024

California's residential construction sector continues to be constrained by high interest rates. In 2023, residential permits declined from 2022, falling by 2.9 percent to around 110,000 permitted units. The May Revision forecast projects slow permit growth in 2024, with total units growing about 0.3 percent from 2023 as high interest rates slow the demand for housing and make building inputs and construction loans more expensive. Single-family units, which declined in 2022 and 2023, are projected to rebound in 2024, but multifamily units are estimated to contract by 5.5 percent, the largest annual decline since 2020. Residential permits are then projected to begin growing at a faster pace in the second half of 2024 through 2027 as the Federal Reserve decreases interest rates, making construction inputs more affordable and boosting production.

Number of California Permits Issued Per Year



Sources: U.S. Census Bureau; California Department of Finance, 2024-25 May Revision Forecast.

IMMEDIATE RISKS TO THE MAY REVISION ECONOMIC FORECAST

Immediate risks to the forecast remain driven by persistent inflation and elevated interest rates. If inflation is slow to return to the Federal Reserve's target rate of 2 percent, the Federal Reserve could maintain high target rates which would result in additional drag on interest-sensitive spending. The current high interest rate environment could hamper economic activity by more than projected, especially given more cautious lending practices and if consumers curtail discretionary spending. Escalating geopolitical conflicts would likely increase economic uncertainties for the U.S. and California, even with a potential boost from increased defense spending.

The Department of Finance has not modeled a recession scenario. However, if inflation takes longer to cool and interest rates remain high for longer than projected in the May Revision baseline forecast, continued tight credit conditions could further discourage economic activity. This could deepen the expected economic slowdown and push the economy into a mild recession with steeper declines in investment and interest-sensitive consumption. GDP and nonfarm payroll employment would likely contract, and the unemployment rate would increase even further. This would then result in lower personal income growth due to lower total wages, negatively impacting state revenues.

Other geopolitical risks also remain, including an escalation of tensions between China and Taiwan. Long-term structural downside risks to the state economy and budget continue, including climate change and more frequent extreme weather events such as wildfires, drought, and floods, the challenges of an aging cohort that is becoming an increasingly larger share of the total population, declining migration inflows, lower fertility rates, ongoing stock market volatility, high housing and living costs, and potentially worsening income inequality.

Economic Indicators

Annual Percentage Change unless Otherwise Indicated

	2019	2020	2021	2022	2023	Forecast 2024	2025	2026	2027
United States									
Real GDP									
May Revision, April 2024	**2.5%**	**-2.2%**	**5.8%**	**1.9%**	***2.5%***	***2.5%***	***1.4%***	***1.7%***	***1.8%***
Governor's Budget, November 2023	2.5%	-2.2%	5.8%	1.9%	*2.5%*	*1.6%*	*1.2%*	*1.6%*	*1.8%*
Unemployment Rate (percent)									
May Revision, April 2024	**3.7%**	**8.1%**	**5.4%**	**3.6%**	***3.6%***	***3.9%***	***4.2%***	***4.5%***	***4.5%***
Governor's Budget, November 2023	3.7%	8.1%	5.4%	3.6%	*3.6%*	*3.8%*	*4.4%*	*4.7%*	*4.6%*
Nonfarm Employment									
May Revision, April 2024	**1.3%**	**-5.8%**	**2.9%**	**4.3%**	***2.3%***	***1.4%***	***0.1%***	***0.0%***	***0.3%***
Governor's Budget, November 2023	1.3%	-5.8%	2.9%	4.3%	*2.4%*	*0.7%*	*-0.3%*	*0.0%*	*0.4%*
Personal Income									
May Revision, April 2024	**4.7%**	**6.9%**	**9.1%**	**2.0%**	***5.2%***	***5.0%***	***5.2%***	***5.0%***	***4.8%***
Governor's Budget, November 2023	4.7%	6.9%	9.7%	2.0%	*5.3%*	*5.0%*	*4.8%*	*4.4%*	*4.5%*
CPI Inflation Rate (percent)									
May Revision, April 2024	**1.8%**	**1.2%**	**4.7%**	**8.0%**	***4.1%***	***3.1%***	***2.2%***	***2.2%***	***2.3%***
Governor's Budget, November 2023	1.8%	1.2%	4.7%	8.0%	*4.2%*	*2.6%*	*2.0%*	*2.1%*	*2.2%*
California									
Unemployment Rate (percent)									
May Revision, April 2024	**4.1%**	**10.2%**	**7.3%**	**4.3%**	***4.7%***	***5.2%***	***5.3%***	***5.1%***	***4.9%***
Governor's Budget, November 2023	4.1%	10.2%	7.3%	4.2%	*4.6%*	*5.1%*	*5.2%*	*5.0%*	*4.8%*
Civilian Labor Force									
May Revision, April 2024	**0.5%**	**-2.2%**	**0.0%**	**1.1%**	***0.7%***	***0.5%***	***0.4%***	***0.3%***	***0.3%***
Governor's Budget, November 2023	0.7%	-2.3%	0.1%	1.4%	*0.9%*	*0.8%*	*0.6%*	*0.5%*	*0.5%*
Nonfarm Employment									
May Revision, April 2024	**1.5%**	**-7.1%**	**3.5%**	**5.5%**	***0.9%***	***1.0%***	***0.4%***	***0.6%***	***0.8%***
Governor's Budget, November 2023	1.5%	-7.1%	3.5%	5.6%	*2.2%*	*1.0%*	*0.4%*	*0.5%*	*0.6%*
Residential Permits (thousands of units)									
May Revision, April 2024	**110**	**105**	**120**	**113**	***110***	***110***	***116***	***122***	***129***
Governor's Budget, November 2023	110	106	120	114	*114*	*118*	*123*	*129*	*135*
Average Wages									
May Revision, April 2024	**4.4%**	**11.2%**	**7.7%**	**-0.7%**	***4.3%***	***3.5%***	***3.8%***	***3.8%***	***3.9%***
Governor's Budget, November 2023	4.4%	11.3%	7.7%	-1.0%	*2.7%*	*3.4%*	*3.8%*	*3.7%*	*3.7%*
Personal Income									
May Revision, April 2024	**5.3%**	**9.0%**	**8.9%**	**-0.2%**	***4.2%***	***4.6%***	***5.0%***	***5.0%***	***5.0%***
Governor's Budget, November 2023	5.3%	9.0%	8.9%	-0.2%	*4.7%*	*5.2%*	*5.0%*	*4.7%*	*4.5%*
CPI Inflation Rate (percent)									
May Revision, April 2024	**4.2%**	**1.7%**	**4.3%**	**7.4%**	***3.9%***	***3.3%***	***2.7%***	***2.7%***	***2.7%***
Governor's Budget, November 2023	3.0%	1.7%	4.3%	7.4%	*3.8%*	*3.0%*	*2.4%*	*2.6%*	*2.7%*

2024-25 May Revision Forecast based on data available as of April 2024.

Governor's Budget Forecast based on data available as of November 2023. Figures in italics indicate forecasts, including 2023 figures for Governor's Budget Forecast.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau; CA Employment Development Department, Labor Market Information Division; California Department of Finance, 2024-25 May Revision Forecast.

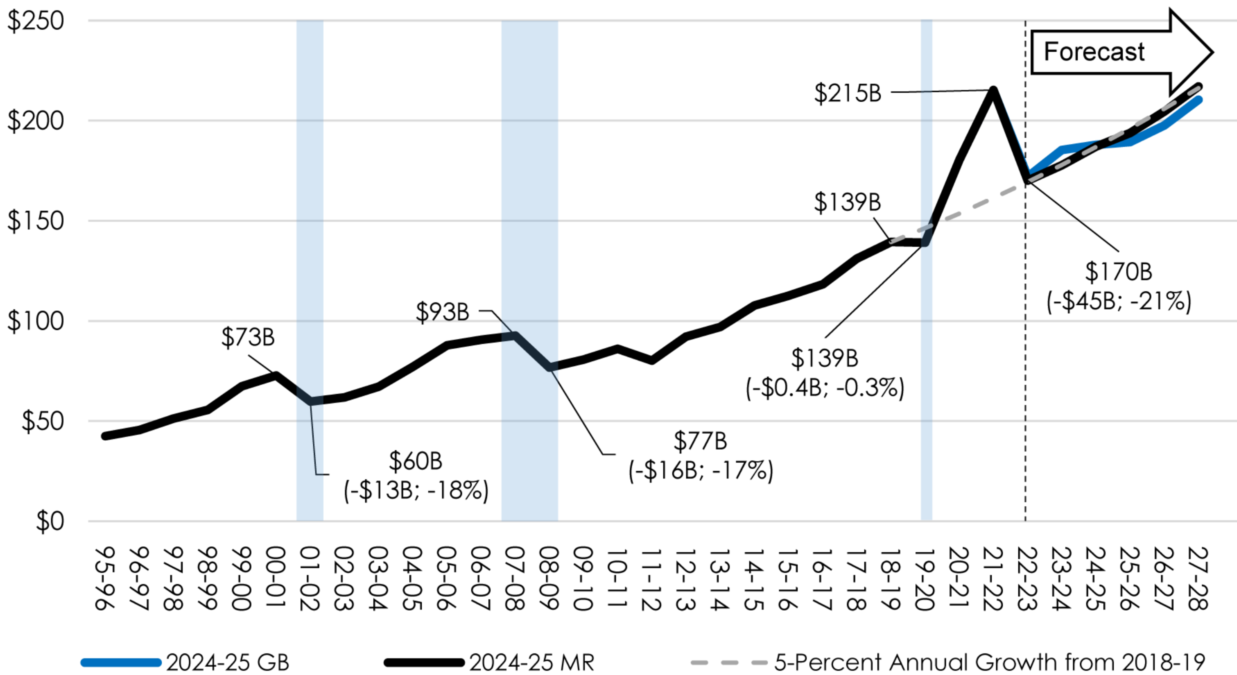
REVENUE ESTIMATES

The California and national economic pictures remain strong and resilient despite persistent inflation and elevated interest rates resulting in a slightly upgraded economic outlook compared to the Governor's Budget. Notably, the stock market has outperformed prior assumptions, exceeding its early 2022 peak in mid-January of 2024 and experiencing robust growth despite recent volatility. Nonetheless, tax receipts related to the 2023 tax year are lower than projected, with General Fund cash receipts falling short of the Governor's Budget forecast by $5.8 billion cumulatively through March, and personal income tax and corporation tax receipts adding around $600 million to the shortfall in April. These two factors, weak cash receipts related to the 2023 tax year and upgraded growth assumptions going forward, have led to downgrades to the revenue forecast in the budget window—fiscal years 2022-23 through 2024-25—followed by upward revisions in the multiyear—fiscal years 2025-26 through 2027-28.

Following the stock market run-up through the end of 2021, asset prices fell in 2022, with the S&P 500 declining by 19 percent and the NASDAQ Composite Index—which measures more than 2,500 stocks concentrated in technology companies, many of which are California-based—declining by 33 percent. As a result, the state's "Big Three" General Fund revenue sources—personal income, sales, and corporation taxes—declined by 21 percent in 2022-23 after increasing by a remarkable 55 percent from 2019-20 to 2021-22. While the stock market rebounded and recovered nearly all its losses by the end of 2023, cash receipts for the year remain weak due likely in part to increased capital loss carryovers from asset market declines in 2022. New tax year 2022 data show capital loss carryovers grew by 62 percent in 2022, exceeding the 58-percent increase in 2008 during the Great Recession.

Despite the year-over-year decrease, 2022-23 Big Three revenues are estimated to be 22 percent higher than pre-pandemic levels in 2018-19, consistent with a normal 5-percent revenue growth trajectory absent the COVID-19 surge and subsequent correction. In the forecast window, the Big Three revenues are generally projected to grow at normal historical growth rates on average as illustrated in the Big Three Revenues figure.

Big Three Revenues
(Dollars in Billions)



Projected revenue figures exclude the impact of tax policy proposals and solutions.
Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 May Revision Forecast.

BUDGET WINDOW

Before accounting for budget solutions and tax policy proposals, General Fund revenue is projected to be approximately $11.6 billion lower than assumed in the Governor's Budget over the budget window. While there are various changes as summarized in the 2024-25 May Revision General Fund Revenue Forecast Reconciliation with the 2024-25 Governor's Budget figure, this downgrade is driven largely by the Big Three as detailed below.

2024-25 May Revision
General Fund Revenue Forecast
Reconciliation with the 2024-25 Governor's Budget
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget	
Fiscal 2022-23 (Preliminary)				
Personal Income Tax	$101,749	$100,451	-$1,298	-1.3%
Corporation Tax	37,140	36,337	-803	-2.2%
Sales & Use Tax	33,186	33,324	137	0.4%
Insurance Tax	3,690	3,707	17	0.5%
Alcoholic Beverage	421	421	0	0.0%
Pooled Money Interest	2,391	2,391	0	0.0%
Cigarette	47	47	0	0.0%
Not Otherwise Classified Revenues	2,520	2,537	17	0.7%
Subtotal	$181,144	$179,214	-$1,930	-1.1%
Transfer To/From BSA	0	0	0	n/a
Other Transfers and Loans	-728	-670	57	-7.9%
Total	**$180,416**	**$178,544**	**-$1,873**	-1.0%
Fiscal 2023-24				
Personal Income Tax	$113,768	$111,203	-$2,565	-2.3%
Corporation Tax[1/]	36,913	33,182	-3,731	-10.1%
Sales & Use Tax	34,643	33,320	-1,323	-3.8%
Insurance Tax	3,894	3,905	12	0.3%
Alcoholic Beverage	427	417	-10	-2.4%
Pooled Money Interest	3,044	2,817	-227	-7.5%
Cigarette	43	43	-1	-1.2%
Not Otherwise Classified Revenues	3,206	3,512	306	9.5%
Tax Policy Proposals	0	100	100	n/a
Subtotal	$195,938	$188,499	-$7,439	-3.8%
Transfer To/From BSA	-1,424	-847	577	-40.5%
Transfers and Loans Solutions	0	-493	-493	n/a
Other Transfers and Loans	2,345	2,195	-150	-6.4%
Total	**$196,859**	**$189,354**	**-$7,505**	-3.8%
Fiscal 2024-25				
Personal Income Tax[1/]	$114,730	$116,176	$1,447	1.3%
Corporation Tax[1/]	38,055	36,778	-1,277	-3.4%
Sales & Use Tax[1/]	35,123	34,043	-1,080	-3.1%
Insurance Tax	4,021	4,016	-6	-0.1%
Alcoholic Beverage	433	422	-10	-2.4%
Pooled Money Interest	1,791	2,067	276	15.4%
Cigarette	42	41	-1	-1.2%
Not Otherwise Classified Revenues	6,810	4,474	-2,336	-34.3%
Tax Policy Proposals	0	116	116	n/a
Revenue Solutions	402	995	592	147.2%
Subtotal	$201,407	$199,128	-$2,280	-1.1%
Transfer To/From BSA (Solution)	12,201	3,301	-8,900	-72.9%
Non-BSA Transfers and Loans Solutions	2,504	3,904	1,400	55.9%
Other Transfers and Loans	-1,238	-909	329	-26.6%
Total	**$214,699**	**$205,249**	**-$9,450**	-4.4%
Three-Year Total Excluding Solutions and Policy Proposals			**-$11,643**	
Three-Year Total Including Solutions and Policy Proposals			**-$18,828**	

[1/] Excludes the impact of revenue solutions and tax policy proposals.

- **Revenues from the Big Three**, before accounting for budget solutions and tax policy proposals, are projected to be lower by $10.5 billion, due largely to weak cash results since the Governor's Budget. The forecast for personal income tax is revised down by $2.4 billion, corporation tax revenues are lower by $5.8 billion, and the sales tax forecast is downgraded by $2.3 billion.
- **Minor revenues**, such as insurance taxes, alcoholic beverage taxes, cigarette taxes, and interest earned on pooled money, are higher by $49 million largely due to a $48 million upgrade in the pooled money interest forecast as the $22 million upgrade in insurance tax is offset by downgrades in alcoholic beverage and cigarette taxes.
- **Other minor not otherwise classified revenues** are $2 billion lower, due largely to Federal Emergency Management Agency (FEMA) COVID-19 recovery costs reimbursement shifting from 2024-25 to 2025-26.
- **Revenue solutions** are projected to increase General Fund revenues by $995 million in 2024-25, an upgrade of $592 million relative to what was assumed in the Governor's Budget.
- **Transfers and loans solutions**, excluding transfers to the Budget Stabilization Account (BSA), are projected to increase General Fund revenues by $3.4 billion, an upgrade of $908 million relative to what was assumed in the Governor's Budget.
- **BSA transfers** are projected to increase General Fund revenues by $2.5 billion in total, a downgrade of $8.3 billion relative to the Governor's Budget. The May Revision assumes a $3.3 billion withdrawal from the BSA in 2024-25, an $8.9 billion downgrade compared to what was assumed in the Governor's Budget due to that amount shifting to 2025-26.

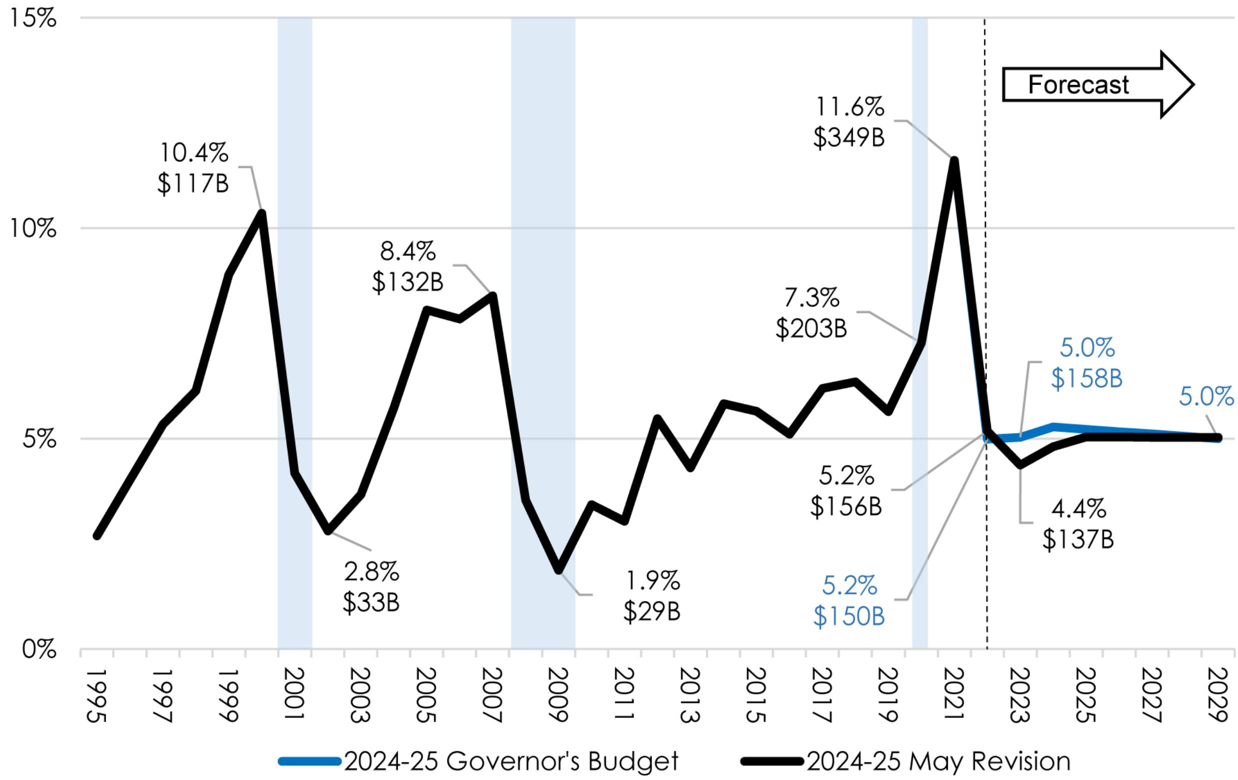
PERSONAL INCOME TAX

Before accounting for budget solutions, the personal income tax forecast is lower by $1.3 billion in 2022-23, lower by $2.6 billion in 2023-24, and higher by $1.4 billion in 2024-25 compared to the Governor's Budget forecast.

Personal income cash receipts are down approximately $3.5 billion from the Governor's Budget through April, due primarily to weak 2023 fourth quarter estimated payments, indicating weakness in 2023 tax liability. Informed by cash results through late April, capital gains realizations are projected to decline from $156 billion in 2022 to $137 billion in 2023—a $21 billion downgrade compared to the Governor's Budget's projection of

$158 billion for 2023. This is a projected 12-percent year-over-year decline in 2023 and follows a 55-percent annual contraction in 2022. In 2023, capital gains realizations' share of personal income is estimated to decline to 4.4 percent, its lowest share since 2013, as illustrated in the Capital Gains Realizations as a Share of Personal Income figure.

Capital Gains Realizations as a Share of Personal Income



Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 May Revision Forecast.

Reflecting gains in equity markets since the Governor's Budget and an upgraded stock market outlook, capital gains realizations are projected to increase by approximately 15 percent in 2024 and by 10 percent in 2025 when the capital gains realizations' share of personal income is projected to reach 5 percent. Capital gains realizations are assumed to largely grow in line with the economy from 2026 on; however, capital gains levels are projected to remain lower than the Governor's Budget projections due to their lower base in 2023.

Several personal income tax components are revised higher in the May Revision forecast due to the improved economic outlook, notably withholding is cumulatively above the Governor's Budget forecast by nearly $950 million through April. Growth in withholding is likely driven in part by higher levels of stock-based compensation for large technology companies. Withholding receipts increased 9.1 percent in the first four months of the year and are projected to grow 6.5 percent in 2024, leading to an upward revision of $1.1 billion in 2023-24 and $1.6 billion in 2024-25.

CORPORATION TAX

Before accounting for budget solutions and tax policy proposals, the corporation tax forecast is lower by $803 million in 2022-23, $3.7 billion in 2023-24, and $1.3 billion in 2024-25.

Corporation tax cash receipts are down $1.9 billion through April, with higher refunds accounting for $1.2 billion of the overall shortfall. Elevated corporation refunds since November are due largely to Pass-Through Entity Elective Tax (PTET) overpayments being significantly higher than assumed in the Governor's Budget, which results in downgrades in future PTET liability and payments. Updated projections for PTET explain $4.5 billion of the overall $5.8 billion budget window downgrade in corporation tax revenues excluding solutions. Conversely, lower projected PTET credit usage boosted personal income tax revenues by $4.3 billion in the budget window.

Part of the fiscal year-to-date cash shortfall is also attributed to 2023 fourth quarter estimated payments in December and final and extension payments in April, indicating weakness in baseline corporation tax revenues, which are assumed to continue to drag down revenues in the near-term. Corporation tax revenues are upgraded in the multiyear due to an improved forecast for taxable profits.

SALES AND USE TAX

Before accounting for budget solutions, the sales tax forecast is $137 million higher in 2022-23, $1.3 billion lower in 2023-24, and $1.1 billion lower in 2023-24.

Sales tax revenues are downgraded starting in 2023-24 due to lower-than-anticipated taxable sales in the second half of 2023, resulting in sales tax cash receipts falling short of projections by $1 billion cumulatively through March. Taxable sales weakness is due likely to taxable goods price growth slowing or even declining and the ongoing shift from goods to services spending. Sales tax revenues are projected to remain lower by approximately $1 billion per year through the end of the multiyear due to the lower base in 2023-24.

RISKS AND UNCERTAINTY

The May Revision revenue forecast is based on a scenario that assumes continued economic growth and does not assume a recession. Continued stock market strength and improved economic growth support the budget forecast assumptions that revenue growth will resume in 2023-24 following the steep correction in 2022-23. However, several risk factors could negatively impact the economy and state revenues going forward. For instance, a significant financial shock from tightening monetary policy, stock market and asset price volatility and declines, and geopolitical turmoil are all issues posing risk to ongoing economic and revenue growth.

Additionally, revenue forecasting is always subject to significant uncertainty, even if the underlying economy and the stock market are performing in line with expectations. This is true particularly in the personal and corporate income tax forecasts, with the reliance on a small group of high-income taxpayers as well as the timing of when assets are sold and when credits, carryover losses, and Net Operating Losses (NOLs) are used. Moreover, the tax liability of these high-income taxpayers tends to be volatile as they earn a larger share of their total income from capital gains and stock-based compensation. To illustrate, for the 2022 tax year, the top one percent of resident income earners, or about 175,000 tax returns, paid around 39 percent of resident personal income taxes—down 11 percentage points from nearly 50 percent in 2021 and its lowest share since 2009.

While the magnitude of potential revenue swings has likely declined, revenues could still end up $15 billion higher or lower in 2024-25 even if the economy and asset markets perform largely in line with expectations.

TAX PROPOSALS

The May Revision includes the following new proposals:

- **Apportionment Factor**—Clarification of existing law that when a corporation receives income that is excluded from taxable business income, it must exclude this income from its apportionment factor. This proposal is projected to increase General Fund revenues by $216 million in the budget window.
- **Low Income Housing Tax Credits**—One-time additional $500 million in state Low Income Housing Tax Credits for 2024-25. This proposal has no revenue impact in the

budget window, but is projected to decrease General Fund revenues by $400 million in the multiyear.

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