

GENERAL GOVERNMENT AND STATEWIDE ISSUES

This chapter describes items in the Governor's Budget that are statewide issues or related to various departments.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) continues to modernize its operations through projects like the Digital eXperience Platform (DXP) project, a comprehensive replacement of DMV's major informational technology (IT) software programs. Projects such as these will improve the overall customer experience when completing DMV transactions in the field office and through alternative service channels.

SIGNIFICANT BUDGET ADJUSTMENT

- **DXP**—The May Revision includes an increase of \$53 million Motor Vehicle Account (MVA) one-time to complete the vehicle registration phase of the DXP project.

MOTOR VEHICLE ACCOUNT

The MVA is the main operating fund for the California Highway Patrol (CHP) and the DMV, providing \$3.1 billion and \$1.4 billion in 2024-25, respectively. It also funds the California State Air Resources Board's (CARB) mobile source program (\$175 million) and

provides smaller amounts of funding for myriad other departments. The Budget currently projects that the MVA will be insolvent as soon as 2026-27.

ADDRESSING THE BUDGET PROBLEM

To continue to maintain fund solvency, and address the projected budget shortfall in the near-term, the May Revision includes:

- **Ongoing Vacancy and Efficiency Reductions**—\$34 million in vacancy and efficiency reductions across the MVA's major users including the CHP, DMV, and CARB as reflected in the Governor's Budget.
- **Special Fund Transfers**—A one-time transfer of \$166 million (\$81 million from the Greenhouse Gas Reduction Fund and \$85 million from the Air Pollution Control Fund) to fund CARB's MVA-related workload as reflected in the Governor's Budget.
- **Delayed Implementation**—Several recently chaptered pieces of legislation are proposed to be delayed until DMV can complete the DXP project that replaces many of its aging IT components, which alleviates some of the fiscal pressure on the MVA in the near-term.

Given the ongoing fiscal constraints in the MVA, the Administration will continue to prioritize fiscal discipline. This means limiting new workload or initiatives including those with delayed implementation dates that would create additional cost pressures over time. By focusing on core operational priorities, the DMV can serve Californians while staying within available MVA resources.

CANNABIS

The state has made efforts to sustain an equitable legal cannabis market through reforming the cannabis tax structure, assisting local governments in transitioning licensees from provisional to annual licenses, and implementing programs such as the High-Road Cannabis Tax Credit, Cannabis Equity Tax Credit, and the Cannabis Equity Retailer Vendor Compensation Program. These changes have reduced financial and administrative barriers, promoted equity within the industry, and bolstered the regulated market's competitiveness.

With the legal market still in its infancy, two of the most critical areas for strengthening it are enforcement against the illicit market and keeping legal business costs low so licensed operators can compete more effectively. To address these priorities, the May

Revision proposes statutory changes that shift the Department of Cannabis Control's illicit enforcement funding from the Cannabis Control Fund to the Cannabis Tax Fund and authorize the department to seal an unlicensed premises when it is involved in illicit commercial cannabis activities. Without the proposed funding shift, the Cannabis Control Fund will be unable to sustain existing enforcement activities without imposing significant fee increases on existing licensees.

The May Revision also includes \$7.1 million between the Cannabis Control Fund and Cannabis Tax Fund in 2025-26, \$4.9 million in 2026-27, and \$6.1 million ongoing beginning in 2027-28 to support additional inspections and other departmental activities by adding 27 staff over the next three years.

UPDATED ALLOCATION OF CANNABIS TAX FUND

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, which is considered Allocation 1. Following this, resources are allocated to research and activities related to the legalization of cannabis and the past effects of its criminalization, which is Allocation 2. Once these priorities have been met, the remaining funds are directed to what are referred to as Allocation 3 programs—youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities.

The May Revision estimates \$454.3 million will be available for Allocation 3 programs in 2025-26 as follows:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent (\$272.5 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$90.9 million)
- **Public safety-related activities**—20 percent (\$90.9 million)

The Board of State and Community Corrections' (BSCC) Proposition 64 Public Health and Safety Grant Program, which is funded through Allocation 3 of the Cannabis Tax Fund, provides grant funds to local governments that assist with law enforcement, fire protection, or other local programming to address public health and safety associated with the implementation of the Control, Regulate and Tax Adult Use of Marijuana Act.

The May Revision includes statutory changes authorizing BSCC to award grants to local governments that prohibit cannabis cultivation if they authorize retail cannabis sales and prioritizes grants for local illicit cannabis enforcement efforts. These changes will expand collaboration with local law enforcement and encourage retail participation to further stabilize the legal market and promote consumer safety.

CREATING THE NEW BUSINESS AND CONSUMER SERVICES AGENCY

The Administration has proposed to establish a new Business and Consumer Services Agency (BCSA) to strengthen the state's ability to protect consumers by providing dedicated leadership and oversight across a wide range of industries. The BCSA will be responsible for regulating over 4 million licensed professionals and businesses.

The May Revision includes \$456,000 in reimbursements in 2025-26 and ongoing for this new agency. Creating this agency will improve regulatory efficiency with a focus on harmonizing standards and best practices for licensing, enforcement, education, and professional conduct across its member departments. A centralized agency will modernize operations by updating systems and processes, making licensing renewals, and other services more efficient for consumers and licensees.

This proposal aligns with the Governor's Reorganization Plan submitted to the Little Hoover Commission on April 4, 2025. See the Housing and Homelessness Chapter for information on the related California Housing and Homelessness Agency proposal.

The agency will include the following entities:

- Department of Alcoholic Beverage Control
- Alcoholic Beverage Control Appeals Board
- Department of Cannabis Control
- Cannabis Control Appeal Panel
- Department of Consumer Affairs
- Department of Financial Protection and Innovation
- California Horse Racing Board
- Department of Real Estate

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The May Revision proposes adjustments to prior investments to assist in closing the projected shortfall, and this requires that employee compensation be part of the budget solution. As such, collective bargaining negotiations will commence or continue with all the state's bargaining units to achieve these savings beginning with the July 2025 pay period. The state will make every attempt to reach these savings through collective bargaining. Additionally, the Administration will include a budget provision to impose reductions if the state cannot reach an agreement with each of the state's bargaining units. The May Revision assumes savings of \$766.7 million (\$283.3 million General Fund) for salaries and wages. However, the May Revision maintains funding for all negotiated 2026 calendar year increases in health care premiums and enrollment for active state employees.

Collective bargaining negotiations are ongoing with seven bargaining units representing Attorneys and Hearing Officers; Correctional Officers; Professional Engineers; Stationary Engineers; Physicians, Dentists, and Podiatrists; Psychiatric Technicians; and Health and Social Services/Professionals, whose contracts or side letter agreements will expire in summer 2025.

STATE RETIREMENT CONTRIBUTIONS

The May Revision includes the following adjustments for retirement contributions:

- State contributions to the California Public Employees' Retirement System (CalPERS) have decreased by a net total of \$103.9 million in 2025-26 relative to the Governor's Budget. The decrease is a result of the integration of CalPERS valuation results as of June 30, 2024, which were not available at Governor's Budget.
- The May Revision estimates \$573 million in one-time Proposition 2 debt repayment funding in 2025-26 to further reduce the unfunded liabilities of the CalPERS state plans.
- State contributions to the State Teachers' Retirement System (CalSTRS) increased by \$7.2 million General Fund in 2025-26, relative to the Governor's Budget, due to a revised creditable compensation report showing increases to the Defined Benefits Program and Supplemental Benefits Maintenance Account.
- Relative to the Governor's Budget, state contributions to the Judges' Retirement System (JRS) II decreased by \$5.4 million General Fund in 2025-26. The contribution

rate decrease is due to the Governor's Budget projection of a larger employer contribution than approved by the CalPERS Board in April 2025.

The State Retirement and Health Care Contributions figure below provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

State Retirement and Health Care Contributions ^{1/ 2/ 3/}

(Dollars in Millions)

	CalPERS	CSU CalPERS	CalSTRS	JRS	JRS II	LRS ^{5/}	Active Health & Dental ^{6/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{7/}
2016-17	\$ 4,754	\$ 621	\$ 2,473	\$ 202	\$ 68	\$ 1	\$ 3,104	\$ 1,623	\$ 272	\$ 342 ^{8/}
2017-18	5,188	661	2,790	199	80	1	3,192	1,695	285	189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	242	91	1	3,371	1,844	326	562
2020-21	4,925	680	3,428 ^{4/}	225	84	1	3,398	1,938	339	600
2021-22	5,363	677	3,862	194	91	1	3,501	2,019	356	1,292 ^{9/}
2022-23	7,475	744	3,712	208	86	1	3,731	2,208	392	735
2023-24	7,728	744	3,939	211	89	0	4,139	2,417	428	711
2024-25	6,251	609	4,257	217	92	0	4,574	2,723	484	663
2025-26 ^{10/}	8,279	731	4,632	181	95	0	5,012	3,030	542	716

^{1/} The chart does not include contributions for the University of California pension or retiree health care costs.

^{2/} The chart does not reflect the following pension payments: \$6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), Chapter 859, Statutes of 2019 (AB 118), Chapter 78, Statutes of 2021 (AB 138), Chapter 67, Statutes of 2022 (SB 191), Chapter 39, Statutes of 2023 (AB 130), Chapter 52, Statutes of 2024 (AB 171), and Proposition 2 payments to CalPERS proposed in the 2025-26 May Revision.

^{3/} In addition to the Executive Branch, this chart includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in the CalPERS column include statewide contributions to the five CalPERS state plans, including contributions from employers that are not included in the annual Budget Act.

^{4/} As part of the 2020 Budget Act, the Teachers' Retirement Board's statutory authority to adjust the state contribution rate for fiscal year 2020-21 was suspended. The amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the 2021 Budget Act.

^{5/} In 2023-24, no state employer contributions to the Legislators' Retirement System are included as the fund was in a surplus position due to the termination of all active members. In 2024-25, a one-time contribution of \$75,085 was required due to negative impacts of investment losses and cost of living adjustments to the fund. In 2025-26, a one-time contribution of \$493,000 is required due to the fund still being below 100 percent funded, primarily due to higher than expected cost of living adjustments.

^{6/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

^{7/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

^{8/} Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

^{9/} Amount includes \$616 million to help ensure full funding by 2046, which is provided by the employer on behalf of the employees, based on the actuarial liability for each bargaining unit, as employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

^{10/} Estimated as of the 2025-26 May Revision, contributions sourced from the General Fund are estimated to be \$4.2 billion for CalPERS, \$731 million for CSU CalPERS, \$2.4 billion for Active Health and Dental, and \$383 million for OPEB Prefunding. Fiscal year 2025-26 contributions to CalSTRS, JRS, JRS II, LRS, and Retiree Health & Dental (including CSU) are funded entirely by the General Fund.

GENERATIVE ARTIFICIAL INTELLIGENCE PROJECTS AND THE PROJECT DEVELOPMENT LIFECYCLE

On September 6, 2023, the Governor signed Executive Order N-12-23 (EO), which directed the Government Operations Agency (GovOps), the California Department of General Services, and the California Department of Technology (CDT) to update the state's project approval, procurement, and contracting processes for Generative Artificial Intelligence (GenAI) related efforts using results from potential GenAI pilot projects. Since the release of the Governor's Budget, the first cohort of projects are either completing procurement or developing the Minimum Viable Product (MVP).

In February 2025, CDT updated its statewide policies, which includes required safeguard measures to ensure the responsible use of GenAI. CDT also designed the Project Delivery Lifecycle (PDL) to update the state's project approval process for GenAI projects pursuant to the requirements of the EO. The Administration intends to pilot PDL with the second round of GenAI projects and may also explore opportunities to incorporate the use of PDL for non-GenAI projects.

The May Revision includes up to \$8 million one-time Internal Departmental Quality Improvement Account to support the development of a GenAI MVP to streamline data collection and analysis, survey development and reporting for health facility quality and safety inspections at the Department of Public Health.

2026 WORLD CUP

The State of California has a long history of supporting and facilitating safe, secure, and successful major sporting events. Leveraging the state's integrated and well-exercised emergency and transportation management systems provides for a unified effort at every level of government, through strong coordination and use of state-level authorities to secure and apply appropriate resources.

In support of the 2026 World Cup games being held in California, Cal OES has the ability to leverage existing and applicable authorities to provide assets through working with state agencies (including the California Transportation Agency), and to facilitate the acquisition of appropriate local or specialized resources, in support of objectives set forth by the Host Committees.

LA28 OLYMPICS

The May Revision includes funding and statutory changes to support planning and preparation for the 2028 Olympic and Paralympic Games in Los Angeles.

These changes are aimed at supporting planning efforts for the Olympics and Paralympic Games, including facility development, delivery of services, and other activities that complement the ongoing planning efforts.

SIGNIFICANT BUDGET ADJUSTMENT

- **Transportation**—The May Revision includes \$17.6 million one-time from the State Highway Account to support transportation project planning associated with the 2028 Olympic Games, including work on the Games Route Network project.

VARIOUS DEPARTMENTS

ADDRESSING THE BUDGET PROBLEM

To address the projected budget shortfall, the May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Governor's Office of Land Use and Climate Innovation: California Education Learning Lab Program**—Withdrawal of the Governor's Budget proposal to transfer the California Education Learning Lab from the Governor's Office of Land Use and Climate Innovation to GovOps and instead eliminate the program over two years. This proposal maintains \$250,000 General Fund and 1 position for one additional year in 2025-26 to manage phasing out of the program and reduces \$5.3 million General Fund in 2025-26 and \$4 million and 1 position in 2026-27 and ongoing, fully eliminating the program in 2026-27.
- **GovOps: California Education Interagency Council**—Withdrawal of \$5 million ongoing General Fund for the California Education Interagency Council, which was proposed at Governor's Budget as part of the implementation of the Master Plan for Career Education. See the Labor and Workforce Development and Higher Education Chapters for more information on investments in the Master Plan for Career Education.

- **Military Department: Deferred Maintenance**—Withdrawal of \$4.8 million one-time General Fund in 2025-26 related to deferred maintenance projects at the Azusa, Sacramento-Okinawa, and Fresno-Hammer Field armories.
- **California Department of Veterans Affairs (CalVet): Veterans Homes Deferred Maintenance**—Withdrawal of \$819,000 ongoing General Fund related to deferred maintenance for the Veterans Homes of California.
- **CalVet: Administrative Services Staffing**—Withdrawal of \$285,000 ongoing General Fund and 2 positions related to augmenting staffing support for their Administrative Services Division.
- **California Arts Council: Staffing Resources**—Withdrawal of \$153,000 ongoing General Fund and 1 position related to staffing support for human resources at the California Arts Council.
- **Governor's Office of Business and Economic Development (Go-Biz): California Competes**—Withdrawal of \$60 million one-time General Fund in 2025-26 related to new funding for the California Competes grant program.
- **Go-Biz: Performing Arts Equitable Payroll Fund**—A reversion of \$11.5 million General Fund in 2023-24 associated with unspent funds relating to the implementation of the Performing Arts Equitable Payroll Fund pursuant to Chapter 731, Statutes of 2022 (SB 1116).
- **Office of State Public Defender: Public Records Act Workload**—Withdrawal of \$148,000 General Fund and 1 position in 2025-26, and \$141,000 ongoing to address Public Records Act workload.
- **Hope, Opportunity, Perseverance, and Empowerment (HOPE) for Children Trust Account Program Board**—A reduction of \$50 million one-time General Fund in 2025-26 of the amount available for future use by the HOPE Program.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2025-26 limit is estimated to be \$166.9 billion. The revised limit is the result of applying the growth factor of 6.76 percent to the prior year limit. The revised 2025-26 limit is \$0.9 billion above the \$166 billion estimated in January. A substantial portion of the increase is attributable to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 6.37%
 - May Revision Percentage Growth: 6.44%
- State Civilian Population
 - January Percentage Growth: 0.11%
 - May Revision Percentage Growth: 0.28%
- K-14 Average Daily Attendance
 - January Percentage Growth: 0.56%
 - May Revision Percentage Growth: 0.34%