

January 10, 2025

To: UCC Board of Directors

From: UCC Advocacy Team

**Re: Governor's 2025-26 January Budget Proposal**

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At the end of a turbulent week in California, the Director of the Department of Finance, Joe Stephenshaw, presented the Governor's [2025-26 Proposed Budget](#)<sup>1</sup> in a mercifully brief press conference, showcasing a relatively status quo budget for California. Due to the final budget agreement for 2024-25 that spread the state's \$45 billion deficit over a two-year period, the 2025-26 proposed budget brings the state back to a more stable fiscal footing, with a modest \$363 million surplus.

Of course, the fiscal and practical impacts of this week's devastating fires in Southern California were not contemplated when the Governor's budget was prepared. Director Stephenshaw noted that the state is familiar with managing such disasters, as well as the significant risks associated with federal financial assistance and impacts of another likely delay in tax deadlines by the Internal Revenue Service. We anticipate that the May Revision will have a more robust evaluation of the budgetary impacts of these emergencies.

The 2024 Budget Act assumed withdrawals from the Budget Stabilization Account (BSA), the state's Rainy Day Fund, of about \$5.1 billion in 2024-25 and \$7.1 billion in 2025-26. The Governor's proposed budget maintains the planned withdrawal of \$7.1 billion from the BSA. Accounting for these withdrawals, the proposed budget reflects a total reserve balance of \$17 billion at the end of 2025-26 (\$10.9 billion in the BSA, \$4.5 billion in the Special Fund for Economic Uncertainties, and \$1.5 billion in the Public School System Stabilization Account.)

The Administration is prioritizing a proposed constitutional change to the state's Proposition 2, the Rainy Day Fund initiative, and Proposition 4, the State Appropriations Limit or "Gann Limit." Specific changes include an increase in the level of eligible deposits to the Rainy Day Fund and clarification that any deposit to the state's Rainy Day Fund does not then count as an "expenditure" under the Gann Limit. The Administration is a measure that would increase the mandatory deposit level from the current 10 percent to 20 percent of General Fund revenues during economic upswings, improving the state's ability to protect vital programs and services during future budget downturns and exempting those deposits from the State Appropriations Limit. Such changes would necessarily be presented to voters for their consideration, presumably during the next statewide election in 2026.

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<sup>1</sup> For simplicity, we will refer to the Governor's proposed budget released today as "the Governor's budget."



## General Government

### CHIPS Facility

Last November, the US Department of Commerce announced Sunnyvale as the location for the Creating Helpful Incentives to Produce Semiconductors (CHIPS) for America Design and Collaboration Facility. This facility is expected to drive more than \$1 billion in research funding and create more than 200 direct jobs over the next ten years. The budget proposes \$25 million in 2025-26 for certain capital expenditures to build the facility.

### CalRISE

The Governor's budget proposes \$17 million for the Regional Initiative for Social Enterprises Program (CalRISE), a program that provides financial and technical assistance to employment social enterprises to help them build capacity to create and retain jobs in communities. Employment social enterprises are businesses that provide jobs, on-the-job training and specialized support to people who face high barriers to work, including homelessness, previous incarceration, substance use, or mental health issues.

### Consumer Protection

The Governor's budget proposes a reorganization of certain state functions. As we understand it, the new Consumer Protection Agency will be tasked with protecting consumers by continuously improving enforcement efforts and modernizing technology to address emerging issues that may adversely impact consumers. Further, the agency is anticipated to strengthen licensing and enforcement activities for those entities licensed and regulated by the state. The Administration is proposing to submit a Reorganization Plan to the Little Hoover Commission with additional details about this effort later in the year.

## Health

### Medi-Cal

#### *Managed Care Organization (MCO) Tax*

Proposition 35, approved by voters at the November 2024 general election, permanently continues the MCO tax added by [AB 119](#) (Chapter 13, Statutes of 2023) and specifies permissible uses of tax revenues starting with the 2025 tax year. Provider payment increases and investments that were newly authorized in the 2024-25 state budget are repealed as of January 1, 2025. Tax revenues will continue to support provider rate increases for primary care, maternal care, and non-specialty mental health services that were implemented in 2024. The Department of Health Care Services (DHCS) must consult with a stakeholder advisory committee to develop and implement new or modified payment methodologies pursuant to Proposition 35.

Compared to the 2024 Budget Act, support for the existing Medi-Cal program is estimated to increase by \$1 billion in 2024-25 due to updated estimates of available tax revenues and support for the existing Medi-Cal program is estimated to decrease by \$2.2 billion in 2025-26 due to implementation of Proposition 35's provisions as described above. The spending plan reflected in the Governor's budget is subject to change, pending consultation with the stakeholder advisory committee.

As a reminder, Medi-Cal rate increases included in the 2024-25 state budget that are being repealed include:

- Abortion and Family Planning Services;
- Physician Emergency Department Services;
- Ground Emergency Transportation;
- Air Ambulances;
- Community-Based Adult Services;
- Community Health Workers;
- Congregate Living Health Facilities;
- Pediatric Day Health Centers;
- Evaluation & Management Codes for Primary Care and Specialist Office Visits, Preventative Services, and Care Management (95 percent of Medicare);
- Obstetric Services (95 percent of Medicare);
- Non-Specialty Mental Health Services (87.5 percent of Medicare);
- Vaccine Administration (87.5 percent of Medicare);
- Vision (Optometric) Services (87.5 percent of Medicare);
- Other Evaluation & Management codes (80 percent of Medicare);
- Other Procedure Codes commonly utilized by Primary Care, Specialist, and ED Providers (80 percent of Medicare);
- Federally Qualified Health Centers/Rural Health Clinics;
- Private Duty Nursing; and
- Non-Emergency Medical Transportation.

The 2024-25 state budget also included funding to implement 0-5 continuous Medi-Cal eligibility, which is being repealed.

### **Caseload Impacts Related to Redeterminations**

For the 2025-26 Budget, DHCS projects that Medi-Cal enrollment will be higher than assumed for the 2024 Budget Act. In recent months, reductions in enrollment related to resuming redeterminations as part of the COVID-19 pandemic unwinding appear to have ceased. The Governor's budget reflects Medi-Cal caseload of 15 million in 2024-25, an increase of approximately 450,000 compared to the 2024 Budget Act. The Governor's budget projects that caseload will remain relatively stable or only slightly decline through 2024-25 while unwinding flexibilities remain in effect.

The November 2024 Medi-Cal Local Assistance Estimate (referred to as the Medi-Cal Estimate) assumes that discretionary unwinding flexibilities end June 30, 2025, and caseload will decline more steeply from August 2025 through June 2026. Compared to 2024 Budget Act assumptions, revised projections related to redeterminations for the Governor's budget result in approximately \$1.1 billion in increased General Fund costs in 2024-25. Caseload is anticipated to modestly decline in 2025-26 as unwinding flexibilities end; however, the budget projects an increase in Medi-Cal enrollees with higher average costs. In addition, the implementation of several state and federal policies has led to significant changes in the program in recent years, which has added complexity to Medi-Cal caseload projections. Further variability is possible in the near future due to potential changes in federal policy.

### **Pharmacy Expenditures**

The Medi-Cal program has experienced a notable increase in overall pharmacy expenditures, reflecting a national trend across Medicaid programs. Compared to the 2024 Budget Act, the Governor's budget includes an increase of \$1.6 billion (\$1.3 billion General Fund) in 2024-25 and a year-over-year increase of \$1.2 billion (\$215.2 million General Fund) in 2025-26 due to projected growth in Medi-Cal pharmacy expenditures. In

recent years, increased utilization of high-cost anti-obesity drugs, also referred to as glucagon-like peptide-1 (GLP-1s), have significantly contributed to rising pharmacy costs.

### **SB 525 Health Care Minimum Wage Impacts**

On October 16, 2024, the health care minimum wage increases pursuant to [SB 525](#) (Chapter 890, Statutes of 2023) and subsequent amendments, went into effect as a result of a trigger included in the 2024 Budget Act. Specifically, the minimum wage increases were triggered by DHCS notifying the Joint Legislative Budget Committee that it had initiated the data retrieval process necessary to implement an increase to the Hospital Quality Assurance Fee (HQAF) beginning January 1, 2025, to fund increased supplemental Medi-Cal payments to hospitals. This trigger recognized that an increase to the HQAF-funded supplemental payments would partially mitigate the cost pressures for managed care plans resulting from the health care minimum wage increases, as hospitals will have significant new revenue available through HQAF.

On December 11, 2024, DHCS submitted a request to CMS to significantly increase the Private Hospital Directed Payment Program (PHDP) by approximately \$6 billion total funds beginning January 1, 2025 to provide increased supplemental Medi-Cal managed care payments to hospitals for services delivered in 2025, subject to final federal approval. As part of the 2025 managed care rate setting process, actuaries considered the impact of required supplemental payments, such as those supported by the HQAF, on total provider reimbursement levels in managed care and, consequently, on associated cost pressures faced by managed care plans due to state policies, health care industry trends, and other factors, in the overall projections of the reasonable, appropriate, and attainable costs for managed care plans. Given the magnitude of the additional revenue anticipated to be going to hospitals in 2025, the managed care rate increases for the impact of SB 525 were significantly discounted as part of the actuarial managed care rate setting process to reflect these reduced cost pressures.

### **Trailer Bill Language**

DHCS is proposing trailer bill language on the following:

- Program of All-Inclusive Care for the Elderly (PACE) Fees;
- Dementia Care Aware;
- Hospital Financing, and
- Behavioral Health Services Act Revenue and Stability (to effectuate the forthcoming report to be submitted pursuant to Welfare and Institutions Code 5892.3 (e)).

The budget documents do not contain additional details about the proposed trailer bill language. As is customary, we anticipate that Department of Finance will make trailer bill language available beginning on February 1.

### **Budget Change Proposals**

Below are a few of the budget change proposals (BCPs) of note, with more details to follow in the coming days as proposals are released publicly:

- *Medi-Cal Administrative Activities for CalAIM Justice Involved Initiative.* Resources and expenditure authority to establish a Justice-Involved Medi-Cal Administrative Activities program for activities related to the

Justice-Involved population in the 90 days prior to release. DHCS is [requesting](#) five staff positions. No other DHCS BCPs are available.

- *Naloxone Distribution Project*. An increase in expenditure authority for the Naloxone Distribution Project.
- *Program of All-Inclusive Care for the Elderly (PACE) Growth and Expansion*. Resources and expenditure authority to meet all federal and state requirements related to the administration, operation, and monitoring and oversight of PACE.
- *Value Strategy for Hospital Payments in Medi-Cal Managed Care*. Resources and expenditure authority to develop, implement, and sustain a comprehensive value strategy for state-directed payments to hospitals in the Medi-Cal program's managed care delivery system.

## Behavioral Health

### **Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT) Demonstration**

In December 2024, the federal government approved approximately \$8 billion (state, local, and federal funds) for the BH-CONNECT Demonstration effective January 1, 2025 through December 31, 2029. The funding will support activities and services administered by the DHCS, Department of Social Services (DSS), and the Department of Health Care Access and Information (HCAI). The Demonstration includes statewide and county opt-in components to expand and strengthen the behavioral health continuum for Medi-Cal members living with significant behavioral health conditions, with a focus on children and youth, individuals experiencing or at risk of homelessness, and justice-involved individuals.

### **Behavioral Health Transformation Update**

The 2024 Budget Act provided \$85 million total funds (\$50 million General Fund) for counties to begin administering the Behavioral Health Services Act (BHSA) (SB 326, Chapter 790, Statutes of 2023). The Governor's budget includes an additional \$93.5 million total funds (\$55 million General Fund) in Local Assistance for 2025-26 for counties to administer BHSA.

## Public Health

### **AIDS Drug Assistance Program (ADAP)**

The budget provides \$8.5 million in 2025-26 and ongoing from the AIDS Drug Assistance Program Special Fund for enhancements to ADAP and the Pre-Exposure Prophylaxis Assistance Program, effective January 2025. The budget proposes to reimburse Medicare Part B premiums and out-of-pocket costs and expand the employer-based health insurance premium payment program for ADAP enrollees. Compared to revised 2024-25 expenditures, the budget provides an increase of \$42.3 million total funds for the ADAP program in 2025-26.

## Department of Health Care Access and Information

### **Diaper Initiative**

The budget proposes to provide up to \$7.4 million General Fund in 2025-26 and \$12.5 million General Fund in 2026-27 for the Department of Health Care Access and Information to contract for the provision of a three-

month supply of diapers at no cost to California families with newborn babies via hospital systems to improve maternal and newborn health outcomes.

### **Prescription Drug Affordability**

Given the rising costs of pharmacy expenditures, the Administration will continue to evaluate the key drivers of prescription drug cost growth, including the impact of pharmacy benefit managers. Building on the goals of the Office of Health Care Affordability and CalRx, the Administration is exploring approaches to increase transparency in the pharmacy supply chain and improve the affordability of prescription drugs in California.

## **Human Services**

The Governor's budget assumes \$9.5 billion in total Temporary Assistance for Needy Families (TANF) expenditures (state, local, and federal funds) in 2025-26. This amount includes \$6.4 billion for CalWORKs program expenditures and \$3.2 billion for other programs such as Child Welfare Services, Foster Care, the Department of Developmental Services (DDS) programs, the California Statewide Automated Welfare System, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services. The average monthly CalWORKs caseload is estimated to be 361,834 families in 2025-26.

### **CalWORKs**

Funding for FY 2025-26 includes \$6.4 billion total funds (\$961.4 million General Fund), which reflects a net increase of \$50.2 million total funds (\$536.3 million General Fund) from the Budget Act of 2024. The net increase primarily reflects higher CalWORKs assistance expenditures due to an increase in caseload, full funding restoration for expanded subsidized employment and partial funding restoration for mental health and substance abuse services and decreases in the shared eligibility and Medi-Cal common costs shifts, offset by slower growth in the employment services caseload. The General Fund increase is primarily due to a lower amount of Federal TANF carryforward funds available in FY 2025-26.

Consistent with the higher growth in the CalWORKs caseload than previously projected, the 2024-25 budget includes \$4.3 billion total funds for CalWORKs assistance, reflecting a net increase of \$43.6 million from the Budget Act of 2024. The Governor's budget includes \$4.4 billion total funds in 2025-26 for CalWORKs assistance, reflecting a net increase of \$70.3 million from the 2024-25 budget.

### **CalWORKs Work and Family Well-Being Pilot**

In November 2024, California was selected as one of five states to participate in a federal pilot program to test alternative performance measures in the TANF program. The vision for California's pilot is to build upon a strong foundation of supportive and barrier removal services to facilitate employment and well-being. The pilot will leverage the CalWORKs Outcomes and Accountability Review (Cal-OAR) framework to measure successful program outcomes more holistically. Details of the California Pilot are being finalized, and the Administration continues to assess further opportunities to advance the vision of the pilot.

### **Projected CalWORKs Grant Increase**

An approximate 0.2 percent increase to CalWORKs Maximum Aid Payment levels, with an estimated cost of \$9.1 million, is projected to begin October 1, 2025. A determination and update of the projected grant increase

will be made at the May Revision. These projected increased costs would be funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the 1991 Local Revenue Fund and would be in addition to the 0.3 percent statutory increase in October 2024.

### **CalWORKs Single Allocation**

The FY 2025-26 total Single Allocation is proposed at \$1.6 billion total funds. This reflects a decrease of \$44.5 million total funds compared to the 2024-25 budget primarily due to a lower projected Employment Services caseload.

### **Child Care**

The budget includes \$7.1 billion (\$4.6 billion General Fund) for DSS-administered child care and development programs. The budget maintains funding to continue the Cost of Care Plus Rate monthly payments adopted for state-subsidized child care providers, consistent with requirements related to the reimbursement floor established in the 2024-25 budget. The Administration continues to work towards a single rate structure and utilization of an alternative methodology for estimating the costs of care. As outlined in [SB 163](#) (Chapter 73, Statutes of 2024), the Administration will provide the Legislature a timeline for transitioning to reimbursement rates informed by the cost of care under the state's alternative methodology, rather than the current structure that is largely informed by private market rates.

The current Memorandum of Understanding with Child Care Providers United California (CCPU) is set to expire on June 30, 2025. The state will continue to negotiate a successor agreement with CCPU.

## **Housing and Homelessness**

### **Housing**

The Governor's budget proposes neither housing-related funding reductions nor augmentations in 2025-26, instead highlighting a proposed reorganization plan, which would create a new Housing and Homelessness Agency and continued policy changes to promote increased housing production. While the budget summary does not include any specific housing policy proposals, the Administration is advancing three key policy principles:

- Reducing costs through streamlining processes, including reconsidering existing laws that increase housing costs and development risks.
- Ensuring that local governments comply with housing element obligations and existing laws, including the Permit Streamlining Act and the Housing Accountability Act.
- Removing barriers to infill housing near transit, including enhancing the ability to mitigate the impacts of infrastructure projects through infill housing investments - an effort previously announced in the Governor's Executive Order N-2-24 on infill housing.

The summary also previews policies that the Administration will propose, whether through future trailer bill language or policy bills sponsored by legislators, including expanding CEQA exemptions for infill housing,



“updating housing programs to promote affordability,” and enhancing the Department of Housing and Community Development’s ability to recycle funding.

## Homelessness

As has been customary over the last several years, the Governor’s budget proposal does not commit to continuing local homelessness response funding through the Homeless Housing, Assistance, and Prevention Program (HHAP). Rather, it signals the Administration is open to working with the Legislature on additional funding to continue to drive progress, with an expectation that extended funding must incorporate stronger accountability policies. The budget highlights potential new accountability policies, including:

- Requiring local governments to have a compliant Housing Element and a local encampment policy to be eligible for funding.
- Prioritizing funding for local governments with “Pro-Housing” designations.
- Allowing the reallocation of funding from local governments that fail to meet program requirements or show progress.

The Governor’s budget also notes the Administration will be increasing accountability efforts relative to existing homelessness funding through: increased HCD scrutiny of fiscal reporting, in-depth local reviews through partnerships with select local governments, regional convenings, and increased enforcement through the Housing and Homelessness Accountability, Results, and Partnership Unit.

## Climate Change and Environment

The Governor’s climate and environmental budget is heavily focused on implementation of the \$10 billion Proposition 4 Climate Bond approved by voters in November. The budget proposes allocating \$2.7 billion in 2025-26 and \$6.5 billion in future years, with \$814 million in allocations yet to be scheduled. Climate Bond allocations will be used to offset \$273 million in prior General Fund obligations and \$32 million from the Greenhouse Gas Reduction Fund. While the Governor’s budget does not include a specific proposal related to extension of California’s Cap and Trade Program, the summary highlights the need to extend the program to meet emission reduction goals and discusses the use of cap-and-trade auction proceeds to address the broader issue of energy affordability, among other priorities.

### Cap-and-Trade

California’s cap-and-trade program expires in 2030. While the Governor acknowledged the need to extend the program to achieve the state’s carbon neutrality goals, the January budget did not include a specific proposal related to cap-and-trade reauthorization to kick-off negotiations with the Legislature, but it does list the Governor’s priorities for the investment of cap-and-trade auction proceeds in the Greenhouse Gas Reduction Fund, including investments in “programs that deliver effective pollution reduction results, support clean transportation and communities, and help address energy affordability.”

It is unclear whether this means the Governor will wait for the Legislature to develop an initial proposal or if he will outline a plan later this year in his May Revision.



## **Safe Drinking Water, Drought, Flood, and Water Resilience**

The Governor's budget allocates \$1.07 billion in 2025-26 from the total available Climate Bond funding of \$3.8 billion for these purposes, including:

- Dam Safety and Climate Resilience - \$231.5 million
- Water Quality and Safe Drinking Water and Tribal Water Infrastructure - \$183.2 million
- Flood Management Projects - \$173.1
- Water Reuse and Recycling - \$153.4 million
- Salton Sea Management Program - \$148.2 million
- Other water storage, groundwater, watershed improvements and water resilience projects and programs - \$173.5 million

These Climate Bond investments would offset several current General Fund obligations, including:

- Water Recycling - \$51 million
- Dam Safety - \$47 million
- Watershed Climate Resilience - \$32 million
- Systemwide Flood Risk Reduction Program - \$15 million

## **Wildfire and Forest Resilience**

The Governor's budget allocates \$325 million in 2025-26 from the total Climate Bond funding of \$1.5 billion available for these purposes, including:

- Forest Health Program - \$82.2 million
- Regional Projects - \$79.5 million
- Local Fire Prevention Grants - \$59.1 million
- Resilient State-Owned Lands - \$33.4 million
- State Conservancy Watershed Improvement and Wildfire Resilience - \$22.4 million
- Wildfire Mitigation - \$9.1 million
- Other wildfire projects and programs, including defensible space, home hardening and reforestation - \$39.3 million

These Climate Bond investments would offset \$68 million in General Fund for stewardship of state-owned lands and \$13 million in General Fund for home hardening.

## **Coastal Resilience**

The Governor's budget allocates \$173 million in 2025-26 from the total Climate Bond funding of \$1.2 billion available for these purposes, including:

- Coastal Lands, Public Access, Facilities and Habitat - \$30.8 million
- San Francisco Bay Sea Level Rise, Flood Management and Wetlands - \$20 million

- Sea Level Rise Mitigation and Adaptation - \$20.3 million
- Dam Removal and Related Infrastructure - \$8.5 million
- Other coastal resilience and sea level rise adaptation projects and programs, including upgraded Central Valley Chinook Salmon hatcheries – \$85.9 million

### **Extreme Heat Mitigation**

The Governor's budget allocates \$102 million in 2025-26 from the total Climate Bond funding of \$450 million available for these purposes, including:

- Urban Greening Program - \$46.8 million
- Fairground Updates for Emergency Preparedness - \$37.6 million
- Extreme Heat and Community Resilience Program - \$16.1 million
- Other extreme heat mitigation projects and programs - \$1.5 million

These Climate Bond investments would offset \$15 million in General Fund for the Community Resilience and Heat Program.

### **Biodiversity and Nature-Based Solutions**

The Governor's budget allocates \$286 million in 2025-26 from the total Climate Bond funding of \$1.2 billion available for these purposes, including:

- Protect and Enhance Fish and Wildlife Resources - \$176 million
- State Conservancies—Supporting Regional Action - \$79.9 million
- Tribal Nature-Based Solutions Program - \$9.4 million
- Other biodiversity and nature-based solutions programs - \$20.7 million

### **Climate Smart Agriculture**

The Governor's budget allocates \$134 million in 2025-26 from the total Climate Bond funding of \$300 million available for these purposes, including:

- State Water Efficiency and Enhancement Program for Irrigation - \$37.6 million
- Healthy Soils Program for Carbon Sequestration and Reductions - \$35.9 million
- Invasive Species Council of California Projects - \$19.9 million
- Other climate smart agriculture projects and programs - \$40.6 million

### **Outdoor Access**

The Governor's budget allocates \$286 million in 2025-26 from the total Climate Bond funding of \$700 million available for these purposes, including:

- New and improved parks in disadvantaged communities - \$190 million
- State Parks System Deferred Maintenance - \$84.4 million

- Other visitor access and climate resilience improvements projects on public lands - \$11 million

These Climate Bond investments would offset \$14 million in General Fund for deferred maintenance.

## **Clean Air and Energy**

The Governor's budget allocates \$275 million in 2025-26 from the total Climate Bond funding of \$850 million available for these purposes, including:

- Port Upgrades for Offshore Wind Generation and Other Purposes - \$228.2 million
- Demand-Side Grid Support Program - \$50 million

These Climate Bond investments would offset \$18 million General Fund for the Demand-Side Grid Support Program and \$32 million in Greenhouse Gas Reduction Funds for the Clean Energy Reliability Investment Plan.

## **Department of Forestry and Fire Protection (CAL FIRE)**

In addition to the Climate Bond investments discussed above, the Governor's budget includes \$2.5 billion in prior investments (\$200 million annually through 2028-29) in wildfire resilience, fire prevention, fuel reduction, and forest health. The budget also includes \$1.4 billion in ongoing funding for 2,400 new CAL FIRE firefighters, and \$25.4 million one-time (\$40.6 million ongoing) for satellite technology, advanced mapping, AI-powered tools, and a Fire Integrated Real-Time System. The Department of Finance also highlighted that CAL FIRE was exempted from the vacant position reductions used to offset overall state personnel costs.

## **Transportation**

The Governor's budget maintains existing General Fund commitments to multimodal transportation programs and projects, totaling approximately \$14.2 billion, and maintains all special funds for their intended transportation purposes. With the inclusion of special funds, the proposed 2025-26 budget provides the following over multiple years:

- \$7.7 billion for high priority transit and rail infrastructure projects;
- \$4.2 billion in Proposition 1A for the High-Speed Rail Authority to continue building the 119-mile San Joaquin Valley initial operating segment;
- \$1.2 billion for port improvements, including projects that improve goods movement on rail and roadways;
- \$1.1 billion for the Active Transportation Program, Reconnecting Communities: Highways to Boulevards Pilot program, and for climate adaptation projects;
- \$1.1 billion for the Zero Emission Transit Capitol Program; and
- \$150 million for grade separation projects.

The Governor's budget does propose adding \$25 million in one-time General Fund in 2025-26 for the Clean California Program to specifically support a Community Cleanup and Employment Pathways Grant Program.

Cities and counties with a “Clean California Community” designation will be able to access the funding as a matching grant for litter remediation and job creation.

## **E15 Transportation Fuel Blend**

The Governor's budget proposes \$2.3 million to support the California Air Resources Board's evaluation, development, and implementation of regulatory changes needed to authorize an increase of ethanol content in gasoline from 10 percent to 15 percent in California as a strategy to further increase gasoline supply and reduce gasoline prices.

## **Local Public Safety**

### **Proposition 47**

The Governor's budget estimates state correctional savings of \$88.3 million in 2024-25 (for allocation in 2025-26) associated with the state's continued implementation of Proposition 47 (2014). Pursuant to the ballot measure, those funds will be allocated to the three following policy priorities: (1) behavioral health treatment and diversion programs (65 percent), (2) programs to improve outcomes for K-12 students and reduce trancies (25 percent), and (3) support for victims' services through trauma recovery centers (10 percent). For timing reasons, we do not anticipate seeing the impact of Proposition 36 (2024) implementation on Prop 47 state correctional savings until 2026-27.

### **SB 678 Probation Incentive Grants**

The Governor's budget proposes \$126.5 million for county probation departments for the Community Correction Performance Incentive Grant program ([SB 678](#) – Chapter 608, Statutes of 2009). It also proposes that the methodology used to calculate SB 678 funding associated with counties' successes in reducing the number of felony probationers sent to prison, citing the dual need of enhancing the performance-based incentive nature of the funding and reducing funding volatility. The Governor's budget expresses the Administration's plan to work collaboratively with the Chief Probation Officers of California (CPOC) and Legislature in refining the methodology in a manner that is consistent with the goals of SB 678.

## **State Corrections**

The Governor's budget proposes total funding in 2025-26 for the California Department of Corrections and Rehabilitation (CDCR) of \$13.9 billion, approximately 30 percent (\$4.1 billion) of which is dedicated to health care (mental health, medical, and dental) services to those in the state's institutions.

### **Prison Capacity and Closures**

In recognition of the passage of Proposition 36 in November, the Governor's budget assumes a shift in population trends, reversing a multi-year decrease in the adult incarcerated population. CDCR is estimating a net increase in the state prison population of just over 1,600 in 2025-26<sup>2</sup>. Population projections into the out-years are expected to decline to 90,998 in 2027-28. Estimated parole populations remain relatively stable

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<sup>2</sup> The 2024-25 state prison population is now estimated to be 91,672, increasing to 93,278 in the budget year.

(34,940 in 2024-25 and decreasing modestly to 34,671 in 2025-26), with an expected downward trend taking the parolee population to 33,756 by the end of 2028-29).

The Governor's budget reviews actions in recent years to close six prison facilities, terminate leases on privately owned facilities, and deactivate specific facilities within still-operational prisons across the state. No new proposals for facility closures or deactivations are included in the Governor's budget, but the Administration reasserts its commitment to "meeting the needs of staff and the incarcerated population while right-sizing California's prison system as the prison population declines, and the addressing space needs as the state transforms the carceral system to one more focused on rehabilitation."

## **Rehabilitation and Reentry**

The Governor's budget includes an update on the Administration's effort to transform the San Quentin State Prison to the San Quentin Rehabilitation Center, which elevates the emphasis on access to rehabilitative and educational programs as well as skills development to facilitate successful reentry. A new Educational and Vocation Center now under construction is scheduled for completion next January. To continue work toward achieving the vision of the California Model, the Governor's budget proposes \$7.8 million in 2025-26 and \$13 million in 2026-27 and annually thereafter to provide staffing, expand rehabilitative programming, and provide professional development and training.

The Governor's budget also discusses previous investments to expand reentry facilities; four new facilities – in Sacramento, San Bernardino, Fresno, and Ontario – will bring 439 additional male community reentry program beds online. These sites are expected to be activated in the budget year. As for parole reentry programs, the Governor's budget proposes a \$32 million augmentation in 2025-26, increasing to \$42.9 million in 2029-30, which will permit CDCR to increase contract rates and provide annual adjustment for 14 parole reentry contracts.

Lastly, the Governor's budget includes a proposed \$12.9 million one time in 2025-26 and 2026-27 to continue the Returning Home Well Program – which provides transitional housing for those at risk of being unhoused upon release from a state institution – for an additional two years.

## **Other Significant Budget Adjustments**

The proposed state corrections budget also includes various augmentations to address specific cost increases such as food costs, radio replacements, and HVAC improvements, among others. Other operational reductions also are anticipated associated with vacant position elimination and other operational efficiencies.

One notable reduction comes in the form of the elimination of the Council on Criminal Justice and Behavioral Health (CCJBH), which results in savings of \$1.8 million ongoing. The Governor's budget cites statewide efforts, including the Mental Health Services Oversight and Accountability Commission and CalAIM, where the work of reducing incarceration and recidivism rates for those with behavioral health issues will continue.

Lastly, the Governor's budget provides funding to support implementation of [SB 1069](#) (Chapter 1012, Statutes of 2024), a measure by Senator Caroline Menjivar that authorizes the Office of Inspector General to monitor and investigate all staff sexual misconduct claims. A total of \$3.6 million and 22 positions is proposed for 2025-26 growing to \$5.7 million and 29 positions in 2026-27.

## Judicial Branch

### Dependency Counsel Funding

The Governor's budget maintains the expected 2025-26 statewide dependency counsel funding level. It assumes \$252.7 million in total funding, comprised of \$216.7 million General Fund and \$66 million in federal draw down. The authority to dedicate "up to \$30 million" to cover any unanticipated shortages in federal reimbursements remains intact.

### Court Facilities

The judicial branch capital outlay program is responsible for the construction and renovation of the Supreme Court, courts of appeal, and trial courts. In the area of courthouse construction, the Governor's budget proposes \$121.6 million one new construction project, ongoing funding for statewide planning studies for court construction projects, and continuation of the next phase for six previously approved projects. Investments in urban county projects include the following:

- Los Angeles County: \$34.2 million for the New Santa Clarita Courthouse - reappropriation for Acquisition
- San Joaquin County: \$2.9 million for the New Tracy Courthouse - Performance Criteria
- Fresno County: \$29.3 million for the New Fresno Courthouse - reappropriation for Acquisition and Performance Criteria

Additionally, \$9.5 million is proposed to address cost increases for an existing facility modification project at the San Diego Hall of Justice.

## Other State Public Safety Investments

### California Highway Patrol

The Governor's budget includes \$5 million ongoing to fund an expansion of the CHP's Computer Crimes Investigation Unit. This investment is intended, in part, to help California develop strategies to address distribution of Child Sexual Abuse Material so that these strategies can be share with local governments and prosecution agencies.

### Office of Emergency Services (OES)

In the proposed OES budget, \$5 million ongoing is proposed to maintain the existing level of funding for the California Internet Crimes Against Children Task Force. Additionally, the budget proposes to maintain \$80 million to implement the California State Nonprofit Security Grant Program.

## 1991 and 2011 Realignment Revenue Updates

The Governor's budget includes the traditional updated revenue estimates for all accounts and subaccounts in 1991 Realignment and 2011 Public Safety Realignment. Both summary charts are included below; Realignment revenue estimates will be updated as part of the May Revision.

As a reminder, for only the second time since the inception of 2011 Public Safety Realignment, 2023-24 saw no growth funding. Updated estimates now show base funding of \$1.965 billion and growth funding of \$79.8 million in 2024-25 for the Community Corrections Subaccount. Importantly, the more recent performance of Sales and Use Tax suggests that revenues are expected to recover to a point where full base funding is restored, and additional funding is available for growth. Accordingly, the Community Corrections Subaccount base is projected to be \$2.044 billion in 2025-26, and the Department of Finance estimates an additional \$76.3 million in growth for 2025-26.

### 1991 Realignment Estimate at 2025 Governor's Budget

\$s in Thousands

Amount	2023-24 State Fiscal Year (Actual)						Total
	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	
<b>Base Funding</b>							
Sales Tax Account	\$752,888	\$119,842	\$2,521,843	\$339,948	\$496,208	\$523,585	\$4,754,113
Vehicle License Fee Account	367,663	1,093,203	216,223	149,879	185,798	472,549	2,485,315
<b>Subtotal Base</b>	<b>\$1,120,551</b>	<b>\$1,212,845</b>	<b>\$2,738,066</b>	<b>\$489,826</b>	<b>\$682,006</b>	<b>\$996,133</b>	<b>\$7,239,428</b>
<b>Growth Funding</b>							
Sales Tax Growth Account:	\$-	\$0	\$0	\$0	\$-	\$0	\$0
Caseload Subaccount	-	-	0	-	-	0	0
General Growth Subaccount	-	0	-	0	-	0	0
Vehicle License Fee Growth Account	-	22,704	-	46,053	-	54,270	123,026
<b>Subtotal Growth</b>	<b>\$-</b>	<b>\$22,704</b>	<b>\$0</b>	<b>\$46,053</b>	<b>\$-</b>	<b>\$54,270</b>	<b>\$123,026</b>
<b>Total Realignment 2023-24<sup>1/</sup></b>	<b>\$1,120,551</b>	<b>\$1,235,549</b>	<b>\$2,738,066</b>	<b>\$535,879</b>	<b>\$682,006</b>	<b>\$1,050,403</b>	<b>\$7,362,455</b>
Amount	2024-25 State Fiscal Year (Projected)						Total
	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	
<b>Base Funding</b>							
Sales Tax Account	\$752,888	\$171,028	\$2,521,843	\$339,948	\$444,822	\$523,585	\$4,754,113
Vehicle License Fee Account	367,663	1,115,907	216,223	185,932	185,798	526,818	2,608,341
<b>Subtotal Base</b>	<b>\$1,120,551</b>	<b>\$1,286,936</b>	<b>\$2,738,066</b>	<b>\$535,879</b>	<b>\$630,620</b>	<b>\$1,050,403</b>	<b>\$7,362,455</b>
<b>Growth Funding</b>							
Sales Tax Growth Account:	\$-	\$0	\$108,315	\$0	\$-	\$0	\$108,315
Caseload Subaccount	-	-	(108,315)	-	-	-	(108,315)
General Growth Subaccount	-	0	-	0	-	0	0
Vehicle License Fee Growth Account	-	16,332	-	33,129	-	39,040	88,501
<b>Subtotal Growth</b>	<b>\$-</b>	<b>\$16,332</b>	<b>\$108,315</b>	<b>\$33,129</b>	<b>\$-</b>	<b>\$39,040</b>	<b>\$196,815</b>
<b>Total Realignment 2024-25<sup>1/</sup></b>	<b>\$1,120,551</b>	<b>\$1,303,268</b>	<b>\$2,846,380</b>	<b>\$569,008</b>	<b>\$630,620</b>	<b>\$1,089,442</b>	<b>\$7,559,270</b>
Amount	2025-26 State Fiscal Year (Projected)						Total
	CalWORKs MOE	Health	Social Services	Mental Health	Family Support	Child Poverty	
<b>Base Funding</b>							
Sales Tax Account	\$752,888	\$173,592	\$2,630,158	\$339,948	\$442,258	\$523,585	\$4,862,428
Vehicle License Fee Account	367,663	1,132,240	216,223	229,060	185,798	565,858	2,696,842
<b>Subtotal Base</b>	<b>\$1,120,551</b>	<b>\$1,305,832</b>	<b>\$2,846,380</b>	<b>\$569,008</b>	<b>\$628,056</b>	<b>\$1,089,442</b>	<b>\$7,559,270</b>
<b>Growth Funding</b>							
Sales Tax Growth Account:	\$-	\$3,601	\$105,949	\$7,303	\$-	\$8,806	\$125,460
Caseload Subaccount	-	-	(105,949)	-	-	-	(105,949)
General Growth Subaccount	-	(3,601)	-	(7,303)	-	(8,606)	(19,510)
Vehicle License Fee Growth Account	-	13,262	-	26,900	-	31,700	71,862
<b>Subtotal Growth</b>	<b>\$-</b>	<b>\$16,862</b>	<b>\$105,949</b>	<b>\$34,204</b>	<b>\$-</b>	<b>\$40,306</b>	<b>\$197,322</b>
<b>Total Realignment 2025-26<sup>1/</sup></b>	<b>\$1,120,551</b>	<b>\$1,322,694</b>	<b>\$2,952,330</b>	<b>\$603,212</b>	<b>\$628,056</b>	<b>\$1,129,749</b>	<b>\$7,756,592</b>

<sup>1/</sup> Excludes \$14 million in Vehicle License Collection Account moneys not derived from realignment revenue sources.



## 2011 Realignment Estimate at 2025 Governor's Budget\*

(\$ millions)

	2023-24	2023-24 Growth	2024-25	2024-25 Growth	2025-26	2025-26 Growth
<b>Law Enforcement Services</b>	<b>\$3,428.3</b>		<b>\$3,432.1</b>		<b>\$3,538.4</b>	
Trial Court Security Subaccount	\$646.0	0.0	\$646.8	10.6	657.5	10.2
Enhancing Law Enforcement Activities Subaccount <sup>1</sup>	\$489.9	374.4	\$489.9	395.5	489.9	402.7
Community Corrections Subaccount	\$1,962.2	0.0	\$1,964.7	79.8	2,044.4	76.3
District Attorney and Public Defender Subaccount	\$81.4	0.0	\$81.5	5.3	86.8	5.1
Juvenile Justice Subaccount	\$248.9	0.0	\$249.2	10.6	259.8	10.2
Youthful Offender Block Grant Special Account	(235.1)		(235.4)		(245.5)	
Juvenile Reentry Grant Special Account	(13.7)		(13.8)		(14.3)	
<b>Growth, Law Enforcement Services</b>		<b>374.4</b>		<b>501.8</b>		<b>504.4</b>
<b>Mental Health<sup>2</sup></b>	<b>1,120.6</b>	<b>0.0</b>	<b>1,120.6</b>	<b>9.9</b>	<b>1,120.6</b>	<b>9.4</b>
<b>Support Services</b>	<b>5,287.2</b>		<b>5,293.9</b>		<b>5,481.6</b>	
Protective Services Subaccount	3,060.4	0.0	3,064.3	88.9	3,153.2	85.0
Behavioral Health Subaccount	2,226.8	0.0	2,229.6	98.8	2,328.4	94.4
Women and Children's Residential Treatment Services	(5.1)		(5.1)		(5.1)	
<b>Growth, Support Services</b>		<b>0.0</b>		<b>197.5</b>		<b>188.8</b>
<b>Account Total and Growth</b>	<b>\$10,210.5</b>		<b>\$10,545.9</b>		<b>\$10,833.8</b>	
<b>Revenue</b>						
1.0625% Sales Tax	9,306.0		9,617.8		9,897.7	
General Fund Backfill <sup>3</sup>	40.1		42.8		43.4	
Motor Vehicle License Fee	864.3		885.4		892.6	
<b>Revenue Total</b>	<b>\$10,210.5</b>		<b>\$10,545.9</b>		<b>\$10,833.8</b>	

\*This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

<sup>1</sup>Base Allocation is capped at \$489.9 million. Growth does not add to the base.

<sup>2</sup>Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

<sup>3</sup>Reflects General Fund backfill for exempt sales tax categories.

## What's Next?

The full budget committees in each house will meet in the near-term to hear an overview of the Governor's proposed spending plan. Trailer bill language (TBL) to implement various budget proposals is due to the Legislature on February 1. Our assessment about the Governor's budget as a whole is that while it reflects today's fiscal realities, it perhaps should be viewed as more of a framework that will be more fully fleshed out in the months ahead as we better understand impacts of policy changes from the incoming federal administration. In the meantime, we will continue to keep you apprised on budget developments going forward and welcome your questions about both the budget substance and process. Should you have questions on any aspect of the January budget proposal or the budget process in general, please do not hesitate to reach out to Grace Ferguson or any of us on the UCC Advocacy Team. Thank you!