

Overview of Governor’s Fiscal Year 2025-2026 Proposed Budget

May Revision

County Administrative Office

May 16, 2025

On May 14, 2025, Governor Newsom released a revised \$321.9 billion budget proposal, a 10.5% increase from last year, that, except for Medi-Cal, largely maintains continuity with significant multiyear program investments from recent budgets while addressing a \$12 billion deficit that has emerged since January, caused by an anticipated \$5 billion revenue shortfall. The Governor delivers a balanced budget by withdrawing \$7.1 billion from the Budget Stabilization Account (Rainy Day Fund), as planned during last year’s two-year budget framework. This amount represents 52% of the total available balance of \$23.3 billion over two years. Including the May Revision solutions, the State has identified \$18.6 billion in reductions to spending or shifts in sources of funding, \$7.2 billion in delayed or deferred capital projects, and \$9.7 billion in loans from special funds as part of the two-year budget framework. In spite of, or perhaps in response to, emerging fiscal constraints and uncertainty, the May Revision continues to pay down retirement liabilities and reflects remaining reserves of \$11.2 billion in the Budget Stabilization Account (Rainy Day Fund) and \$4.5 billion in the Special Fund for Economic Uncertainties, but exhausts the \$1.5 billion previously projected in the Public School System Stabilization Account as of the January proposal. Given the uncertain economic outlook and rising unemployment projected by the May Revision, this preserves some ability for a response in the event of a true recession.

The budget gaps and proposed solutions in the May Revision do not account for potential federal funding cuts resulting from legislation working its way through Congress. These potential reductions would be addressed through future budget actions.

A summary of potential impacts from the May Revision of the Governor’s Fiscal Year 2025-2026 (FY26) Proposed Budget on the County of Monterey follows. Though time for initial review is limited, state lawmakers’ response will continue to be monitored for relevant local impacts, culminating in the passage of the Budget Bill on June 15. Furthermore, it is likely the Legislature will have a special session in the fall to consider the fiscal impacts of pending federal actions.

Health and Human Services

Medi-Cal: The May Revision tackles the \$20 billion increase in costs over the past decade due to higher enrollment as a result of the pandemic continuous coverage requirement, elimination of the asset test, and recent expansion to all income-eligible residents; as well as managed care and pharmacy expenses. FY26 costs alone are anticipated to exceed the January estimates by \$8 billion. Therefore, many of the Governor’s proposed FY26 deficit solutions in the May Revision center on reducing Medi-Cal related expenditure growth. These include capping IHSS overtime and travel, freezing CPI adjustments for county administration, eliminating family planning supplemental payments, eliminating prospective payments to clinics for state only services, eliminating long-term care, implementing a drug rebate aggregator and pharmacy utilization management; in addition to pulling revenue from Proposition 35 for rate increases and a loan from the medical providers fund. Future proposals include freezing expansion to new enrollees, charging \$100 premiums and eliminating full dental benefits. Long-term, Health anticipates leaning on MHSA and Realignment fund balances if clients lose coverage.

Behavioral Health Workforce Initiative: The May Revision provides \$1.9 billion for implementation beginning in January.

CalWORKS: The monthly CalWORKS program caseload is estimated to be 363,766 families with expenditures of \$6.2 billion and no increase to Maximum Aid Payment levels based on lack of availability of 1991 Local Revenue Fund Child Poverty and Family Supplemental Support Subaccount. The May Revision also proposes savings in the form of streamlining measures, including substituting county reporting activities with data extracts and more flexibility for work readiness activities. The Single Allocation reflects an increase of \$6.3 million to meet estimated growth in employment services caseloads, but does not provide funding for county eligibility administration, resulting in a \$210 million methodology shortfall.

In-Home Support Services: The proposal estimates an IHSS budget of \$28.3 billion with an increased caseload of 771,650. The May Revision reflects a shift of \$81 million in expenses to counties for Community First Choice Option reassessment late penalties.

Child Welfare and Foster Care: The Proposed Budget included \$17.2 million for county administrative activities to continue implementation in preparation of a new permanent rate tiered structure. However, the May Revision delays implementation until funding is available.

Public Safety

Incompetent to Stand Trial: The May Revision reflects a reduction of \$195.5 million between this program and community-based restoration and felony diversion and another \$232.5 million in unspent grants for county residential treatment infrastructure. This is not anticipated to impact Monterey as current contracts will be honored.

CalAIM Justice-Involved Initiative: The May Revision indicates an increase of 65 state positions to support continued implementation of the California Advancing and Innovating Medi-Cal program and additional federal reimbursement and authority of \$21.5 million.

Inmate Intake and Release: Proposition 47 is estimated to produce savings of \$91.5 million due to reclassification of crimes and termination of contracts with prisons, and the existing formula allocates 65% to mental health and substance abuse programs, 25% to truancy dropout prevention, and 10% to victim services. This is \$3.2 million more than the proposed budget.

Community Probation: Funding includes \$127.9 million, an increase of \$14.3 million, in statewide incentive grants allocated under SB 678 revocation rate performance metrics, of which Monterey anticipates \$253,591; and \$4.4 million for Post Release Community Supervision. A new performance and evidence based methodology is being proposed for the grant.

Cannabis Proposition 64: The May Revision estimates \$454.3 million, a decrease of \$114.6 million, will be available to fund youth education and treatment (60%), environmental enforcement and clean up from illegal cultivation (20%) and public safety activities (20%) according to an existing formula. At the statewide level, the revised budget shifts funding sources to ensure fiscal sustainability of enforcement efforts without burdening licensees.

Community Assistance, Recovery and Empowerment (CARE) Act: The May Revision acknowledges an increase in petitions and cases, providing \$31.9 million for county behavioral health activities, but no information regarding legal services and public defenders. It reduces funding for local implementation, assistance and training.

Financial Assistance for Survivors of Crime: Due to fiscal constraints acknowledged in the May Revision, the updated budget reverts \$49.7 million from this program.

Salinas Valley State Prison repairs: The May Revision repurposes \$112.8 million to various statewide projects, including repairing kitchen damage caused by a roof leak at the prison.

Climate Change and Infrastructure

In past budgets, Governor Newsom proposed a broad vision for pandemic economic recovery centered around multifaceted infrastructure investments that support climate goals, housing, and workforce development. Most of last year’s solutions to balance the budget targeted these areas, with approximately \$11 billion in reductions, deferrals and loans under climate and transportation programs. Voters passed Proposition 4 in November, however, providing \$10 billion in funding for these priorities.

Climate Change Mitigation: The Governor proposes implementing \$2.7 billion in the first year of the bond for water and wildfire resilience, including \$231.5 million for local dam safety project grants and \$510.1 million for infrastructure and treatment to support safe and reliable drinking water. Another \$220.8 is suggested for various local grant programs to address wildfire resilience and \$64.4 million for community resilience to extreme heat efforts.

Smart Agriculture: The proposal plans to provide \$134 million from the climate bond to aid farmers and ranchers in transitioning to more efficient practices by replacing equipment or implementing irrigation systems, soil carbon sequestration, livestock methane reduction and pollinator habitats.

Battery Storage Systems and Community Renewables: The May Revision includes \$3.7 million from the Public Utilities Commission Utilities Reimbursement Account to support compliance and enforcement of safety standards, however, it reverts \$33 million in funding for renewable energy generation and storage projects due to the elimination of federal funding.

Offshore Wind: The May Revision shifts \$42.8 million from the General Fund to the climate bond for the development of wind generation and infrastructure improvements.

Road Fund: The Highway User’s Tax Account (HUTA) is expected to grow 0.3% in gasoline excise tax and 2.6% in diesel excise tax revenue, while Transportation Improvement Fee revenues are anticipated to increase 3%, mostly from inflationary pressures rather than demand.

Other County Services

Library: The May Revision reflects a \$16 million reduction in federal grants, part of which the State Library shares locally to promote resource sharing and equity programming.

Community Development Block Grant: The May Revision includes \$416.6 million in one-time federal support for 2023 and 2024 disaster recovery efforts related to housing.

Workforce Innovation and Opportunity Act: Anticipating federal funding, the May Revision includes \$119.6 million additional one-time funds to support various development programs.

Federal Accountability through CA Department of Justice: The May Revision provides \$14.4 million and 44 positions dedicated to defending the state against federal actions that may include

tariffs, termination of federal grants not approved by Congress, and threats to reproductive and environmental protections.

This overview serves to briefly highlight significant areas of potential impact to Monterey County from the May Revision to the Governor’s FY26 Proposed Budget and is not an exhaustive analysis. A more thorough summary from the California State Association of Counties (CSAC) is attached. Departments can also provide more detailed insight of potential impacts to their corresponding programmatic areas.