

Overview of the Governor's 2024-25 May Revision



SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Legislative Office Building - Room 502
1021 N. Street
Sacramento, CA 95814

Senator Scott D. Wiener, Chair

OVERVIEW OF THE MAY REVISION

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Staff of the Senate Committee on Budget and Fiscal Review prepared the attached Overview of the May Revision. More detailed program information follows these highlights as described in the Table of Contents. Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings beginning May 15, 2024.

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OVERVIEW OF THE GOVERNOR'S 2024-25 MAY REVISION

On May 10, 2024, the Governor released his May Revision for budget year 2024-25. The Governor now projects budget year General Fund expenditures of \$201 billion, available resources of \$215 billion (prior year balance, revenues and transfers), and \$3.4 billion in the Special Fund for Economic Uncertainties (SFEU), the state's general budget reserve.

Across the prior year, current year, and budget year, Big Three revenues (personal income, corporate, and sales taxes) decreased by approximately \$10.5 billion as compared to the Governor's January Budget proposal. After accounting for transfers and adjustments, the additional budget shortfall identified in the May Revision is \$7 billion and when combined with January estimates, and the Early Action Budget Package adopted in April (Chapter 9, Statutes of 2024 (AB 106)), the total remaining budget problem is projected to be \$27.6 billion.

Budget Problem at the May Revision

Governor's Budget	\$37.9 Billion
Shortfall Since Governors' Budget	\$7.0 Billion
Early Action Budget Package	-\$17.3 Billion
Remaining Budget Problem	\$27.6 Billion

Source: Department of Finance

The budget shortfall continues to be driven by corrections in revenue estimates from the 2022-23 Budget Act related to personal income tax underperformance, recent inflationary trends and dampened economic indicators. The May Revision reflects a revision in Big Three revenue (personal income, corporate, and sales taxes) estimates across the 2022-23 through 2025-26 fiscal years of a negative \$165.1 billion.

Overview of the Governor’s 2024-25 May Revision

The General Fund budget summaries for January and May are listed below:

**2023-24 and 2024-25
General Fund Summary
(Dollars in Millions)**

	January Budget		May Revision	
	2023-24	2024-25	2023-24	2024-25
Prior Year Balance	\$42,078	\$8,029	\$46,260	\$9,726
Revenues and Transfers	196,859	214,699	189,354	205,249
Total Resources	238,937	222,728	235,614	214,975
Non-Proposition 98 Exp.	155,337	131,824	153,450	124,368
Proposition 98 Exp.	75,571	76,894	72,438	76,606
Total Expenditures	230,908	208,718	225,888	200,974
Fund Balance	8,029	14,010	9,726	14,001
Encumbrances	10,569	10,569	10,569	10,569
Special Fund for Economic Uncertainties	-2,540	3,441	-843	3,432
Safety Net Reserve	900	-	900	-
Public School System Stabilization Account	5,730	3,852	2,590	-
Budget Stabilization Act	\$23,132	\$11,106	\$22,555	\$19,429

Reserves and Long-Term Liabilities. The May Revision reflects \$22.8 billion in budgetary reserves. These reserves include: \$19.4 billion in the Proposition 2 Budget Stabilization Account (Rainy Day Fund) for fiscal emergencies and \$3.4 billion in the state’s operating reserve. The May Revision maintains the withdrawal of \$12.2 billion from the Rainy Day Fund as proposed in Governor’s January Budget, however proposes to spread the withdrawal over two fiscal years, utilizing \$3.3 billion in 2024-25 and \$8.9 billion in 2025-26 (the Early Action Package reflected use of the \$12.2 billion in 2024-25). The May Revision continues to reflect a complete withdrawal of the \$900 million in Safety Net Reserve as in the Governor’s January Budget and also reflects a complete withdrawal of the Public School System Stabilization Account (\$3.8 billion remained in the Governor’s January Budget).

Overview of the Governor’s 2024-25 May Revision

The General Fund revenue forecasts for the Governor’s January Budget and the May Revision are compared in the following table:

**2023-24 and 2024-25
General Fund Revenue Sources
(Dollars in Millions)**

Revenue Source	January Budget		May Revision	
	2023-24	2024-25	2023-24	2024-25
Personal Income Tax	\$113,768	\$114,826	\$111,203	\$116,304
Sales and Use Tax	34,643	35,148	33,320	34,045
Corporation Tax	36,913	38,336	33,282	37,759
Other Revenues	12,959	14,363	12,396	14,015
Total	\$198,283	\$202,673	\$190,201	\$202,123

Totals may not add due to rounding.

Change in General Fund Expenditures. The overall General Fund expenditures by program area as proposed in January, and revised in May, are presented below:

**2023-24 and 2024-25
General Fund Expenditures
(Dollars in Millions)**

Agency	January Budget		May Revision	
	2023-24	2024-25	2023-24	2024-25
Legislative, Judicial, Executive	\$13,346	\$7,514	\$12,704	\$7,582
Business, Consumer, Housing	3,391	654	2,868	631
Transportation	1,121	726	1,041	554
Natural Resources	12,263	5,468	11,686	5,410
Environmental Protection	1,466	715	2,333	624
Health and Human Services	74,136	73,588	73,622	70,194
Corrections and Rehabilitation	15,525	14,314	15,312	14,174
K-12 Education	76,134	76,177	73,739	76,323
Higher Education	22,075	22,126	21,635	21,830
Labor and Workforce	1,077	771	1,248	844
Government Operations	4,791	3,239	4,770	2,540
General Government	5,583	3,427	4,930	268
Total	\$230,908	\$208,718	\$225,888	\$200,974

Overview of the Governor’s 2024-25 May Revision

Closing the Budget Gap. Overall, the proposed budget includes a total of \$46.1 billion in budget solutions (including early action and use of reserves) as follows:

**Governor’s Budget and May Revision Proposed Solutions
(In Billions)**

Governor's Budget Solutions	
Reserves	13.1
Reductions	8.5
Revenues/Borrowing	5.7
Delays	5.1
Fund Shifts	3.4
Deferrals	2.1
Governor's Budget Total	\$37.9
Additional May Revision Solutions	
Reserves (Shift Use of Reserves to 2025-26)	-8.9
Reductions	10.7
Revenues/Borrowing	2
Delays	0.5
Fund Shifts	3.9
May Revision Total*	\$8.2
Total Solutions	\$46.1

Source: Department of Finance

*The May Revision total solutions are \$1.2 billion above the increased shortfall identified since the Governor’s January Budget (\$7 billion) due to erosions in proposed solutions and other technical changes.

As noted earlier, the May Revision proposal includes solutions for a remaining budget shortfall of \$27.6 billion in the May Revision, after accounting for the \$17.3 billion Early Action Package (and adjusting for erosions and technical changes).

Overview of the Governor’s 2024-25 May Revision

*The May Revision total solutions are \$1.2 billion above the increased shortfall identified since Governor’s Budget (\$7 billion) due to erosions in Governor’s Budget proposed solutions and other technical changes.

As noted earlier, the May Revision proposal includes solutions for a remaining budget shortfall of \$27.6 billion at May Revision, after accounting for the \$17.3 billion Early Action Package (and adjusting for erosions and technical changes).

The May Revision also proposes significant solutions to eliminate the 2025-26 budget deficit.

2025-26 May Revision Proposed Solutions (In Billions)

2025-26 Solutions	
Reserves	8.9
Reductions	14.6
Revenues/Borrowing	7.4
Delays	-1.1
Fund Shifts	0.7
Deferrals	-2.1
Total	\$28.4

Key Features of the May Revision. Highlights of the May Revision are outlined in the sections below.

K-14 Education

- The May Revision continues to assume the funding maneuver proposed in the Governor’s January Budget and proposes \$8.8 billion in the 2022-23 fiscal year to be recorded in the out-years for the state’s budgetary and financial reporting purposes outside of Proposition 98.
- The May Revision increases the withdrawals from the Public School System Stabilization Account from the Governor’s January budget, and utilizes the entire reserve.

Overview of the Governor's 2024-25 May Revision

Higher Education

- The May Revision reduces funding by \$510 million General Fund in 2024-25 and ongoing for the Middle Class Scholarship. Combined with a technical adjustment, \$100 million General Fund ongoing would remain for the program.

Health

- The May Revision expands the scope of the Managed Care Organization (MCO) tax to achieve additional General Fund savings of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27. The May Revision also eliminates the targeted rate increases and investments proposed in the Governor's January Budget.
- The May Revision reduces Healthcare Workforce General Fund expenditures of \$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 health workforce initiatives adopted in the 2022 Budget Act.
- The May Revision reduces General Fund expenditures of \$450.7 million for the Behavioral Health Continuum Infrastructure Program (BHCIP) in 2024-25, and reduces General Fund expenditures of \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for Behavioral Health Bridge Housing (BHBH).

Human Services

- The May Revision makes additional cuts to services for families in the CalWORKs program, including eliminating \$126.6 million in total funding for mental health and substance use disorder treatment and reducing the CalWORKs Home Visiting Program by \$47.1 million ongoing.
- The May Revision indefinitely pauses the planned expansion of over 200,000 new subsidized child care slots, limiting the expansion to approximately 119,000 slots.
- The May Revision eliminates the In-Home Supportive Services (IHSS) Medi-Cal benefit for undocumented individuals of all ages.

Natural Resources and Environmental Protection

- The May Revision proposes to reduce \$500 million General Fund one-time in 2025-26 supporting water storage facilities.
- The May Revision proposes to revert \$45 million General Fund one-time in 2023-24 and reduces \$20 million General Fund ongoing starting in 2024-25 by accelerating the sunset date for the Habitat Conservation Fund (HCF). (HCF guarantees \$30 million annually for 30 years obtained by transferring monies from various funds and is currently scheduled to sunset in 2030.)
- The May Revision proposes to reduce \$136 million General Fund in 2023-24 (\$268.5 million over four years) for Department of Toxic Substance Control's Cleanup in Vulnerable Communities Initiative Program. In addition, the May Revision proposes to shift \$65 million (\$107.5 million over three years) for this program to the Greenhouse Gas Reduction Fund.

Energy and Transportation

- The May Revision shifts \$1.7 billion in 2024-25 (and \$3.6 billion over five years) from the General Fund to the Greenhouse Gas Reduction Fund for various climate programs. This includes an additional \$555.1 million fund shift for transit programs, for a total of \$1.3 billion.

Housing and Homelessness

- The May Revision sweeps the remaining balances from several programs, including the Multifamily Housing Program (MHP) and the Foreclosure Intervention Housing Preservation Program (FHIPP), in addition to maintaining \$1.2 billion in cuts to affordable housing funding from the Governor's January Budget. At the same time, the May Revision adds \$500 million in state supplement Low-Income Housing Tax Credits, which support affordable housing productions.
- The May Revision does not include funding for a sixth round the of Homeless Housing and Assistance Program (HHAP). In addition, it cuts \$260 million in supplemental HHAP funding which had previously been slated for delay only.

Overview of the Governor's 2024-25 May Revision

General Government

- The May Revision includes a proposal to suspend the use of Net Operating Loss deductions and limit the amount of most business tax credits any taxpayer could claim beginning in 2025-26. Revenue increases are estimated at \$900 million in 2024-25 and \$5.5 billion in future years. The Administration proposes language triggering the suspension removal if revenues improve in the 2025-26 May Revision.
- The May Revision proposes \$250 million in 2024-25 and \$1.25 billion in 2025-26 for the Middle Mile Broadband Initiative (MMBI) with provisional language allowing up to \$500 million additional General Fund in 2024-25. The May Revision modifies this proposal 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.

Workforce and Labor

- The May Revision includes an across-the-board reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. This reduction includes personnel, operating costs, and contracting. The Department of Finance indicates that it will work with agencies and departments in the Fall on these reductions.

Corrections, Public Safety, and the Judiciary

- The May Revision includes a proposed ongoing reduction of \$80.6 million General Fund reflecting the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.
- The May Revision proposes to reduce the funding for the Adult Reentry Grant, including reverting \$54.1 million in 2023-24 and converting a delay of \$57 million proposed in the Governor's January Budget to a reduction.
- The May Revision includes an ongoing reduction of \$97 million for trial court operations, consistent with the 7.95 percent statewide reduction to state operations.

Overview of the Governor's 2024-25 May Revision

Other

- The May Revision does not include any investments identified in the 2022 Budget Act as part of a trigger for inclusion of expenditures at the 2024 May Revision if General Fund Resources were available.
- The May Revision includes funding in various departments for implementation of recently chaptered legislation.

K-12 EDUCATION

PROPOSITION 98 – K-14 EDUCATION

- **Proposition 98 - Changes to the Minimum Guarantee.** The May Revision continues to assume the funding maneuver proposed in the Governor's January Budget and increases the amount adjusted in the 2022-23 fiscal year to \$8.8 billion, which would be recorded in the out-years for the state's budgetary and financial reporting purposes outside of Proposition 98.

The May Revision reflects a decrease in Proposition 98 funding from the Governor's January Budget for the three-year period of 2022-23 to 2024-25. More specifically, the May Revision estimates the Proposition 98 guarantee for the 2022-23 through 2024-25 fiscal years at \$97.5 billion, \$102.6 billion, and \$109.1 billion, respectively. In the Governor's January Budget, the Proposition 98 guarantee for the 2022-23 through 2024-25 fiscal years were estimated to be \$98.3 billion, \$105.6 billion, and \$109.1 billion, respectively.

The revised levels reflect the estimated decrease in General Fund revenues over the three-year period in comparison with the Governor's January Budget proposal. The Proposition 98 Guarantee continues to be calculated under Test 1 for all three years (equal to approximately 38.6 percent of General Fund revenues, accommodating the rebench of the Proposition 98 Guarantee related to the expansion of transitional kindergarten, plus local property taxes).

- **Public School System Stabilization Account.** The May Revision increases the proposed withdrawal amounts from the Public School System Stabilization Account from the Governor's January Budget, and utilizes the entire reserve.
- **Proposition 28 (Arts and Music in Schools-Funding Guarantee and Accountability Act).** The May Revision maintains the Proposition 28 allocation at \$938 million in 2023-24.

K-12 EDUCATION – OTHER CHANGES

- **School Facilities Aid Program.** The May Revision proposes to eliminate the remaining \$375 million one-time General Fund to support the School Facilities Aid Program in 2024-25.

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- **California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program.** The May Revision eliminates a planned 2025-26 investment of \$550 million General Fund that was intended to support the Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program.
- **Preschool Inclusivity.** The May Revision eliminates the planned General Fund investments \$47.9 million in 2025-26 and \$97.9 million ongoing starting in 2026-27. The funding was intended to support the California State Preschool Program adjustment factor costs for State Preschool to serve at least 10 percent of students with disabilities by 2026-27. Providers will continue to be required to serve at least five percent of students with disabilities.

HIGHER EDUCATION

CALIFORNIA STUDENT AID COMMISSION

- **Middle Class Scholarship.** The May Revision reduces funding by \$510 million General Fund in 2024-25 and ongoing. Combined with a technical adjustment, \$100 million General Fund ongoing would remain for the program.
- **2022 Trigger Items for Cal Grant.** The 2022 Budget Act included a trigger that anticipated certain programs expenditures would be included in the 2024 Budget Act if General Fund resources reflected in the 2024 May Revision could support ongoing increases over the multiyear forecast. Due to the projected multiyear negative projections, the Cal Grant Reform Act and Cal Grant California Community College Expansion of Transfer Portability changes are not included in the May Revision.
- **Learning Aligned Employment Program.** The May Revision reduces funding for this program by \$485 million General Fund one-time, reflecting the balance of unspent funds.
- **Golden State Teacher Grant Program.** The May Revision reduces support by \$60.2 million General Fund one-time. Combined with a technical adjustment, \$50 million one-time support would remain.

NATURAL RESOURCES

DEPARTMENT OF WATER RESOURCES

- **Water Storage.** The May Revision proposes to reduce \$500 million General Fund one-time in 2025-26 supporting water storage facilities.

WILDLIFE CONSERVATION BOARD

- **Habitat Conservation Fund (HCF).** The May Revision proposes to revert \$45 million General Fund one-time in 2023-24 and reduces \$20 million General Fund ongoing starting in 2024-25 by accelerating the sunset date for the HCF. HCF guarantees \$30 million annually for 30 years obtained by transferring monies from various funds and is currently scheduled to sunset in 2030. HCF provides grants for land acquisition or land development/restoration for: deer/mountain lion habitat; rare, endangered, threatened, or fully protected species habitat; wetlands; anadromous salmonids and trout habitat; riparian habitat; trails; as well as wildlife area activities (program operation).

DEPARTMENT OF PARKS AND RECREATION

- **Outdoor Equity Grants.** The May Revision proposes to reduce \$50 million General Fund one-time in 2023-24 for outdoor environmental education and access programs administered through the Outdoor Equity Grants Program. Approximately \$40 million has already been committed for this purpose.

ENVIRONMENTAL PROTECTION

DEPARTMENT OF TOXIC SUBSTANCES CONTROL (DTSC)

- **Vulnerable Community Toxic Cleanup.** The May Revision proposes to reduce \$136 million General Fund in 2023-24 (\$268.5 million over four years) for DTSC's Cleanup in Vulnerable Communities Initiative Program. In addition, the May Revision proposes to shift \$65 million (\$107.5 million over three years) for this program to the Greenhouse Gas Reduction Fund.

ENERGY, UTILITIES, and AIR QUALITY

- **Cap and Trade Fund Shifts.** The May Revision shifts \$1.7 billion in 2024-25 from the General Fund to the Greenhouse Gas Reduction Fund for various climate programs. In addition, the May Revision shifts \$3.6 billion from the General Fund to the Greenhouse Gas Reduction Fund over five years. These fund shifts are for transit, clean energy, zero-emission vehicles, and nature-based solutions programs.
- **Air Pollution Control Fund Loan.** The May Revision includes a loan of \$300 million from the Air Pollution Control Fund to the General Fund.
- **Clean Energy Reliability Investment Plan (CERIP).** The May Revision shifts the remaining \$900 million for CERIP to the Greenhouse Gas Reduction Fund over multiple years, beginning in 2025-26.
- **Broadband Last Mile.** The May Revision delays \$200 million for the Last Mile Program from 2025-26 to 2027-28.

HEALTH AND HUMAN SERVICES

The May Revision includes General Fund expenditures of \$73.6 billion in 2023-24 and \$70.2 billion in 2024-25 for health and human services programs that serve low-income, vulnerable individuals and families.

GENERAL FUND SOLUTIONS

To address the state's worsening General Fund condition, and achieve balance in 2024-25 and 2025-26, the May Revision includes several additional General Fund solutions beyond those proposed in the Governor's January Budget. These solutions include reductions or delays in expenditures, additional revenue, and fund shifts. The significant General Fund solutions include the following:

VARIOUS DEPARTMENTS

- **Safety Net Reserve Drawdown.** The May Revision maintains the drawdown of all \$900 million available in the Safety Net Reserve proposed in the Governor's January Budget to address the state's General Fund shortfall.
- **Children and Youth Behavioral Health Initiative.** The May Revision reduces General Fund expenditures of \$72.3 million 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, the behavioral health services and supports platform, evidence-based and community-defined evidence practices grants, the public education and change campaign, and the youth suicide reporting and crisis response pilot. The May Revision also includes a reduction in expenditure authority for the dyadic services benefit in Medi-Cal based on lower than expected utilization.

HEALTH AND HUMAN SERVICES AGENCY (CalHHS)

- **Health and Human Services Innovation Accelerator Initiative.** The May Revision eliminates General Fund expenditures of \$42 million in 2023-24 and \$32 million in 2024-25 that had been proposed for delay in the Governor's January budget.

HEALTH

DEPARTMENT OF HEALTH CARE SERVICES (DHCS)

- **Managed Care Organization (MCO) Tax.** The May Revision includes the following changes to the MCO tax, as amended in early action by SB 136 (Committee on Budget and Fiscal Review), Chapter 6, Statutes of 2024:
 - Expands the scope of the MCO tax to achieve additional General Fund offsets for the non-federal share of Medi-Cal expenditures by including Medicare revenue in the total revenue limit calculation. This change results in additional General Fund offsets of \$689.9 million in 2024-25, \$950 million in 2025-26, and \$1.3 billion in 2026-27.
 - Eliminates the targeted rate increases and investments proposed in the Governor's January Budget for primary and specialty care in Medi-Cal, community and outpatient procedures and services, abortion and family planning access, clinics, emergency and inpatient services, ground emergency transfers, behavioral health facility throughput, graduate medical education, and the Medi-Cal workforce pool. Elimination of these expenditures results in net General Fund savings of \$6.7 billion over the operative period of the MCO tax.
- **Behavioral Health Continuum Infrastructure Program (BHCIP) and Behavioral Health Bridge Housing (BHBH).** The May Revision reduces General Fund expenditures of \$450.7 million for the Behavioral Health Continuum Infrastructure Program (BHCIP) in 2024-25, maintaining \$30 million one-time General Fund in the program. The May Revision also eliminates General Fund expenditures of \$132.5 million in 2024-25 and \$207.5 million in 2025-26 for Behavioral Health Bridge Housing (BHBH), maintaining \$132.5 million General Fund in 2024-25 and \$117.5 million (\$27.5 million General Fund and \$90 million Mental Health Services Fund) in 2025-26.
- **Equity and Practice Transformation Payments to Providers.** The May Revision eliminates the remaining General Fund expenditures of \$280 million available for equity and practice transformation grants to certain Medi-Cal providers to improve quality, health equity, behavioral health integration, and primary care infrastructure. The May Revision maintains \$70 million General Fund expenditures included in the 2022 Budget Act.

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- **Medi-Cal Expansion Regardless of Immigration Status.** The May Revision maintains the expansion of Medi-Cal to all Californians regardless of immigration status, but eliminates the In-Home Supportive Services (IHSS) benefit for beneficiaries in this population at any age. This benefit reduction results in General Fund savings of approximately \$433 million, consisting of \$338 million related to lower than expected utilization, and \$95 million of actual utilization that would be reduced upon eliminating the benefit entirely.

DEPARTMENT OF PUBLIC HEALTH (DPH)

- **Post-Pandemic Public Health Infrastructure Funding.** The May Revision eliminates General Fund expenditures of \$52.5 million in 2023-24 and \$300 million annually thereafter to support state and local public health departments' investments in additional staff, infrastructure, prevention, infectious disease control, population, health, and emergency preparedness.

DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION (HCAI)

- **Healthcare Workforce.** The May Revision reduces General Fund expenditures of \$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 health workforce initiatives adopted in the 2022 Budget Act, including programs for community health workers, nursing, social work, residency programs through the Song-Brown Healthcare Workforce Program, the Health Professions Career Opportunity Program, and the California Medicine Scholars Program. The May Revision also eliminates expenditure authority from the Mental Health Services Fund of \$189.4 million in 2024-25 for behavioral health workforce programs previously proposed for delay in the Governor's January budget.

HUMAN SERVICES

DEPARTMENT OF SOCIAL SERVICES (CDSS)

Child Care Slot Expansion. The May Revision indefinitely pauses the 2021 Budget Act agreement to add over 200,000 new subsidized child care slots by 2026, holding the expansion to approximately 119,000 slots. This results in approximately \$489 million savings in 2024-25 and \$951 million in 2025-26.

CalWORKs Home Visiting Program. The May Revision reduces the CalWORKs Home Visiting Program by \$47.1 million ongoing.

CalWORKs Mental Health and Substance Use Disorder Services. The May Revision permanently eliminates \$126.6 million in total funding for mental health and substance use disorder treatment for families in the CalWORKs program.

Foster Care Permanent Rate Structure. The May Revision makes the proposed foster care rate structure subject to a “trigger” based on the availability of General Fund in Spring 2026. Current law requires the state to adopt a permanent foster care rate structure by January 1, 2025.

In-Home Supportive Services (IHSS). The May Revision eliminates the IHSS Medi-Cal benefit for undocumented individuals of all ages, resulting in \$94.7 million savings.

California Food Assistance Program Expansion. The May Revision delays the planned expansion of the California Food Assistance Program to adults age 55 and over regardless of immigration status to 2027-28. Implementation is currently scheduled for October 2025. This results in approximately \$30 million savings in 2024-25 and \$114 million in 2025-26.

GENERAL GOVERNMENT AND LOCAL GOVERNMENT

TAXES AND REVENUE

FRANCHISE TAX BOARD

- **Net Operating Loss (NOL) Deduction and Business Credit Suspension.** The May Revision includes a proposal to suspend the use of NOL deductions for taxpayers with income over \$1 million and limit the amount of most business tax credits any taxpayer could claim to \$5 million business credits for tax years 2025, 2026, and 2027 to temporarily increase tax revenue. Revenue increases are estimated at \$900 million (\$558 million non-Proposition 98) in 2024-25 and \$5.5 billion (\$1.3 billion non-Proposition 98) in 2025-26. The Administration proposes language triggering the suspension removal if revenues improve in the 2025-26 May Revision.
- **NOL Deduction Conformity.** The May Revision withdraws a Governor's January Budget proposal for partial conformity of the state's NOL deduction to federal law, resulting in a \$300 million increase in 2024-25 (\$200 million ongoing) in General Fund revenue.

ECONOMIC DEVELOPMENT

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

- **No 2024 CalCompetes Grant Allocation.** The CalCompetes Grant Program provides competitively-based grants to businesses in exchange for agreements to create new jobs or make new investments in California. In recent years, the budget has included \$120 million annually for the CalCompetes Grant Program. The Governor's January Budget proposed a \$60 million allocation for 2024. The May Revision withdraws that proposal.

HOUSING

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

- **Addition of \$500 million in State Supplemental Low-Income Housing Tax Credit (LIHTC).** The LIHTC program provides critical investments to a variety

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of affordable housing projects, helping to leverage federal affordable housing resources in the process. By statute, the state must allocate a specified amount to state LIHTC each year. In recent years, the budget has also included a \$500 million supplement to the statutory threshold. The Governor's January Budget did not include such a supplement for 2024-25. The May Revision now proposes to include such a supplement. Because the allocation is in the form of tax credits, it does not count against the 2024-25 budget, but it will reduce General Fund revenues in the future.

- **Elimination of Remaining Funding for the Foreclosure Intervention Housing Preservation Program (FHIPP).** FHIPP provides funding to public entities and qualified non-profit organizations to purchase residential properties that are in the foreclosure process in exchange for binding agreements to maintain the property as affordable housing. The Governor's January Budget proposed to cut \$237.5 million in General Fund from the program, leaving a balance of \$236.5 million. The May Revision now proposes to revert this remaining money back to the General Fund instead.
- **Elimination of Funding for the Adaptive Reuse Program (ADP).** The ADP provides competitively-awarded grants for the conversion of commercial property to residential use. The Governor's January Budget did not make changes to the program, leaving it with an allocation of \$127.5 million in 2023-24 General Fund. The May Revision now proposes to revert this remaining money back to the General Fund.
- **Further Multifamily Housing Program (MHP) Reductions.** MHP provides competitively-awarded grants to a broad variety of affordable housing projects. The Governor's January Budget proposed to reduce previous General Fund allocations to MHP by \$250 million, leaving a balance of \$75 million. The May Revision now proposes to cut this remaining balance as well.
- **Recapture of Other Remaining Affordable Housing Balances.** Even with its proposed cuts, the Governor's January Budget left some comparatively small General Fund balances in a few affordable housing programs, including Veterans Housing and Homelessness Prevention (VHHP) and Infill Infrastructure Grant (IIG). The May Revision proposes to sweep these remaining balances.

HOMELESSNESS

- **Still No Homeless Housing Assistance and Prevention (HHAP) Round 6.** The HHAP program provides relatively flexible, formula-based grants to large cities, continuums of care, and counties for use to address homelessness. In the 2023 Budget Act, the Legislature indicated its intent to fund a sixth round of HHAP. The Governor's January Budget did not include a sixth round of HHAP but did indicate willingness to discuss it. The May Revision does not include a sixth round of HHAP.
- **Conversion of Homeless Housing Assistance and Prevention (HHAP) Supplemental Funding from Delay to Cut.** The HHAP program provides relatively flexible, formula-based grants to large cities, continuums of care, and counties for use to address homelessness. Round 5 of HHAP included \$260 million in General Fund for supplemental HHAP funding. The money originated from what had previously been "bonus" funding in prior HHAP rounds. The Governor's January Budget proposed to delay disbursement of this \$260 million until 2025-26. The May Revision now proposes to cut this amount instead.

CAPITAL OUTLAY

- **Capitol Annex Project.** The May Revision proposes to shift \$700 million (\$450 million in 2024-25 and \$250 million in 2025-26) over two years from the State Project Infrastructure Fund to the General Fund and implement statutory changes that would support the construction of the Capitol Annex Projects with lease revenue bond financing.

BROADBAND

DEPARTMENT OF TECHNOLOGY

- **Middle Mile Broadband Initiative (MMBI).** The Governor's January Budget proposed \$250 million in 2024-25 and \$1.25 billion in 2025-26 with provisional language allowing up to \$500 million additional General Fund in 2024-25. The May Revision modifies this proposal 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 Joint Legislative Budget Committee.

CORRECTIONS, PUBLIC SAFETY, and the JUDICIARY

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

Prison Housing Unit Deactivations. The May Revision includes a proposed ongoing reduction of \$80.6 million General Fund reflecting the deactivation of 46 housing units across 13 prisons, totaling approximately 4,600 beds.

Peace Officer Training Reduction. The May Revision includes proposed reductions of \$8.5 million in 2023-24, \$13.8 million in 2024-25, and \$22.6 million ongoing reflecting a reduction in annual training hours for correctional officers from 48 hours to 40 hours, and a discontinuation of the California Reality Based Training Center.

Los Angeles County Fire Camp Contract. The May Revision includes proposed reductions of \$2.4 million in 2024-25 and \$4.8 million in 2025-26 and ongoing reflecting a proposed cancellation of the fire suppression services contract with Los Angeles County.

Level IV Visiting Reduction. The May Revision proposes to eliminate the third day of visitation at Level IV institutions, resulting in savings of \$4.1 million ongoing.

Data Collection Analysis and Outcomes Funding Reversion. The May Revision proposes to revert \$6 million one-time that was added in the 2022 Budget Act to analyze parole data.

BOARD OF STATE AND COMMUNITY CORRECTIONS

Medication Assisted Treatment Grants. The May Revision proposes to revert \$10.5 million in 2023-24 that was intended for competitive grants to counties for substance use disorder treatment.

Post Release Community Supervision Funding. The May Revision eliminates \$4.4 million one-time funding proposed in the Governor's January Budget for county probation departments for the temporary increase in the number of offenders released from prison pursuant to Proposition 57.

Adult Reentry Grant. The May Revision proposes to reduce the funding for the Adult Reentry Grant, including reverting \$54.1 million in 2023-24 and converting a delay of \$57 million proposed in the Governor's January Budget to a reduction.

Overview of the Governor's 2024-25 May Revision

THE JUDICIAL BRANCH

Trial Court Operations. The May Revision includes an ongoing reduction of \$97 million for trial court operations, consistent with the 7.95 percent statewide reduction to state operations.

DEPARTMENT OF JUSTICE

Department of Justice Reductions. The May Revision includes ongoing reductions of \$10 million for the Division of Law Enforcement and \$5 million for the Division of Legal Services.

LABOR, PUBLIC EMPLOYMENT AND RETIREMENT

DEPARTMENT OF INDUSTRIAL RELATIONS (DIR)

- **Women in Construction Unit Elimination.** The May Revision eliminates the program by reducing funding for the Unit at DIR by \$15 million on an ongoing basis.

EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)

- **California Jobs First.** The California Jobs First program is an inter-agency partnership to create regionally governed investments focused on job creation adapted to climate change. The 2021 Budget Act included \$600 million for workforce investments in 13 regions across California. The April 2024 early action agreement delayed \$275 million from 2021-22 and instead included \$91.7 million for each year between 2024-25 and 2026-27. The May Revision reduces funding for the program by \$150 million over three years (\$50 million in each of 2024-25, 2025-26, and 2026-27).

EMPLOYEE COMPENSATION

- **Vacant Positions Permanent Reduction.** The April 2024 early action agreement AB 106 (Gabriel), Chapter 9, Statutes of 2024 included the Governor's January Budget proposal to reduce departmental budgets by \$1.5 billion (\$762.5 million General Fund) for savings associated with vacant positions. The May Revision proposes making the one-time reduce permanent and the Department of Finance indicates that it will work with agencies and departments in the Fall on appropriate reductions starting in 2024-25.
- **Ongoing Reductions to State Operations.** The May Revision includes an across-the-board reduction to state operations by approximately 7.95 percent beginning in 2024-25 to nearly all department budgets. This reduction includes personnel, operating costs, and contracting. The Department of Finance indicates that it will work with agencies and departments in the Fall on these reductions.

TRANSPORTATION

- **Active Transportation Program.** The May Revision reduces \$300 million in 2025-26 and \$99 million in 2026-27 for the Active Transportation Program. This is in addition to the \$200 million reduction in the Governor's January budget.
- **Transit.** The May Revision shifts \$555.1 million from the General Fund to the Greenhouse Gas Reduction Fund above what was proposed in the Governor's January Budget, for a total of \$1.3 billion. In addition, the May Revision reduces \$148 million not used for awarded projects from the Competitive Transit and Intercity Rail Capital Program (TIRCP) and maintains \$3.5 billion of the originally planned \$3.65 billion.