

Governor's Fiscal Year 2025-26 May Revision Proposal

Governor Gavin Newsom released the May Revision (May Revise) for the [2025-2026 state budget](#) on May 14, 2025. The proposal projects a deficit of \$12 billion from the General Fund. In January, the Governor's budget projected a balanced budget with a modest surplus of \$16.5 billion over the next three years. The Governor's Office cites the deficit is due to economic impacts caused by the recent tariffs and federal policy and budget changes as well as the tax deadline extension for Los Angeles County due to the January wildfires. To balance the budget, the May Revise includes significant reductions for workforce and healthcare initiatives, fund shifts from the General Fund to special funds, delays program expansions and triggers for future spending commitments. The Governor is also proposing a legislative package to address permitting reform and housing development as part of the budget, specifically supporting Assembly Bill 609 by Assemblymember Buffy Wicks and Senate Bill 607 by Senator Scott Wiener, which both support CEQA reform. This memo outlines a summary of key budget items from the May Revise proposal.

TK-12 and Higher Education

Governor Gavin Newsom initially proposed a 7.95% base funding reduction for the California State University (CSU) and University of California (UC) systems. In the May Revision, that reduction was scaled back to 3% for both systems, along with a \$1.8 million increase to support foster youth in First Star Youth Cohorts across UC campuses. The revision also reallocates community college resources to support the expansion of universal transitional kindergarten (TK) using reinvested Prop 98 funds. Additional investments target lower student-to-teacher ratios, enhanced literacy instruction, and continued access to nutrition and after-school programs. To support wildfire recovery, the revised budget includes a one-time allocation of \$3.8 million for California Community Colleges and \$8.5 million for TK-12 schools affected by wildfires.

Climate Change and Environment

The Governor proposes a rebranding and extension of the Cap-and-Trade Program—renamed the “Cap-and-Invest” program. The reauthorization through 2045 aims to strengthen carbon market stability and align the state with its carbon neutrality target. The Governor supports investing the program's proceeds in climate projects, including at least \$1 billion annually for the High-Speed Rail Project. The proposal also includes a shift of \$1.54 billion from the General Fund to the Greenhouse Gas Reduction Fund to support CAL FIRE's fire prevention, fire control, and resource management activities on an ongoing basis. Lastly, the proposal includes a shift of \$42.8 million General Fund to the Climate Bond (Proposition 4) in 2025-26 to support a program for the development of offshore wind generation at the California Energy Commission.

Health and Human Services

The May Revision includes \$302.4 billion (\$85.6 billion General Fund) for health and human services programs in 2025-26. In response to reports that the State overspent \$6 billion on Medi-Cal, Governor Newsom has proposed freezing new health enrollments for adults without legal immigration status. The expansion to include this population drew more enrollees than anticipated, prompting an emergency cash infusion in March 2025. To address the shortfall, the Governor has also proposed a \$100 monthly premium for this group, along with cuts to long-term care, dental services, and other coverage areas.

Delta Conveyance Project

The May Revise includes significant proposals for statutory changes to streamline the Delta Conveyance Project (DCP). The trailer bill language would eliminate deadlines from existing State Water Project water

rights permits and strengthen enforcement of the State Water Resources Control Board’s rules for permit protests as well as additional streamlining of administrative processes.

Housing and Homelessness

The May Revision includes the Governor’s proposed Reorganization plan to create two new agencies - California Housing and Homelessness Agency (CHHA) and a Business and Consumer Services Agency (BCSA). The May Revision outlines \$4.2 million (\$4 million General Fund) in 2025-26, \$6.4 million (\$6.2 million General Fund) in 2026-27, and \$6.2 million (\$6.1 million General Fund) in 2027-28 and ongoing to support the reorganization of the Business, Consumer Services, and Housing Agency.

The May Revision includes a one-time \$416.6 million payment for federal funds to the Department of Housing and Community Development beginning in 2025-26 to support long-term recovery efforts related to 2023 and 2024 natural disasters. The proposal allocates \$200 million Proposition 35 funds over two years for Flexible Housing Pool rental assistance and housing supports. There is a reversion of \$31.7 million unexpended affordable housing program funding. The proposal does not include funding allocations for the Low Income Housing Tax Credit (LIHTC) and the Homelessness Housing, Assistance and Prevention (HHAP) Grant Program.

Labor and Workforce Development

The Governor’s May Revision included targeted reductions to the state’s workforce initiatives under the California Labor & Workforce Development Agency. However, the proposal includes \$1 million for the Labor and Workforce Development Agency in 2025-26 to support implementation of the Master Plan for Career Education. The Governor proposes a one-time increase of \$8.5 million General Fund in 2025-26, with updated interest estimates to the state’s insurance loan of \$642.8 million for the Unemployment Insurance Trust Fund Loan. The May Revision also includes a one-time increase of \$140 million over two years for the Workforce Innovation and Opportunity Act. The proposal includes a one-time increase of \$18.2 million to support apprenticeship training in construction and related fields along with an increase of \$19.1 million to continue to modernize the Department of Industrial Relations information technology system.

General Government

2026 FIFA World Cup & 2028 Olympic and Paralympic Games

The May Revision includes funding and statutory changes to support planning and preparation for the 2028 Olympic and Paralympic Games in Los Angeles. The May Revision includes \$17.6 million one-time funding from the State Highway Account to support transportation project planning associated with the Games, including work on the Games Route Network project. The proposal also states that for the 2026 FIFA World Cup, the California Governor’s Office of Emergency Services can use existing state authorities and partnerships with agencies such as the California Transportation Agency to provide necessary resources and support the goals of event Host Committees.

GenAI

The May Revision directs up to \$8 million one-time Internal Departmental Quality Improvement Account funds for the California Department of Technology to support data gathering related to generative AI projects.