

To: The Humboldt County Board of Supervisors  
CC: Elisha Hayes Humboldt County Administrator  
Sean Quincey, Deputy County Administrator  
From: Paul Yoder and Karen Lange, Shaw Yoder Antwih Schmelzer & Lange  
Date: May 30, 2025  
Re: Budget and Legislative Update

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### **Point in Time**

The Legislature has concluded the first round of policy committee and fiscal hearings and during the first week of June, the main activity will each house taking up bills that have moved through the first house policy and fiscal committees. During that same time, the Budget Committees and Legislative Leadership are working hard to craft the 2025-2026 budget which must be sent to the Governor by June 15.

### **Status of the 2025-26 Budget**

Despite the State's strong cash position as noted by the State Controller, the uncertain federal funding climate, trade concerns and the subsequent impact on consumer spending, leading to lower sales taxes, income taxes and potential reduced earnings from Capital Gains collectively drive to a conclusion that the State's revenue for the coming fiscal year will drop.

### **May Revise Estimates a Budget Shortfall of \$12 Billion**

Governor Newsom released his 2025-26 May Budget Revision on May 14. Notably, the May Revise proposes a total expenditure of \$321.9 billion in state funds, comprising of approximately \$226.4 billion from the General Fund, \$89 billion from special funds, and \$6.5 billion from bond funds. Further, it notes that "tariffs have driven a downgrade in both the economic and revenue forecasts. Combined with increased expenditure growth above the Governor's Budget—most notably in Medi-Cal—***the state must now close an estimated shortfall of \$12 billion to balance the budget and provide for a prudent discretionary reserve.*** This will require difficult but necessary decisions to reduce ongoing expenditure growth to maintain budget resilience and stability for critical state programs. The May Revision does not incorporate any effect of stark federal cuts that are currently under consideration in Congress."

Governor Newsom's May Revision responds to the \$12 billion General Fund shortfall for 2025-26 through a multi-pronged strategy: \$5 billion in reductions, \$5.3 billion in borrowing and revenue shifts, and \$1.7 billion in fund swaps. Despite the fiscal constraints, the budget preserves \$15.7 billion in reserves, including a \$7.1 billion withdrawal from the Rainy Day Fund, signaling caution amid a sluggish economic outlook shaped by high interest rates, inflation, and global trade disruptions.

The May Revision also introduces key structural reforms and policy proposals. On climate, [\*\*\*the budget seeks to extend California's Cap-and-Trade program\*\*\*](#), which is set to expire in 2030, to 2045 and realigns \$1.54 billion from the General Fund to the Greenhouse Gas Reduction Fund to support CAL FIRE and renewable energy priorities. Labor, infrastructure, and DMV digital upgrades continue to receive targeted investments, although all state departments are expected to contribute to \$766.7 million in assumed compensation savings, subject to

ongoing negotiations.

### Major Structural and Policy Changes

- \$12B deficit addressed through cuts, shifts, and reserve drawdowns
- \$1.2B for universal TK adult-to-student ratio
- \$504M in Medi-Cal provider payment reductions
- \$416.6M in federal disaster recovery housing funds
- \$1.54B GGRF shift for CAL FIRE, renewables
- \$400M loan from Labor Fund to General Fund
- \$53M for DMV Digital Experience Platform
- \$573M Prop 2 used to reduce CalPERS unfunded liabilities
- \$766.7M in assumed savings from labor negotiations

While the May Revision framework is what the Legislature initially responds to during the late May budget hearings, it's logical to conclude that significant changes to that framework will be negotiated in the coming days in order to craft a budget that the Legislators can vote for. Nearly all legislators serving in this session have never been tasked with making major cuts to the Budget in order to ensure it meets the Constitutional requirement that the budget be balanced. That makes this process all the more challenging for individual members who champion particular policies and programs that may be subject to cuts.

### State Controller's Office April Cash Receipts

State Controller Cohen released her April [cash report](#) covering the State's General Fund Cash Receipts and Disbursements for the period of July 1, 2024, through April 30, 2025. This statement reflects the state's General Fund cash position and compares actual receipts and disbursements for the 2024-25 fiscal year to cash flow estimates prepared by the Department of Finance (DOF). As noted in the statement, "the state began the fiscal year with a \$14.7 billion General Fund cash balance and ended April with a balance of \$19.5 billion.

As of April 30, California had \$91.7 billion in unused borrowable resources and **fiscal year-to-date receipts exceeded estimates contained in the 2025-26 Governor's Budget by approximately \$5.6 billion, or 3.1 percent.** Disbursements for the fiscal year through April are \$6.9 billion, or 3.6 percent, lower than anticipated in the 2025-26 Governor's Budget." For more information, see [here](#).

### Recent and Upcoming Important Deadlines

- **June 2 – June 6** – Floor session only. No committees, other than conference or Rules committees, may meet for any purpose (ends June 6, 2025).
- **June 6** – Last day for each house to pass bills introduced in that house.
- **June 9** – Policy Committees may resume hearing regular bills (in the second house)
- **June 15** – Budget bill must be passed by midnight.
- **July 18** – Legislature adjourns for summer recess.