

To: All Clients
From: Deveau Burr Group, LLC
Date: Wednesday, May 14, 2025
Re: Governor Gavin Newsom – California 2025-26 Budget May Revise

Governor Gavin Newsom
California 2025-26 Budget
May Revise

Governor Gavin Newsom:

- **California's Economic Strength and Growth**
 - California's economy generates \$675 billion annually in global trade, with \$483 billion in exports in 2020. The state has more Fortune 500 companies than any other in the nation and leads in key sectors, including manufacturing (\$412 billion annually) and agriculture (\$59.4 billion annually).
 - The University of California system is a global leader in innovation, with 12,700 active patents—more than any other academic system—and accounting for 9% of all academic innovation and entrepreneurial investments worldwide.
 - Since 2011, California has produced over 1,300 IPOs—twice as many as any other state—and is the source of 55% of all U.S. venture capital. The state accounts for **18% of global R&D**, compared to 22% from China and 21% from Germany.
 - California's population has grown for two consecutive years, with an increase of 232,000 people last year. The IMF reported that California's economy grew by 6% last year. With a \$4.1 trillion annual output, the state ranks as the **fourth largest economy in the world**.
- **Federal Impacts and Revenue Risk**
 - The Governor criticized federal actions—particularly from the Trump administration—for targeting growth drivers such as research, innovation, and science. Cuts have included \$400 million to programs like **NIH grants**, libraries, literacy efforts, and **volunteer services**.
 - These actions have led to downgraded economic projections across the board, according to economists, banks, and institutions.
 - California's ports—Long Beach, Los Angeles, and San Francisco—have experienced volume declines of 30–35%, exacerbated by tariff changes. Tariffs have shifted from 145%, to 80%, to 30%, destabilizing international trade.
 - Trade with China, Mexico, and Canada accounts for \$67 billion in exports (37% of total exports) and 41% of imports, reflecting California's dependence on stable trade partnerships.

- Market volatility, including a \$10 trillion swing over recent weeks, is affecting investment decisions and long-term planning. Retailers and small businesses face uncertainty in seasonal purchasing due to shifting federal tariff policy (30%, 25%, 10%).
- **Impact on Small Businesses**
 - One in five businesses in Southern California is directly or indirectly tied to international trade.
 - Since 2019, California has recorded 1.16 billion new business starts—twice that of Texas—and is home to 4.2 million businesses employing 7 million people, representing 47.1% of the workforce.
 - The Governor shared personal experience as a small business owner to underscore how tariff instability affects decisions on product sourcing, pricing, and revenue forecasting. He emphasized that the full economic impacts of tariffs have not yet been realized.
- **Legal and Policy Response**
 - The state has taken proactive measures, including early action legislation that expanded resources for the Department of Justice and Attorney General's Office. These efforts are intended to defend California's values and laws against harmful federal policies, including on **tariffs** and **federal program cuts** such as **AmeriCorps**.
 - A major **lawsuit against the Trump administration** has been filed, supported by the economic data presented in the state budget. An injunction request is also being submitted based on the same data.
- **Tourism and International Relations**
 - California's tourism economy reached \$157.3 billion last year—a record high. However, there has been an 11% decline in international visitors, particularly from Germany, the UK, and Canada.
 - In response, the state invested \$5.2 million through Visit California to restore Canadian tourism; 1.8 million Canadians visited California last year.
 - State leadership has engaged with consuls and ambassadors from Germany, the UK, Mexico, and British Columbia to reinforce California's commitment to open global engagement. The Governor emphasized that while California is 2,000 miles from Washington, D.C., it is “a million miles away in mindset.”
- **Revenue Outlook and Budget Forecast**
 - In January, the administration projected a nearly balanced budget with a \$363 million cushion and a \$7.9 billion revenue surplus. Due to recent federal policy impacts, this projection has reversed into a \$16 billion downturn over two fiscal years.

- The largest driver of the shortfall is a \$10 billion reduction in capital gains revenue, followed by a \$3.5 billion drop in wage-based income tax revenue and a \$2.5 billion decline in corporate profits.
 - Capital gains as a percentage of personal income, projected at 5.6% in January, has been revised down to 4.4%. Out-year projections fell from 5.1% to 4.8%. The volatility of capital gains significantly affects California's revenue picture and reinforces the need to raise the state reserve target to 20% and reform the Gann Limit.
- **Budget Proposal Overview**
 - The Governor submitted a \$321.9 billion total budget, including a \$226.4 billion general fund and \$15.7 billion in reserves.
 - The projected budget shortfall is \$11.9 billion, or 5.8% of the general fund. While less severe than shortfalls during past recessions, the Governor stressed the importance of fiscal discipline amid long-term uncertainty.
 - The administration is proposing a mix of solutions that address both the current year and out-year impacts, reflecting a strategy of front-loading fiscal responsibility.
- **Health and Human Services Adjustments**
 - A key budget solution includes a \$5 billion freeze on **Medi-Cal expansion**, particularly affecting undocumented individuals. Current enrollees will not be removed, but new enrollment will be capped.
 - In budget year plus one, the freeze is projected to save \$3.3 billion. In addition, the state will introduce a monthly premium requirement beginning January 1, 2027, expected to generate \$2.1 billion.
 - Additional cost-saving measures include capping certain clinic payments related to the undocumented expansion, capping IHSS (In-Home Supportive Services) overtime at 50 hours, and applying utilization controls on prescription drug approvals—totaling an additional \$200 million in savings.
- **Revenue Measures and Fund Shifts**
 - While there are **no new taxes**, the budget includes fund reallocations and sweeps to generate additional general fund revenue.
 - Two known funds will be swept for approximately \$600 million, and **Proposition 35 Medicaid-based revenue growth** will contribute \$1.3 billion.
 - These strategies will help balance the budget while maintaining program integrity, including preserving fire response funding through Cal Fire.
- **Wildfire Response and Climate Investment**
 - To maintain and expand wildfire preparedness, the budget proposes continued investment in Cal Fire, which has nearly doubled in both staffing and funding in recent years.

- Recent acquisition of the second of seven C-130 Hercules aircraft marks a significant expansion in the state's aerial firefighting fleet, the largest civilian fleet of its kind in the world.
 - The Governor proposes maintaining these investments through the Greenhouse Gas Reduction Fund, linking them to the environmental impacts of **fossil fuel emissions**.
 - A 20-year extension of the Greenhouse Gas Reduction Fund through 2045 is proposed. This extension would also return approximately **\$60 billion in tax cuts and utility rebates** to California taxpayers, pending voter approval.
- **Proposition 98 and Per-Pupil Funding**
 - The Governor reported that **Proposition 98** total investments this year will reach \$127.8 billion. Despite concerns about potential declines, **per-pupil spending is increasing** to \$25,176 across all funds, with a **COLA (cost-of-living adjustment)** of 2.3%—slightly down from 2.4% in January.
 - The administration remains committed to major K-12 investments, including full implementation of Transitional Kindergarten (**TK**) for all 4-year-olds by September 1 of this fiscal year. This includes an additional \$1.2 billion to lower adult-to-child ratios in TK to 1:10, with the goal of offering high-quality, universally accessible early education.
- **Nutrition, After-School, and Community Schools Initiatives**
 - The state continues universal **free school meals**, with an emphasis on quality, access, and removing stigma. The program is aligned with California's Farm to School initiatives and was highlighted during a visit to Chico State.
 - After-school and summer learning programs for TK through 6th grade have been expanded and fully implemented, offering **nine hours a day of care** before school, after school, and during summer. This effort represents more than \$4 billion in investment and is described as a "10x" increase compared to previous programs.
 - **\$4.6 billion is being invested in the expansion of community schools**, which now number nearly 2,500 across the state. These schools offer wraparound services like meals, physical and mental health care, **high-dose tutoring**, learning specialists, and wellness centers, aiming to close opportunity gaps and better support families.
- **Literacy, Dyslexia, and Reading Equity**
 - The Governor highlighted ongoing literacy efforts, building on \$6.8 billion in prior federal relief grants used for pandemic-related learning recovery. Over **\$500 million has been allocated to literacy coaches**, now supporting 833 schools.
 - As part of a **dyslexia-focused strategy**, new literacy screeners will be implemented statewide this fall for all kindergarten through second-grade

students. The screeners were developed in partnership with UCSF and designed to address cultural and ESL-related needs.

- A **statewide literacy roadmap** is being rolled out, accompanied by additional investments and regional hubs for sharing best practices. The Governor announced **\$200 million in new funding** to support legislation focused on evidence-based reading instruction, reinforcing the legislature’s leadership on this issue.
 - From 2011 to 2022, California improved from 48th in the nation to near-average in 8th grade reading proficiency. The Governor noted this as the **fastest improvement in the country**, with **fourth-grade reading scores improving during COVID**, outperforming national averages in three out of four assessment categories.
- **Higher Education Investments and Expectations**
 - The UC system holds 12,700 active patents, the most of any university system worldwide. Under a five-year compact, the state committed to annual 5% increases for UC and CSU. However, this year’s increase will be adjusted from 7.95% (in January) to 3%.
 - Despite the revision, the **funding deferrals remain intact**: \$240.8 million for UC and \$252.3 million for CSU are secured. In exchange for this funding, the state expects institutions to meet shared goals around graduation rates, equity, transfer pathways, dual enrollment, and expanding California-resident undergraduate admissions.
 - **Career Education and Skills-Based Learning**
 - The Governor emphasized that not every student will pursue a four-year degree and highlighted the creation of California’s **first master plan for career education**, developed by over 800 contributors. The plan focuses on skill-based learning and career preparation, building on the 1960s master plan for higher education.
 - The “career passport” initiative is being piloted across rural and urban regions, combining academic and skills records into a single credential for use in college or employment.
 - The “**credit for service**” program allows individuals—such as police officers and military veterans—to receive academic credit for real-world experience, minimizing duplication and accelerating access to degrees or certifications through California’s community colleges.
 - **Support for Veterans**
 - The Governor announced that approximately 140,000 retired military service members in California will be key beneficiaries of expanded educational and credentialing pathways under the state’s “credit for service” program.

- In addition, the proposed budget includes a **new exemption on state income tax for military retirement benefits**, described as a long-overdue down payment despite broader fiscal constraints.
 - The Governor also shared personal family experience with the trauma of military service and emphasized the importance of expanded support systems for veterans beyond financial relief.
 - **Proposition 1**, passed with public support, includes **\$1 billion in mental health funding earmarked specifically for veterans**, as part of a larger \$6.38 billion behavioral health bond initiative.
- **Behavioral Health Infrastructure Investments**
 - California is making what the Governor described as the largest behavioral health investments in state history, aimed at reversing a 60+ year trend of decreasing psychiatric care access. In 1959, California had 37,000 locked hospital beds; today, with double the population, it has only around 5,050.
 - The state is funding **214 behavioral health facility projects across 54 of 58 counties**, delivering nearly 5,100 residential treatment beds and 21,000+ outpatient treatment slots.
 - These projects—approved with land use and zoning reforms—must be shovel-ready and under contract within 90 days. Approximately 80% of the \$4.4 billion in project funding has already been distributed, with more expected in the coming weeks.
- **Housing Supply, Zoning Reform, and Accountability**
 - The Governor described housing as the issue that “impacts more things in more ways on more days than any other issue” in California, citing fundamental supply and demand issues.
 - California has enacted 42 housing reform bills in recent years, including the creation of a Housing and Homeless Accountability Unit and expanded authority over local jurisdictions. Thousands of housing units have been unlocked as a result.
 - The state has prioritized development on excess state lands and implemented one of the most comprehensive **renter protection laws** in the country, modeled by other states.
 - New legislation authored by Assemblymember Buffy Wicks and Senator Scott Wiener aims to accelerate **urban infill development**, exempt qualifying projects from CEQA, and implement **judicial streamlining**. These proposals will be included in the budget and accompanying trailer bills.
 - The Governor also announced plans to create a new Housing and Homelessness Agency to further integrate policy and accountability.

- **Homelessness Response and Local Accountability**
 - Over 16,000 encampments have been cleared from state right-of-ways. Caltrans documents and photographs each site, providing weekly updates to the Governor.
 - The Governor expressed strong frustration with certain local governments, citing Turlock as an example where the state offered significant resources in exchange for \$1 of local funding—and was refused.
 - He emphasized that **state-level action is not the bottleneck**, pointing instead to local resistance and misalignment. Examples include Huntington Beach’s resistance to housing development and cities not participating in state programs.
- **Statewide Homelessness Trends and Reforms**
 - The Governor reported that while California saw a 3% overall increase in homelessness, **unsheltered homelessness rose only 0.45%** last year—significantly lower than the national increase of 7%. Forty-four other states experienced larger increases in unsheltered homelessness.
 - Programs like **Homekey (housing over 10,000 people)** and **Project Roomkey (housing over 62,000 people)** have helped reduce encampments and support transitional housing efforts. These programs emphasize speed, reform, and cost efficiency.
- **Transparency and Public Access to Progress**
 - California has launched accountability.ca.gov, a new statewide dashboard tracking behavioral health, housing, and homelessness metrics.
 - As of that morning, two new sections were added:
 - **ERF (Encampment Resolution Fund)**: Tracks how \$750 million in funding is being used across counties to resolve encampments through outreach, housing, and support—not criminalization.
 - Medicaid-funded **mobile crisis response unit** usage, which the Governor linked to the overall rise in **Medi-Cal** expenditures.
 - The site also includes data on **SB 43 (conservatorship reform)**, CARE Court, housing compliance, RHNA goals, and other local metrics for transparency and public evaluation.
- **Personalized and Efficient Government**
 - The Governor emphasized California’s move toward a more **personalized, data-driven government**, supported by initiatives like the Career Master Plan and efficiency-focused governance reforms.
 - The state has partnered with leading technology firms and launched major **AI initiatives**, including one of the largest generative AI pilot efforts in the country.

- Over 6,000 positions have been eliminated or streamlined, supported by the Office of Digital Innovation and the Office of Data and Innovation, with efforts spanning IT modernization, printing, travel workflows, and service delivery redesign.
- These initiatives have saved taxpayers more than \$2.5 billion in recent years and reflect a shift from top-down government to one that works “with people, not to people.”
- **Procurement and Technology Reform**
 - The DMV’s operational turnaround was recognized by *Harvard Business Review*, attributed in part to the state’s modernized procurement processes through RFI² (“sandboxing” new technologies).
 - This model enabled real-time innovation like early wildfire detection systems developed in partnership with TechnoSilva, one of which was named “Innovation of the Year” by *Time Magazine*.
 - These reforms support faster, more iterative adoption of emerging technologies in areas such as wildfire prevention, housing permitting, and fraud reduction.
- **Civic Engagement and Digital Democracy**
 - Addressing declining civic trust, California launched engage.ca.gov, a new public platform inspired by Taiwan’s democracy model and co-designed with Audrey Tang.
 - The first pilot was launched in Los Angeles to support **wildfire recovery** in culturally distinct areas like Palisades and Altadena. Over 7,800 residents have participated.
 - The platform allows users to propose priorities, engage in community-led planning, and participate in real-time decision-making. Future expansions across other issues are planned, supported by partnerships with ODI, Carnegie Foundation, and others.
- **LA Wildfire Recovery and Rebuild Efforts**
 - The Governor praised the record speed of post-wildfire recovery in Los Angeles, citing rapid hazardous debris removal and the issuing of dozens of building permits in both LA City and County.
 - California has issued **21 executive orders** to streamline emergency response and permitting, and introduced the state’s **first AI-based permit and plan-check tool**, now in use in Los Angeles.
 - Early action from the legislature resulted in \$2.5 billion in wildfire and recovery funding, including \$171 million for **wildfire prevention** and another \$171 million for brush and debris removal in areas like the Santa Monica Mountains.

- **Forest Management and Vegetation Projects**
 - Since launching its wildfire prevention strategy, the state has **10x'd its investments in vegetation and forest management**, treating a record 1.9 million acres in 2021–2023.
 - A statewide interactive map tracks over **2,200 completed or active forest projects**, accessible to the public and updated in coordination with a multi-agency task force.
 - The Governor signed an additional executive order to “cut the green tape” and further fast-track forest health and vegetation management efforts.
- **Strategic Budget Investments in Climate Resilience**
 - The Governor reiterated the importance of investing in wildfire resilience and natural resource protection, noting that **\$1.7 billion has been allocated through the Greenhouse Gas Reduction Fund** for these purposes.
 - These investments aim to build long-term capacity and resilience as the state faces accelerating climate challenges and more frequent disasters.
- **Community-Led Economic Vision and Regional Investment**
 - The Governor concluded by returning to the theme of **vulnerability and agency**, emphasizing the state’s ability to shape its future through bold vision and inclusive planning.
 - California has launched a \$287 million initiative to develop a **bottom-up economic blueprint** across all regions. Each region received a \$5 million planning grant and additional support during the process, which engaged over 10,000 residents statewide.
 - Early action grants (\$39 million total) were distributed during planning to fund promising local projects, followed by an additional \$14 million per region for implementation. These community economic development plans were focused largely on **rural regions**, including the agricultural sector.
- **Medi-Cal and Budget Pressures**
 - The Governor closed the budget presentation by focusing on the long-term sustainability of the **Medi-Cal** program, describing it as the central fiscal challenge now and for years to come.
 - California’s **\$279 billion Medi-Cal budget** (including federal and state funding) continues to grow, with 10.7% of enrollees (1.6 million people) now covered through the **undocumented expansion**—which accounts for 5.3% of total program costs.
 - Utilization across the program is significantly higher than projected, consistent with patterns in other states like Pennsylvania, Colorado, and Indiana.
 - The Governor reaffirmed his long-standing commitment to universal health care, referencing his history of championing access regardless of

immigration status, income, or pre-existing conditions—first in San Francisco and then statewide.

- In response to these cost pressures, the state has proposed a range of actions to “level set” without cutting off coverage. He acknowledged that the Legislature may offer alternative approaches, but emphasized the need to address the program’s cost in order to achieve a balanced budget.

- **Legislative Partnership and Budget Outlook**

- The Governor expressed appreciation for leadership from the Senate Pro Tem and Assembly Speaker, and praised the Department of Finance team for navigating what he called one of the most difficult budget years in recent memory.
- He noted that potential **federal cuts are anticipated but not yet factored into this budget**, which may further complicate future decisions.
- The Governor closed with a call for continued collaboration with the Legislature, aiming to uphold the cooperative spirit that has defined the last six budget cycles. He emphasized the need for humility, partnership, and shared responsibility to meet the state’s fiscal and human needs.

Question & Answer:

- **Question:** This is your second-to-last budget. The first was about \$200 billion; this one is \$114 billion higher. The LAO has warned this growth may be unsustainable. Given today’s budget challenges, is this self-inflicted or due to external factors like President Trump?
 - California's economy grew from \$3T to \$4.1T, prompting increased investment to meet statewide needs.
 - Proud of key initiatives:
 - Universal TK
 - Free school meals
 - Expanded after-school and summer programs (including high-dose tutoring)
 - Forest and vegetation management
 - Public safety support
 - Behavioral health and child care investments
 - Funding for developmental disabilities (DDS)
 - This budget is balanced and addresses both the \$11.9B shortfall and long-term obligations.
 - Revenue projections are conservative:
 - LAO estimates \$2.3B more revenue this year and \$18.4B more over future years.
 - Cost pressures (e.g., in Medi-Cal) are not unique to California; other states face similar challenges.
 - Reserves remain at \$7.1B with no additional reserve draw proposed.

- *Question inaudible / not captured*
 - Did not characterize **Medicaid (Medi-Cal)** challenges as insignificant; emphasized that the **5.8% deficit** must be viewed in context of California's broader fiscal environment.
 - California experiences recurring **feast-famine cycles** due to its highly **progressive tax system**, unlike more **regressive tax states** like Texas and Florida.
 - Noted: Texas received \$71.1B more from the federal government than it contributed; California contributed \$83.1B more than it received (2023 data).
 - Highlighted California's **Master Plan for Aging**, which:
 - Aims to help seniors age in place with dignity.
 - Has been in development for years and is described as a national model.
 - Includes **\$1.4 billion under Proposition 1** for **workforce development** related to aging services and **Alzheimer's/dementia care** (in collaboration with Maria Shriver).
 - The budget **holds the line on most adult and senior services**, with only minor adjustments—particularly related to the **undocumented senior population** under Medi-Cal.
 - Reaffirmed commitment to updating the public on progress and performance against the Master Plan's goals.
 - Acknowledged that there are proposed **cuts under Medicaid expansion**, but described them as measured rather than fundamental shifts.
 - Welcomes legislative alternatives, provided they result in a **balanced budget**.

- *Question inaudible / not captured*
 - Confirmed that the **"plus one" budget year** absolutely includes structural adjustments to address the projected shortfall.
 - The **\$7.9 billion in higher-than-expected revenue** this year could have been used to close the current gap, but doing so would **ignore the larger, out-year spending problem**.
 - Described the **spending side of Medi-Cal** as the core issue driving long-term imbalance.
 - Emphasized that this budget doesn't just address the \$11.9B deficit for the coming year—it also **substantially reduces the out-year shortfall**.
 - The budget reflects a **deliberate decision** to act now on Medicaid adjustments rather than pass the problem forward.

- *Question inaudible / not captured*

- California is allocating **\$1.3 billion in MCO tax funds to base Medi-Cal rates**, consistent with federal waiver agreements, including recent waivers involving direct engagement with HHS leadership.
- *Question inaudible / not captured*
 - **Proposition 36** presents new costs to the corrections system (CDCR) and probation due to expected increases in population; although impacts are still uncertain, early signs show a potential reversal in the declining prison population trend.
 - Funding for Prop 36 partially comes from **Prop 47 savings**, projected at \$91.5 million in FY 27-28, dropping to \$27.1 million thereafter.
 - Additional correctional costs are anticipated, similar to the billions incurred under **Prop 35** (human trafficking penalties and related **Medicaid** costs).
 - An additional **prison closure is planned for October 2026** to continue long-term cost savings.
- *Question inaudible / not captured*
 - The budget includes **over \$200 million in enhanced funding for family planning and reproductive freedom**, continuing California's leadership in this area.
 - The administration backfilled **Prop 56 (tobacco tax)** funding when it fell short due to decreased consumption, but now faces **\$4.6 billion in Prop 35 costs** over the next two fiscal years, limiting the state's ability to continue full backfills.
 - Creative budget strategies have offset about \$2 billion of those burdens, and the Governor remains open to working with the Legislature to mitigate any access issues.
- *Question inaudible / not captured*
 - Reaffirmed pride in California's national leadership in health care access and **Medi-Cal expansion**, including the CalAIM initiative.
 - Criticized Texas for its high uninsured rate and emphasized California's alternative approach centered on **preventive care** vs. "universal sick care."
 - Acknowledged that adjustments to the **undocumented Medi-Cal population** are necessary for fiscal balance but emphasized **no one is being cut off from basic services**.
 - Reiterated close collaboration with legislative caucuses, including the **Latino Caucus**, and openness to alternative budget proposals that maintain balance and expand access.
- *Question inaudible / not captured*
 - **\$2.5 billion in early action funds** remain a major resource for Los Angeles disaster recovery efforts.

- Over \$1 billion of that amount has not yet been allocated and is available through reimbursement for federal disaster-eligible expenses.
 - The state will not cover LA requests unrelated to disaster recovery.
 - Praised bipartisan collaboration, including Republican Rep. Calvert's role in securing Pentagon and congressional support for recovery efforts (e.g., the C-130 Hercules firefighting aircraft).
- *Question inaudible / not captured*
 - Emphasized the importance of expanding the **film and TV tax credit program** as a key tool for **economic recovery**—especially in LA County, where the entertainment industry remains on “life support.”
 - Noted that production flight has hurt California's economy and workforce, particularly in trades and post-production.
 - Called on President Trump to support national-level incentives, referencing a **\$7.5 billion federal tax credit request** aimed at restoring U.S. competitiveness in the global film market.
 - Reiterated that economic growth and recovery will enable the state to invest in broader priorities, including social services.
- *Question inaudible / not captured*
 - Cited unprecedented assaults on democratic institutions and economic growth engines.
 - Criticized federal tax cuts benefiting billionaires and questioned how such cuts would be funded.
 - Emphasized California's commitment to **R&D, higher education**, and **economic infrastructure** as the foundation for budget resiliency.
 - Reiterated that budget responsibility includes addressing **growth in spending**, not just declining revenue.
- *Question inaudible / not captured*
 - Clarified that \$16 billion in projected revenue loss is tied to federal actions post-“liberation day.”
 - Stressed that while federal impact is significant in the short term, long-term budget pressures include both revenue and spending.
 - Noted that **inflation, GDP, and unemployment** metrics forced budget adjustments.
- *Question inaudible / not captured*
 - Expressed uncertainty around where federal cuts will fall but flagged concern for **Medicaid**.
 - Stated California cannot offset all potential federal funding losses if cuts are widespread.
 - Acknowledged ability to address some areas selectively, but emphasized fiscal limits.

- *Question inaudible / not captured*
 - Emphasized that **many Californians already pay premiums** through Covered California.
 - Defended modest contributions being asked of undocumented individuals enrolled in **Medi-Cal**, noting continued coverage remains **first-in-the-nation** in scope.
 - Called the adjustments necessary to maintain budget balance.
- *Question inaudible / not captured*
 - Stated California is **“flooding the zone” with behavioral health investments**, citing:
 - \$3.3 billion for 214 projects, 5,100 beds, and 22,000 outpatient slots
 - \$1.4 billion workforce investment
 - Implementation of MHSA reforms in July, directing 30% to housing
 - Addressed Prop 36 by explaining counties and cities that supported it should now **fund it accordingly**.
 - Reiterated Prop 36 was not considered when designing Prop 1.
- *Question inaudible / not captured*
 - Detailed the **multi-stage parole process** underway, involving risk assessments and judicial review.
 - Governor retains final decision-making authority and is reviewing all materials in real time.
 - Outcome may be determined as early as June 13 or may extend for several months.
- *Question inaudible / not captured*
 - Confirmed continued progress on California’s **high-speed rail**, contrasting it with Texas’ stalled project.
 - Noted over **98% of phase 1 has environmental clearance**, and **2,270 parcels** acquired.
 - Emphasized lessons learned are being applied to **Delta Conveyance Project**, which also has budget trailer language.
 - Confirmed ongoing construction and commitment to completion.
- **Question:** You began the week saying cities and counties need to do more on homelessness. Today, you criticized local governments, but the head of CSAC says counties don't have the money. What's your response? Strongly pushed back on the “no money” claim.
 - Cited **5,100 beds across 54 of 58 counties**, funded by the state.
 - Highlighted that **30% of funds from the Mental Health Services Act reform** will go toward housing for behavioral health needs.

- Pointed to **BH-CONNECT** (Medi-Cal waiver for short-term support) and **mobile crisis support** in the budget.
 - Referred to the state's **accountability website** and noted the **\$1B in funding counties haven't yet received**.
 - Emphasized that as a former mayor, he never blamed the state and that **cities and counties must step up**.
 - Cited **Prop 1's requirement for a single behavioral health plan per county**.
 - Called out "stale talking points" and reaffirmed that **the state has never done more**.
- *Question inaudible / not captured*
 - Asserted that some local governments are doing well, but **many are not**, and **people are dying on their watch**.
 - Recounted specific stories of individuals affected by homelessness and overdose in L.A. and San Diego.
 - Framed homelessness as a **moral issue** and criticized persistent encampments and inaction.
 - Called for **more aggressive local efforts**, stating:
 - "I'm just done with the excuses. Period. Full stop."
 - Reiterated that if local governments are unable to act, they should say so and the **state will intervene**.
- *Question inaudible / not captured*
 - Said he **rejected local homeless plans three years ago** for lacking ambition.
 - Cited an **executive order** in L.A. and an **amicus brief** as part of state intervention.
 - Listed common local objections and the state's responses:
 - ERF grants: increased from **\$50M to \$750M**.
 - Zoning: addressed via **Roomkey and Homekey**.
 - Mental health: addressed with **CARE Court** and **conservatorship reform**.
 - Stressed that **barriers have been cleared** and local governments must now **prove state investments are working**.
- *Question inaudible / not captured*
 - Closed by acknowledging **difficult budget choices**, but framed them as consistent with state values.
 - Emphasized the need for the Legislature to **take a hard look at this and next year's challenges**.
 - Warned that due to fiscal constraints and federal uncertainty, **not all investments can continue**, and budget discipline is necessary to maintain stability.

Director of Department of Finance:

- **Clarifications on Budget Data:**
 - The **\$16 billion revenue impact** attributed to the federal administration is spread over **two fiscal years**: current fiscal year and the 2024–25 budget year.
 - The **\$3.3 billion savings** from freezing Medi-Cal enrollment for the undocumented population occurs in **2028–29**, the final year of the forecast.
 - The **special fund loans** from the Unemployment Insurance Fund and Labor and Workforce Development Fund are **loans to the General Fund, not sweeps**.
- **Structural Deficit and Budget Approach:**
 - Past budgets closed gaps mainly with **short-term solutions** (one-time cuts, fund shifts, and borrowing).
 - Current May Revise shifts focus to **addressing long-term structural imbalance**.
 - Although **\$5 billion in reductions** are proposed for the 2024–25 budget year, those grow to **\$16.9 billion by 2028–29**, with **\$14.8 billion from reductions**.
 - These proactive steps are intended to ensure **long-term fiscal stability** for the state.
- **Revenue Trends and Forecast Downgrades:**
 - As of April, revenues were **\$7.9 billion above January projections**.
 - However, **\$3 billion of that is expected to shift to October** due to LA County's tax payment delay caused by January fires.
 - Despite earlier strength, **economic and revenue forecasts have been downgraded**, aligning with national outlooks.
 - Revenue softening is expected **later this fiscal year** and will continue through **2025–26 and 2026–27**.