



Governor Releases May Budget Revision

California Confronts a \$12 Billion Deficit

Governor Gavin Newsom released the May Budget Revision on May 14 proposing a \$322 billion spending plan for 2025-2026 as the state faces a \$12 billion 2025-2026 budget deficit. He cited lower capital gains, weaker corporate taxable profits, lower wages and personal income tax withholding, as well as decreased personal income tax items as the primary reasons for the deficit.

Governor Newsom also pointed to what he is calling a “Trump Slump” as driving the deficit, including tariffs, market volatility, and a decrease in international tourism.

Food and Agriculture

The proposed budget contains funding for certain agricultural-related programs, such as the State Water Efficiency and Enhancement Program (SWEEP), Healthy Soils, Invasive Species Council, Multibenefit Land Repurposing Program, and Urban Greening. Funding for these specific programs derives from the Prop 4 climate bond and is not part of the state General Fund, which is facing a deficit.

Greenhouse Gas Reduction Fund (GGRF) Programs

The governor’s proposal does not contain any Greenhouse Gas Reduction Fund (GGRF) allocations for programs that significantly reduce greenhouse gas emissions in the food and agriculture sector, such as the FARMER program, Food Production Investment Program and livestock methane emission reduction programs, which are supported by Ag Council and its members. GGRF dollars are separate from the General Fund, and conversations with legislators and the governor’s office regarding GGRF allocations are connected to reauthorization of the Cap-and-Trade program given that the program is the funding source for GGRF.

Though this is disappointing news on the GGRF side at this time, Ag Council is actively meeting with members of the Assembly and Senate, as well as the governor’s staff, to advocate for these critical programs. A great deal of work is underway in the legislative process, and it is important to keep in mind this is not the final outcome given that discussions are ongoing.

Water

The governor’s budget proposes a streamlining of administrative processes for the Delta Conveyance Project. The budget plan explains that this effort would lower costs, avoid delays and reduce timelines while protecting the environment and accelerating this surface water supply project. As an example, the language released by the governor’s administration in a budget trailer bill would limit litigation challenges against the Delta Conveyance Project by placing parameters

and timelines around court filings. As background, a trailer bill implements policies and changes that are detailed in the state budget.

The Delta Conveyance Project is a water infrastructure modernization project to assist in capturing and moving excess water while maintaining fish and water quality protections. The Department of Water Resources states that if the project was operational between October 2024 and May 2025, California could have moved 952,000 acre-feet of water, enough to supply water for almost 10 million people for one year.

Cap-and-Trade Reauthorization

As part of the budget announcement, Governor Newsom released a budget trailer bill to extend California's Cap-and-Trade program, which he is branding as Cap-and-Invest, through January 1, 2046.

Ag Council represents some farmer-owned food processors that are covered under California's Cap-and-Trade program, which was created to reduce greenhouse gas emissions in the state. With the release of governor's proposal -- and many meetings and conversations occurring with legislators on Cap-and-Trade -- Ag Council is articulating that we would support a reauthorization that includes cost containment mechanisms, such as those within the current program to ensure a stable market, maintain the competitiveness of California businesses and prevent leakage (leakage=businesses leaving the state and taking emissions with them). Cost containment includes elements such as continuing free allowances and the ability to utilize offsets.

The Cap-and-Trade program expires in 2030, and a reauthorization is preferred by Ag Council sooner rather than later to stabilize the market and provide certainty for California businesses, including Ag Council's participating members. In addition, GGRF program allocations are funded via Cap-and-Trade dollars, and the program's stability is vital to funding many of the critical ag-related programs familiar to our members and utilized by the ag community (see GGRF section above).

As part of the governor's proposal, he would continue the California Climate Credit and allocate \$60 billion for utility bill credits to California residents to be spent over the duration of the Cap-and-Trade extension, through January 1, 2045. The funds have not been approved by the Legislature and will be part of the discussion in the coming weeks and months.

Budget Solutions/Borrowing/Fund Shifts

Among the \$5 billion in budget solutions to close the deficit, the governor proposes to halt Medi-Cal enrollment expansion for undocumented adults aged 19 and older, cap In-Home Supportive Services overtime and travel hours, and end the expansion of payments to certain health centers and clinics.

The May Budget Revision contains \$5.3 billion in proposed borrowing from the following: Prop 35 for Medi-Cal rate increases, the Medi-Cal Providers Interim Payment Fund, and the Labor and Workforce Development Fund Loan, among other borrowing.

In addition, the proposal contains a fund shift to move \$1.5 billion in 2025-26 from the Greenhouse Gas Reduction Fund for CAL FIRE operations and the plan would steadily increase that amount to \$1.9 billion by 2028-29.

What's Next?

The governor's May Budget Revision is being reviewed by the Assembly and Senate Budget Committees and all legislators. Though the deadline for the Legislature to pass a state budget is June 15, legislators and the governor have a history of approving a budget blueprint by the deadline and then postponing the more challenging, final decisions until later in the summer. Those decisions are often included in trailer bills that focus on the statutory changes needed to carry out the budget.