February 10, 2025

Summary of Governor Gavin Newsom's Proposed Budget for FY 2025-26

Introduction

On January 10, 2025, Governor Gavin Newsom presented his $322.3 billion proposed budget for fiscal year (FY) 2025-26[1]. The proposed budget is roughly balanced, and after a 2-year budget deficit, is projected to have a modest surplus of $363 million. Despite the surplus, the budget notably fails to provide substantial proposals to increase revenues. This document highlights elements of the proposal that may be of interest to advocates and organizations working to foster more equitable, safe, and healthy community conditions. We've additionally identified investment gaps for programs that we know are important for communities to thrive.

This document details aspects of the budget pertinent to PI's three priority areas for California policy:

1. Strengthening community-driven approaches to safety and wellbeing
2. Healthy, equitable built environments and land use planning
3. Aligning public investments with health equity and racial justice.

In addition to summarizing elements of the budget proposal that foster or hinder our three policy priority areas, we include details on budget priorities that advocates are advancing to address gaps that we see in the Governor's proposed budget.

[1] Newsom, G. (2025). *Governor's Proposed Budget Summary 2025-26*. https://ebudget.ca.gov/2025-26/pdf/BudgetSummary/FullBudgetSummary.pdf

Implications of Federal Policies on the Budget

Uncertainty about the impact of the Trump Administration's federal policies contributes to "the most immediate risk to the [budget's baseline] forecast"[2]. Approximately one-third of California's total budget relies on federal dollars, with 75% of these dollars going toward health and human services, including Medi-Cal and the Department of Social Services[3]. The administration has already proposed or threatened cuts that may have devastating impacts to programs and services critical to the health and wellbeing of California's residents, including health care, immigration, K-12 education, labor and workforce development, food assistance programs, environmental protection, and more. Potential areas of the budget that may be affected by the federal administration that were identified in the Governor's proposal include:

- Medi-Cal (Medicaid)
- Managed Care Organization Tax
- CalWORKs
- Rental subsidies
- Emergency disaster funding
- Behavioral Health-CONNECT
- Housing
- Infrastructure funds

Government Strategies to Address Community Safety and Wellbeing

Community safety and wellbeing can be effectively advanced by understanding the events that have led to present conditions and implementing policies and practices that address the root causes of violence. Comprehensive approaches include a combination of strategies spanning upstream prevention that fosters social and racial equity, from violence interruption and intervention to community-led response and culturally rooted healing practices.

- **Domestic and Sexual Violence Prevention Grants—**This year's proposal does not include additional funding for new Domestic and Sexual Violence Prevention grants. This leaves many organizations uncertain about how they will continue to offer critical supportive services to survivors.
- **Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT)**—$8 billion in state and federal resources over four years to launch BH-CONNECT, a new multi-year initiative that aims to improve access to behavioral health services for Medi-Cal members with significant needs, focusing on children and youth involved in child welfare, people involved in the justice system, and individuals at risk of or experiencing homelessness.

[2] Newsom, G. (2025). *Governor's Proposed Budget Summary 2025-26*. https://ebudget.ca.gov/2025-26/pdf/BudgetSummary/FullBudgetSummary.pdf

[3] Graves, S. & Nair, N. (2025). *Federal Funds Drive One-Third of California's State Budget.* https://calbudgetcenter.org/resources/federal-funds-drive-one-third-of-californias-state-budget/

- **Behavioral Health Transformation/Proposition (Prop) 1 Implementation—**$93.5 million (including $55 million General Fund) to implement Prop 1, a measure approved by voters in March 2024 that amends California's Mental Health Services Act (MHSA) and created a $6.38 billion bond to fund behavioral health treatment, residential facilities, and supportive housing for veterans and Californians with behavioral health needs. In FY 2024-25, state leaders allocated $85 million to begin Prop 1 implementation.
- **Belonging Campaign**—$5 million one-time General Fund for the Office of Community Partnerships and Strategic Communications to launch a Belonging Campaign by January 2026. The proposal states that the Belonging Campaign will help communities better identify pathways to social connectedness and engagement. The Office will initiate research projects to evaluate how Californians define belonging and how connected they feel to their communities, develop a strategy to improve the state's efforts in engaging community, and encourage increased applications for the state's service corps.

Fostering Equitable Housing Development and Addressing Homelessness
Stable, safe, and affordable housing is a critical determinant of health. Housing directly impacts physical and mental wellbeing and provides a foundation for economic stability. Despite having a modest surplus, the budget proposal does not include new investments into housing and homelessness programs.

Proposals to Shift Local Housing Development Procedures
Governor Newsom focuses on making procedural changes aimed at accelerating housing production, including measures to increase local jurisdictions' accountability to meeting state housing obligations and streamlining land use and permitting practices.

- **Reduce Costs**—Lower housing construction costs by streamlining processes and removing unnecessary barriers to development, including addressing delays in project approvals and permitting. Additionally, the state should pursue policies to reduce costs associated with existing laws that hinder housing production and increase costs and development risks.
- **Enhanced Accountability**—Strengthen mechanisms to ensure jurisdictions meet their state housing obligations and comply with existing laws, including the Housing Accountability Act and Permit Streamlining Act.
- **Housing and Transportation**—Advance policies that remove barriers to infill housing near transit, including efforts to align long-term housing and transportation planning, and further the ability to utilize housing as a mitigation strategy for infrastructure projects.

Proposals to Increase Homelessness Funding Accountability

- **Homelessness Program Accountability**—Governor Newsom calls for the Legislature to incorporate stronger accountability policies, including:
    - Requiring local governments to have a compliant Housing Element and a local encampment policy, consistent with state guidance, to be eligible for funding.

- Prioritizing funding for local governments with Pro-Housing Designations where appropriate. Pro-Housing Designations are a status awarded to localities in California who demonstrate a commitment to "pro-housing" policies like streamlining of zoning and permitting restrictions. These designations can provide localities with more state funding for housing.
- Allowing the reallocation of funding from local governments that fail to meet program requirements or show progress on key metrics to those that are acting with the necessary urgency.

- **Additional Accountability on Existing Funds**—Housing and Community Development (HCD) will increase scrutiny of local governments' fiscal and outcome reporting through the Homeless Data Integration System so that local grantees stay up to date on those reports and will take remedial action as necessary. HCD will continue to enforce requirements that local governments show progress on implementing activities funded by the Homeless Housing, Assistance, and Prevention Program (HHAP) before releasing additional disbursements of funds.

> Housing California, a statewide advocacy coalition dedicated to addressing housing affordability and homelessness, expressed disappointment in the absence of new funding for critical homelessness, affordable housing, and homeownership programs. To effectively address California's housing needs, the coalition urges the Governor and Legislature to prioritize General Fund investments for the expansion of affordable housing by building 100,000 new affordable homes per year and preserving investments to programs like the Homeless Housing, Assistance, and Prevention Program.

Supporting Resilient and Equitable Infrastructure and Regional Economies

Historic investments in infrastructure and regional economic development can be key to fostering sustainable and equitable economic and physical environments for California's racially diverse communities who have been historically-disinvested from. However, planned investments into California's infrastructure may hit a roadblock with President Trump's recent executive orders to block infrastructure funding disbursements.

- **Federal Infrastructure Investments—**The budget proposal highlights billions of dollars in Biden-era Federal infrastructure funding that the state plans to receive. These investments may be impacted by President Trump's attempts to halt all Federal funding disbursements related to renewable energy infrastructure in Executive Order 14154[4], *Unleashing American Energy*, .

  - *Infrastructure Investment and Jobs Act*—As of November 2024, the state expects to receive $46.7 billion in formula funding and $15.1 billion in competitive funding (a total of $61.8 billion) for transportation infrastructure, broadband, and climate resilience projects.
  - *Inflation Reduction Act*—As of November 2024, the state expects to receive $3 billion for energy and climate change investments.

- **Regional Initiative For Social Enterprises Program**—$17 million one-time General Fund for the Regional Initiative for Social Enterprises Program (CalRISE). Initially established in 2022, CalRISE provides financial and technical assistance to employment social enterprises to help them build capacity to create and retain jobs in communities. This investment aims to connect employment social enterprises with the thirteen California Jobs First Regional Collaboratives (formerly the Community Economic Resilience Fund Program, or CERF), aligning their job creation and training programs with the industry sectors prioritized by each of the Collaboratives.
- **Education And Workforce Development Coordinating Council**—$5 million General Fund in 2025-26 and ongoing for GovOps to establish a planning and coordinating entity to bring together TK-12 education, higher education and state economic and labor agencies to improve coordination of resources and initiatives across state government in alignment with recommendations from the Master Plan for Career Education.

Addressing Climate Change through Environmental Justice and Parks and Green Space Equity

With the destructive L.A. wildfires foregrounding the release of the budget proposal, the budget proposes a $2.7 billion spending plan for the first year of a multi-year implementation of the $10 billion bond (Proposition 4). The budget makes investments into the Climate Bond's priority areas, including but not limited to outdoor access, wildfire and forest resilience, extreme heat mitigation, and biodiversity. The following Climate Bond investments are the investment areas that reflect Prevention Institute's policy priorities and those of our local partners; they do not reflect all investments featured in the budget proposal.

Outdoor Access

- **Statewide Park Program**—$190 million to create new parks and improve existing parks in the state's most disadvantaged communities. The Statewide Park Program is the largest park-related grant program in California, creating and enhancing community open spaces where they are needed most in the state.

[4] Exec. Order No. 14154, 3 C.F.R. Page (2025).
https://www.whitehouse.gov/presidential-actions/2025/01/unleashing-american-energy/

- **Deferred Maintenance Program**—$84.4 million to help address deferred maintenance projects throughout the State Park System. These projects aim to enhance visitor experiences and increase access to California's state parks.
- **Reduction of Climate Impacts and Creation, Protection, and Expansion of Outdoor Recreation**—$11 million to enhance visitor access on and increase the resilience of public lands by improving safety and accessibility of trails and facilities, increasing interpretive information, and completing wildfire preparedness and mitigation projects.

Wildfire and Forest Resilience

- **Forest Health Program**—$82.2 million for projects that improve forest health by significantly reducing fuels, reintroducing beneficial fire, restoring degraded areas, and conserving threatened forests.
- **Regional Projects**—$79.5 million for block grants to support landscape-scale, multi-benefit projects developed by forest collaboratives in high-risk regions.
- **Local Fire Prevention Grants**—$59.1 million for the Wildfire Prevention Grants Program to support local projects in and near fire-threatened communities, including fuels reduction, wildfire prevention planning, and wildfire prevention education with an emphasis on improving public health and safety.
- **Resilient State-Owned Lands**—$33.4 million to help restore health and resilience to 3.8 million acres of state-owned lands vulnerable to destructive wildfires, including expansion of beneficial fire.
- **State Conservancies–Watershed Improvement and Wildfire Resilience**—$22.4 million for various conservancies within the Natural Resources Agency for watershed improvement, forest health, biomass utilization, chaparral and forest restoration, and workforce development.
- **Wildfire Mitigation**—$9.1 million for the Wildfire Mitigation Program, administered by the Office of Emergency Services and the Department of Forestry and Fire Protection, which offers financial assistance to vulnerable populations in wildfire-prone areas throughout the state for cost-effective structure hardening and retrofitting to create fire-resistant homes, as well as defensible space and vegetation management activities.

Extreme Heat Mitigation

- **Urban Greening Program**—$46.8 million for greening communities through the creation and expansion of green streets, parks, and schoolyards.
- **Extreme Heat and Community Resilience Program**—$16.1 million to fund projects that reduce the impacts of extreme heat, reduce urban heat island effect, and build community resilience to extreme heat.
- **Community Resilience Centers**—$784,000 to Community Resilience Centers provide shelter and resources during climate and other emergencies, as well as year-round services and programming that strengthen community connections and the ability to withstand disasters.

The Greenlining Institute (TGI), a national organization focused on advancing economic and climate equity to shape a more just and inclusive economy, highlighted in their statement that the budget investments falls short in providing the necessary funding for climate resilience and equity programs. TGI also expressed deep concern for the delayed funding towards the implementation of extreme heat mitigation that would build community resilience. Their statement highlighted how communities of color and low income communities are disproportionately affected by the climate crisis and urged the Governor to prioritize equitable and sustainable investments for environmental justice to ensure all Californians survive and thrive.

Biodiversity and Nature-Based Solutions

- **Tribal Nature-Based Solutions Program**—$9.4 million for grants to California Native American tribes for multi-benefit nature-based solutions projects including ancestral land return, planning and implementation of habitat restoration projects, protecting the state's coast and oceans, and advancing wildfire resilience and cultural fire across California.

The Sierra Club and the California State Parks Foundation, two organizations dedicated to climate and outdoor advocacy, expressed concern about Governor Newsom's use of Climate Bond dollars to backfill existing environmental programs to free up already-committed General Fund dollars. The Foundation stressed that Climate Bond resources were always meant to be additive to existing investments, and replacing General Fund dollars with Climate Bond dollars violates the voters' intent. The Sierra Club added broader context, highlighting the overall decline of general funding for environmental agencies. They stressed that swapping General Fund dollars with Climate Bond dollars maintains the budget status quo and keeps these agencies vulnerable to further general funding decline–a decline that could have grave consequences considering the current and future devastating impacts of climate change on California communities.

New Parks and Green Space Investments

- **California State Library Parks Pass**—$6.8 million one-time General Fund for the continuation of the California State Library Parks Pass program. In partnership with the First Partner's Office and the California State Library, the Department of Parks and Recreation provides free vehicle day-use entry to state park units operated by State Parks for check out to library-card holders.

Ensuring Equity for Children and Youth in Educational Settings

In many communities, schools serve as a community hub, providing not only education but also access to vital resources such as food assistance and health services. Additionally, schools can offer support programs such as job training, mental health services, and after-school care, making them an essential pillar of community wellbeing. The budget proposal presents an opportunity to strengthen the supportive infrastructure of California schools. This year, the budget includes an increase in available funding for education through the Proposition 98 minimum guarantee. Proposition (Prop) 98 is a California constitutional amendment that requires a minimum level of funding for K-12 schools and community colleges. It was passed by voters in 1988 and is also known as the minimum guarantee. Because of higher General Fund revenues the budget reflects upward adjustments in the minimum guarantee.

- **Universal Transitional Kindergarten (TK)**—$8 million General fund added to the 2024-25 budget of $1.5 billion ongoing to support expanded eligibility for TK, totaling $2.4 billion. The 2025-26 school year will complete a 3 year rollout of Universal TK, which began in the 2022-23 school year, enrolling children turning 5-years-old between September 2 and February 2 into TK at the time. In this budget proposal, children who turn 4 by September 1, 2025 can enroll in TK.
    - The Budget also provides an additional $1.5 billion ongoing Prop 98 General Fund to support further lowering the average student-to-adult ratio from 12:1 to 10:1 in every transitional kindergarten classroom.
- **Universal School Meals Program**—$106.3 million in additional ongoing Prop 98 General Fund to fully fund the universal school meals program in 2025-26.
- **Farm to School Programs**—$24.9 million one-time General Fund for the Department of Food and Agriculture to advance the California Farm to School Network, the California Farm to School Incubator Grant Program, Climate Smart Technical Assistance, and further the recommendations of the Farm to School Roadmap for Success. The California Farm to School Program aims to cultivate equity, nurture students, build climate resilience, and create scalable and sustainable change in the school food system. The program currently serves 49% of all California schoolchildren. The California Farm to School Incubator Grant Program has been oversubscribed and continues to increase in demand in each application period.
- **Homeless Education Technical Assistance Centers**—$1.5 million in additional ongoing Prop 98 General Fund to maintain support for Homeless Education Technical Assistance Centers that were first established through the American Rescue Plan Act's Homeless Children and Youth Program. This funding helps to identify students experiencing homelessness and assists local educational agencies in ensuring educational access and success for these students.

Maintaining California's Health Infrastructure

After major wins to maintain funding for the *Future of Public Health*[5], the Governor and state leaders continue to have much work to do to contend with political and legislative pressures that may impact California's health infrastructure, including the passage of Prop 35 and an anti-immigrant Presidential administration. Despite a tough political environment, the budget notably protects major investments to expand Medi-Cal to all adults regardless of immigration status.

- **Education, Prevention, and Treatment of Youth Substance Use Disorders and School Retention**—Proposition 64/Cannabis Tax Revenue Investments—$281 million will be available for programs from the California Cannabis Tax Fund dedicated to youth programs. These include Elevate Youth California, a Department of Health Care Services' youth substance use disorder and prevention program, and Natural Resources Agency's Youth Community Access grant program which invests in youth access to natural or cultural resources with a focus on low-income and disadvantaged communities.
- **Future of Public Health Funding**—Maintains the $276.1 million ongoing Future of Public Health (FoPH) General Fund investment in state and local public health infrastructure and workforce, providing $188.2 million ongoing General Fund for local health departments[6]
- **Increased and Sustained Medi-Cal Investments**—A $2.8 billion increase in General Fund spending to the 2024-25 budget. A $4.5 billion increase in 2025-26, totaling $188.1 billion, with $42.1 billion from the General Fund. Recent investments have expanded access, improved coverage, and increased eligibility – including coverage for eligible adults regardless of their immigration status, a major budget win for the Health4All Campaign.

> Immigrant justice and healthcare advocates like the California Pan-Ethnic Health Network (CPEHN) and the Latino Coalition for a Healthy California (LCHC) applauded the proposed budget for maintaining investments to expand Medi-Cal to all adults regardless of immigration status. However, advocates including LCHC warn of the imminent threat of Federal anti-immigrant policies and clawbacks on Medicaid funding that could have grave implications for the health and safety of California's diverse immigrant communities.

- **MCO Tax Changes Under Proposition (Prop) 35**–Voters approved Prop 35 in November 2024, which significantly constrains how policymakers can use revenue from the MCO tax. According to

[5] California Department of Public Health (2024). *Future of Public Health*. https://www.cdph.ca.gov/Pages/FoPH/future-of-public-health.aspx

[6] Gibbons, M. & Anderson, J. (2025). CHEAC *January Budget Memo*, https://cheac.org/wp-content/uploads/2025/01/CHEAC-Memo-2025-Gov-January-Budget.pdf

the California Budget and Policy Center, state leaders rely on much of this revenue to reduce or offset General Fund spending on Medi-Cal[7]. Upon making the appropriate budgetary and fiscal adjustments necessary due to Prop 35, the budget reflects the following MCO tax revenue to offset General Fund spending to fund Medi-Cal services:

- $7.9 billion in 2024-25,
- $4.4 billion in 2025-26, and
- $3.3 billion in 2026-27.

The changes reflect an increase of $1 billion in FY 2024-25 and decreases of $2.2 billion in 2025-26 and $1.8 billion in 2026-27.

[7] California Budget & Policy Center (2025). *Understanding the Governor's 2025-26 State Budget Proposal.* https://calbudgetcenter.org/resources/understanding-the-governors-2025-26-state-budget-proposal/#h-state-budget-adapts-to-mco-tax-changes-under-proposition-35