



May 14, 2025

TO: Board Members, Madera County Transportation Commission
FROM: Gus Khouri, President
Mitch Weiss, Legislative Advocate
Khoury Consulting LLC

RE: STATE LEGISLATIVE UPDATE – GOVERNOR’S MAY REVISE – FY 2025-26 STATE BUDGET

This morning, Governor Newsom released his proposed May Revision to the FY 2025-26 State Budget. The Governor states that there is now a \$12 billion General Fund deficit, which is due to the economic volatility caused by tariffs and increased Medi-Cal costs. Governor Newsom states that revenues were up \$7.9 billion between January and April, but the stock market took a major hit with the imposition of tariffs, particularly capital gains, which are down by \$10 billion. Corporate taxes are also down by \$2 billion, wages are down by \$2 billion due to higher unemployment, and personal income tax is \$1.5 billion lower than expected. The Governor points out that the \$12 billion deficit represents only 5.8% of the General Fund.

The May Revise proposes a General Fund expenditure plan of \$226.4 billion, a \$2.5 billion reduction from the \$228.9 billion proposed in January. Solutions to close the gap include a freeze on new Medi-Cal enrollment (\$5 billion) and a loan from Medi-Cal (\$5.3 billion). Governor Newsom is also proposing to use \$1.7 billion from the Greenhouse Gas Reduction Fund to support Cal-Fire activities. The state would maintain a Rainy-Day Fund reserve of \$15.7 billion through the end of FY 25-26. The forecast for fiscal years 2026-27 and 2028-29 is a structural deficit of \$20.6 billion.

Cap-and-Trade

The budget states that the Administration and the Legislature will need to consider extending the cap-and-trade program beyond 2030 to achieve carbon neutrality. Although the program does not expire until 2030, extending it sooner would provide greater certainty and stability. Governor Newsom wants to rename the program Cap-and-Invest and earmark \$1 billion annually for the High-Speed Rail project, rather than the current 25% continuous appropriation that is dedicated.

Impact on Transportation

The transportation sector is heavily dependent on special fees such as the gas tax and vehicle registration fees, rather than the General Fund, so there is no impact on programs. Governor Newsom’s proposed January FY 2025-26 State Budget for transportation cites \$14.2 billion in available funding. This balance includes items such as the gas tax (\$7.8B), transportation

improvement fees (\$2.4 billion), State Transit Assistance program funds (\$1.1B), and Cap and Trade revenues (\$2.1B).

The one-time \$5.1 billion appropriation provided in multi-year funding for transit capital and operations through the FY 2022-23 State Budget in SB 125 is an exception because the origin of that revenue is the General Fund. The Governor, however, proposes no changes to that program, which protects \$18.8 million in transit funding for MCTC to administer.