Federal Budget Cuts: Understanding Threats, Protecting Californians

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Federal Landscape

Details of Proposed Cuts Are Emerging

- **Tax cut package:**
  - A partial Ways & Means Committee bill went public Friday night
  - Full details are expected to be released **today**

- **Health care cuts:**
  - Energy & Commerce Committee bill went public Sunday night

- **Food assistance cuts:**
  - Agriculture Committee bill expected to be released **today**
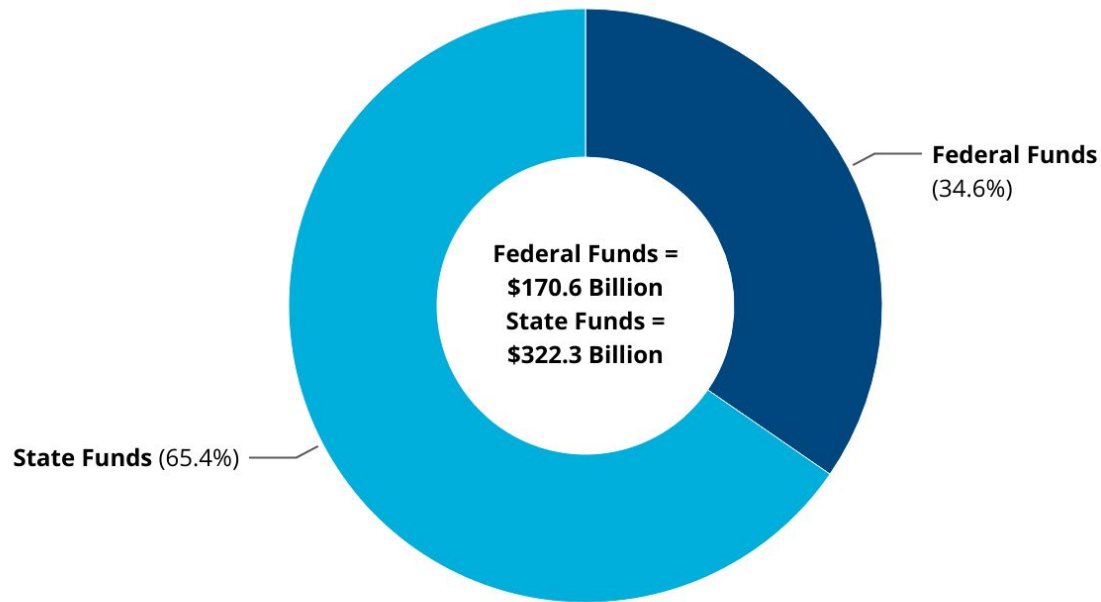
What Are the Next Steps in the Process?

- **May 13:** House committee markups
  - Ways & Means (taxes, TANF) at 2 p.m. (EST)
  - Energy & Commerce (Medicaid) at 2 p.m. (EST)
  - Agriculture (SNAP) at 7:30 p.m. (EST)

- **May 14:** House committee markups likely continue

- The rest of the timeline is expected to look like this:

  - **May 16:** House Budget Committee (assembles legislation into one bill)
  - **May 19:** House Rules Committee
  - **May 20-23:** House intends to vote on reconciliation bill
  - **Mid-June:** Senate intends to vote on reconciliation bill
  - **June/July:** House and Senate work out the differences between their approaches and pass an identical budget reconciliation bill (if needed).

California Impacts

Federal Funds Make Up Over One-Third of California's State Budget

Governor's Proposed 2025-26 Expenditures = $492.9 Billion

Federal Funds (34.6%)

State Funds (65.4%)

Federal Funds =
$170.6 Billion
State Funds =
$322.3 Billion

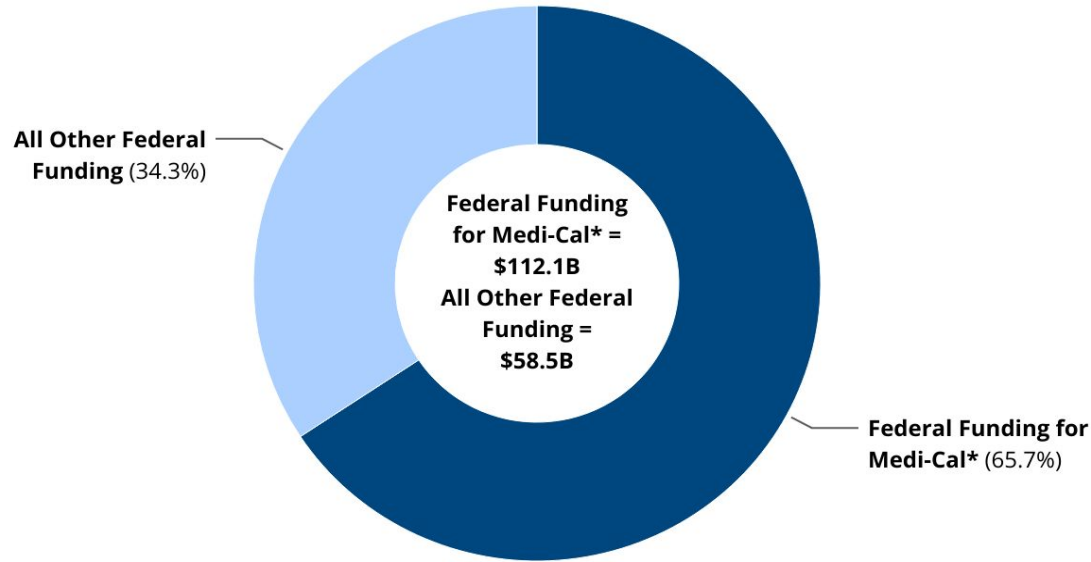Note: State funds reflect General Fund, special fund, and bond fund dollars.

Source: Department of Finance

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Medi-Cal Receives Nearly Two-Thirds of All Federal Funds That Flow Through California's State Budget

Governor's Estimate of Federal Funds That Will Flow Through the State Budget in 2025-26 = $170.6 Billion

All Other Federal Funding (34.3%)

Federal Funding for Medi-Cal* = $112.1B
All Other Federal Funding = $58.5B
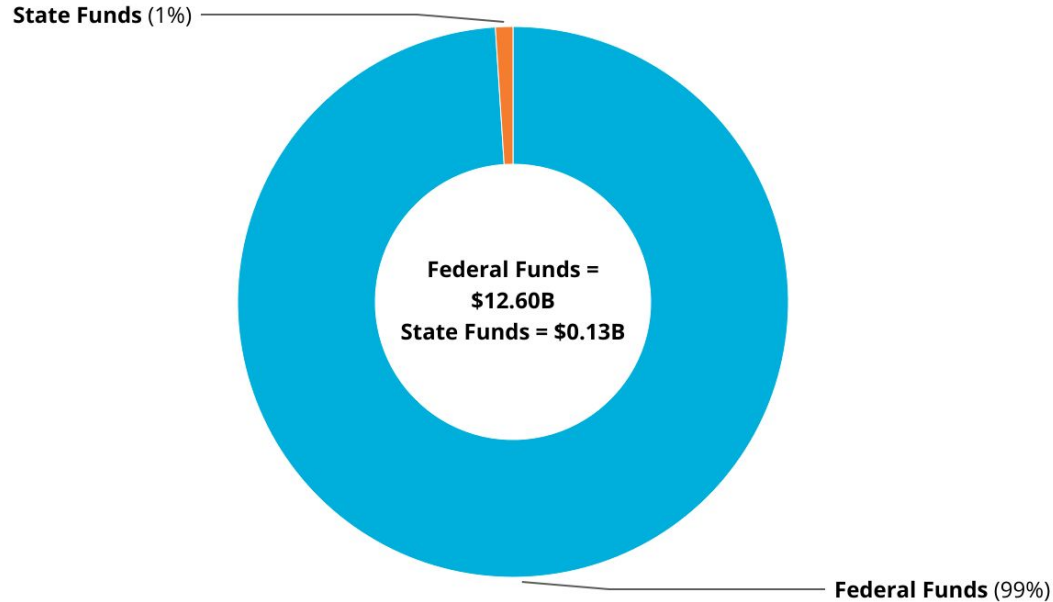
Federal Funding for Medi-Cal* (65.7%)

* Reflects federal funding for Medi-Cal benefits that is estimated to flow through the state Department of Health Care Services.

Source: Budget Center analysis of Department of Finance data

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Federal Dollars Fund 99% of Food Assistance Benefits in California

2024-25 Federal and State Spending on Food Assistance Benefits = $12.73 Billion

State Funds (1%)

Federal Funds =
$12.60B
State Funds = $0.13B

Federal Funds (99%)

Note: Spending levels only capture CalFresh (federally funded) and California Food Assistance Program (state funded) benefits, not administrative and other similar costs.

Source: California Department of Social Services, Local Assistance Estimates (January 2025).

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Federal Dollars Support Additional Services and Systems Across CA

- Child care & development programs

- Income support for families, older adults, and people with disabilities

- Housing & homelessness assistance programs

- K-12 & higher education (CCC, CSU, UC)

- Services provided by counties, cities & special districts

There's huge uncertainty hanging over the state budget, with key budget deadlines just around the corner.

Next Steps in the State Budget Process

- **By May 14:** Governor's "May Revision" to the proposed 2025-26 budget

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- **Late May to Early June:** Legislative leaders finalize a unified legislative budget

- **By June 15:** Legislature passes the unified legislative budget, typically without the governor's full support

- **Late June:** Governor + Assembly and Senate leaders (the "Big Three") continue to negotiate, reaching a three-way deal on the budget

- **Late June to Early July:** Governor signs the bills in the budget package, possibly with line-item vetoes

What options do state leaders have if the May Revision identifies a budget deficit for the upcoming fiscal year?

A Few Options for Addressing a State Budget Shortfall

- **Raise revenue**

- **Borrow from internal funds**

- **Draw down reserves**

- **Scale back questionable spending** (state prison budget, governor's proposed expansion of the film tax credit)

Massive federal funding cuts would blow a huge hole in the state budget that the governor and legislators would have to address.

"Shadow budget" =

State tax breaks that cost California billions of dollars every year, but receive little to no scrutiny.

Some of the largest tax breaks mainly benefit corporations and wealthy people.

Q&A