



NONPROFITS: LEGISLATION

Final Stretch for CA State Budget for FY '25-'26

05.30.25 | Linda J. Rosenthal, JD



With all of the financial chaos in Washington, D.C. these days, it's tempting to tune out the high-stakes budget drama playing out right now in Sacramento.

But just as the U.S. charitable community can't afford to ignore the federal funding battles and the existential threat of massive, indiscriminate cuts, neither can California's 501(c)(3)s – the nation's largest cluster at 175,000+ – sit out the home stretch when state lawmakers and the governor finalize the spending decisions for the fiscal year that starts on July 1st.

It's too big and too important.

What's At Stake

For decades, government – federal, state, and local – has relied on the charitable sector “... to carry out as well as supplement many of its official policy goals, mandates, programs, and services....”

That interdependence works in both directions: “Government grants are a primary revenue source for many nonprofits. Over 35,000 nonprofits—about a third of government grantees—rely on these grants for more than 50% of their total revenue.”

We're talking about a staggering amount of money – trillions at stake federally, and billions in the Golden State. (By way of reference, California has officially overtaken Japan to become the world's fourth-largest economy,” according to newly released data from the IMF.)

California's Budget Dance

It's important to note that the annual budget decisions in California do not occur in a crazy free-for-all. The state Constitution requires a balanced budget each fiscal year. How this happens is a



carefully choreographed, six-months-long, budget dance involving: the Assembly, the Senate, the Governor and the Department of Finance, and – the public! The citizens of California are accorded a formal place at the table.

It starts no later than January 10th with the governor's release of a proposed budget based on early revenue estimates. The ball is then tossed to the legislature.

In the middle of May, the executive branch posts the "Mid-May Revision" based on actual revenue numbers. Afterward, there's just one month – until June 15th – to produce a balanced budget approved by a majority vote of each chamber and signed into law by the governor. See [*The Annual Budget Process*](#), California Department of Finance.

If this were a baseball game, we'd be in about the bottom of the eighth. Anything can happen. But there are no extra innings. The ninth inning ends on June 15th. Game over. Fiscal year 2025-26 starts on July 1st with a balanced budget in place.

The Current Negotiations

We've covered the California budget negotiations in depth for the past three years of ups (2022) and downs (2023), ([2024](#)).

In [*CA Budget Time Again: Small Surplus is Back But Catastrophic Needs Ahead*](#) (January 11, 2025) *FPLG Blog*, we began the story of this year's budget process. From the top of the first inning, it's been unfolding in an extraordinary way.

Governor Gavin Newsom was happy to report that California had moved once again into budget-surplus territory – if only modestly. It was January 6, 2025, at a preliminary press briefing ahead of the scheduled formal presentation of the new proposed budget set to take place a few days later.

The governor included some cautionary points in his January 6th talk. He mentioned that he and the lawmakers had scheduled and held a special legislative session in December 2024 in light of the results of the November 5th presidential election. The incoming administration was not shy about previewing its plans for major course reversals from the prior four years along with austere budget cuts and downsizing of the federal government. California leaders were taking their own steps to prepare to combat the excesses of the new administration. These moves would necessarily involve some funding adjustments.

But what came out of left field within twenty-fours of that preliminary January 6th presentation was the outbreak of the Pacific Palisades fire in the Santa Monica mountains.

By the morning of January 10th, at the lengthy press conference and formal release of the 2025-26 Proposed Budget, it was clear that this disaster – still spreading rapidly – would result in catastrophic financial losses.

So the budget process opened on January 10, 2025, against the knowledge that the budget estimates were soft.



And by the end of January, the writing was also on the wall about the draconian financial cuts on the Oval Office's agenda... Most states are heavily dependent on federal funds.

The Mid-May Revision

These are the links to the key official documents from the Governor's Office and from the Department of Finance, along with the URL of the May 14th press briefing and Q&A session:

- [Governor's Press Conference, May 14, 2025, YouTube \[2:44:27\]](#)
- [May Revision Budget Summary 2025-26](#), Governor Gavin Newsom, California [103 pp. PDF], California Department of Finance, ebudget.ca.gov

The document begins: "The Governor's Budget in January reflected a stronger fiscal position than in recent years. Following the 2024 Budget Act that was projected to be balanced over two years, revenues rebounded, and the Governor's Budget projected a modest surplus in fiscal year 2025-26."

"Despite these positive developments, the Budget cautioned that the most significant immediate risk to the budget outlook was substantial changes in federal policy, specifically, broad-based tariffs. Those risks have now become a reality. Washington's imposition of tariffs has driven a downgrade in both the economic and revenue forecasts."

"Combined with increased expenditure growth above the Governor's Budget—most notably in Medi-Cal—the state must now close an estimated shortfall of \$12 billion to balance the budget and provide for a prudent discretionary reserve."

Conclusion

In a follow-up post, there will be more detail and commentary including from the Legislative Analyst's Office.

Notably, in the early spring months, the data showed that actual revenue collected was *higher* than estimated. But larger-than-expected costs due to the recent Medi-Cal expansion of coverage to undocumented persons are complicating the final budget negotiations. In addition, the (still-developing) negative effects from federal actions including the tariffs as well as the new softness in the tourist market are contributing to the difficult decisions in the two weeks ahead.

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