



COMMITTEE ON BUDGET AND FISCAL REVIEW
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Summary of the Governor's Proposed 2026-27 Budget

January 9, 2026

The purpose of this Summary is to provide members and staff of the Legislature with an overview of the Governor's proposed budget for 2026-27. More detailed reviews of the proposals will be developed as the Committee reviews the proposals in public hearings. If you have questions, please contact the committee at (916) 651-4103.

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Overall Budget Proposal

The Governor has proposed a budget for the 2026-27 fiscal year that includes General Fund resources—carry-forward balance, revenues and transfers—of \$280.8 billion and expenditures of \$248.3 billion (\$158.5 billion in non-Proposition 98 and \$89.9 billion in Proposition 98 funds). Total expenditures from all funds is proposed to be \$348.9 billion. Based on the budget proposal, the General Fund would end the 2026-27 fiscal year with a Special Fund for Economic Uncertainties (SFEU) balance of \$4.5 billion, a \$4.1 billion Public School System Stabilization Account (PSSSA) balance, and \$14.4 billion in the Budget Stabilization Account/ Rainy Day Fund (BSA).

The Governor's proposed budget includes a General Fund revenue estimate that is \$42 billion higher than assumed at the 2025 Budget Act over a three-year budget window. However, after accounting for constitutional spending requirements, increased expenditures, the shortfall projected for 2026-27 at the 2025 Budget Act, and building in a modest reserve, the Governor's budget estimates a \$2.9 billion shortfall, as displayed below. The Administration notes that the proposed budget focuses on implementation of existing programs for all Californians and contains very limited new spending. Finally, the Administration estimates out-year deficits of more than \$20 billion annually (\$22 billion in 2027-28) and notes an intention to balance both the 2026-27 and 2027-28 budgets as part of the final 2026-27 budget agreement. Administration proposals to address the out-year deficits will be released at the May Revision after revenue changes are taken into consideration.

2026-27 Estimated Shortfall (Dollars in Billions)

| | |
|---|--------------|
| 2026-27 Estimated Shortfall (At the 2025 Budget Act) | -12.6 |
| Increased Revenues | 42.3 |
| Non-Proposition 98 Expenditures | -9.2 |
| Proposition 98 Expenditures | -14.0 |
| Other Misc. Adjustments | -4.9 |
| Proposed Regular Reserve (SFEU) | -4.5 |
| Governor's Budget Identified 2026-27 Shortfall | -2.9 |

The proposed 2026-27 budget incorporates a general reserve (SFEU), Safety Net Reserve, Public School System Stabilization Account (PSSSA) and BSA of approximately a combined \$23 billion (with another \$28 billion reserved for encumbrances). The revised General Fund expenditure level for the current year (2025-26) is approximately \$237.7 billion. Overall, General Fund spending in 2026-27 is expected to increase by approximately \$10.7 billion from the revised 2025-26 level.

The Governor's proposal for the 2026-27 fiscal year begins the annual budget process, during which the Legislature will review and analyze the Governor's proposals, engage with the Administration and the public regarding the state's resources and priorities, and then negotiate a final budget with the Governor that reflects our shared values across the branches of state government.

Overall Structure. The Governor's budget General Fund details are summarized below.

| 2025-26 and 2026-27 General Fund Summary (Dollars in Millions) | | |
|---|-----------------------------------|------------------------------------|
| | <u>Revised 2025-26</u> | <u>Proposed 2026-27</u> |
| PRIOR YEAR BALANCE | \$55,951 | \$53,451 |
| Revenues and transfers | \$235,162 | \$227,385 |
| TOTAL RESOURCES AVAILABLE | \$291,113 | \$280,836 |
| Non-Proposition 98 Expenditures | \$155,749 | \$158,453 |
| Proposition 98 Expenditures | \$81,913 | \$89,877 |
| TOTAL EXPENDITURES | \$237,662 | \$248,330 |
| FUND BALANCE | | |
| Encumbrances | \$27,998 | \$27,998 |
| Special Fund for Economic Uncertainties | \$25,453 | \$4,508 |
| Public School System Stabilization Account | \$4,509 | \$4,102 |
| Safety Net Reserve | \$0 | \$0 |

**2025-26 and 2026-27
General Fund Summary
(Dollars in Millions)**

| | Revised <u>2025-26</u> | Proposed <u>2026-27</u> |
|-------------------------------------|-----------------------------------|------------------------------------|
| PRIOR YEAR BALANCE | \$55,951 | \$53,451 |
| Budget Stabilization Account | \$11,327 | \$14,350 |

Revenue Updates. General Fund revenue estimates are \$42.3 billion (6.7 percentage) higher than assumed at the 2025 Budget Act over the three-year window (2024-25 through 2026-27).

This revenue increase is mainly due to growth in personal income tax of \$16.4 billion (\$36.7 billion with the Pass-Through Entity Elective Tax (PTET) excluded) from wage growth in high-wage non-farm technology sector employment and strong stock market performance, corporation tax growth of \$24.6 billion (\$1.7 billion with the PTET excluded) driven by higher projected corporate profits, and gains from pooled money investment account interest (\$1.2 billion), reflecting the state’s healthy cash position. As referenced above, the changes in personal income tax and corporation tax are distorted by an extension of the PTET, which allows taxpayers to adjust for the federal cap on the state and local tax (SALT) deduction and shifts revenues from personal income tax to corporation tax. Excluding the impact of the PTET more accurately captures that the primary factor for increased General Fund revenue is the growth in personal income tax revenues.

The Department of Finance further notes that despite the increased revenues reflected in the short term in their proposed budget, the overall forecast for revenue growth remains consistent with the long-term forecast at the 2025 Budget Act. Revenue growth is projected to stabilize and return to a rate of approximately 5.3 percent through the end of the forecast (maintains a slight increase over the five percent projected at the 2024 Budget Act). This rate reflects a return to a pre-pandemic revenue growth trajectory.

Economic Outlook. According to the Department of Finance, the economy performed better than anticipated at the 2025 Budget Act forecast, primarily because of strong personal income growth, resilient consumer spending, and lower than anticipated tariff impacts. Most significantly, the Department of Finance estimates the average effective tariff rate at 17 percent over the forecast window, in comparison with 27 percent assumed at the 2025 Budget Act. These trends underlie improvements in the state and national economic indicators. Real Gross Domestic Product (GDP) annual growth for the U.S. is

projected to be two percent in 2025 and 2.2 percent in 2026, upgraded from the 2025 Budget Act projections of 1.3 and 1.5 percent respectively at the 2025 Budget Act.

Year-over-year inflation estimates have been adjusted downward as well to 2.8 percent nationwide and 3.2 percent in California in 2025 (below the 2025 Budget Act percentages of 3.5 percent and 3.8 percent, respectively). The Federal Reserve reduced the federal funds rate three times in 2025 to stimulate economic activity, more than assumed at the 2025 Budget Act. The Department of Finance does not assume additional rate cuts in the first half of 2026.

Data analyzed by the Department of Finance shows that job growth in California is slow and is largely driven by private education and health sectors. The industries most impacted by tariffs (construction, manufacturing, trade, etc) and high- wage professions (information, professional, and business services) experienced job losses. Overall, the state averaged monthly job growth in 2025 (through September) of 1,700, lower than the 6,100 monthly job growth anticipated as of the 2025 Budget Act. The forecast anticipates almost no job growth in 2026, increasing to 0.2 percent in 2027 and 0.6 percent by 2028, slightly below the 2025 Budget Act estimates.

The Department of Finance notes that wage growth is projected at 5.1 percent in 2025, 1.9 percent faster than the 2025 Budget Act estimate, due to gains in the information and professional and business services sectors, including jobs relating to artificial intelligence investments. The forecast projects wage growth to stabilize at 4.3 percent from 2026 to 2030, slightly above the previous estimate. These labor market trends are anticipated to be reflected in personal income growth and resulting state revenues.

According to the Department of Finance, the economic outlook for California has improved since the 2025 Budget Act, showing continued economic resilience. Despite the positive signs in the near term, there are significant risks to the multi-year forecast. The most immediate risks include uncertainty on federal policies that could impact California's economy including continued tariffs and immigration changes that could result in inflation, changes in consumer spending, labor market impacts and uncertainty in financial markets. Additional long-term risks include climate change and extreme weather events such as wildfires, floods, and drought, as well as a slower population growth, stock market volatility, and high housing and living costs.

2025-26 Budget Recap

Last year, when the Administration released the Governor's Budget on January 10, 2025, the proposed budget included increased revenues and reflected actions taken in the 2024-25 budget that had addressed a projected 2025-26 shortfall. As a result, the Governor's budget proposal was estimated to be roughly balanced without requiring new deficit solutions. However, by the time of revenue estimate updates at the May Revision, General Fund revenues decreased by approximately \$5.2 billion as compared to the Governor's January budget proposal. General Fund expenditures also increased, most notably for health care services. The budget shortfall identified at the May Revision was approximately \$12 billion. The budget shortfall was driven by higher than anticipated expenditure increases, due mostly to recent health care expansions and lower revenue estimates in 2025-26 and future years related to dampened economic indicators as a result of federal policies.

As described by the Department of Finance's Final Budget Summary document, the final 2025-26 budget addressed an \$11.8 billion shortfall for 2025-26, using the following solutions, in addition to the use of \$7.1 billion in reserves agreed to in the 2024 Budget Act:

- Fund Shifts—\$1.2 billion from shifting expenditures from the General Fund to other funds (most significantly shifting expenditures to the Greenhouse Gas Reduction Fund).
- Reductions—\$2.8 billion in total solutions in 2025-26—growing to \$11.9 billion by 2028-29, significantly due to changes in the Medi-Cal program.
- Revenue and Internal Borrowing—\$7.8 billion in revenue, primarily from shifts in the use of the Medical Providers Interim Payment Fund Loan.

2026-27 PROPOSED BUDGET EXPENDITURES AND REVENUES

The Governor's proposed budget includes additional required programmatic increases and new spending. The table below summarizes the Governor's proposed expenditures by program area.

General Fund Expenditures Current and Budget Year (Dollars in Millions)

| Program Area | Revised 2025-26 | Proposed 2026-27 | Change |
|---|--------------------|---------------------|-----------------|
| K-12 Education | \$ 81,286 | \$88,557 | \$7,271 |
| Higher Education | 22,444 | 25,974 | 3,530 |
| Health and Human Services | 89,144 | 93,709 | 4,565 |
| Corrections and Rehabilitation | 14,268 | 13,955 | -313 |
| Business, Consumer Services, Housing | 2,632 | 1,038 | -1,594 |
| Transportation | 764 | 455 | -309 |
| Natural Resources | 6,400 | 4,895 | -1,505 |
| Environmental Protection | 274 | 122 | -152 |
| Labor and Workforce Development | 1,127 | 983 | -144 |
| Government Operations | 3,169 | 4,683 | 1,514 |
| General Government: | | | |
| Non-Agency Departments | 1,664 | 1,291 | -373 |
| Tax Relief / Local Government | 757 | 480 | -277 |
| Statewide Expenditures | 3,273 | 4,824 | 1,551 |
| Legislative, Judicial and Executive | 10,460 | 7,364 | -3,096 |
| Total | \$237,662 | \$248,330 | \$10,669 |

Some of the more significant aspects of the Governor's 2026-27 budget proposal are outlined below:

TK-12 EDUCATION

Proposition 98. The Governor's budget proposes an overall increase of \$21.7 billion in Proposition 98 funding within the three-year budget window over the 2025 Budget Act estimates. The calculated levels for Proposition 98 funds are \$123.8 billion, \$121.4 billion, and \$125.5 billion in 2024-25, 2025-26, and 2026-27, respectively. The budget creates a \$5.6 billion "settle-up" payment in 2025-26, which will be reconciled and paid when Proposition 98 for 2025-26 is certified. The Proposition 98 Guarantee had an outstanding maintenance factor payment of \$8.3 billion at the beginning of the three-year budget window. The budget increases the 2024-25 maintenance factor payment from \$5.5 billion in the 2025 Budget Act to \$7.8 billion in the proposed budget, with no other mandatory payments projected in 2025-26 or 2026-27, leaving a balance of \$584.6 million of maintenance factor at the end of 2026-27. Additionally, the budget proposes a balance of \$4.1 billion in the Proposition 98 Rainy Day Fund after 2026-27. Lastly, the budget proposes a 2.4 percent cost-of-living adjustment for the Local Control Funding Formula and specified categorical programs.

Student Support and Discretionary Block Grant. The Governor's budget proposes a one-time \$2.8 billion Proposition 98 General Fund block grant to address rising costs and declining revenue due to attendance and enrollment decline. These funds are also proposed to support professional development for English Language Arts/English Language Development and Mathematics instruction, teacher recruitment and retention strategies, and career pathways and dual enrollment expansion efforts.

Community Schools. The Governor's budget proposes \$1 billion ongoing Proposition 98 General Fund to expand the community school model.

State Education Governance. The Governor's budget proposes to move oversight of the California Department of Education to the State Board of Education from the State Superintendent of Public Instruction. Additional details will be provided when trailer bill proposals are released in February.

HIGHER EDUCATION

UC and CSU Compact Base Increases. The Governor's budget proposes \$254.3 million ongoing and \$264.8 million ongoing General Fund, respectively, to the UC and CSU, representing the 5th year payment of the Multi-year Compact Agreements. The

Governor's budget maintains the deferrals of the Compact's 4th Year five percent base increases for the UC and CSU per the 2025 Budget Act.

UC and CSU Three Percent Deferral Extension. The Governor's budget proposed to extend the deferrals of one-time three-percent base decreases of \$129.7 million and \$143.8 million, respectively, to the UC and CSU, included in the 2025 Budget Act, shifting repayment from 2026-27 to 2027-28 – additionally, includes authority for the UC and CSU each to undertake a cash flow loan, to repay and retire existing 2025-26 cash flow loans.

Community Colleges 2025 Budget Act Deferral. The Governor's budget proposes \$408.3 million to fully pay deferrals for the Student Centered Funding Formula (SCFF) in 2026-27.

CCC Apportionment Cost-of-Living Adjustment (COLA) and Growth. The Governor's budget proposes \$240.6 million Proposition 98 General Fund to provide a 2.41-percent COLA for SCFF apportionments and \$31.9 million Proposition 98 General Fund for 0.5-percent enrollment growth. It also includes an increase of \$55.3 million Proposition 98 General Fund to fund additional enrollment growth of one percent in 2025-26. The net effect of these two enrollment growth investments support a combined growth percentage of 1.5 percent in 2026-27.

CCC Student Support Block Grant. The Governor's budget proposes \$100 million one-time Proposition 98 General Fund for a flexible block grant for the community colleges system.

Middle Class Scholarship (MCS). The Governor's budget proposes \$1.1 billion General Fund for the Middle Class Scholarship, which is the state's second-largest scholarship program, to reimburse the cost of grants up to 35 percent of student need in 2025-26. For the 2026-27 school year, the Governor's budget proposes \$513 million General Fund, sufficient to provide grants of up to 17.5 percent of student need.

HEALTH

House Resolution 1 (H.R. 1) Medi-Cal Impacts. The Governor's budget estimates net General Fund savings of \$314.1 million due to the impacts of implementation of H.R. 1 requirements related to work and community engagement requirements, changes in federal match for emergency services, loss of full-scope Medi-Cal coverage for certain qualified immigrants, more frequent eligibility redeterminations, and reduced retroactive coverage timeframes.

Proposition 35 (MCO Tax) and Provider Rate Increases. The Governor's budget reflects total General Fund savings of \$4.5 billion in 2025-26 and \$2.5 billion in 2026-27 due to the tax on managed care organizations (MCO tax) enacted by the Legislature and adopted by voters in Proposition 35. The Governor's budget also includes \$1.6 billion across 2025-26 and 2026-27 to support increases in managed care payments relative to calendar year 2024 in certain domains designated by Proposition 35. The Administration notes the current MCO tax is inconsistent with provisions included in H.R. 1. While the federal Center for Medicare and Medicaid Services (CMS) has provided a transition period through June 30, 2026, for the MCO tax, the Governor's budget assumes the state will receive an additional transition period through the expiration of the tax on December 31, 2026. If the additional transition period is not granted, there would be additional General Fund costs in the Medi-Cal program of approximately \$1.1 billion.

Reproductive Health Grant Program. The Governor's budget proposes General Fund expenditure authority of \$60 million in 2025-26 for the Department of Health Care Access and Information (HCAI) to provide grants to reproductive health providers.

HUMAN SERVICES

CalFresh. The Governor's budget proposes an increase of \$382.9 million General Fund for CalFresh administration as a result of the CalFresh administration cost shift from the federal government to states under H.R. 1. The proposal also includes a decrease of \$66.2 million General Fund due to restricted CalFresh eligibility as a result of H.R. 1.

In-Home Supportive Services. The Governor's budget proposes various reductions to the In-Home Supportive Services (IHSS) program, including a reduction of \$233.6 million General Fund to remove the state's share of cost for IHSS hours per case growth beginning in 2027-28.

RESOURCES, ENERGY, AND TRANSPORTATION

Climate Bond Expenditure Plan. The Governor's budget proposes a Proposition 4 Expenditure Plan for 2026-27 totaling \$2.1 billion, as follows:

- \$792 million Safe Drinking Water, Drought, Flood & Water Resilience
- \$314 million Wildfire & Forest Resilience
- \$107 million Coastal Resilience
- \$241 million Extreme Heat Mitigation
- \$199 million Biodiversity & Nature-Based Solutions
- \$89 million Climate Smart Agriculture
- \$35 million Outdoor Access

- \$326 million Clean Air & Energy

Greenhouse Gas Reduction Fund (GGRF). The Governor's budget proposes the following for the \$1 billion in legislative discretionary funding:

- \$125 million for transit passes;
- \$25 million for seed funding for a University of California Climate Research Center;
- \$15 million for rebuilding Topanga Park;
- \$85 million for an entity chosen by the Legislature to support climate-focused technological innovation, related research, and the deployment of climate solutions; and,
- \$750 million for the CAL FIRE General Fund backfill.

Zero-Emission Vehicle (ZEV) Incentives. The Governor's budget includes \$200 million one-time special funds and statutory language to establish a new light-duty ZEV incentive program.

Transit. The Governor's budget includes statutory changes to authorize the Metropolitan Transportation Commission (MTC) to provide short-term loans to transit agencies facing cash flow challenges. In addition, the Governor's budget does not include previously planned funding for transit included as part of SB 125 (Committee on Budget and Fiscal Review), Chapter 54, Statutes of 2023: the Zero Emission Transit Capital Program (\$230 million) and Competitive Transit and Intercity Rail Capital Program (\$20 million), totaling \$250 million.

HOUSING, AND HOMELESSNESS.

The Governor's budget proposes no new General Fund appropriations for affordable housing investment.

Homeless Housing Assistance and Prevention (HHAP). The Governor's budget maintains the existing commitment to \$500 million in 2026-27 for Round 7 of HHAP, subject to "enhanced affordability and performance requirements."

Affordable Housing. The Governor's budget proposes a series of programmatic changes and realignments intended to utilize existing affordable housing resources more efficiently, including:

- Separating out affordable housing funding from the rest of the Affordable Housing and Sustainable Communities (AHSC) program and transferring administration of these awards to the newly established Housing Development and Finance Committee.
- Reserving some state low-income housing tax credits and private equity bonds to be paired with Housing Development and Finance Committee funding awards.

LABOR, AND EMPLOYMENT

Subsequent Injuries Benefits Trust Fund. The Governor's budget includes \$12.7 million Workers' Compensation Administration Revolving Fund and 57 positions in 2026-27, growing to \$36.5 million and 177 positions in 2030-31 and ongoing, for DIR to address the backlog of cases resulting from growth in the Subsequent Injuries Benefits Trust Fund (SIBTF) program.

Vacant Positions Funding Reduction and Elimination of Positions. The Governor's budget proposes to implement efficiencies across state government included in the 2025 Budget Act by proposing to eliminate 6,002 vacant positions beginning in 2025-26, and the associated expenditure authority totaling \$478.1 million (\$182.3 million General Fund) in 2025-26, and \$487.1 million (\$191.3 million General Fund) in 2026-27, and ongoing.

State Operations Ongoing Reductions. The Governor's budget proposes to implement efficiencies included in the 2025 Budget Act by reducing state operations expenditures by up to 7.95 percent across all state funds totaling \$1.55 billion (\$1.2 billion General Fund) in 2025-26, and \$1.56 billion (\$1.18 billion General Fund) in 2026-27, and ongoing.

GENERAL GOVERNMENT

CalCompetes. The Governor's budget proposes to extend the CalCompetes Tax Credit program through 2032-33.

Expo Park Utility Replacement and Site Improvements. The Governor's budget proposes \$96.5 million one-time (\$76 million General Fund and \$20.5 million Exposition Park Improvement Fund) for deferred maintenance projects and accessibility

requirements prior to major events like the upcoming Los Angeles 2028 Olympic and Paralympic Games.

Middle Mile Broadband Initiative Encumbrance Extension. The Governor's budget proposes an extension of the encumbrance period for \$550 million General Fund allocated to the California Department of Technology (CDT) in the 2022 Budget Act for 2023-24 and 2024-25, until December 31, 2028.

PUBLIC SAFETY AND THE JUDICIARY

Federal Accountability. The Governor's budget proposes an additional \$10 million per year General Fund in 2026-27 through 2028-29 for the Department of Justice (DOJ) to defend the state against enforcement and legal actions taken by the federal government. The Governor's budget also proposes to release \$10 million in 2025-26 for this purpose from funds originally appropriated in the 2024 Budget Act. These resources are in addition to previous allocations for this purpose, including a baseline of \$2.5 million ongoing for the DOJ, \$6 million that was provided one-time in 2024-25 to the DOJ and other state entities, and \$14.2 million in 2025-26 and \$13.9 million in 2026-27 and ongoing that was provided to the DOJ in the 2025 Budget Act. The proposed budget also makes the additional resources provided in the 2025 Budget Act limited term, through 2028-29.

K-12 and Higher Education

Overall Proposition 98 – TK-14 Education

Budget Year – Overall Funding Levels. The Governor's budget estimates a total Proposition 98 funding level of \$125.5 billion (TK-14) for 2026-27. The Administration estimates that the Proposition 98 calculation for 2026-27 will be a Test 1 calculation. Budgetary deferrals of \$1.9 billion are also proposed to be fully repaid in 2026-27.

Prior and Current Year Adjustments. The Governor's budget proposes to provide total Proposition 98 funding (TK-14) for 2024-25 of \$123.8 billion. For 2025-26, while the Governor calculates the Proposition 98 Guarantee (Guarantee) to be \$121.4 billion, the budget appropriates \$115.9 billion, creating a "settle-up" amount of \$5.6 billion that will be paid when Proposition 98 is certified for 2025-26.

Proposition 98 Changes. The calculated levels represent an overall three-year increase in the minimum Guarantee of \$21.7 billion over the level funded in the 2025 Budget Act. The Administration estimates that the Proposition 98 calculations continues to remain Test 1 in 2024-25, 2025-26, and 2026-27. Under the Governor's proposal, ongoing TK-12 Proposition 98 per pupil expenditures total \$20,427 Proposition 98 General Fund, and \$27,418 per pupil when accounting for all funding sources.

Proposition 98 Maintenance Factor Payments. At the beginning of the three-year budget window, the Proposition 98 Guarantee had an outstanding maintenance factor balance of \$8.3 billion. At the 2025 Budget Act, there was a projected mandatory maintenance factor payment of \$5.5 billion in 2024-25. Revised Proposition 98 factors have increased that payment amount in the budget to \$7.8 billion. No other mandatory payments are projected in 2025-26 or 2026-27, leaving a \$584.6 million maintenance factor balance at the end of 2026-27.

Public School System Stabilization Account (PSSSA). The state's Proposition 98 Rainy Day Fund was established with the passage of Proposition 2 in 2014. The 2026-27 proposed budget requires a mandatory payment of \$3.8 billion into the Proposition 98 Rainy Day Fund in 2024-25 (an increase from the 2025 Budget Act of a payment of \$455 million), with another mandatory payment of \$424.3 million in 2025-26, and a mandatory withdrawal in 2026-27 of \$407.1 million. The budget also proposes a discretionary deposit of \$240 million in 2025-26. At the end of the 2026-27, the budget proposes a balance in the Rainy Day Fund of \$4.1 billion. Under current law, there is a cap of 10 percent on school district reserves in fiscal years immediately succeeding those in which the balance in the account is equal to or greater than three percent of the total TK-12 share

of the Guarantee. The balance of the Proposition 98 Rainy Day Fund during the three-year budget window triggers school district reserve caps in 2025-26 and 2026-27.

K-12 Education – Major Spending Proposals

TK-12 Local Control Funding Formula. The bulk of funding for school districts and county offices of education for general operations is provided through the Local Control Funding Formula (LCFF) and is distributed based on the number of students served and certain student characteristics. The state fully funded the LCFF in 2018-19 and has annually adjusted the grant amounts by a cost-of-living adjustment (COLA). The Governor's budget proposes an LCFF COLA of 2.41 percent, and when combined with growth adjustments, results in \$2 billion in increased discretionary funds for local educational agencies.

Necessary Small Schools. The Governor's budget proposes an ongoing increase of \$30.7 million Proposition 98 General Fund to provide a 20 percent increase in LCFF for Necessary Small Schools, which is the funding formula for the smallest schools in the state.

Special Education. The Governor's budget proposes an increase of \$509 million ongoing Proposition 98 General Fund to increase special education base rates.

Student Support and Discretionary Block Grant. The Governor's budget proposes a one-time \$2.8 billion Proposition 98 General Fund block grant to address rising costs and declining revenue due to attendance and enrollment decline. These funds are also proposed to support professional development for English Language Arts/English Language Development and Mathematics instruction, teacher recruitment and retention strategies, and career pathways and dual enrollment expansion efforts.

Charter School Accountability and Verified Data Extension. The Governor's budget proposes statutory changes new requirements for charter schools for the expressed intent to "ensure public funds are properly utilized, address fraud and malfeasance, and improve accountability and oversight" of charter schools. The budget also proposes to use verified data in the charter school renewal process until June 30, 2028.

Community Schools. The Governor's budget proposes \$1 billion ongoing Proposition 98 General Fund to expand the community school model.

Expanded Learning Opportunities Program. The Governor's budget proposes \$62.4 million ongoing Proposition 98 General Fund to guarantee \$1,800 per pupil for Rate 2 local educational agencies. This brings total program funding of \$4.7 billion Proposition 98 General Fund.

Learning Recovery Emergency Block Grant. The Governor's budget proposes to augment the Learning Recovery Emergency Block Grant by \$757.3 million one-time Proposition 98 General Fund. This allocation is proposed to be the final allocation of the program.

Teacher Residency. The Governor's budget proposes \$250 million one-time Proposition 98 General Fund to continue educator residency programs through 2029-30, administered by the Commission on Teacher Credentialing.

School Facility Program. California voters recently approved Proposition 2 in November 2024, which authorizes a total of \$8.5 billion in state General Obligation bonds for K-12 schools. The budget authorizes \$1.5 billion in Proposition 2 bond funding through the School Facility Program in 2026-27.

Child Nutrition. The Governor's budget continues to fund universal access to school meals with an ongoing decrease of \$67.9 million Proposition 98 General Fund, to fully fund the universal school meals program and for students who want a meal will have access to two free meals each day. These adjustments reflect a reduction in 2025-26 estimates compared to the 2025 Budget Act projections and an increase in meal reimbursement rates.

Kitchen Infrastructure and Training. The Governor's budget proposes a one-time \$100 million Proposition 98 General Fund investment for specialized kitchen equipment, infrastructure, and training to support schools in providing more freshly prepared meals made with locally grown ingredients.

Dual Enrollment and Career Pathways. The Governor's budget proposes \$100 million one-time Proposition 98 General Fund to increase access to college and career pathways for high school students, including expanded access to dual enrollment and dual credit opportunities.

Los Angeles County School Wildfire Recovery. The Governor's budget proposes one-time \$22.9 million Proposition 98 General Fund to support local educational agencies that are continuing to recover from the January 2025 Los Angeles County wildfires, including \$4 million for Pasadena Unified School District.

Arts and Music in Schools-Funding Guarantee and Accountability Act (Proposition 28). The Governor's budget includes \$1.06 billion to fund arts and music in schools pursuant to Proposition 28.

Literacy Screener Implementation. The Governor's budget proposes \$40 million one-time Proposition 98 General Fund in 2026-27 to support the continued implementation of the reading difficulties screener for students.

Fiscal Crisis and Management Assistance Team (FCMAT). The Governor's budget proposes \$994,000 in ongoing Proposition 98 General Fund to support increased FCMAT workload.

California School Information System (CSIS). The Governor's budget proposes \$966,000 in additional ongoing Proposition 98 General Fund to support increased CSIS costs.

State Education Governance. The Governor's budget proposes to move oversight of the California Department of Education to the State Board of Education from the State Superintendent of Public Instruction. Additional details will be provided when trailer bill proposals are released in February.

Cost-of-Living Adjustments. The Governor's proposed budget provides \$228.2 million ongoing Proposition 98 General Fund to support a 2.41 percent COLA for categorical programs and the LCFF equity multiplier. These programs include special education and child nutrition, State Preschool, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.

County Offices of Education. The Governor's budget proposes \$13.3 million additional ongoing Proposition 98 General Fund, for a total of \$131.9 million, for county offices of education to provide universal and targeted support to school districts and charter schools, including those eligible for differentiated assistance. This funding will align with updates to local educational agency assistance and intervention performance criteria that the State Board of Education is required to adopt pursuant to AB 121 (Committee on Budget), Chapter 8, Statutes of 2025. The budget also proposes an ongoing decrease of \$15.6 million Proposition 98 General Fund to reflect ADA changes applicable to county office of education LCFF and a 2.41 percent cost-of-living adjustment.

Local Property Tax Adjustments. The Governor's proposed budget includes a decrease of \$18 million in ongoing Proposition 98 General Fund in 2025-26, and a decrease of \$1.4 billion in Proposition 98 General Fund in 2025-26 for school districts and county offices of education, related to changes to the offsetting local property taxes.

Home-to-School Transportation. The Governor's budget proposes \$322 million one-time and \$239.2 million ongoing Proposition 98 General Fund to reflect higher costs in the Home-to-School Transportation program.

K-12 High Speed Network. The Governor's budget proposes an increase of \$629,000 ongoing Proposition 98 General Fund to support the K-12 High Speed Network program.

California State Summer School for the Arts. The Governor's budget proposes \$1.5 million General Fund for scholarships and operational costs.

Commission on Teacher Credentialing Operations. The Governor's budget proposes the following operational support to the Commission on Teacher Credentialing:

- \$1.5 million General Fund and 11 positions for the Division of Licensure Enforcement Staffing.
- \$1.4 million General Fund and 10 positions for implementation of the Safe Learning Environments Act (SB 848 (Pérez), Chapter 460, Statutes of 2025).
- \$298,000 General Fund and 2 positions for implementation of the Pupil Personnel Services Credentials for Out of State applications (AB 606 (Quirk-Silva), Chapter 375, Statutes of 2025).
- \$360,000 in reimbursement authority for a Gates Foundation grant.

Higher Education

The Governor's budget proposes total funding of \$50.4 billion (\$31.4 billion General Fund and local property tax and \$19 billion other funds) for the higher education segments and the California Student Aid Commission.

University of California (UC)

5th Year Compact Base Increase. The Governor's budget includes \$254.3 million ongoing General Fund, representing a five percent base increase. This reflects the fifth-year base increase of the multi-year compact.

4th Year Compact Base Increase. The Governor's budget includes \$96.3 million ongoing General Fund, representing partial funding of the fourth-year compact base increase as scheduled in the 2025 Budget Act. The remaining \$144.5 million ongoing base increase is deferred to 2028-29 as scheduled in the 2025 Budget Act.

4th Year Compact One-time Payment. The Governor's budget maintains the planned one-time deferral of the 2025-26 fourth-year Compact payment of \$240.8 million 2027-28.

902 Nonresident Undergraduate Students. The Governor's budget maintains the deferral of \$31 million, from the 2025 Budget Act, to offset revenue reductions associated with replacement of 902 nonresident undergraduate students with an equivalent number of California resident students, from 2025-26 to 2027-28.

Three Percent Deferral Extension. The Governor's budget extends the deferral of a one-time three-percent base decrease of \$129.7 million included in the 2025 Budget Act, shifting repayment from 2026-27 to 2027-28 – additionally, includes authority for the UC to undertake a cash flow loan, to repay and retire its existing 2025-26 cash flow loan.

California State University (CSU)

5th Year Compact Base Increase. The Governor's budget includes \$264.8 million ongoing General Fund, representing a five percent base increase. This reflects the fifth-year base increase of the multi-year compact.

4th Year Compact Base Increase. The Governor's budget includes \$100.9 million ongoing General Fund, representing partial funding of the fourth-year compact base increase as scheduled in the 2025 Budget Act. The remaining \$151.4 million ongoing base increase is deferred to 2028-29 as scheduled in the 2025 Budget Act.

4th Year Compact One-time Payment. The Governor's budget maintains the planned one-time deferral of the 2025-26 fourth-year Compact payment of \$252.3 million 2027-28

Three Percent Deferral Extension. The Governor's budget extends the deferral of a one-time three-percent base decrease of \$143.8 million included in the 2025 Budget Act, shifting repayment from 2026-27 to 2027-28 – additionally, includes authority for the CSU to undertake a cash flow loan, to repay and retire its existing 2025-26 cash flow loan.

California Community Colleges (CCC)

2025 Budget Act Deferral. The Governor's budget includes \$408.3 million to fully pay deferrals for the Student Centered Funding Formula (SCFF) in 2026-27.

CCC Apportionment Cost-of-Living Adjustment (COLA) and Growth. The Governor's budget includes \$240.6 million Proposition 98 General Fund to provide a 2.41-percent COLA for SCFF apportionments and \$31.9 million Proposition 98 General Fund for 0.5-percent enrollment growth. It also includes an increase of \$55.3 million Proposition 98 General Fund to fund additional enrollment growth of one percent in 2025-26. The net effect of these two enrollment growth investments support a combined growth percentage of 1.5 percent in 2026-27.

SCFF Adjustment in 2025-26. The Governor's budget includes \$88.7 million one-time Proposition 98 General Fund to fund increasing SCFF costs in 2025-26.

Proposition 98 Rainy Day Fund. The Governor's budget includes a one-time withdrawal of \$44.5 million from the Proposition 98 Rainy Day Fund to support SCFF costs in 2026-27.

Community College Facilities. The Governor's budget includes \$736.9 million one-time Proposition 2 bond funds to finance 10 new projects and 29 continuing projects at the community colleges.

Deferred Maintenance. The Governor's budget includes \$120.7 million one-time Proposition 98 General Fund to address deferred maintenance needs.

Student Support Block Grant. The Governor's budget includes \$100 million one-time Proposition 98 General Fund for a flexible block grant for the community colleges system.

Common Cloud Data Platform. The Governor's budget includes \$41 million one-time Proposition 98 General Fund, \$5 million of which is ongoing, for further scaling of the common cloud data platform across the community college system.

Calbright College. The Governor's budget includes \$38.1 million one-time Proposition 98 General Fund to support and provide stable funding for Calbright College in its base operations as it transitions out of its startup capacity.

Credit for Prior Learning. The Governor's budget includes \$37 million one-time Proposition 98 General Fund, \$2 million of which is ongoing, to support and build upon the Credit for Prior Learning Initiative, as mentioned below in the Master Plan for Career Education section.

Categorical Program COLA. The Governor's budget includes \$30.6 million one-time Proposition 98 General Fund for a COLA of 2.41 percent for select categorical programs.

California Healthy School Food Pathways Program. The Governor's budget includes \$14.3 million Proposition 98 General Fund for community colleges to support the California Healthy School Food Pathways Program, which strengthens the school food service workforce through apprenticeship and training programs.

Apprenticeship Related and Supplemental Instruction (RSI) Costs Backfill. The Governor's budget includes \$13.4 million one-time Proposition 98 General Fund to backfill apprenticeship RSI costs in 2024-25 and 2025-26.

Local Property Tax Adjustments. The Governor's budget includes \$346.4 million one-time Proposition 98 General Fund due to increased offsetting local property tax revenues.

California Student Aid Commission

Cal Grant. The Governor's budget includes \$3.2 billion to support Cal Grant. Cal Grant is the state's largest financial aid program and is administered by the California Student Aid Commission.

Middle Class Scholarship (MCS). The Governor's budget includes \$1.1 billion General Fund for the Middle Class Scholarship, which is the state's second-largest scholarship program, to reimburse the cost of grants up to 35 percent of student need in 2025-26.

- For the 2026-27 school year, the Governor's budget includes \$513 million General Fund, sufficient to provide grants of up to 17.5 percent of student need.

Golden State Teacher Grant Program Reappropriation. The Governor's budget includes a reappropriation of \$14.4 million General Fund from the 2021 Budget Act to support the Golden State Teacher Grant Program in 2026-27.

Natural Resources, Environmental Protection and Energy

Natural Resources and Environmental Protection

Proposition 4: Climate Bond. In November 2024, the voters approved the Safe Drinking Water, Wildfire Prevention, Drought Preparedness, and Clean Air Bond Act of 2024 (Proposition 4), which is a \$10 billion general obligation bond. The 2025 Budget Act appropriated \$3.3 billion Proposition 4. This year's Governor's budget proposes \$2.1 billion. The following chart provides a general breakdown of the Governor's proposed bond spending plan:

Climate Bond Expenditure Plan
(Dollars in Millions)

| Investment Category | Bond Allocation | 2025-26 Appropriated | 2026-27 Proposed | Out-Years |
|--|-----------------|----------------------|------------------|----------------|
| Safe Drinking Water, Drought, Flood & Water Resilience | \$3,800 | \$1,199 | \$792 | \$1,809 |
| Wildfire & Forest Resilience | \$1,500 | \$417 | \$314 | \$769 |
| Coastal Resilience | \$1,200 | \$279 | \$107 | \$814 |
| Extreme Heat Mitigation | \$450 | \$110 | \$241 | \$99 |
| Biodiversity & Nature-Based Solutions | \$1,200 | \$390 | \$199 | \$611 |
| Climate Smart Agriculture | \$300 | \$154 | \$89 | \$57 |
| Outdoor Access | \$700 | \$466 | \$35 | \$199 |
| Clean Air & Energy | \$850 | \$275 | \$326 | \$249 |
| Total | \$10,000 | \$3,290 | \$2,104 | \$4,606 |

Source: Department of Finance

For information regarding proposed Proposition 4 Clean Air & Energy spending, please refer to the Energy section of this document.

Among the various Proposition 4 spending proposals related to natural resources and environmental protection, the Governor proposes the following:

Safe Drinking Water, Drought, Flood, and Water Resilience. The Governor's budget proposes to appropriate \$792 million for water-related issues, including:

Flood Control. \$232 million to the Department of Water Resources (DWR) for flood control projects to evaluate, repair, rehabilitate, reconstruct, expand, or replace levees, weirs, bypasses, and facilities of the State Plan of Flood Control.

Drinking Water. \$173 million to the State Water Resources Control Board for drinking water projects serving small or disadvantaged communities (DACs) or tribes and that address water systems that are failing or at risk of doing so. Funding also supports wastewater projects serving small communities or DACs that address a violation or connect unsewered residence to a centralized wastewater system.

Regional Conveyance Projects and Repairs to Existing Facilities. \$68.8 million to DWR to support repairs to existing or new water conveyance projects. The proposal includes California Natural Resources Agency's prioritization of repairs to existing infrastructure.

Wildfire and Forest Resilience. The Governor's budget proposes to appropriate \$314 million for wildfire and landscape resilience projects, including:

Local Fire Prevention Grants. \$58 million to the Department of Forestry and Fire Protection (CalFire) for wildfire prevention and hazardous fuels reduction actions in and near wildfire threatened communities.

Fire Resilience. \$19.6 million to CalFire for technical assistance to help homeowners in wildfire-vulnerable areas for defensible space mitigation efforts.

Coastal Resilience. The Governor's budget proposes to appropriate \$107 million for purposes of helping coastal communities improve their resilience against sea level rise, storm surges, increased flooding and coastal erosion, and habitat loss.

Extreme Heat Mitigation. The Governor's budget proposes to appropriate \$241 million for extreme heat mitigation actions, including:

Transformative Climate Communities Program. \$137.4 million to the Strategic Growth Council (SGC) to fund community-led development and infrastructure projects that achieve environmental, health, and economic benefits in DACs.

Community Resilience Centers. \$55.3 million to SGC to fund construction and upgrades of neighborhood resilience centers for purposes of providing shelter and resources during climate and other emergencies. This proposal including year-round services and ongoing programming.

Biodiversity and Nature-Based Solutions. The Governor's budget proposes to appropriate \$199 million to achieve the state's nature-based climate solution targets and the state's 30x30 goal, including:

Enhancing and Protecting Nature. \$123.3 million for projects that conserve, restore, and connect the state's ecosystems and plants and animals that depend on them through actions such as land conservation acquisitions and easements, habitat enhancement and restoration, floodplain reactivation and wetland restoration, and wildlife connectivity.

Salton Sea. \$40 million for planning and implementation of priority habitat restoration projects at the Salton Sea and create new public access opportunities.

Climate Smart Agriculture. The Governor's budget proposes to appropriate \$89 million for various purposes such as improving market access for producers and the agricultural industry's resilience to climate change, and community access to local, sustainably grown foods, including:

Tribal Food Sovereignty Program. \$14 million to fund a newly established grant program intended to enhance tribes' food sovereignty through projects that improve infrastructure for water, utility, and food processing.

Regional Farm Equipment Sharing Program. \$14 million for the establishment of the Regional Farm Equipment Sharing Program, which is intended to facilitate equipment sharing among small farmers and ranchers.

Outdoor Access. The Governor's budget proposes to appropriate \$35 million to expand and enhance parks and outdoor access.

Natural Resources

In addition to the proposed Proposition 4 spending plan, the Governor's budget includes the following natural resources-related highlights:

CalFire

Permanent Resources for Enhanced Defensible Space Inspections. \$6.2 million General Fund and 31 positions ongoing to meet the goal of providing 250,000 parcel inspections annually in the State Responsibility Area.

California Conservation Corps (CCC)

Wildfire Readiness Seven-Day-Per-Week Schedule – CCC Hand Crews. \$11.7 million General Fund, 49 positions, and 47 full-time equivalent Corpsmember and Special Corpsmember positions ongoing to implement a seven-day operational schedule year-round, improving wildfire readiness, rapid response, and workforce development.

DWR

River Forecast and Snow Survey Resources. \$9.5 million General Fund ongoing to support 24-hour river forecasts and collect snow course measurements, offsetting recent federal reductions in these areas.

Department of Parks and Recreation

California State Parks Library Pass Program. \$6.8 million General Fund ongoing to support the California State Parks Library Pass program.

Environmental Protection

In addition to the proposed Proposition 4 spending plan, the Governor's budget includes the following environmental protection-related highlights:

California Environmental Protection Agency (CalEPA), Department of Toxic Substances Control (DTSC), Department of Resources Recycling and Recovery (CalRecycle), and State Water Resources Control Board (SWRCB)

Landfill Support, Response, and Enforcement. The Governor's budget includes a coordinated effort to address Subsurface Elevated Temperature (SET) events and other emerging issues at landfills to protect public health and the environment. The Governor's budget proposal intends to invest in enhanced detection, rapid response, improved enforcement, and updated regulatory frameworks. The Governor's proposal includes:

- **CalEPA.** \$606,000 ongoing special funds and two positions to address the complex regulatory environment related to landfills and provide inter-agency coordination.
- **DTSC.** \$2.1 million ongoing special funds and four positions to address SET events at Class III landfills.
- **CalRecycle.** \$1.95 million ongoing special funds and four positions to address oversight and cost recovery of landfills experiencing SET events. This department also intends to assist local governments and landowners on mitigating illegal disposal as a result of landfills experiencing early closures or reduced operations.
- **SWRCB.** \$436,000 ongoing special funds and two positions to improve the Los Angeles Regional Water Quality Board's technical and operational capacity to prevent, investigate, and respond to landfill SET events and other landfill-related

threats to water quality and public health that go beyond day-to-day landfill regulation activities.

State Water Resources Control Board (SWRCB)

U.S. Supreme Court's Sacket Decision. \$2.6 million special funds ongoing and 12 positions to expand water quality permitting and enforcement in light of the U.S. Supreme Court's holding in *Sackett v. Environmental Protection Agency*, which narrowed federal Clean Water Act jurisdiction. With this budget proposal, SWRCB intends to continue its commitment to protect water quality and wetlands.

Department of Toxic Substances Control (DTSC)

Exide Residential Cleanup. \$70 million (\$50 million General Fund) in 2026-27 and 2027-28 to support clean-up efforts for an additional 1,000 residential properties contaminated by the former Exide battery recycling facility in Vernon.

Energy

Energy and Air

Greenhouse Gas Reduction Fund (GGRF). The Governor's budget proposes the following for the \$1 billion in legislative discretionary funding:

- \$125 million for transit passes;
- \$25 million for seed funding for a University of California Climate Research Center;
- \$15 million for rebuilding Topanga Park;
- \$85 million for an entity chosen by the Legislature to support climate-focused technological innovation, related research, and the deployment of climate solutions; and,
- \$750 million for the CAL FIRE General Fund backfill.

In addition, the Governor's budget includes \$500 million additional GGRF to fund the CAL FIRE General Fund backfill (totaling \$1.25 billion) through additional discretionary GGRF from interest earnings. The budget further proposes to maintain the CAL FIRE

General Fund backfill in later years—\$500 million in 2027-28 and \$500 million in 2028-29, to be funded out of the annual \$1 billion in legislative discretionary funding.

Furthermore, previously percentage-based continuous appropriations that are now capped dollar amounts are proposed to be funded at the following levels:

- \$396 million for Affordable Housing and \$170 million for Sustainable Communities and Agricultural Land Conservation (capped at \$800 million)
- \$283 million for Transit and Intercity Rail Capital Program (capped at \$400 million)
- \$177 million for Community Air Protection (capped at \$250 million)
- \$141 million for Low Carbon Transit Operations Program (capped at \$200 million)
- \$141 million for Healthy and Resilient Forests (capped at \$200 million)
- \$92 million for Safe & Affordable Drinking Water Program (capped at \$130 million)

Notably, these funding amounts are estimates based on recent auction results. As such, the funding levels may change depending on future auction results.

Cap-and-Invest Implementation. The Governor's budget includes \$5.7 million from special funds and 17 positions to support the implementation of AB 1207 (Irwin), Chapter 117, Statutes of 2025 and SB 840 (Limón), Chapter 121, Statutes of 2025 at the California Air Resources Board (CARB) and the California Public Utilities Commission (CPUC). Specifically, these resources will be used to update and implement statutory changes related to compliance carbon offset protocols and the California Climate Credit.

Zero-Emission Vehicle (ZEV) Incentives. The Governor's budget includes \$200 million one-time special funds and statutory language to establish a new light-duty ZEV incentive program. Of the \$200 million, \$166 million (\$81 million GGRF and \$85 million Air Pollution Control Fund (APCF)) was a part of the 2025 Budget Act as a transfer to the Motor Vehicle Account (MVA) to support fund solvency. However, MVA fund condition is projected to be solvent through 2026-27, and as a result, these funds are proposed to be redirected.

Climate Bond. The Governor's budget proposes \$326 million in climate bond funds for clean air and energy programs. Specifically, \$322.5 million is proposed for the California

Infrastructure Economic Development Bank (IBank) to support the California Transmission Accelerator Revolving Fund, as established by SB 254 (Becker), Chapter 119, Statutes of 2025.

Energy Modernization and Affordability (SB 254). The Governor's budget includes \$5.7 million from various special funds and 18 positions for the Office of Energy Infrastructure Safety, California Public Utilities Commission (CPUC), Public Advocate's Office, and California Energy Commission to support new workload related to utility wildfire mitigation plan review, oversight of transmission development and financing mechanisms, and various environmental regulation and reporting activities.

California Energy Commission (CEC)

Petroleum Market Oversight and Analysis. The Governor's budget proposes \$1.9 million ongoing from the Energy Resources Programs Account as well as seven positions for the Energy Assessments Division and one position at the Division of the Petroleum Market Oversight at the CEC to continue the implementation of AB 1 X2 (Hart), Chapter 1, Statutes of 2024.

California Public Utilities Commission

Supporting Affordability through Expanded Power Markets (AB 825 (Petrie-Norris), Chapter 116, Statue of 2025). The Governor's budget includes \$1.9 million ongoing Public Utilities Commission Utilities Reimbursement Account (PUCURA) and eight positions to support oversight of voluntary participation in expanded regional power markets to ensure compliance with statutory requirements and ensure these markets lower energy costs for California customers, support grid reliability, and resiliency during extreme events, and optimize the use of renewable and zero-carbon energy resources.

California Ratepayer Protection Act (AB 1167 (Berman and Addis), Chapter 634, Statutes of 2025). The Governor's budget includes \$952,000 ongoing from PUCURA and four positions to strengthen enforcement and oversight of political and promotional advertising to protect ratepayers from unreasonable utility costs and ensure accountability in utility practices.

Data Centers (SB 57 (Padilla), Chapter 647, Statutes of 2025). The Governor's budget includes \$668,000 ongoing from PUCURA and three positions to assess and report on ratepayer impacts of large new electricity loads, including data centers. This additional ongoing staff capacity will also support continued electric rate design and cost allocation rules, data analysis, and other efforts to avoid potential cost impacts to existing customers.

California Air Resources Board

Hino Motors Settlement. The Governor's budget includes \$95.6 million one-time from the APCF over three years to implement the Hino Settlement, including certification, testing, enforcement, and other efforts to address air pollution. The Hino Settlement is a \$1.6 billion settlement that the state and federal government reached with Hino Motors, a subsidiary of Toyota, for violation of the Clean Air Act related to the submission of false and fraudulent engine emission testing data.

Advanced Clean Fleets. The Governor's budget includes \$1.7 million ongoing from the APCF and ten positions to implement the state and local government elements of the Advanced Clean Fleets regulation.

Community Air Protection and Monitoring (SB 352 (Reyes and Bryan), Chapter 120, Statutes of 2025). The Governor's budget includes \$1.6 million ongoing GGRF for 5.2 positions to update the statewide air monitoring plan every five years. Specifically, the funds are proposed to fund various monitoring techniques, including low-cost sensors, advanced volatile organic compounds and metal analyzers, mobile platforms, and satellite systems.

Health and Human Services

The Governor's January budget includes a total of \$343.6 billion (\$94.4 billion General Fund and \$249.2 billion other funds) in 2026-27 for health and human services programs that serve low-income, vulnerable individuals and families.

Health

Department of Health Care Services (DHCS)

The Governor's budget includes \$203.7 billion (\$47.1 billion General Fund, \$120.6 billion federal funds, and \$36 billion special funds and reimbursements) in 2025-26 and \$229.1 billion (\$49.5 billion General Fund, \$138.5 billion federal funds, and \$41.1 billion special funds and reimbursements) in 2026-27 for the Department of Health Care Services (DHCS), which provides Californians with access to affordable, integrated, high-quality health care including medical, dental, behavioral health, and long-term care services. Of this amount, the budget includes \$1.5 billion (\$386.9 million General Fund, \$667.3 million federal funds, and \$402.8 million special funds and reimbursements) in 2025-26 and \$1.3 billion (\$348.4 million General Fund, \$644.2 million federal funds, and \$355.8

million special funds and reimbursements) in 2026-27 for state operations, and \$202.2 billion (\$46.7 billion General Fund, \$119.9 billion federal funds, and \$35.6 billion special funds and reimbursements) in 2025-26 and \$227.8 billion (\$49.2 billion General Fund, \$137.8 billion federal funds, and \$40.8 billion special funds and reimbursements) in 2026-27 for local assistance, primarily in the Medi-Cal program.

Medi-Cal Program: Current Year (2025-26). The Governor's budget includes total expenditures of \$196.7 billion (\$46.4 billion General Fund, \$119.4 billion federal funds, and \$30.9 billion special funds and reimbursements) for the Medi-Cal program in 2025-26, an increase in General Fund expenditures of \$2 billion, or 4.9 percent, compared to the assumptions included in the 2025 Budget Act. According to DHCS, the primary drivers of these increased General Fund expenditures are as follows:

- *State-Only Claiming Adjustment.* The budget includes General Fund costs of \$819.3 million due to revised estimates for pharmacy and administrative claims for state-only programs.
- *Medicare Population Growth.* The budget includes General Fund costs of \$638.7 million due to increases in Medicare costs due to ongoing growth in the Medicare population.
- *Centers for Medicare and Medicaid Services (CMS) Deferrals.* The budget includes General Fund costs of \$617.6 million due to increased deferrals of federal funding from CMS.
- *Delayed Impact of 2025 Budget Act General Fund Solutions.* The budget includes net General Fund costs of \$195.1 million due to the following changes in timing or other technical adjustments of solutions adopted in the 2025 Budget Act:
 - \$321.7 million increased costs due to delayed pharmacy rebates
 - \$86.2 million increased costs from shifting elimination of the Skilled Nursing Facility Workforce and Quality Incentive Program to 2026-27
 - \$44.7 million increased costs due to lower savings from pharmacy budget solutions due to changes to federal matching percentages
 - \$250 million savings related to the 2024-25 Medical Provider Interim Payment Loan funds available in 2025-26 due to end of year adjustments.
 - \$7.4 million savings due to other minor technical adjustments.

- *Managed Care Organization (MCO) Tax Reduced Savings.* The budget includes an adjustment to estimated savings from the tax on managed care organizations implemented by the Legislature and by the voters in Proposition 35, resulting in a net General Fund cost of \$159.3 million

These costs are partially offset by the following General Fund savings:

- *Fee-for-Service Base Expenditures – Reduced Utilization.* The budget includes General Fund savings of \$547.2 million due to lower fee-for-service pharmacy and inpatient utilization.
- *Managed Care Base Expenditures – Reduced Caseload.* The budget includes General Fund savings of \$43.1 million due to lower enrollment
- *Managed Care Base Expenditures – Updated Expenditures.* The budget includes General Fund savings of \$88.2 million due to the net impact of updated estimated expenditures for managed care due to policy and other changes.

Medi-Cal Program: Budget Year (2026-27) – The Governor's budget includes total expenditures of \$222.4 billion (\$48.8 billion General Fund, \$137.5 billion federal funds, and \$36.2 billion special funds and reimbursements) for the Medi-Cal program in 2026-27, an increase in General Fund expenditures of \$2.4 billion, or 5.2 percent, compared to the revised assumptions for 2025-26. According to DHCS, the primary drivers of these increased General Fund expenditures are as follows:

- *Managed Care Base Projections.* The budget includes increased General Fund costs of \$2.7 billion due to adjustments to Medi-Cal managed care base projections, primarily from base rate increases and enrollment growth.
- *Fee-for-Service Pharmacy Costs.* The budget includes increased General Fund costs of \$897.8 million due to growth in fee-for-service pharmacy rates.
- *Medicare Population Growth.* The budget includes General Fund costs of \$648.3 million due to projected growth in the Medicare population and increases in buy-in premiums and Part D costs.

These costs are partially offset by the following General Fund savings:

- *Caseload Reductions – End of COVID-19 Flexibilities and Improved Residency Verification.* The budget includes General Fund savings of \$897.2 million due to

caseload reductions related to the end of unwinding flexibilities provided after the end of the COVID-19 public health emergency, as well as from implementation of improvements for residency verification.

- *Net Savings Related to 2025 Budget Act General Fund Solutions.* The budget includes net General Fund savings of \$648.9 million due to the following General Fund solutions implemented in the 2025 Budget Act:
 - \$1 billion General Fund savings for the elimination of prospective payment system payments to clinics for state-only populations
 - \$901.2 million General Fund savings from pharmacy and pharmacy rebate solutions
 - \$659.2 million General Fund savings from the freeze on Medi-Cal enrollment for undocumented Californians
 - \$302.1 million General Fund savings for reinstatement of the asset limit for Medi-Cal eligibility determination
 - \$134.6 million General Fund savings for elimination of adult dental benefits for Medi-Cal beneficiaries with unsatisfactory immigration status.
 - \$132.4 million General Fund savings from the elimination of the SNF WQIP in 2026-27
 - \$50 million General Fund savings for utilization management for hospice benefits
 - \$2.5 billion General Fund costs due to the expiration of the Medical Provider Interim Payment Loan approved in the 2025 Budget Act.
- *CMS Deferrals.* The budget includes General Fund savings of \$515.5 million due to lower projected CMS deferrals of funding.
- *State-Only Claiming Adjustment.* The budget includes General Fund savings of \$395.8 million due to completion in 2025-26 of retroactive payments for state-only claiming adjustments.
- *House Resolution 1 (H.R. 1) Medi-Cal Impacts.* The budget includes net General Fund savings of \$314.1 million due to the impacts of implementation of H.R. 1 requirements related to work and community engagement requirements, changes in federal match

for emergency services, loss of full-scope Medi-Cal coverage for certain qualified immigrants, more frequent eligibility redeterminations, and reduced retroactive coverage timeframes. *For more detail see "House Resolution 1 (H.R. 1) Medi-Cal Impacts" below.*

- *Hospital Quality Assurance Fee (HQA).* The budget includes General Fund savings of \$142.1 million due to shifting savings for the hospital quality assurance fee to 2026-27.

Medi-Cal Caseload. Medi-Cal is projected to provide health care services to approximately 14.5 million Californians in 2025-26, which represents a decrease of 2.4 percent compared to updated caseload estimates for 2024-25, and 14 million Californians in 2026-27, which represents a decrease of 3.5 percent compared to the revised 2025-26 estimate. The budget assumes the expansion of Medi-Cal under the federal Affordable Care Act will provide coverage to 5 million in 2024-25, 4.9 million Californians in 2025-26 and 4.6 million in 2026-27.

- **House Resolution 1 (H.R. 1) Medi-Cal Impacts.** The Governor's budget generally accepts the changes to federal Medicaid statutes and regulations contained in H.R. 1 will lead to significant reductions in Medi-Cal caseload over time. Specifically, the budget reflects the following impacts from H.R. 1:

- *Work and Community Engagement Requirements.* The budget includes savings of \$373 million (\$102.4 million General Fund) in 2026-27, growing to \$13.1 billion (\$3.6 billion General Fund) by 2029-30, from the new work and community engagement requirements for the Affordable Care Act (ACA) expansion population implemented by HR 1 effective January 1, 2027. The budget also assumes work and community engagement requirements would apply to ACA expansion individuals with unsatisfactory immigration status, which is not required by federal law.
- *Federal Match Reduction for Emergency Services.* The budget includes a General Fund cost of \$658 million in 2026-27, growing to \$872 million by 2029-30, due to the reduction of the federal match for emergency services from 90 to 50 percent for ACA expansion individuals with unsatisfactory immigration status.
- *Loss of Full-Scope Medi-Cal Coverage for Qualified Immigrants.* The budget includes General Fund savings of \$786 million in 2026-27 and \$1.1 billion annually thereafter from transitioning individuals impacted by federal eligibility changes for qualified non-citizens (e.g. refugees, asylees, and others) from full-scope Medi-Cal to restricted-scope Medi-Cal coverage, effective October 1, 2026. According to the

Administration, this will result in approximately 200,000 Californians losing full-scope Medi-Cal coverage.

- *Six-Month Redeterminations.* The budget includes savings of \$463 million (\$74.1 million General Fund) in 2026-27, growing to \$3 billion (\$474 million General Fund) by 2029-30, due to Californians falling off of Medi-Cal coverage due to the increase in the frequency of eligibility redeterminations for the ACA expansion population from annually to every six months.
- *Reduced Retroactive Medi-Cal Timeframes.* The budget includes savings of \$23 million (\$9.6 million General Fund) in 2026-27 and \$48 million (\$20 million General Fund ongoing due to the federal reduction of retroactive Medi-Cal coverage from three months prior to an individual's application date to one month prior for the ACA expansion population and two months for all other Medi-Cal beneficiaries, effective January 1, 2027.

Proposition 35 (MCO Tax) and Provider Rate Increases. The Governor's budget reflects total General Fund savings of \$4.5 billion in 2025-26 and \$2.5 billion in 2026-27 due to support for the non-federal share of Medi-Cal expenditures from the tax on managed care organizations (MCO tax) enacted by the Legislature and adopted by voters in Proposition 35. The budget also includes \$1.6 billion across 2025-26 and 2026-27 to support increases in managed care payments relative to calendar year 2024 in certain domains designated by Proposition 35. The Administration notes the current MCO tax is inconsistent with provisions included in H.R. 1. While the federal CMS has provided a transition period through June 30, 2026, for the MCO tax, the budget assumes the state will receive an additional transition period through the expiration of the tax on December 31, 2026. If the additional transition period is not granted, there would be additional General Fund costs in the Medi-Cal program of approximately \$1.1 billion.

Estimated Improvements and Efficiencies. The Governor's budget includes General Fund savings of \$120 million in 2026-27 as a placeholder, assuming implementation of potential improvements and efficiencies in the following three areas: enhancing oversight, monitoring, and enforcement of managed care plans; improving program integrity; and aligning provider payments with value.

Department of Public Health (DPH)

The budget includes \$5.3 billion (\$855.8 million General Fund, \$2.4 billion federal funds, and \$2 billion special funds and reimbursements) in 2025-26 and \$5.1 billion (\$625 million General Fund, \$2.3 billion federal funds, and \$2.2 billion special funds and reimbursements) in 2026-27 for the Department of Public Health (DPH), which is

dedicated to optimizing the health and well-being of all Californians through a variety of public health monitoring, protection, education, direct services and emergency preparedness activities.

Public Health Information Technology Systems. The Governor's budget includes 15 positions and General Fund expenditure authority of \$24.5 million in 2026-27 to support the Surveillance and Public Health Information Reporting and Exchange (SaPHIRE) system, an integrated data system that provides 24-hour processing of lab results for all reportable infectious diseases.

However, the Governor's budget provides no funding for the state's other essential public health information technology systems, including: the California Confidential Network for Contact Tracing (CalCONNECT), the California Vaccine Management System (myCAvax), or the California Immunization Registry 3 (CAIR3) Project.

Department of Health Care Access and Information (HCAI)

Reproductive Health Grant Program. The Governor's budget includes General Fund expenditure authority of \$60 million in 2025-26 for HCAI to provide grants to reproductive health providers.

California Health Benefit Exchange (Covered California)

State-Only Premium Subsidies and Other Supports. The Governor's budget includes expenditure authority of \$227.4 million (\$20.4 million General Fund and \$207 million Health Care Affordability Reserve Fund) to support increased premium subsidies to reduce costs for individuals purchasing coverage in the Covered California health benefits exchange in the 2026 coverage year, as well as other benefits. Of these amounts, \$20.4 million supports costs for abortion coverage required to be segregated from other premium costs by federal law, \$15 million supports continued access to gender affirming care, and \$190 million supports state subsidies to reduce premium costs.

Human Services

Department of Social Services (DSS)

Child Care. The Governor's budget includes \$7.5 billion (\$5.1 billion General Fund) for DSS-administered child care and development programs. This includes an increase of \$89.1 million General Fund ongoing for a 2.41 percent cost-of-living adjustment. In addition, the budget proposes \$11.5 million one-time Proposition 64 funds for child care infrastructure, targeted towards communities impacted by recent wildfires.

CalFresh. The Governor's budget includes \$3.2 billion (\$1.6 billion General Fund) for CalFresh and food programs. The budget projects a CalFresh caseload of 3.4 million households in 2026-27. The CalFresh budget reflects cost shifts and eligibility restrictions as a result of H.R. 1 changes to the Supplemental Nutrition Assistance Program (SNAP). This includes an increase of \$382.9 million General Fund in 2026-27 as a result of the H.R. 1 SNAP administration cost shift, which reduced the federal government's share of SNAP administration costs from 50 percent to 25 percent. Additionally, the budget includes a reduction of \$66.2 million General Fund to reflect decreases in the CalFresh caseload as a result of H.R. 1 restrictions on SNAP eligibility. These restrictions include: ineligibility for certain lawfully present non-citizens; time limits for certain adults subject to work requirements; and limitations on the Standard Utility Allowance. As various SNAP-related provisions of H.R. 1 take effect, the state will experience more caseload decline due to eligibility restrictions and higher General Fund cost burdens as a result of benefit cost shifts from the federal government to states.

In-Home Supportive Services (IHSS). The Governor's budget includes \$33.4 billion (\$12.5 billion General Fund) for IHSS in 2026-27. The budget projects an IHSS caseload of 875,344 recipients in 2026-27. The budget proposes three significant reductions to the IHSS program. First, the budget proposes a reduction of \$233.6 million General Fund "to remove the state's share of cost for IHSS hours per case growth" beginning in 2027-28. The details of how this cost shift would be applied are unclear. Second, the budget proposes to eliminate the IHSS Backup Provider System in 2026-27, a reduction of \$3.5 million General Fund. Lastly, the budget proposes a reduction of \$86 million General Fund to conform the IHSS Residual Program to Medi-Cal coverage.

California Work Opportunity and Responsibility to Kids (CalWORKs). The Governor's budget includes \$6.5 billion (\$1.2 billion General Fund) for the CalWORKs program and projects a CalWORKs caseload of 360,137 families in 2026-27.

Supplemental Security Income/State Supplementary Payment (SSI/SSP). The Governor's budget includes \$11.5 billion (\$3.6 billion General Fund) in 2026-27 for the SSI/SSP program. The estimated caseload for the SSI/SSP program is 1.1 million individuals and the estimated Cash Assistance Program for Immigrants (CAPI) program caseload is 20,063 individuals.

Child Welfare. The Governor's budget includes \$10.3 billion (\$1 billion General Fund) for children and family services programs in 2026-27. The budget also proposes a revised spending plan for the state's child welfare technology project known as California Automated Response and Engagement System (CWS-CARES).

Department of Developmental Services (DDS)

DDS Caseload. The Governor's budget includes \$21.1 billion (\$13.5 billion General Fund) for developmental services to support a caseload of 527,000 individuals in 2026-27. The DDS budget reflects an increase of \$265.2 million in Medicaid reimbursements in prior years and \$154.6 million in 2025-26 and ongoing as a result of updated federal matching claims for the Affordable Care Act adult expansion population receiving regional center services.

State Administration and General Government

Civil Rights Department

Bureau of Descendants of American Slavery Operations Funding. Through appropriations of \$991,000 in 2028-29, and \$2 million annually after that, the Governor's budget proposes to maintain the existing operations of the Bureau of Descendants of American Slavery indefinitely into the future.

Commission on the State of Hate Extension. The Governor's budget proposes to extend the Commission on the State of Hate through the end of 2030 with appropriations of \$900,000 in 2026-27, \$1.8 million from 2027-28 through 2029-30, and \$900,000 in 2030-31.

California Department of Tax and Fee Administration

Marketplace Facilitator Tax Changes. The Governor's budget proposes to require Delivery Network Companies (DNCs) with at least \$500,000 in annual sales within California to register as marketplace facilitators, commencing January 1, 2027. This change would shift the responsibility of sales tax collection from small business to the

larger DNC platforms, resulting in more streamlined collections and tax compliance. The Administration estimates General Fund sales tax revenue will increase by \$10 million in 2026-27 and by \$20.1 million in 2027-28 and future years.

Sustainable Aviation Fuel Tax Credit. The Governor's budget proposes a new tax credit that would offset diesel excise tax liability to incentivize in-state production of sustainable aviation fuel. The credit is intended to support California's goals of reducing emissions and supporting innovation in clean transportation fuels.

Housing and Homelessness

No New General Fund Investments for Affordable Housing. The Governor's budget makes no cuts but also does not propose any new General Fund investments in affordable housing. Thus, the budget:

- Does not propose any supplemental allocation to the state Low Income Housing Tax Credit (LIHTC) program beyond the current statutory requirement (roughly \$125 million). Recent budgets have provided \$500 million in additional funding to state LIHTC, though on a one-time basis in each instance.
- Does not propose any new General Fund appropriations for the Multifamily Housing Program (MHP). Recent budgets have included one-time annual appropriations to MHP, including \$120 million in the 2025 Budget Act.
- Does not propose any new General Fund appropriations for other affordable housing programs such as the Portfolio Reinvestment Program, the Infill Infrastructure Grants, the Joe Serna Farmworker Housing Grant program, or the Veterans Housing and Homelessness Prevention program.
- Does not propose any new General Fund appropriations for homeownership assistance programs such as California Dream for All or CalHome.

Affordable Housing Programmatic Consolidations, Streamlined Processes, and Stronger Alignment. The Governor's budget mentions a series of proposals intended to "improve efficiency and maximize the impact of available resources" among the state's major housing programs. These proposals, for which specific language is still forthcoming, include:

- Separating the Affordable Housing and Sustainable Communities (AHSC) program and its annual Greenhouse Gas Reduction Fund allocation of up to \$800 million into:
 - an affordable housing component of up to \$560 million to be administered by the recently established Housing Development and Finance Committee (HDFC) within the new California Housing and Homelessness Agency (CHHA); and,
 - sustainable communities and agricultural land conservation components of up to \$240 million combined that will remain under the auspices of the Strategic Growth Council with updates “to support more flexible, catalytic infrastructure investments aligned with regional priorities.”
- Alignment of affordable housing programs under the Housing Development and Finance Committee (HDFC), “including LIHTC [Low Income Housing Tax Credit] and a dedicated share of private activity bonds to be directly allocated by HDFC for its funded projects.”
- Codification of a threshold annual percentage of private equity bonds allocated to affordable housing, with the specific percentage still to be determined.

In addition, the Governor's budget hints at some specific future proposals and general policy directions, including:

- “[C]reative financing mechanisms” to help homeowners impacted by wildfire to overcome financial gaps between their insurance payout and the actual cost to rebuild. The budget indicates that the Administration intends to include a specific proposal in the May Revision.
- Future housing appropriations should be designed to flow through a single, coordinated application and award process.
- Future state LIHTC investments should be paired with other state housing investments to streamline financing and prevent delays.

Homelessness. The Governor's budget makes no cuts, no changes, and no additions to existing commitments to address homelessness. Accordingly, the proposed budget:

- References a planned appropriation of \$500 million in one-time 2026-27 General Fund for Round 7 of the Homelessness Housing and Assistance (HHAP) program

but continues to make this funding contingent on “enhanced accountability and performance requirements.”

Economic Development

Governor's Office of Land Use and Climate Innovation (GO-LCI)

Extreme Heat Mitigation. The Governor's budget includes an allocation of \$241 million in Climate Bond (Proposition 4, November 2024) funds for extreme heat mitigation programs, including \$137 million to the Transformative Climate Communities (TCC) program and \$55 million for Community Resilience Centers (CRC).

Restoration and Transfer of California Education Learning Lab. The Governor's budget proposes to restore the \$4 million annual appropriation to the California Education Learning Lab in 2026-27 that had been cut in the 2025 Budget Act and to move the program from GO-LCI to GovOps.

Governor's Office of Business and Economic Development (GO-Biz)

CalCompetes Tax Credit Program Extension. The CalCompetes program provides \$180 million annually in financial subsidies in the form of future tax credits to businesses that agree to stay in, or relocate to, California in exchange for investment and job creation commitments. The Governor's budget proposes to extend the CalCompetes Tax Credit program through 2032-33.

California Export Promotion Program Investment. The Governor's budget includes a \$1.3 million General Fund appropriation to the California Export Promotion Program in 2026-27 and annually after that.

Emerging Business Sector Investment. The Governor's budget includes \$400,000 in 2026-27 and annually after that for GO-Biz “to engage and grow emerging business sectors” including artificial intelligence, quantum, and cloud/data platforms by “facilitating relationships between the private sector and research universities, national laboratories, and federal funding opportunities.”

Governor's Office of Service and Community Engagement (GO-Serve)

The Governor's budget does not propose any cuts, additions, or changes to existing GO-Serve programs or resources.

Arts

Arts in California Parks. The Governor's budget includes, through a partnership with the California Arts Council and Parks California, \$13.9 million one-time General Fund invested in 61 grantees and over 200 events for artists, culture bearers, California Native American tribes, and communities.

Exposition Park

Utility Replacement and Site Improvements. The Governor's budget includes \$96.5 million one-time (\$76 million General Fund and \$20.5 million Exposition Park Improvement Fund) for deferred maintenance projects and accessibility requirements prior to major events like the upcoming Los Angeles 2028 Olympic and Paralympic Games.

California Science Center: Phase III Air and Space Center Facility Operations and Opening. The Governor's budget includes \$9.3 million ongoing General Fund and 31 positions to support the fall 2026 public opening of the Air and Space Center and ongoing operations of the Phase III facility.

Government Operations Agency (GovOps)

California Education Learning Lab. The Governor's budget proposes to transfer the California Education Learning Lab (Learning Lab) from the GO-LCI to GovOps and proposes \$4 million General Fund in 2026-27, and ongoing, and one position, as well as statutory changes to reinstate the Learning Lab.

Office of Data and Innovation

Reimbursement Authority. The Governor's budget includes five positions and \$1.3 million in reimbursement authority to the Data and Innovation Services Revolving Fund intended to scale the state's design, development, data, and digital service capabilities.

Department of Technology (CDT)

Middle-Mile Broadband Initiative Encumbrance Extension. The Governor's budget proposes an extension of the encumbrance period for \$550 million General Fund allocated to CDT in the 2022 Budget Act for 2023-24 and 2024-25, until December 31, 2028.

Digital ID. The Governor's budget includes \$3.1 million Technology Services Revolving Fund to expand the Digital ID service.

California Cybersecurity Integration Center (Cal-CSIC): Artificial Intelligence. The Governor's budget includes limited-term funding of \$408,000 General Fund in 2026-27, and \$286,000 General Fund in 2027-28, for the Office of Information Security at CDT to assist in Cal-CSIC's California AI Cybersecurity Playbook development.

Cannabis

Hemp Enforcement and Regulation. The Governor's budget includes \$7.3 million (\$5.6 million Cannabis Control Fund and \$1.7 million Cannabis Tax Fund) in 2026-27 and \$5 million (\$4.1 million Cannabis Control Fund and \$852,000 Cannabis Tax Fund) in 2027-28 and ongoing to integrate hemp into the cannabis regulatory framework. Additionally, \$3.3 million (\$2.8 million Cannabis Tax Fund and \$500,000 Cigarette and Tobacco Products Compliance Fund) in 2026-27, and \$2.6 million Cannabis Tax Fund and \$700,000 Cigarette and Tobacco Compliance Fund ongoing, is proposed for the Department of Tax and Fee Administration to support AB 8 (Aguiar-Curry), Chapter 248, Statutes of 2025 enforcement activities.

Enforcement and Legal Affairs Workload. The Governor's budget includes \$7.6 million (\$1.2 million Cannabis Control Fund and \$6.4 million Cannabis Tax Fund) in 2026-27 and \$6 million (\$2.1 million Cannabis Control Fund and \$3.9 million Cannabis Tax Fund) in 2027-28 and ongoing for enforcement efforts against the illegal cannabis market, and for the Department of Cannabis Control's legal workload.

Cannabis System Integration Project. The Governor's budget includes \$7.2 million Cannabis Control Fund to begin the consolidation of two cannabis systems into one single system to improve data collection and streamline services.

Allocation 3 Program Funding. The Governor's budget estimates \$403.9 million will be available for Allocation 3 programs in 2026-27 as follows:

- Education, Prevention, and Treatment of Youth Substance Use Disorders and School Retention - 60 percent (\$242.3 million)
- Clean-up, Remediation, and Enforcement of Environmental Impacts - 20 percent (\$80.8 million)
- Public Safety-related Activities - 20 percent (\$80.8 million)

The Governor's budget also includes a one-time shift of \$11.5 million in 2026-27, within the youth, education, prevention, early intervention, and treatment account, from the California Natural Resources Agency to the Department of Social Services (DSS).

Department of Financial Protection and Innovation (DFPI)

Continuation of California Consumer Financial Protection Law (CCFPL) Funding.

The Governor's budget includes \$15.3 million Financial Protection Fund annually through 2029-30 to continue implementing AB 1864 (Limón), Chapter 157, Statutes of 2020, which expanded DFPI's authority to oversee financial products and services previously not regulated by the department.

Continuation of Debt Collector Licensing and Regulation Funding. The Governor's budget includes \$13.5 million Financial Protection Fund annually through 2029-30 to continue implementing SB 908 (Wieckowski), Chapter 163, Statutes of 2020, the Debt Collection Licensing Act, which requires DFPI to license, regulate, and examine debt collectors.

California Privacy Protection Agency (CCPA)

Enforcement Resources. The Governor's budget includes \$1.6 million (split across the Data Brokers' Registry Fund and the Consumer Privacy Fund) in 2026-27 and \$1.5 million in 2027-28 and ongoing to address increased consumer complaints and open investigations related to CCPA violations, and to begin enforcing the California Delete Act.

Department of Food and Agriculture

Farm to School. The Governor's budget proposes an increase of \$24.6 million General Fund in 2026-27 (\$25.2 million ongoing) and statutory changes to provide ongoing funding for the Farm to School supply chain, the Farm to School Incubator Grant program, and for climate smart agriculture programs.

Department of General Services

Infrastructure Improvements. The Governor's budget includes \$202.6 million (\$52.2 million General Fund and \$150.4 million Public Building Construction Fund) over the next five years for projects in the Sacramento Region, including the reconfiguration of the 10th & O building upon completion of the Capitol Annex in 2027, and the renovation of the Warren-Alquist Energy building.

Military Department

Infrastructure Improvements. The Governor's budget includes \$68.6 million (\$15.9 million General Fund, \$9.2 million Armory Fund, and \$43.5 million federal funds) over the next five years for armories, aviation facilities, and training facilities.

Drug Interdiction Continuation. The proposed budget includes \$30 million General Fund (\$15 million in 2026-27 and \$15 million in 2027-28) to further expand the Military Department's existing drug interdiction efforts to prevent drug trafficking by transnational criminal organizations throughout the state, with a particular focus on assisting federal, state, local, and tribal law enforcement agencies in combating fentanyl. The 2022 Budget Act included \$15 million in 2022-23 and 2023-24 to support this program. The 2024 Budget Act included another \$15 million in 2024-25 and 2025-26 to continue this program. This brings the total investment to \$90 million for drug interdiction efforts.

Department of Veteran's Affairs

Department of Veteran's Affairs. The Governor's budget includes \$209.3 million federal funds for the design-build phase of the Yountville Skilled Nursing Facility. This authority will reimburse state costs.

Corrections, Public Safety, Judiciary, Labor and Transportation

Corrections

California Department of Corrections and Rehabilitation (CDCR)

The Governor's budget proposes total funding of \$14.2 billion (\$13.8 billion General Fund and \$400 million other funds) for CDCR in 2026-27. This includes \$4.1 billion General Fund for health care programs.

Adult Institution Population. The average daily adult incarcerated population is projected to be 89,162 in 2025-26 and 87,613 in 2026-27, both small decreases as compared to spring projections. In the long-term, the population is projected to continue to decline, to 84,664 in 2030. These projections include the impact of Proposition 36 (2024), which is estimated to be 562 in 2025-26 and 1,200 upon full implementation.

Parolee Population. The parolee average daily population is projected to be 33,816 in 2025-26 and 32,432 in 2026-27. The parolee population is expected to decline in the long-term, to 30,785 in 2030.

Lump Sum Payments. The proposed budget includes \$90.1 million ongoing General Fund to pay accrued leave balances to employees upon retirement or separation from state service.

Americans with Disabilities Act Facility Improvements. The proposed budget includes \$23.1 million one-time General Fund in 2026-27 to complete accessibility improvements at eight institutions.

Statewide Fire Alarm Replacements and Fire Watch. The proposed budget includes \$15.2 million one-time General Fund in 2026-27 and the reappropriation of prior funding to complete fire alarm replacement projects and for staff time to patrol for fires.

Board of Parole Hearings Information Technology System (BITS) Contract. The proposed budget includes \$1.2 million General Fund in 2026-27 increasing to \$1.5 million General Fund in 2029-30 and ongoing to support the BITS contract.

Post-Release Community Reentry Programs. The proposed budget includes \$5.3 million General Fund in 2026-27, increasing to \$14.3 million General Fund in 2030-31, to increase contract rates for post-release reentry programs.

Mental Health Receivership. The *Coleman* case is a class action lawsuit filed in 1990 on behalf of all California state prisoners with serious mental illness. CDCR paid monthly fines due to staff vacancies from April 2023 through August 2025. These were deposited into a new Mental Health Staffing Special Deposit Fund, which has a balance of \$121.6 million. The proposed budget reflects spending of \$33.9 million from the Special Deposit Fund to support a newly appointed Mental Health Receiver, and to continue clinical staff bonuses ordered by the court.

Infrastructure Plan. The five-year infrastructure plan includes \$78.5 million General Fund over the next five years for seven projects that address critical fire and life safety upgrades at CDCR. The Governor's budget proposes \$9.2 million General Fund for potable water projects at the California Health Care Facility, Stockton; the Valley State Prison, Chowchilla; and Correctional Training Facility, Soledad.

Public Safety

Proposition 47 State Savings. The Administration estimates net savings of \$81.3 million General Fund in 2026-27 associated with a reduced prison population due to Proposition 47, the Reduced Penalties for Some Crimes Initiative (2014). Beginning in 2026-27, the Department of Finance will only use the in-state marginal costs and not contract bed costs to calculate these savings, as the state no longer uses contract beds. The marginal cost is currently \$20,105.

California Violence Intervention and Prevention Grant Program (CalVIP). The proposed budget includes \$56.4 million in 2025-26 and \$51.9 million in 2026-27 for CalVIP from the Gun Violence Prevention and School Safety Fund, pursuant to AB 28 (Gabriel), Chapter 231, Statutes of 2023.

Community Corrections Performance Incentive Grant. The proposed budget includes \$127.9 million General Fund in 2026-27 to support the Community Corrections Performance Incentive Grant, originally established by SB 678 (Leno), Chapter 608, Statutes of 2009, and modified by SB 157 (Committee on Budget and Fiscal Review), Chapter 111, Statutes of 2025. This program provides incentives for counties to reduce the number of felony probationers sent to state prison.

Nonprofit Security Grant. The proposed budget does not include additional funding for the Nonprofit Security Grant, which has received a total of \$300 million since 2021-22, but indicates that the Administration intends to work with the Legislature on a proposal for continuing this program.

Department of Justice (DOJ)

The proposed budget includes total funding of approximately \$1.3 billion (\$508 million General Fund) to support the DOJ in 2026-27.

Federal Accountability. The Governor's proposed budget includes an additional \$10 million per year General Fund in 2026-27 through 2028-29 for the DOJ to defend the state against enforcement and legal actions taken by the federal government. The Governor's budget also proposes to release \$10 million in 2025-26 for this purpose from funds originally appropriated in the 2024 Budget Act. These resources are in addition to previous allocations for this purpose, including a baseline of \$2.5 million ongoing for the DOJ, \$6 million that was provided one-time in 2024-25 to the DOJ and other state entities, and \$14.2 million in 2025-26 and \$13.9 million in 2026-27 and ongoing that was provided

to the DOJ in the 2025 Budget Act. The proposed budget also makes the additional resources provided in the 2025 Budget Act limited-term, through 2028-29.

Firearm Information Technology Systems Modernization (FITSM) Project. The proposed budget includes \$11.2 million General Fund in 2026-27 to continue the FITSM project, which consolidates various firearm databases.

Dealers' Record of Sale Authority Alignment. The proposed budget includes \$8 million General Fund annually in 2026-27 through 2028-29 to maintain the current service level for activities funded by the Dealers' Record of Sale Special Account.

Online and App-Based Illegal Gambling Enforcement. The proposed budget includes \$1.1 million Unfair Competition Law Fund and three positions in 2026-27 and ongoing to conduct investigations and litigation against illegal online and app-based gambling operations.

The Judicial Branch

The proposed budget includes total funding of \$5.3 billion (\$3.3 billion General Fund and \$2 billion other funds) in 2026-27 for the Judicial Branch, of which \$3 billion is provided to support trial court operations.

Trial Court Operations. The proposed budget includes an additional \$70 million ongoing General Fund for trial court operations.

Court-Appointed Counsel. The proposed budget includes an additional \$11 million ongoing General Fund to increase the hourly rate for counsel appointed to represent indigent clients at the Supreme Court and the Courts of Appeal. This is in addition to \$6.3 million ongoing General Fund included for this purpose in the 2025 Budget Act.

Courts of Appeal Workload. The proposed budget includes \$5.2 million Appellate Court Trust Fund in 2026-27 and \$4.9 million General Fund in 2027-28 and ongoing to address appellate court workload.

Trial Court Employee Benefits. The proposed budget includes an increase of \$21.7 million ongoing General Fund for trial court employee health benefits and retirement costs.

State Court Facilities and Construction Fund (SCFCF) Backfill. The proposed budget includes \$41 million General Fund in 2026-27 and \$56 million General Fund in 2027-28 and ongoing to backfill the SCFCF.

Orange County Central Justice Center Facility Modification. The proposed budget includes \$36 million General Fund in 2026-27 and \$35 million General Fund in 2027-28 to complete various fire life safety upgrades at the Central Justice Center in Orange County.

Los Angeles Spring Street Courtrooms Relocation. The proposed budget includes \$4.6 million one-time General Fund in 2026-27 to support the relocation of 17 courtrooms and operations from the Spring Street Courthouse in Los Angeles.

Infrastructure Plan. The five-year infrastructure plan includes \$2.7 billion (\$120.1 million General Fund and \$2.6 billion Public Buildings Construction Fund) over the next five years for fourteen Judicial Branch projects. The Governor's budget proposes \$350.9 million (\$30.6 million General Fund and \$320.3 million Public Buildings Construction Fund) to continue six projects and start one new project. The continuing projects include new courthouses in San Luis Obispo County, Nevada County, and Plumas County, and courtrooms to accommodate new judgeships in San Joaquin County, Kings County, and Sutter County. The new project is to expand a courthouse for Chatsworth in Los Angeles County to accommodate operations that will transfer from a leased facility.

Labor, Public Employment and Retirement

Unemployment Insurance Fund

Unemployment Insurance Trust Fund Loan Interest. The Governor's budget includes \$662.2 million one-time General Fund to pay the annual interest payment on the state's Unemployment Insurance loan balance.

Employment Development Department (EDD)

EDDNext. The Governor's budget includes \$145.5 million (\$60.9 million General Fund) one-time to continue the modernization of EDD through the implementation of EDDNext.

Department of Industrial Relations (DIR)

Apprenticeship Training Grant Augmentation. The Governor's budget includes \$18.2 million one-time Apprenticeship Training Contribution Fund in 2026-27, \$18.1 million one-time in 2027-28, and \$17.8 million one-time in 2028-29 and 2029-30 for DIR for grants to approved apprenticeship programs in construction and related trades.

Public Works Information Technology System. The Governor's budget includes \$8.9 million one-time Labor and Workforce Development Fund for DIR to continue enhancements to the Public Works Information Technology System.

Extreme Heat and Agricultural Enforcement Task Force and Outreach. The Governor's budget includes \$7.7 million Occupational Safety and Health Fund in 2026-27, \$7.1 million in 2027-28 and ongoing, and 34 permanent positions for DIR to continue targeted outreach and education for employers and workers and strategic enforcement efforts to protect workers from heat-related illnesses and wildfire smoke hazards.

Cal/OSHA Centralized Complaint and Report Intake Unit. The Governor's budget includes \$5.9 million Occupational Safety and Health Fund in 2026-27, \$5.3 million in 2027-28 and ongoing, and 35 permanent positions for DIR to create a centralized complaint and report intake unit within Cal/OSHA.

Subsequent Injuries Benefits Trust Fund. The Governor's budget includes \$12.7 million Workers' Compensation Administration Revolving Fund and 57 positions in 2026-27, growing to \$36.5 million and 177 positions in 2030-31 and ongoing, for DIR to address the backlog of cases resulting from years of substantial growth in the Subsequent Injuries Benefits Trust Fund (SIBTF) program.

Public Employment Relations Board (PERB)

Public Employment Relations Board Chaptered Legislation. The Governor's budget includes \$8.5 million General Fund and 30 positions in 2026-27, \$9.3 million and 39 positions in 2027-28, and \$2.3 million and 39 positions in 2028-29 and ongoing for the Public Employment Relations Board to implement the Transportation Network Company Drivers Labor Relations Act pursuant to AB 1340 (Wicks), Chapter 335, Statutes of 2025 and to adjudicate National Labor Relations Board unfair practice charges and determinations of union elections and union certifications under specified circumstances pursuant to AB 288 (McKinnor), Chapter 139, Statutes of 2025.

Employee Compensation and Collective Bargaining

Employee Compensation and Health Care Costs. The Governor's budget includes \$260.7 million (\$116.9 million General Fund) in 2026-27 for increased employee compensation and health care costs for active state employees. Included in these costs are collectively bargained salary and benefit increases resulting from contract negotiations and funding for 2027 calendar year projected increases in health care and dental premiums and enrollment.

California Public Employees' Retirement System (CalPERS) Contributions. The Governor's budget includes \$9.8 billion (\$5.3 billion General Fund) for the state's contribution to CalPERS. Included in the total contributions is \$731 million one-time General Fund for CSU retirement costs.

California State Teachers' Retirement System (CalSTRS) Contributions. The Governor's budget includes \$4.8 billion General Fund for state contributions to CalSTRS.

Government Efficiency and Cost Saving Measures

Vacant Positions Funding Reduction and Elimination of Positions. The Governor's budget intends to implement efficiencies across state government included in the 2025 Budget Act by proposing to eliminate 6,002 vacant positions beginning in 2025-26, and the associated expenditure authority totaling \$478.1 million (\$182.3 million General Fund) in 2025-26, and \$487.1 million (\$191.3 million General Fund) in 2026-27, and ongoing.

State Operations Ongoing Reductions. The Governor's budget intends to implement efficiencies included in the 2025 Budget Act by including reductions to state operations expenditures by up to 7.95 percent across all state funds totaling \$1.55 billion (\$1.2 billion General Fund) in 2025-26, and \$1.56 billion (\$1.18 billion General Fund) in 2026-27, and ongoing.

Transportation

Transit. The Governor's budget includes statutory changes to authorize the Metropolitan Transportation Commission (MTC) to provide short-term loans to transit agencies facing cash flow challenges. In addition, the Governor's budget does not include previously planned 2026-27 funding for transit included as part of SB 125 (Committee on Budget and Fiscal Review, Chapter 54, Statutes of 2023): the Zero Emission Transit Capital Program (\$230 million) and Competitive Transit and Intercity Rail Capital Program (\$20 million), totaling \$250 million.

Motor Vehicle Account (MVA). The Governor's budget projects the MVA to be solvent in 2025-26 and 2026-27. As such, the budget proposes to cancel a transfer from the Air Pollution Control Fund and Greenhouse Gas Reduction Fund included in the 2025 Budget Act. For further information about these reverted funds, please refer to the Energy and Air section.

California Highway Patrol (CHP). The Governor's budget includes the following proposals:

- \$44.4 million from the Motor Vehicle Account (MVA) in 2026-27 for additional duty weapons, vehicles, and other various operational cost increases.
- \$6.9 million from the MVA in 2026-27 to continue providing protection and security at the State Capitol swing space building.
- \$2.3 million General Fund for Statewide Planning and Site Identification.

Department of Motor Vehicles (DMV). The Governor's budget includes the following proposals:

- \$94.1 million MVA in 2026-27 to continue the Digital eXperience Platform (DXP) Project, which aims to replace the current obsolete legacy applications and systems with flexible technology, specifically for the Occupational Licensing, Disabled Persons Placard, Vehicle Registration, Control Cashiering and Inventory Management, and Driver Licensing systems.
- \$56 million MVA in 2026-27 to implement the State-to-State (S2S) Verification System Project. Specifically, the estimated costs include \$25 million in information technology project resources and temporary help resources equivalent to 98.4 positions in 2026-27 and 118.7 positions in 2027-28 for increased workload.
- \$9.8 million MVA to lease a space for the San Francisco Field Office while the current state-owned field office is closed and redeveloping into housing.
- \$21.2 million Public Buildings Construction Fund for the construction phase of the Oxnard Field Office Reconfiguration project.