

*Senate Budget and Fiscal Review—John Laird, Chair*

# SUBCOMMITTEE NO. 4

# Agenda

**Senator Melissa Hurtado, Chair**  
**Senator Christopher Cabaldon**  
**Senator Roger W. Niello**  
**Senator Lola Smallwood-Cuevas**



**Thursday, May 21, 2026**  
**9:30 a.m.**  
**State Capitol - Room 113**

Consultants: Elisa Wynne and Jessica Uzarski

## DISCUSSION ITEMS

- 8570 Department of Food and Agriculture .....5**
  - Item #1: Ongoing Animal Care Program Resources.....5
  - Item #2: Industrial Hemp Program Transition .....6
  - Item #3: Agricultural Statistics and Reporting .....7
  - Item #4: Administrative Cap Trailer Bill Language .....7
- 0511 Secretary for the Government Operations Agency .....9**
  - Item #5: Workforce Pell Grant Funding .....9
  - Item #6: Data Sharing Trailer Bill Language.....10
  - Item #7: Pell Program Trailer Bill Language.....10
- 7502 Department of Technology.....11**
  - Item #8: Middle Mile Broadband Initiative Contingency Funding .....11
  - Item #9: Middle Mile Broadband Initiative Reimbursement Authority .....11
  - Item #10: Poppy: California’s Digital Assistant .....12
- 7600 California Department of Tax and Fee Administration (CDTFA) .....13**
  - Item #11: Digital Prewritten Software Tax.....13
- 7730 Franchise Tax Board (FTB).....15**
  - Item #12: CalFile Resources Realignment.....15
  - Item #13: Permanent Credit Limitation .....15
  - Item #14: Reduction of New Business Tax.....17
  - Item #15: Tax Conformity for Trump Accounts.....17
- 7760 Department of General Services.....19**
  - Item #16: Contract and Procurement Efficiencies .....19

**Various Departments.....20**  
 Item #17: Control Section 7.20 – Governors’ Legacies.....20

**ITEMS NOT FOR PRESENTATION**

**0840 State Controller.....22**  
 Item #18: California State Payroll System Project .....22  
 Item #19: Adjustment and Budget Bill Language for California State Payroll System .....22  
 Item #20: State Controller’s Office (SCO) FI\$Cal Book of Record.....23  
 Item #21: Annual Comprehensive Financial Report (ACFR) Engagement Team .....23  
 Item #22: Unclaimed Property Program Public Awareness Funding Adjustment .....23  
 Item #23: Broadcom IDMS Software Licensing Adjustment.....23  
 Item #24: Property Tax Postponement.....23  
**0845 – Department of Insurance .....24**  
 Item #25: Home Hardening Reappropriation.....24  
**0890 Secretary of State.....25**  
 Item #26: Help America Vote Act – 2026 Election Security Federal Grant Award.....25  
 Item #27: Secretary of State Building Security Improvements .....25  
 Item #28: California State Payroll System Reimbursement Authority .....25  
**0950 State Treasurer .....26**  
 Item #29: Canceled Bond Sales Contingency Authority .....26  
 Item #30: CalAccounts Reappropriation.....26  
**1111 Department of Consumer Affairs.....27**  
 Item #31: California State Board of Pharmacy Business Modernization .....27  
**1115 Department of Cannabis Control.....28**  
 Item #32: Short Term Loan.....28  
**1701 Department of Financial Protection and Innovation .....29**  
 Item #33: Legislation Implementation - SB 919 (Umberg).....29  
**3100 Exposition Park.....30**  
 Item #34: World Cup Fan Festival Expenses.....30  
 Item #35: California African American Museum Reappropriations.....30  
**7502 Department of Technology.....31**  
 Item #36: Office Space Facilities Request.....31  
**7600 California Department of Tax and Fee Administration (CDTFA).....32**  
 Item #37: Operational Savings.....32  
**7504 Office of Data and Innovation .....33**  
 Item #38: Extended Encumbrance .....33  
**7760 Department of General Services.....34**  
 Item #39: 10th and O Streets Reconfiguration.....34  
 Item #40: O Street State Parking Garage .....34  
 Item #41: Lease Revenue Debt Service Transfer Adjustments .....34  
**8260 Arts Council .....35**  
 Item #42: Keep Arts in Schools Voluntary Tax Contribution Fund .....35

<b>8570 Department of Food and Agriculture .....</b>	<b>36</b>
Item #43: State Race Track Leasing Commission .....	36
Item #44: Department of Food and Agriculture Bond and Technical Adjustments .....	36
Item #45: Plant Health and Pest Prevention Program Funding .....	36
Item #46: Biological Control Facility Repairs .....	37
<b>8615 Privacy Protection Agency .....</b>	<b>38</b>
Item #47: Delete Request Opt-Out Platform Expenditure Authority.....	38
<b>8885 Commission on State Mandates .....</b>	<b>39</b>
Item #48: Lease Costs .....	39
Item #49: Reimbursement for State Mandates.....	39
<b>8940 Military Department .....</b>	<b>40</b>
Item #50: Los Alamitos: Battalion Headquarters Readiness Center.....	40
Item #51: Critical Roof Replacement and Exterior Repairs (Facilities and Infrastructure) .....	40
Item #52: Channel Islands Electrical System Repair.....	40
Item #53: State Active Duty Compensation Adjustment.....	40
Item #54: Task Force Rattlesnake Salary Adjustment and Reimbursement Authority Increase	40
<b>8955 Department of Veterans Affairs .....</b>	<b>41</b>
Item #55: CalVet Electronic Health Record Project.....	41
Item #56: Reappropriation for CalVet Electronic Health Record Project .....	41
<b>Various Departments.....</b>	<b>41</b>
Item #57: Bill Control Section 11.94 – Coronavirus Capital Projects.....	41

**Public Comment**

Please Note: Public comment will be taken after all Items have been heard.

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# Items for Discussion

**8570 DEPARTMENT OF FOOD AND AGRICULTURE**

**Request:** The Governor’s May Revision Budget requests, for the Department of Food and Agriculture (CDFA):

Item #1: Ongoing Animal Care Program Resources
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**Ongoing Animal Care Program Resources** - \$7,983,000 General Fund in 2026-27 and \$2,818,000 ongoing, which includes a one-time \$5,165,000 General Fund transfer to the Department of Food and Agriculture Fund (Ag Fund) in 2026-27 to repay a loan incurred to establish the Animal Care Program, which was created to implement the provisions of Proposition 12 passed in 2018 (Prop 12). This request would transition the Program from being split between General Fund and Ag Fund to being fully supported by General Fund, until a fee-based funding structure is implemented. The proposal also includes provisional language requesting a transfer of General Fund to the Ag Fund to repay this loan.

**Background:** Numerous lawsuits have challenged Prop 12, including: National Pork Producers Council et al. v. Ross et al. (U.S. Supreme Court upheld Prop 12 on May 11, 2023); Iowa Pork Producers Association v. Rob Bonta et al. (appealed to the U.S. Supreme Court, who declined to hear the case on June 30, 2025); United States of America v. The State of California et al. (filed July 7, 2025); and Triumph Foods, LLC. v. Rob Bonta et al. (filed September 23, 2025). Given ongoing legal challenges, CDFA has proceeded cautiously with implementing the Animal Care Program to mitigate litigation risk. As part of this strategy, CDFA has not yet adopted Program fees.

The Administration states that CDFA has never fully staffed positions approved for this Program given the ongoing uncertainty. This means CDFA has not been able to fully implement and enforce Prop 12. This has resulted in: (1) a six-month backlog of certifications to be performed by CDFA, (2) an unfair marketplace for California businesses where noncompliant covered products are sold at a lower price compared to compliant covered products, (3) noncompliant covered products coming into California through our Border Stations, (4) compliance visits not being performed at retailers of covered products, and (5) CDFA being unable to assure California consumers that the covered products they purchase are compliant with the requirements they voted for in 2018. If the Program were fully funded with General Fund, CDFA could fully staff this program and address these consequences.

CDFA will have accrued an estimated deficit of \$4,974,000 for this Program from inception through the end of 2025-26. The Ag Fund has covered this deficit. Additionally, CDFA anticipates accrued interest costs of \$191,000, which increases the total need to \$5,165,000 in 2026-27. Per the provisional language requiring that the Ag Fund be held harmless in its expenditures related to this Program, the Administration requests a General Fund transfer to cover the full deficit.

**“LAO Recommendation:** The Legislative Analyst’s Office provides the following recommendation on the present proposal:

*“Approve, But Revisit Amount in Future When Current Uncertainties Are Resolved. Proposes \$8 million in 2026-27 and \$2.8 million in 2027-28 and ongoing from the General Fund for the department's animal care program that was established after the passage of Proposition 12 (2018). (\$5.2 million would repay costs that were initially covered by the Ag Fund, but are not allowable activities for that fee-supported fund.) The program cannot be supported by fees as originally intended because CDFA did not establish them due to*

*ongoing litigation challenging Proposition 12. We recommend approving this proposal, as the state does not have many other options to meet the proposition's requirements given current legal uncertainties around the ability to levy fees. However, we recommend the Legislature revisit this funding in future years as litigation is resolved and more is known about federal government efforts to preempt Proposition 12 (such as the 2026 Farm Bill currently under consideration in the United States Senate)."*

**Staff Recommendation:** Hold open.

Item #2: Industrial Hemp Program Transition
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**Industrial Hemp Program Transition** - \$8,336,000 transfer from the General Fund to the Department of Food and Agriculture Fund in 2026-27, with authority to make transfers until June 30, 2028, to cover the deficit incurred by CDFA in the implementation of the Industrial Hemp Program. This request encompasses all previously accrued deficits as well as expected expenditures in 2025-26 through 2027-28. Additionally, the Administration's proposal requests trailer bill language affecting a shift from a state-managed program, where growers currently register with the County Agricultural Commissioners (CAC), to a system that mandates growers to obtain licenses through the federal hemp program established by the U.S. Department of Agriculture (USDA).

**Background:** The Administration states that because the program's licensing fees have not been sufficient to cover the operating costs of administering the program and because the industry is not anticipated to grow to the point where sufficient revenues are collected, CDFA can no longer operate this program from the Ag Fund. Additionally, since the USDA has begun operating an industrial hemp program at the federal level, there is now a mechanism for growers to operate outside of CDFA's oversight.

The requested funding would eliminate the accrued deficit of \$5,346,000 as of the close out of 2024-25 and anticipated expenses of \$2,708,000 (\$1,223,000 in 2025-26, \$990,000 in 2026-27 and \$495,000 in 2027-28), and interest costs of \$282,000 in 2025-26 as a result of the current deficit. This request would reduce the fiscal burden on CDFA and the regulatory fee burden on California farmers. This proposal would revoke California's established hemp program, which requires growers to register with the CAC and would add a provision requiring that any person who grows industrial hemp be licensed by the USDA.

This proposal would also retain a provision from current law prohibiting cultivation of industrial hemp on sites licensed by the Department of Cannabis Control (DCC) for cannabis cultivation. The Administration states that this is necessary to help prevent confusion and provide clarity in enforcement of requirements for both hemp and cannabis. CDFA anticipates the shutdown of the state-run program to be completed in December 2027. This timeline would provide sufficient time for CDFA to coordinate with the USDA to prevent any gaps in authorization for existing hemp growers, since hemp authorizations for both California and the USDA are annual and accepted on a rolling basis throughout the year.

**“LAO Recommendation:** The Legislative Analyst’s Office provides the following recommendation on the present proposal:

*“Approve. Proposes \$8.3 million General Fund one-time to transition the state's industrial hemp program to an equivalent federal program managed by the United States Department of Agriculture by the end of 2027. (\$6.6 million would repay costs that were initially covered by the Ag Fund, but are not allowable activities for that fee-supported fund.) We recommend the Legislature approve this proposal and associated trailer bill language primarily due to the declining number of state program participants (from 697 in 2019-20 to 90 in 2025-26). Fewer participants means less revenue from fees to cover program costs. This is unsustainable and, as the industry continues to shrink, a transition to an equivalent federal program with minimal future state costs is a more cost-effective option.”*

**Staff Recommendation:** Hold open.

Item #3: Agricultural Statistics and Reporting
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**Agricultural Statistics and Reporting** - \$204,000 General Fund in 2026-27, 2027-28, and 2028-29, and \$204,000 Department of Food and Agriculture Fund (Ag Fund) in 2029-30 and ongoing, and 1.0 permanent position to continue the statutorily mandated collection and publication of agricultural statistical reports.

**Background:** In July 2025, the Trump Administration announced their intent to reorganize the USDA, including relocating all staff to five hubs across the country (none of which are located in California). Shortly after, CDFA became aware of the resignation of many key USDA-NASS staff. Resignations and retirements continued for several months, resulting in the loss of extensive institutional knowledge on the production of surveys, reports, and forecasts by USDA-NASS in cooperation with CDFA. The Administration states that the rapid changes following USDA’s announcement made clear that retaining technical continuity and the ability to produce reports requires adding an employee with expertise in statistics and data management to the CDFA team embedded at USDA-NASS. The Administration states that the intent of this proposal is to allow CDFA to maintain continuity of its statutory reporting obligations despite the instability created by USDA-NASS’ reorganization. Securing a statistical expert at CDFA will allow the Department to preserve technical capacity and avoid disruptions if federal support continues to decline. This will help CDFA to uphold its mandated responsibilities and protect industry confidence.

**Staff Recommendation:** Hold open.

Item #4: Administrative Cap Trailer Bill Language
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**Administrative Cap** - The Administration has requested trailer bill language to exempt expenditures for specified categories of administrative costs from the statutory 5 percent limitation on indirect costs from the Department of Food and Agriculture Fund, along with various technical fixes. The Administration states that this language will bring the department into compliance with the statutory requirements and does not change the amount charged in indirect to programs or increase fees.

**Background:** The Administration states that current law specifies that indirect charges for administering industry funds within the Food and Agriculture Fund may not exceed 5 percent of revenues. As currently

defined, indirect charges are costs which bear no direct relation to services received. Services considered indirect costs include administrative and executive functions, legal services, information technology (IT), Civil Rights, and Human Resources. When the indirect cap was enacted in 1967, IT costs were nonexistent but now represent a third of CDFA indirect costs. Likewise, CDFA's Office of Civil Rights did not exist in its current form. Statutory changes in 1986 centralized human resources and legal services, as opposed to being paid directly by the programs, adding these categories to the indirect calculation. Currently, costs for Human Resources, IT, legal services, and Civil Rights, account for nearly 48 percent of CDFA's indirect costs.

The Administration proposes the following statutory fixes for CDFA:

- Authorize an amount, specified in the annual Budget Act, for functions related to Human Resources, IT, legal services and Office of Civil Rights to be excluded from the indirect cap. These services did not exist when the indirect cap was implemented in 1967.
- Clarify the indirect cap applies to 5 percent of total departmentwide expenditures for the Department of Food and Agriculture Fund as opposed to 5 percent of revenues collected for the Department of Food and Agriculture Fund as many of the fees are collected every other year causing spikes in revenue while the indirect costs remain consistent.
- Clarify the indirect cap applies to department wide expenditures from the Department of Food and Agriculture Fund and not individual program level expenditures. This allows for flexibility in charging indirect costs consistently and equitably across all programs.

**Staff Recommendation:** Hold open.

**0511 SECRETARY FOR THE GOVERNMENT OPERATIONS AGENCY**

**Request:** The Governor's May Revision Budget requests, for the Government Operations Agency (GovOps):

**Item #5: Workforce Pell Grant Funding**

**Workforce Pell Grant Funding-** \$1.337 million General Fund in 2026-27, contingent upon the Department of Finance's approval of an expenditure plan detailing additional workload related to establishing new workforce and earnings data linkages pursuant to the Workforce Pell Grant program. Approval of this request will provide Cradle-to-Career (C2C) with initial resources to leverage the existing data infrastructure, legal agreements, and governance of the data system to provide linked data the state can use in determining program eligibility for Workforce Pell.

**Background:** The Office of Cradle-to-Career Data was established within the Government Operations Agency as the managing entity for the data system, pursuant to the Budget Act of 2021. The P20W data set powers analytical tools (data products) that make the underlying data accessible and actionable. These tools include dashboards, aggregated data files, and a secure enclave for researchers. The linked data also enables the creation of data reports that go beyond the data collected by any single data provider.

The Administration states that the Cradle-to-Career Data System exists to link existing state information across TK-12 and higher education, workforce and earnings, and social services take-up. Over the last 12 months, C2C and the Labor and Workforce Development Agency (LWDA) have undertaken the largest expansion of the data system in its history, to help answer fundamental questions around the outcomes for individuals who receive job training funds, where they go on to work, and how much they earn.

The Administration states that the present request is for the initial investment to begin the new workload associated with implementing and participating in the federal Workforce Pell Grant program, including:

- Ingesting and integrating new workforce and earnings data via C2C's existing data partners by leveraging established data governance practices, including existing legal agreements. For this, the proposal requires a new senior data engineer role.
- Running the privacy-enhancing technology that enables the linkage of earnings data, including for individuals who attended high school, but not college. For this, the proposal requires a new delivery manager role.
- Generating aggregated data reports linking workforce, earnings, and education data that the state can use in determining program eligibility for Workforce Pell and that institutions can use for their own program planning. For this, the proposal requires a new records linkage specialist.
- Enabling data analysis in the C2C Secure Data Enclave to calculate the value-added earnings metrics for Workforce Pell, including the relevant analysis for regional comparisons that may be required. For this, the proposal requires a new workforce data specialist.

- Ongoing costs to enhance the data record match across state entities using privacy enhancing technologies and creating new data linkages that enable the calculation of wages for people who do not go to higher education, and to disaggregate that analysis by region or zip code.
- **Staff Recommendation:** Hold open.

Item #6: Data Sharing Trailer Bill Language

**Data Sharing Trailer Bill Language** - The Administration requests trailer bill language on data sharing related to the Cradle-to-Career Data System. The Trailer Bill Language states that the California Cradle-to-Career Data System was established to be a source for actionable data and research on education, economic, and health outcomes for individuals, families, and communities, and is established to provide for expanded access to tools and services that support the navigation of the education-to-employment pipeline. It further states that existing law defined data providers as entities that submit the individual, educational, academic, training, employment, social service, health, and other information used to create the data system, and that those data providers, along with the University of California, would enter into a memorandum of understanding for the purposes of sharing data related to implementation of the data system.

**Staff Recommendation:** Hold open.

Item #7: Pell Program Trailer Bill Language

**Workforce Pell Grant Trailer Bill Language** - The Administration requests trailer bill language related to implementation of the Federal Workforce Pell Grant Program.

**Staff Recommendation:** Hold open.

## 7502 DEPARTMENT OF TECHNOLOGY

**Request:** The Governor’s May Revision Budget requests, for the Department of Technology (CDT):

### Item #8: Middle Mile Broadband Initiative Contingency Funding

**Middle Mile Broadband Initiative Contingency Funding** – The Administration requests budget bill language authorizing the Department of Finance to augment CDT’s budget by up to \$30 million in General Fund to serve as a backstop to fund CDT’s first year of operating costs, should the first year of revenues be delayed due to the delayed network completion.

**Background:** The proposal states that CDT expects \$42 million in operating costs for the first year of operation. To fund this, CDT plans to use \$12 million in project contingency funding, leaving a remaining need for \$30 million in revenues to fund operations.

The proposal suggests that approximately \$30 million will come from the sale of both lit and dark fiber services to Federal Funding Account (FFA) grant awardees, internet service providers (ISPs), and other enterprise customers and an estimated \$12 million in project contingency funding will be redirected to cover some first-year operating costs. The proposal states that these contingency funds come from the Middle Mile Broadband Initiative’s (MMBI) previous appropriations and exhaust all remaining contingency currently available. The proposal states that, as sales of MMBN services have been slowed by delays in network construction, it is not clear how much of the necessary revenue will be generated in 2026/27. The Administration claims that this may result in a potential shortfall of up to \$30 million, depending on how far revenues are delayed.

**“LAO Recommendation:** The Legislative Analyst’s Office provides the following recommendation on the present proposal:

*“Reject. We recommend rejecting the proposal because it would provide broad spending authority without sufficient legislative oversight. If CDT ultimately requires additional funding to support network operations, we recommend that the administration pursue funding changes through the annual Budget Act process. This process includes statutory parameters and provides an opportunity for legislative review and oversight.”*

**Staff Recommendation:** Hold open.

### Item #9: Middle Mile Broadband Initiative Reimbursement Authority

**Middle Mile Broadband Initiative Reimbursement Authority** – The Administration requests the addition of budgetary authority to receive reimbursements up to \$25 million from some of its joint build partners. This request is cost-neutral and does not involve new funding. For several of CDT’s Middle Mile Broadband Network (MMBN) projects where construction costs have been shared as part of last mile projects, CDT has initially paid for the full cost of construction and the partners need to reimburse CDT for the partners’ share of these construction costs, per the joint build contract agreements.

**Staff Recommendation:** Hold open.

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Item #10: Poppy: California's Digital Assistant
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**Poppy: California's Digital Assistant** - The California Department of Technology (CDT) requests \$1 million from the Technology Services Revolving Fund (TSRF) for Fiscal Year 2026–27 for scale-up and ongoing operation of “Poppy, California’s Digital Assistant” which the Administration states will be a shared statewide platform for broader adoption across state departments.

**Background:** The Administration states that, in coordination with CDT’s Office of Statewide Project Delivery (OSPD), CDT has determined that Poppy will not go through the full CDT Project Delivery Lifecycle (PDL) process. As part of CDT's GenAI risk consultation, the 5305-F Risk Assessment process, a formal evaluation designed to identify, document, and manage potential risks to state operations, assets, and data for new technology initiatives, was conducted for Poppy. The proposal states that through this process, CDT assessed the potential impacts and safeguards related to Poppy’s implementation and classified it as a moderate risk GenAI effort. The Administration states that this classification indicates that, while there are some challenges to consider, these risks are being actively managed by CDT.

The proposal states that failure to approve this request will likely result in siloed implementations of redundant solutions that exponentially increase the state’s overall costs and privacy and security risks resulting from inconsistent and disparate implementations across the state. Many departments lack technical and security expertise resulting in increased reliance on costly vendor consulting services to address implementation challenges already overcome by CDT with Poppy.

**Staff Recommendation:** Hold open.

**7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)****Item #11: Digital Prewritten Software Tax**

**Request:** The May Revision proposes to apply sales tax to sales of electronically delivered pre-written software, commencing January 1, 2027.

In addition, the May Revision proposes to increase resources for CDTFA by \$450,000 ongoing and reimbursements by \$300,000 ongoing to provide resources to administer the proposed Digital Software Tax.

**Background.**

Electronically delivered prewritten software refers to computer programs not designed to the specifications of any single user. Electronically delivered prewritten software can be transferred to the purchaser through a download or other means, where the purchaser takes possession either with a copy or persistent access to the software. SaaS is also prewritten software, but unlike prewritten software delivered electronically for installation on a customer's device, Software-as-a-Service (SaaS) is hosted on a platform controlled by the vendor; the customer obtains a right of access rather than a copy of the program. Some examples of each include:

1. Prewritten software (e.g., WindowsOS, iOS, Microsoft Office).
2. Software-as-a-Service (e.g., Microsoft 365, Salesforce, Slack).

California sales tax law generally only applies to sales of tangible goods but not to their digital equivalents. California currently taxes software only if delivered on a physical disc or drive, and not if it is downloaded or accessed remotely.

Of the 45 states with a sales tax, 35 states now fully tax prewritten software when electronically delivered and run locally on the customer's computer. 24 states tax SaaS, which represents a growing share of the software market as new products emerge (e.g., Salesforce's Sales Cloud, HubSpot, Teams) and software previously run on the customer's device (e.g., Microsoft Word, Adobe Acrobat) are increasingly accessed online or incorporated within SaaS platforms (e.g., SharePoint, Adobe Creative Cloud).

The Administration notes that this proposal aligns California with most other states by extending sales tax to capture electronically delivered prewritten software. California has not amended its sales tax law to reflect the current economy and consumption patterns, resulting in a shrinking sales tax base as a share of the economy that is one of the narrowest among all states. As purchasing activity has shifted over the past few decades from tangible goods to digital goods and electronically delivered services, California sales tax revenue has declined from over 50 percent of personal income in the early 1980s to 26 percent in 2025. Taxing digital prewritten software will better align California's sales tax base with the modern economy and with most other states, reduce revenue volatility, and ensure that prewritten software products are taxed equitably, regardless of how they are delivered.

The proposal does not extend to digital audio works, digital audiovisual works, digital books, or digital video games. Consumer streaming and digital content services such as Netflix, Spotify, Disney+, Kindle books, and digital movie or video game purchases are therefore not part of the proposal.

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The Administration estimates this proposal would increase General Fund revenues by \$450 million in 2026-27 and by \$900 million annually thereafter. This proposal is also estimated to increase revenues for local jurisdictions by \$560 million in 2026-27 (one-half year) and by \$1.1 billion per year thereafter.

**Legislative Analyst’s Office (LAO) Analysis:**

The LAO reviewed this proposal on May 16<sup>th</sup> in their report; “*The 2026-27 Budget: Sales Tax on Prewritten Software*”. The LAO notes that there is merit in the proposal as it modernizes the state’s sales tax structure. However, the LAO recommends that the Legislature also consider extending the sales tax to a broader group of digital products, beyond software. The LAO also recommends that the Legislature consider adopting exemptions or reduced rates for software purchased by businesses. The LAO further notes that while the revenue estimates are reasonable, they are also subject to some uncertainty and could vary by hundreds of millions of dollars.

**Staff Recommendation:** Hold open.

## 7730 FRANCHISE TAX BOARD (FTB)

### Item #12: CalFile Resources Realignment

**Request:** The May Revision proposes a reduction of \$921,000 General Fund in 2026-27 and 9.9 positions, \$2.3 million and 22.8 positions in 2027-28, and \$2.7 million and 27 positions in 2028-29 and ongoing to reflect savings from previous investments to link California’s CalFile system for free tax filing to the federal Internal Revenue Service’s Direct File system. The current federal Administration has ended use of the Direct File system.

The May Revision includes FTB retaining 8 positions (5 limited-term positions and 3 permanent positions) in FY 2026-27; 3 permanent positions in FY 2027-28 and ongoing to complete CalFile enhancements.

#### **Background.**

Specifically, in the 2024 Budget Act, FTB received resources in support of the implementation and growth of the federal Direct File program and its connection with the CalFile program. Recently, the U.S. Treasury and the Internal Revenue Services (IRS) announced they are not planning to provide the IRS Direct File as a service in 2026.

Although there are no current plans for Direct File, FTB has already completed work on enhancements that will benefit CalFile. FTB’s implementation plan is in two phases. This proposal is to retain a reduced number of resources to complete and maintain the work in Phase II.

Phase I: Technology Portal Implementation. Phase I built the portal that would allow the taxpayer to share their Direct File data with FTB to assist taxpayers with the filing of their California tax return using CalFile.

Phase II: CalFile Enhancements. Phase II includes the following:

- Improve the customer experience of CalFile to be more similar to modern tax filing services.
- Implement new authentication and security services to protect taxpayers and the state, and to allow first time California filers to utilize the free CalFile service.

**Staff Recommendation:** Hold open.

### Item #13: Permanent Credit Limitation

**Request:** The May Revision proposes a permanent business tax credit limitation commencing with the 2027 tax year. The proposed limit would be the greater of \$5 million per company per year or 50 percent of a company’s tax liability. This limit structure is intended to ensure small businesses still have access to the credits, and larger businesses may still utilize a significant portion of credits before being limited by the cap. Businesses impacted by the current temporary cap limitation from 2024 through 2026, would still retain refundability provisions related to those foregone credits.

#### **Background.**

Current federal and state law allows businesses to utilize tax credits to offset their tax liability on a dollar-for-dollar basis. California has previously enacted temporary credit limitations to address budget

shortfalls. In 2008 and 2009, the state limited business tax credits to 50 percent of a corporation's pre-credit tax liability if that corporation had \$500,000 or more in net income. In 2020 and 2021, the state enacted a \$5 million cap on the use of business tax credits in response to the COVID-19 Pandemic. In 2024, the state again enacted a \$5 million cap on the use of business tax credits for tax years 2024 through 2026.

The Administration notes that the credit limitation proposal ensures that all large corporations pay at least some minimum level of state taxes rather than offsetting all their tax liability with tax credits. This proposal preserves the incentive impact of tax credits by allowing larger corporations to offset up to 50 percent of their tax liability. Several large corporations have significant backlogs of business tax credits that result in them paying only the \$800 minimum tax each year.

Tax year 2023 data indicate that of the 342 corporations with net income above \$100 million, about 80 reduced their tax liability by at least 50 percent, with about 20 of those nearly zeroing out their tax liability entirely.

This proposal does not affect smaller businesses. The \$5 million threshold protects smaller companies from the limitation since most companies do not have \$5 million or more in tax liability to offset. Tax data indicate that fewer than 100 companies take \$5 million or more in tax credits each year. For a corporation to generate \$5 million in tax liability, it would need to have at least \$57 million in net income.

In total, there are around 1.2 million corporations with California income that file a return each year, and overall, this proposal impacts a very small fraction of all corporations.

- The proposal only impacts business tax credits and does not affect any personal income tax credits such as the following: California Earned Income Tax Credit, the renter's credit, and the tax credits generated through payment of the Pass-Through Entity Elective Tax (PTET).
- This proposal does not affect the ability for taxpayers to claim refundable tax credits generated from the temporary credit limitation in effect for tax years 2024 through 2026. It also does not affect the calculation of refundability under the film tax credit and the ability to claim refundable tax credits under that program.
- Previous temporary credit limitations have been enacted alongside a suspension of net operating loss (NOL) use for medium and large businesses. This proposal does not include a suspension of NOLs.
- This proposal does not impact the Low Income Housing Tax Credit.

The Administration estimates this proposal results in increased General Fund revenues of \$850 million in 2026-24, \$1.7 billion in 2027-28 and similar ongoing revenue increases.

#### **Legislative Analyst's Office (LAO) Analysis:**

The LAO reviewed this proposal on May 18<sup>th</sup> in their report; "*The 2026-27 Budget: Permanent Business Credit Limitation*". The LAO notes that this is a reasonable option for consideration if the state is seeking to increase corporate tax revenues. The impact of the proposal would fall mostly on Research and Development (R&D) tax credits and make it more likely that some corporations may not

be able to use all of their R&D credits, potentially weakening the incentives required to use those credits. The LAO notes that the Legislature may wish to consider structural changes to the R&D credit and/ or consider other corporate revenue options.

**Staff Recommendation:** Hold open.

#### Item #14: Reduction of New Business Tax

**Request:** The May Revision proposes to reduce the \$800 annual tax paid by limited liability companies (LLCs), limited partnerships (LPs), and limited liability partnerships (LLPs) in their first year of existence to \$400. This reduction would be effective for tax years 2027, 2028, and 2029 and the Administration estimates a General Fund revenue loss of \$100 million for each of those tax years.

California allowed the formation of LLCs in 1994. All LLCs are required to pay an annual LLC entity-level tax of \$800 and LLCs with income above \$250,000 also pay an annual fee based on income. In 1995, California allowed for the formation of LLPs, which also pay an annual tax equal to the minimum franchise tax of \$800. The \$800 annual tax was extended to LPs in 1997. LLCs, LPs, and LLPs are all pass-through business entities, meaning business income flows through to the owners and is taxed under the personal income tax, and each form generally provides limited liability protection for its owners, LLCs represent about 85 percent of the total number, and are much more commonly used by small businesses. The \$800 tax is paid by the entity for the privilege of doing business in California with limited liability protection, meaning that the business entity is distinct from its owners, and therefore the owners' personal assets are generally shielded from the entity's debts and legal obligations.

The 2020 Budget Act eliminated the \$800 tax for first-year LLCs, LPs, and LLPs for tax years 2021 through 2023.

**Staff Recommendation:** Hold open.

#### Item #15: Tax Conformity for Trump Accounts

**Request:** The May Revision proposes to conform state tax treatment of the newly created Trump accounts with federal law, commencing with tax year 2026. Trump accounts are individual retirement accounts for the benefit of children under the age of 18 who are U.S. citizens with a Social Security number.

The federal House Resolution (H.R.) 1 created a new individual retirement account for the benefit of children under the age of 18 who are U.S. citizens with a Social Security number. The account allows individuals to contribute up to \$5,000 per year per child, and employers of the parent or the child can additionally contribute up to \$2,500 per year tax-free. The account is in the child's name, and the parent is the sole custodian until they turn 18. Funds can be accessed by the child without penalty for qualified expenses such as education, a first-home purchase, or starting a business. Income in the account grows tax-deferred, distributions are taxed as ordinary income, and the fund is generally subject to the same rules as traditional Individual Retirement Accounts. H.R. 1 also created a pilot program in which the federal government will deposit \$1,000 for children who are U.S. citizens with a Social Security number

and were born after December 31, 2024, and before January 1, 2029, which would not count towards the account's contribution limit.

The tax conformity proposed by the Administration would align treatment of these accounts with conformity for similar tax-advantaged savings and retirement accounts, such as traditional IRAs. It will provide tax relief to families with children and ensure that tax compliance is not a burden. Absent conformity, children with these accounts would be required to pay California tax on their earnings within the account rather than having their earnings grow tax-deferred, and employer contributions to the account would be taxed as wages. Without conformity, a difference in the federal and state tax treatment of these accounts would potentially require the filing of state tax returns by the child and the tracking of a separate California-only running total of taxed contributions and earnings across several decades to calculate tax liability when withdrawals are made.

The Administration estimates this proposal would decrease General Fund revenues by \$1 million in 2026-27, growing to \$3 million in 2029-30.

**Staff Recommendation:** Hold open.

**7760 DEPARTMENT OF GENERAL SERVICES****Item #16: Contract and Procurement Efficiencies**

**Request:** The Governor’s May Revision Budget requests, for the Department of General Services (DGS), trailer bill language on various contract and procurement efficiencies. The proposed trailer bill seeks the following changes, with the Administration providing the respective summary for each:

- **Modernize Payment for Routine Software License Purchases** – “This proposal would create a clear statutory allowance for advance payments for software contracts that meet specific conditions (cannot exceed three years and cannot be advance payment for contract personnel defined as consulting services, instructor-led training, and other personal services). This proposal would ensure that there is clear statutory authority for state agencies to purchase software in accordance with industry norms, speeding the time to acquire the software. This will streamline payments for vendors and could result in steeper volume discounts.”
- **Authorize Electronic Submissions for State Procurements** – “When California’s procurement laws and procedures were written, they were generally written assuming a paper-based system that no longer aligns with the tools and technology available for procurement. This proposal would modernize the applicable language in statute to reflect and support modern digital and online procurement practices. While there are some existing statutes enacted to authorize electronic submissions in limited scenarios, they do not provide the broader authority needed to support modern digital and online procurement practices. Key modern procurement tools, and on-line virtual procurement events, are not addressed by current law. As a result, state agencies lack a sufficient and clear legal foundation to fully utilize the automative and electronic platforms, which improves procurement efficiency, transparency, and supplier access.”
- **Reduced Required Certifications** – “This proposal streamlines the procurement process and would eliminate the need for specified certifications to be submitted as separate documents. By eliminating the need for separate certification forms to be filled out and signed, the state anticipates this will reduce the number of disqualified bids/bidders due to the failure to submit a certification. Additionally, to the extent that competition is limited because of otherwise qualifying bidders being disqualified over these certifications, the state is potentially paying higher prices.”
- **Increase Departmental Access to Architectural and Engineering Services** – “Gov Code Section 4525 et. seq. (not the Public Contract Code) allows all departments to contract for architectural/engineering services (A&E). However, prior to doing so, each department is required to establish - through the formal regulations process - procedures to do so. As a result, the vast majority of state departments cannot contract for A&E services and are reliant upon DGS to contract on their behalf. This reliance creates backlogs, greatly slows the ability for simpler projects to be completed, and forces DGS to undertake simpler projects instead of focusing on more complex ones. This statutory change would allow departments to use DGS established, tested procedures, until such time as they implement their own regulations.”

**Staff Recommendation:** Hold open.

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**VARIOUS DEPARTMENTS****Item #17: Control Section 7.20 – Governors’ Legacies**

**Request:** The May Revision proposes to add Control Section 7.20 to appropriate \$20 million and authorize the Department of Finance to augment a department’s budget for the purpose of recognizing the history and legacy of California’s living Governors, who are not serving in the office of Governor as of the effective date of this Budget Act.

**Staff Recommendation:** Hold open.

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**ITEMS NOT FOR PRESENTATION**

## 0840 STATE CONTROLLER

**Request:** The Governor’s May Revision Budget requests, for the State Controller (SCO):

### Item #18: California State Payroll System Project

**California State Payroll System Project** - \$59,132,000 General Fund and 8.5 positions in 2026-27, and \$1,576,000 and 8.5 positions ongoing, and \$37,803,000 Central Service Cost Recovery Fund and 5.5 positions in 2026-27 and \$1,007,000 and 5.5 positions ongoing, to support project implementation. The proposal also requests provisional language for allocation of funds to decommissioning.

**Background:** Beginning in 2016, SCO began to assess current IT and the latest industry standards and initiated the re-engineering of a new human resource (HR) management and payroll system. This initiative was named the California State Payroll System (CSPS) Project. The project product scope includes functionality for Core HR (Position Control, Benefits Administration, Personnel Administration, Time Management), Payroll, along with Travel and Expense Management functionality. In late 2020, the project Executive Steering Committee (ESC) agreed that the Department of Human Resources (CalHR) active participation and leadership in the project was critical to its success, making CalHR a full partner on the project.

The project received California Department of Technology (CDT) approval on Project Approval Lifecycle (PAL) Stage 1 Business Analysis (S1BA) in October 2017, PAL Stage 2 Alternative Analysis (S2AA) in April 2021, PAL Stage 3 Solution Development (S3SD) in March 2022, and PAL Stage 4 Project Readiness Approval (S4PRA) in January 2025 and updated in May 2025.

CSPS awarded a Solution Integrator (SI) contract in March 2025. Collaboration between state, ancillary, and SI resources has resulted in the Project Planning and Design Planning Milestones being completed in July 2025 and October 2025 respectively. With the completion of these initial milestones the team was able to begin the Design, Development, Configuration, and Implementation (DDCI) subphases of the new personnel, payroll, and travel expense management system.

The Project intends to replace the current Uniform State Payroll System, comprised of multiple 1970s-era legacy systems. This project will result in considerable change in business processes, impacting over 165 departments and over 300,000 end users.

**Staff Recommendation:** Hold open.

### Item #19: Adjustment and Budget Bill Language for California State Payroll System

**Adjustment of Preliminary Funding and Budget Bill Language for California State Payroll System** – The Administration requests a \$72 million General Fund decrease in 2026-27 and a Central Service Cost Recovery Fund decreased of \$45 million in 2026-27 to reconcile the final amount needed for project development. It is also requested that Provision 15 of the relevant budget bill language be deleted.

**Background:** This removes a January Budget appropriation for the project, replacing it with the actual funding request contained within the above item.

**Staff Recommendation:** Hold open.

Item #20: State Controller's Office (SCO) FISCAL Book of Record
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**State Controller's Office (SCO) FISCAL Book of Record Post Go-Live Support and Stabilization** - \$7,082,000 General Fund in fiscal year 2026-27 and \$4,528,000 Central Service Cost Recovery Fund in 2026-27 for consulting services to support SCO FISCAL Book of Record post go-live support and stabilization. The Administration also requested that Item 0840-491 be added to reappropriate up to \$1,055,000 General Fund allocated in the Budget Act of 2023, for contract costs related to the SCO Book of Record Functionality Migration to FISCAL and Annual Comprehensive Financial Report support.

**Staff Recommendation:** Hold open.

Item #21: Annual Comprehensive Financial Report (ACFR) Engagement Team
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**Annual Comprehensive Financial Report (ACFR) Engagement Team** - \$1,437,000 General Fund in 2026-27 and \$918,000 Central Service Cost Recovery Fund in 2026-27 for contracted resources to provide Generally Accepted Accounting Principles financial reporting assistance to various state departments to restore and sustain on-time publication of the state's ACFR.

**Staff Recommendation:** Hold open.

Item #22: Unclaimed Property Program Public Awareness Funding Adjustment
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**Unclaimed Property Program Public Awareness Funding Adjustment** - \$3 million in Central Services Cost Recovery Fund in 2026-27 and ongoing. It is also requested that the existing cap be adjusted to \$3 million to support Unclaimed Property Program's public awareness efforts (see Attachment 8).

**Staff Recommendation:** Hold open.

Item #23: Broadcom IDMS Software Licensing Adjustment
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**Broadcom Computer Associates Integrated Database Management System (IDMS) Software Licensing Costs Adjustment** – The Administration requests that the January request for funding related to the IDMS system be decreased by \$214,000 General Fund in 2026-27 and \$137,000 in Central Service Cost Recovery Fund in 2026-27 to reflect the actual executed contract renewal amount.

**Staff Recommendation:** Hold open.

Item #24: Property Tax Postponement
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**Property Tax Postponement** – The Administration requests trailer bill language relating to the Senior Citizens and Disabled Citizens Property Tax Postponement Fund (Fund). The Fund was created to allow certain senior citizens and disabled persons to defer property tax payments for residences, with the Controller utilizing the Fund to cover property tax obligations on behalf of qualifying persons, with eventual repayment secured by a lien against the respective property. The Administrations requested trailer bill language allows for up to \$300,000 of the amount available in the fund to be made available for residential dwellings that are manufactured homes.

**Staff Recommendation:** Hold open.

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**0845 – DEPARTMENT OF INSURANCE****Item #25: Home Hardening Reappropriation**

**Request:** The Governor's May Revision Budget requests, for the Department of Insurance (CDI), reappropriation of \$11.5 million General Fund from the Budget Act of 2025, to continue the implementation of the Home Hardening Oversight and Wildfire Risk Mitigation Grant programs.

**Staff Recommendation:** Hold open.

**0890 SECRETARY OF STATE**

**Request:** The Governor’s May Revision Budget requests, for the Secretary of State (SOS):

Item #26: Help America Vote Act – 2026 Election Security Federal Grant Award

**Help America Vote Act – 2026 Election Security Federal Grant Award** - The SOS requests \$1.93 million Federal Trust Fund in 2026-27 to accept and extend the grant award, and \$386,000 General Fund in 2026-27 to meet the 20 percent state match requirement. The SOS received a grant award from the U.S. Election Assistance Commission authorized under the Consolidated Appropriations Act of 2026 to improve the administration of elections for Federal office, including to enhance election technology and make election security improvements. To adhere to all federal applicable requirements.

**Staff Recommendation:** Hold open.

Item #27: Secretary of State Building Security Improvements

**Secretary of State Building Security Improvements** - \$5,962,000 one-time (\$2,185,000 General Fund and \$3,777,000 Business Fees Fund) for the completion of a multi-phased security improvement project, being implemented at the March Fong Eu Secretary of State Building Complex. The Administration states that these improvements are based on an updated security assessment by the California Highway Patrol.

**Staff Recommendation:** Hold open.

Item #28: California State Payroll System Reimbursement Authority

**California State Payroll System Reimbursement Authority** – The Administration requests reimbursement authority of \$55,000 General Fund and \$96,000 in Business Fees Fund in 2026-27 and ongoing to receive payments from the State Controller’s Office to implement the California State Payroll System.

**Staff Recommendation:** Hold open.

**0950 STATE TREASURER**

**Request:** The Governor’s May Revision Budget requests, for the State Treasurer (Treasurer):

Item #29: Canceled Bond Sales Contingency Authority

**Canceled Bond Sales Contingency Authority** – The Administration requests that the General Fund contingency authority be increased from \$1.7 million to \$8 million, allowing the Department of Finance, upon certification by the Treasurer, to cover additional expenses for canceled general obligation bond, lease-revenue bond, and revenue anticipation note sales from the General Fund (after first applying any available bond funds), with required legislative notification within 30 days.

**Background:** The Administration states that the Treasurer has never utilized the provisional budget authority described above, but rather requests to increase the contingent budget authority to allow the Treasurer to evaluate and potentially pursue alternative financing strategies that may lower borrowing costs and provide greater flexibility in managing the state’s debt issuance.

**Staff Recommendation:** Hold open.

Item #30: CalAccounts Reappropriation

**CalAccounts Reappropriation** - The Administration requests a reappropriation of up to \$360,000 General Fund from the Budget Act of 2025, for the continuation of efforts by the CalAccounts Blue Ribbon Commission to study the feasibility and implementation of the CalAccounts program.

**Staff Recommendation:** Hold open.

**1111 DEPARTMENT OF CONSUMER AFFAIRS****Item #31: California State Board of Pharmacy Business Modernization**

**Request:** The Governor’s May Revision Budget requests, for the Department of Consumer Affairs (DCA), California Board of Pharmacy (Board), an increase in expenditure authority, one-time, of \$1,732,000 Pharmacy Board Contingent Fund, Professions and Vocations Fund and 1.1 positions in 2026-27, and 4.0 positions in 2027-28 and ongoing to support the Board’s business modernization activities.

**Background:** The Administration states that these resources will support initial software purchases and setup for an updated system that will allow applicants and licensees to pay fees via a credit card, submit application documents online, and allow for self-management of licensing information. The Board also requests provisional Budget Bill language be added to authorize funding for project implementation, contingent upon the California Department of Technology’s (CDT) approval of Stage 4 documentation related to the Project Approval Lifecycle (PAL) process.

Though the proposal is for one time funding, the position authority is ongoing. The Administration states that The Board plans to submit a 2027-28 Budget Change Proposal to request ongoing funding to support the Board’s Business Modernization Project and the associated positions. Though the Board currently has unfilled positions, the Administration has responded that the unfilled positions do not reflect permanently held vacancies. The vacancies are due to normal staff attrition and the time it takes to hire and refill the vacancy. Additionally, any periodic vacancy is a position with workload specific to one of the Board’s units (e.g. enforcement, licensing, etc.) and cannot be reclassified without impacting workload in those units.

**Staff Recommendation:** Hold open.

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**1115 DEPARTMENT OF CANNABIS CONTROL****Item #32: Short Term Loan**

**Request:** The Governor's May Revision Budget requests, for the Department of Cannabis Control (DCC), provisional language to allow a short-term cash loan of up to \$52 million from the Cannabis Control Fund to the Cannabis Tax Fund - Department of Cannabis Control Fund, which is to be repaid before the end of the fiscal year.

**Staff Recommendation:** Hold open.

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**1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION**

**Item #33: Legislation Implementation - SB 919 (Umberg)**

**Request:** The Governor’s May Revision Budget requests, for the Department of Financial Protection and Innovation (DFPI), an increase in expenditure authority of \$125,000 Financial Protection Fund in 2026-27 for information technology enhancements to an existing system to implement SB 919 (Umberg), Chapter 518, Statutes of 2024.

**Staff Recommendation:** Hold open.

**3100 EXPOSITION PARK**

**Request:** The Governor's May Revision Budget requests, for Exposition Park:

**Item #34: World Cup Fan Festival Expenses**

**World Cup Fan Festival Expenses** - A transfer of \$724,000 General Fund one-time in fiscal year 2026-27 to the Exposition Park Improvement Fund to recover the costs incurred by Exposition Park from hosting the 2026 World Cup Fan Festival.

**Background:** Expo Park submitted a request to the Department of Finance to augment their Exposition Park Improvement Fund (EPIF) expenditure authority for a portion of the amount contained within the present budget request (\$568,000 out of the \$724,000 requested). The balance of requested funds relates to planned expenditures related to parking. Expo Park seeks the present request to reimburse the EPIF with General Fund.

**Staff Recommendation:** Hold open.

**Item #35: California African American Museum Reappropriations**

**California African American Museum Reappropriations** - The Administration requests the reappropriation of the following items associated with the California African American Museum within Exposition Park:

- Reappropriation of the balance of Provision 3 of Item 3100-001-0001, Budget Act of 2021 until June 30, 2029. Funding will continue to support deferred maintenance projects that represent critical infrastructure deficiencies, including fire alarm maintenance, restroom deficiencies, and HVAC stabilization.
- Reappropriation of the balance of Schedule (3) of Item 3100-001-0001, Budget Act of 2022, until June 30, 2028. Funding will continue to support deferred maintenance projects that represent critical infrastructure deficiencies, including the museum's galleries humidifier to meet museum standards.
- Reappropriation of the balance of subparagraph (A) of paragraph (3) of subdivision (1) of Section 19.56, Budget Act of 2022, until June 30, 2029. Funding will allow CAAM to complete critical priority projects including a multi-year project to conserve and digitize collection art pieces and implement museum programming prior to CAAM's 50th Anniversary.

**Staff Recommendation:** Hold open.

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**7502 DEPARTMENT OF TECHNOLOGY****Item #36: Office Space Facilities Request**

**Request:** The Governor's May Revision Budget requests, for the Department of Technology (CDT), a budget augmentation for lease and facility cost increases to consolidate staff in Rancho Cordova. The request includes Technology Services Revolving Fund (TSRF), General Fund, and Central Service Cost Recovery Fund (CSCRF) components as follows: 2026-27: \$999,000 (\$878,000 TSRF, \$113,000 GF, \$8,000 CSCRF); 2027-28: \$555,000 (\$466,000 TSRF, \$84,000 GF, \$5,000 CSCRF) with annual increases due to lease and security cost increases.

**Staff Recommendation:** Hold open.

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**7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)**

**Item #37: Operational Savings**

**Request:** The May Revision proposes an ongoing reduction of \$10 million General Fund to CDTFA’s operation budget, beginning in 2026-27. This reduction would not impact CDTFA’s operations or ability to complete statutorily required workload.

**Staff Recommendation:** Hold open.

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**7504 OFFICE OF DATA AND INNOVATION**

Item #38: Extended Encumbrance
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**Request:** The Governor's May Revision Budget requests, for the Office of Data and Innovation, provisional budget bill language to extend the expenditure and encumbrance period for the Data and Innovation Services Revolving Fund (DIF) to June 30, 2030, and to authorize Finance to augment the Office of Data and Innovation's DIF appropriation by the amount of resources available in the fund.

**Staff Recommendation:** Hold open.

**7760 DEPARTMENT OF GENERAL SERVICES**

**Request:** The Governor's May Revision Budget requests, for the Department of General Services (DGS):

**Item #39: 10th and O Streets Reconfiguration**

**10th and O Streets Reconfiguration** - \$14,346,000 Public Buildings Construction Fund (lease revenue bonds) in 2026-27 for the preconstruction phase of the 10th and O Streets Reconfiguration project located at 1021 O Street in Sacramento, via a progressive design-build delivery method. This project involves interior demolition and reconstruction to reconfigure the space for future Executive Branch tenants.

**Staff Recommendation:** Hold open.

**Item #40: O Street State Parking Garage**

**O Street State Parking Garage** - \$1,292,000 from the Public Building Construction Fund (lease revenue bonds) in 2026-27 for the preconstruction phase of the O Street State Parking Garage project. The budget for the preconstruction phase is estimated to be \$1,292,000, with \$44,934,000 for the progressive design-build phase. The garage will be located at an existing state-owned surface parking lot located on the southeast corner of O Street and 12th Street. The project will expand the parking capacity at this property from 145 spaces to approximately 750 spaces. Users of the garage will include Executive Branch tenants of the 1021 O Street office staff, state workers working in the downtown area, and the existing parkers of the surface lot. Total project costs are estimated at \$46,226,000, including preconstruction phase (\$1,292,000) and progressive design-build phase (\$44,934,000).

**Staff Recommendation:** Hold open.

**Item #41: Lease Revenue Debt Service Transfer Adjustments**

**Lease Revenue Debt Service Transfer Adjustments** – The Administration requests a decrease of \$126,485,000 General Fund ongoing to adjust the amount transferred to the Service Revolving Fund for the Department of General Services' lease revenue debt service payments. The decrease in authority in this transfer item will provide the department with the precise amount of funding to make rental payments for the Clifford L. Allenby, New Natural Resources Headquarters, May Lee State Office Complex, Gregory Bateson, Resources, and Jesse Unruh buildings.

**Staff Recommendation:** Hold open.

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**8260 ARTS COUNCIL**

Item #42: Keep Arts in Schools Voluntary Tax Contribution Fund
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**Request:** The Governor's May Revision Budget requests, for the Arts Council (CAC), trailer bill language reauthorizing the Keep Arts in Schools Voluntary Tax Contribution Fund (Fund).

**Background:** The trailer bill would reauthorize tax contributions to the Fund and allow individuals to designate such contributions on their tax forms, as specified. The CAC must utilize the Fund for grants to individuals or organizations administering arts programs for children in preschool through 12<sup>th</sup> grade. The trailer bill also includes language allowing the Franchise Tax Board and the Controller to use the Fund for reimbursement of costs incurred, respectively, in connection with their duties related to the Fund.

**Staff Recommendation:** Hold open.

## 8570 DEPARTMENT OF FOOD AND AGRICULTURE

**Request:** The Governor’s May Revision Budget requests, for the Department of Food and Agriculture (CDFA):

### Item #43: State Race Track Leasing Commission

**State Race Track Leasing Commission** - \$189,000 General Fund and 1 position in 2026-27 and ongoing to provide resources for clerical and administrative duties for the State Race Track Leasing Commission (SRTLCL) pursuant to Food and Agricultural Code section 4352. This proposal also includes trailer bill language to shift clerical and administrative duties from the Department of Finance to CDFA.

**Staff Recommendation:** Hold open.

### Item #44: Department of Food and Agriculture Bond and Technical Adjustments

**Department of Food and Agriculture Bond and Technical Adjustments** - The Administration makes additional requests for various bond appropriations, reappropriations, and reversions; technical adjustments; reappropriations; and baseline adjustments to continue implementation of previously authorized programs.

**Staff Recommendation:** Hold open.

### Item #45: Plant Health and Pest Prevention Program Funding

**Plant Health and Pest Prevention Program Funding** - \$10,500,000 General Fund in 2026-27 and ongoing to maintain pest detection activities for the Invasive Fruit Fly (IFF) program. This program has historically received federal funds, but the United States Department of Agriculture (USDA) has notified CDFA these funds are being reduced.

**“LAO Recommendation:** The Legislative Analyst’s Office provides the following recommendation on the present proposal:

*“Approve. Proposes \$10.5 million General Fund ongoing to backfill anticipated federal funding reductions to its Invasive Fruit Fly program. USDA recently notified CDFA of its intent to reduce state funding for this program, but provided no explanation for the decision. Budget bill language for this proposal would make additional General Fund contingent on federal funds not being received, in case USDA restores the state’s funding. We recommend the Legislature approve this proposal as this program addresses critical and near-term health and safety concerns associated with preventing pests from contaminating fruit and vegetable production in the state..”*

**Staff Recommendation:** Hold open.

Item #46: Biological Control Facility Repairs

**Biological Control Facility Repairs** - \$900,000 General Fund in 2026-27 to perform repairs at its Biological Control Facility in Sacramento.

**Staff Recommendation:** Hold open.

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**8615 PRIVACY PROTECTION AGENCY**

**Item #47: Delete Request Opt-Out Platform Expenditure Authority**

**Request:** The Governor’s May Revision Budget requests, for the Privacy Protection Agency (CPPA), an increase in expenditure authority of \$2.2 million Data Brokers’ Registry Fund in 2026-27 and 2.0 positions to address increased costs and workload from the release of the Delete Request Opt-Out Platform (DROP) pursuant to Chapter 709, Statutes of 2023 (SB 362).

**Staff Recommendation:** Hold open.

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**8885 COMMISSION ON STATE MANDATES**

**Request:** The Governor's May Revision Budget requests, in relation to the Commission on State Mandates:

Item #48: Lease Costs
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**Lease Costs** - \$20,000 one-time to support the Commission's increased lease costs associated with the expiration of a prior concession that provided a rent-free month.

**Staff Recommendation:** Hold open.

Item #49: Reimbursement for State Mandates
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**Reimbursement for State Mandates** - The Administration requests a decrease of \$1,108,000 General Fund, one-time, an increase of \$477,000 Motor Vehicle Account, ongoing, and an increase of \$1,000 Department of Pesticide Regulation Fund, ongoing, to reflect revised state mandate estimates. The adjustment is intended by the Administration to provide reimbursement amounts for each state mandate.

**Staff Recommendation:** Hold open.

**8940 MILITARY DEPARTMENT**

**Request:** The Governor's May Revision Budget requests, for Military Department (CalGuard):

Item #50: Los Alamitos: Battalion Headquarters Readiness Center

**Los Alamitos: Battalion Headquarters Readiness Center** - \$7,808,000 from the Armory Fund for the preliminary plans phase of a project to provide a new readiness center for the 1-160th Infantry Battalion Headquarters and Headquarters Company (1-160 HHC) at the Joint Forces Training Base in Los Alamitos, California.

**Staff Recommendation:** Hold open.

Item #51: Critical Roof Replacement and Exterior Repairs (Facilities and Infrastructure)

**Critical Roof Replacement and Exterior Repairs (Facilities and Infrastructure)** - \$2.76 million (one-time General Fund) to complete three roof replacement projects at the Inglewood, Roseville, and Santa Ana armories, and an exterior restoration of the Santa Rosa armory.

**Staff Recommendation:** Hold open.

Item #52: Channel Islands Electrical System Repair

**Channel Islands Electrical System Repair** - \$4.929 million in Federal Trust Fund authority, one-time, in 2026–27 to support emergency power generation and immediate electrical system repairs at Channel Islands Air National Guard Station.

**Staff Recommendation:** Hold open.

Item #53: State Active Duty Compensation Adjustment

**State Active Duty Compensation Adjustment** - The Administration requests a total budget reduction of \$407,000 (\$95,000 General Fund, \$303,000 Federal Trust Fund, and \$9,000 Behavioral Health Services Fund) ongoing to adjust the calculation for pay, allowances, cost-of-living, and pay-driven benefits for State Active Duty (SAD) servicemembers included in the 2026-27 Governor's Budget.

**Staff Recommendation:** Hold open.

Item #54: Task Force Rattlesnake Salary Adjustment and Reimbursement Authority Increase

**Task Force Rattlesnake Salary Adjustment and Reimbursement Authority Increase** - The Administration requests a budget increase of \$30,000 General Fund ongoing to adjust the calculations for annual salary adjustments for existing positions, resources to support increased costs of disability leave, and supplemental stipends previously included in the 2026-27 Governor's Budget. CMD also requests a reimbursement authority increase of \$1 million ongoing to recover costs for expenditures incurred from fire suppression activities.

**Staff Recommendation:** Hold open.

## 8955 DEPARTMENT OF VETERANS AFFAIRS

**Request:** The Governor’s May Revision Budget requests, for the Department of Veteran’s Affairs (CalVet):

Item #55: CalVet Electronic Health Record Project

**CalVet Electronic Health Record Project** - \$2.4 million General Fund in 2026-27 to support the remaining Homes and final implementation of Phase 3 of the California Electronic Health Records Project in the Veterans Homes of California and Headquarters.

**Staff Recommendation:** Hold open.

Item #56: Reappropriation for CalVet Electronic Health Record Project

**Reappropriation for CalVet Electronic Health Record Project** – Reappropriation of \$2.3 million in 2026-27 from the 2023 Budget Act to extend the liquidation date until June 30, 2027 to fulfil contractual obligations and pay invoices related to the completion of the CalVet Electronic Health Record Project.

**Staff Recommendation:** Hold open.

## VARIOUS DEPARTMENTS

Item #57: Bill Control Section 11.94 – Coronavirus Capital Projects

**Request:** The Governor’s May Revision Budget requests the addition of Budget Bill Control Section 11.94 relating to expenditure and allocation authority of the American Rescue Plan Act and Coronavirus Capitol Projects Fund.

**Background:** The Administration requests the addition of Control Section 11.94 be added to provide necessary flexibility for administrative adjustments to fully spend the \$540.2 million in federal funds allocated from the Coronavirus Capital Projects Fund (CPF) as authorized by the federal American Rescue Plan Act of 2021 that supports last mile broadband infrastructure projects

**Staff Recommendation:** Hold open.