

SENATE DEMOCRATS _____
**FOUNDATION**
for the **FUTURE**

2026–27 STATE BUDGET PLAN

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Labor & Transportation – Chair

MAY 28, 2026



Summary

In April the Senate released the Foundation for the Future budget plan that set the framework for the 2026-27 state budget:

- Responsible Budgeting with a balanced budget through 2027-28, no new major ongoing commitments, and reforms to the Rainy Day fund.
- Maintaining vital programs that Californians and the economy depend upon.
- Taking a balanced approach of ongoing solutions that include over \$5 billion in new revenues and additional program reductions to improve the state’s long-term fiscal health.

The Governor’s May Revision aligned with this framework in key ways, particularly with the responsible budgeting proposals and the balanced approach of \$5 billion in new revenue solutions and additional program reductions.

The “Senate Version” of the budget builds on the Foundation for the Future plan while incorporating portions of the May Revision.

The Senate Version will now be the basis for deliberations with the Assembly and the Administration as work continues in developing the Final Version of the budget.

The Senate Version of the budget is based on the May Revision forecast for 2026-27 and beyond. However, the Senate Version does incorporate a portion of LAO’s higher current year forecast and includes \$5 billion in higher revenues. Budget totals are being calculated, but preliminary figures show total General Fund spending of about \$250 billion and total reserves of \$40 billion in 2026-27. Reserves breakdown as follows:

Reserves (in billions)	2026-27	2027-28
	Senate Version	Senate Version
Regular Reserve (SFEU)	4.5	0.8
Rainy Day Fund	15.1	17.9
Prop 98 Rainy Day Fund	11.4	11.4
Surplus Set-Aside (for 2027-28)	9.3	
Total Reserves	40.3	30.1



Key Features

Balanced Approach to Address Structural Deficit

The Senate Version of the budget continues the approach laid out in both the Foundation for the Future and May Revision with new revenues and additional program reductions to address the long-term structural deficit.

New Revenues: The Senate Version includes \$5.1 billion in new revenues – the same levels proposed in the May Revision, including:

1. Fair Share Contribution – as first proposed in the Foundation for the Future budget plan – to reduce taxpayer costs of Medi-Cal by requiring big corporations with employees enrolled in Medi-Cal. Begins April 1, 2027.
 - Applies to corporations with 500 or more employees – only the 0.2% of the largest corporations.
 - Corporations will pay \$285 per month, per employee enrolled in Medi-Cal.
 - Generates \$575 million in 2026-27 and \$2.3 billion ongoing (the same levels as the May Revision’s MCO tax proposal).
2. Sales Tax extension on digital prewritten software and software as a service, as proposed in the May Revision.
 - Generates \$450 million in 2026-27 and \$900 million ongoing.
3. Permanent cap on business tax credits of \$5 million or 50 percent of tax liability.
 - Generates \$850 million in 2026-27 and \$1.8 billion in 2027-28.

New Program Reductions: In addition to maintaining the \$11 billion in ongoing program reductions approved in 2025-26, the Senate Version includes the following major program reductions:

- Approves Subcommittee 3's "Be Home Soon California" plan to reduce Medi-Cal spending through strategies to reduce unnecessary patient time in costly nursing homes and hospitals. Ongoing savings will be \$850 million.
- Eliminates Child and Youth Behavioral Health "platform" and Wellness Coach benefit, saving \$80 million.
- Approves May Revision proposal to align IHSS program enrollment with Medi-Cal enrollment, which results in \$56 million in savings for 2026-27 (savings grows to over about \$200 million by 2028-29).
- Begins process for closing a prison, which will provide \$150 million in ongoing savings.

Maintaining Vital Programs and Commitments

The Senate Version of the budget maintains funding for prior commitments and programs that are typically funded in the budget but are not proposed to be funded in 2027-28 by the Governor. The Senate version does not include any new major ongoing commitments.

Significant funding changes to the May Revision include:

- ***Homeless Housing, Assistance, and Prevention (HHAP)***. Provides \$500 million for HHAP Round 7 – on top of the \$500 million already provided in the Budget Act of 2025 agreement and commits to HHAP Round 8 with up to \$1 billion provided for Round 8 in 2027-28.
- ***Home Ownership***. Provides \$1 billion for home ownership programs, including the California Dream for All program which provides shared appreciation loans to specified first time homebuyers to make homeownership more affordable and the CalHOME program to help in the construction of affordable housing.
- ***Affordable Housing***. Provides \$1 billion for affordable housing programs including the Multifamily Housing Program and the Low Income Housing Tax Credit program.



- **Proposition 98 Settle-Up.** Fully pays the current year Prop 98 obligation, providing a total of \$5.8 billion in one-time resources more for Proposition 98 than provided in the May Revision.
- **Middle Class Scholarship.** Maintains current level of the Middle Class Scholarship for the 2026-27 school year.
- **Child Care Slot Expansion.** Funds next step to meet existing commitment of reaching 200,000 additional childcare spaces above 2020 levels with 50,800 spaces added across 2026-27 and 2027-28. Costs for this expansion will be significantly absorbed by updating preschool costs to match current actual costs.
- **In Home Supportive Services (IHSS).** Maintains core funding for IHSS by rejecting the May Revision proposals regarding Assessed Hours and the Back-up Provider System.
- **Full Scope Medi-Cal.** Maintains full scope Medi-Cal for asylees and others that are no longer eligible for federal funding. This results in \$1.3 billion in higher costs beginning in 2027-28.
- **Dental Reductions Delay.** Maintains dental programs that would otherwise be eliminated starting July 1, 2026 to October 1, 2027, including dental benefits for adults 19 and over regardless of immigration status and Prop 56 Dental Supplemental Payments.
- **Clinic Reductions Delay.** Delays implementation of planned reduction to Clinics from July 1, 2026 to October 1, 2027, resulting in a temporary cost of \$1.1 billion in 2026-27 and \$565 million in 2027-28.
- **Medi-Cal Premiums Delay.** Delays implementation of premiums for those adults enrolled in Medi-Cal regardless of immigration status from July 1, 2027 to October 1, 2027.
- **CalFOOD.** Provides \$100 million, \$70 million more than the May Revision, to support local food banks.



- **County Administration.** Provides \$320 million above the May Revision to support increased county workload for Medi-Cal and CalFRESH due to requirements of HR 1.
- **Immigration Legal Aid.** Provides a total of \$134 million for Legal Aid programs, \$39 million more than provided in the May Revision to build broader reach throughout the state, including rural areas.
- **Access to Justice.** Maintains access to justice through key investments including new judgeships, courthouse maintenance, and courthouse construction.
- **Proposition 36 Funding.** Continues providing \$100 million to fund Proposition 36 activities.
- **Victims of Crime Act.** Continues providing \$50 million for the Victims of Crime Act (VOCA) program to maintain support for crime victims, this amount includes \$25 million proposed in the May Revision. Available federal funds will also support the VOCA program.

Rainy Day Fund Reform

The Senate Version echoes the call in the May Revision to update the Rainy Day Fund that was established by Proposition 2 in 2014.

The Rainy Day Fund has been an invaluable tool in managing the state's volatile revenues, but after a decade of existence it can be strengthened with the following changes that would go before the voters in November. The changes include:

- Increasing the size of the Rainy Day Fund from 10 percent of the budget to 30 percent of the budget.
- Increasing deposits into the Rainy Day Fund from spiking revenues.



- Exempting deposits into the Rainy Day Fund and other Reserves from the State Appropriations Limit, and instead count withdrawals toward the State Appropriations Limit.

- Extending the Budget Debt Repayment portion of Proposition 2 to enable repayment of the federal Unemployment Loan and other current budget debts, including “rebates” to small businesses and nonprofits for UI debts from those dedicated debt repayment funds.



Subcommittee #1: **Education**

Major Actions – TK-12 Education

- Eliminates the proposed settle-up amount and fully appropriates the Proposition 98 Guarantee in the current year, providing an additional \$5.8 billion in one-time available Proposition 98 General Fund above the May Revision. After mandatory deposits of \$9.5 billion into the Proposition 98 reserves and a discretionary deposit of \$2 billion, the Proposition 98 reserves will hold a balance of \$11.5 billion after 2026-27.
- Shifts non-Local Educational Agency State Preschool into Proposition 98, and re-benchmarks the Proposition 98 Minimum Guarantee to account for these additional costs.
- Beginning in 2026-27, costs for transitional kindergarten as part of the TK-12 Local Control Funding Formula will be included as a TK-12 cost after the Proposition 98 TK-12/California Community Colleges split is calculated. This will correct a structural deficit that was inadvertently created for the California Community Colleges when the 2025 Budget shifted TK costs outside of the split.
- Approves a 4.31 percent cost-of-living adjustment for the Local Control Funding Formula.
- Approves \$2.4 billion ongoing Proposition 98 General Fund for special education base rate increases.
- Approves \$1 billion ongoing Proposition 98 General Fund for community schools and ensures that schools plan and implement community schools with fidelity.
- Increases the Student Support and Professional Development Discretionary Block Grant to \$6.5 billion one-time Proposition 98 General Fund and adds deferred maintenance for schools as a highlighted eligible expenditure.



- Increases the Kitchen Infrastructure and Training Grant Funds to \$1 billion one-time Proposition 98 General Fund and includes family food pantries on school sites and hands-on food education, including activities with school gardens, as eligible expenditures.
- Increases support for students experiencing homelessness to \$300 million one-time Proposition 98 General Fund.
- Supports California's diverse student population and appropriates \$350 million one-time Proposition 98 General Fund for CalNEW and \$350 million one-time Proposition 98 General Fund for the Dream Resource Center Grant Program.
- Adds \$300 million total one-time Proposition 98 General Fund, available for the 2027-28 and 2028-29 funding rounds, for the Career Technical Education Incentive Grant program.

Major Actions – Higher Education

- Increases the Middle Class Scholarship Program by \$532.6 million General Fund to a total of \$1.06 billion to support award levels that cover 35% of a student's unmet need in the 2026-27 academic year.
- Beginning in 2026-27, costs for transitional kindergarten will be included as a TK-12 cost after the Proposition 98 TK-12/California Community Colleges split is calculated. This will correct a structural deficit that was inadvertently created for the California Community Colleges when the 2025 Budget shifted TK costs outside of the split.
- Beginning in 2026-27, includes \$38.8 million ongoing Proposition 98 General Fund to allow credit Full Time Equivalent Student (FTES) to be calculated using the higher of the three-year average or the amount in the current year.
- Includes \$132.1 million ongoing Proposition 98 General Fund to support 3.5 percent enrollment growth at the California Community Colleges.



- Increases the Student Support Block Grant to \$338.4 million one-time Proposition 98 General Fund at the California Community Colleges
- Includes \$150 million Proposition 98 General Fund, of which \$15 million is ongoing to support Dream Resource Centers at the California Community Colleges.
- Increases Deferred Maintenance funding to \$288.4 million one-time Proposition 98 General Fund for the California Community Colleges.
- Includes \$30 million annually from 2026-27 through 2028-29 to support LGBTQ+ Resource Centers.
- Includes \$60 million one-time, for expenditure over three years, to support the Strong Workforce Program at the California Community Colleges.
- Includes \$30.1 million ongoing Proposition 98 General Fund to provide a 5.74 percent COLA to the Student Equity and Achievement Program at the California Community Colleges.
- Includes \$10 million ongoing Proposition 98 General Fund to support workload of financial aid administration offices at the California Community Colleges.



Subcommittee #2: **Resources, Environmental Protection, & Energy**

Major Actions

- Approves “Deal is a Deal” budget bill language that requires Legislative priorities be funded as agreed upon by the Governor and legislature in 2025-2026, prior to any Greenhouse Gas Reduction Fund appropriations, including continuous, being made.
- Rejects the sustainable aviation fuel tax credit proposal.
- Approves trailer bill language that transfers \$22 million from the Distributed Electricity Backup Assets (DEBA) Program to the Demand Side Grid Support (DSGS) Program, extends the California School Healthy Air, Plumbing and Efficiency Program (CalSHAPE), and shifts \$70 million in interest funds from CalSHAPE to DSGS.
- Approves \$25 million General Fund for Healthy Rivers & Landscapes Program (aka Vountary Agreements), but makes the encumbrance of funds contingent upon the State Water Resources Control Board’s adoption of the Bay-Delta Water Quality Control Plan.
- Rejects the elimination of 65 full-time equivalents and \$9.4 million (\$4.4 million General fund and \$5 million Special Funds) at the Department of Fish & Wildlife, which includes game warden positions and positions that assist with permitting.

Subcommittee #3: **Health & Human Services**

Major Actions - Health

- Delays until October 1, 2027, many of the cuts adopted in last year's budget, including:
 - UIS – Monthly Premiums (previously scheduled for July 1, 2027)
 - UIS – Dental Benefit Elimination (previously scheduled for July 1, 2026)
 - UIS – Reduce Clinic Payments (previously scheduled for July 1, 2026)
 - Eliminate Prop 56 Dental (previously scheduled for July 1, 2026)

- Rejects many of the Governor's worst Medi-Cal cuts, including:
 - Elimination of full-scope Medi-Cal for asylees, human trafficking victims, domestic violence victims, etc.
 - Restoration of the \$2,000 Medi-Cal asset test
 - Increased Medi-Cal premiums for UIS population from \$30 to \$50
 - Cap Rates for Programs for All-Inclusive Care for the Elderly (PACE)
 - Elimination of the acupuncture benefit in Medi-Cal

- Adopts the Fair Share Contribution plan to require big corporations to pay a portion of the costs for their employees enrolled in Medi-Cal. The Fair Share will begin on April 1, 2027 and apply to employers with 500 or more employees (just 0.2 percent of total businesses) and the charge would be \$285 per month – about 45 percent of tax payer costs. This will generate \$575 million in savings in 2026-27 and \$2.3 billion ongoing.

- Adopt the transition of the UIS population from managed care to fee-for-service in Medi-Cal but maintains CalAIM benefits to help avoid high-cost utilization, and includes protections for beneficiaries, such as continuity of care.

- Increases by \$139.6 million the Governor's commitment to Medi-Cal county eligibility workers to address workload related to HR 1.



- Implements the Senate’s “Be Home Soon California” Proposal, an all-of-government, “whatever-it-takes” approach to transition seniors and people with disabilities from skilled nursing facilities and hospitals back home or to the community with family and caregivers. Results in \$425 million General Fund savings in 2026-27 and \$850 million ongoing.
- Implements a five-year expenditure plan for projects to end the epidemics of HIV/AIDS and other STIs, using nearly \$1 billion of ADAP Rebate Fund resources being repaid from previous General Fund loans.
- Maintains Mobile Crisis Benefit in Medi-Cal, provides funding for the “Press 3” option in 988, and provides \$20 million additional funding for 988 Crisis Centers.
- Increases the Governor’s allocation for Distressed Hospitals from \$50 million to \$200 million.
- Maintains \$113.3 million of funding to continue operation of the state’s critical public health information technology systems.
- Approves the Governor’s \$30 million proposal over five years for Sickle Cell Centers for Excellence.
- Restores funding at the Commission for Behavioral Health for the Innovation Partnership Fund and for behavioral health advocacy contracts.
- Approves the allocation of \$300 million to support increased subsidies for health care consumers purchasing coverage in the Covered California health benefit exchange.



Major Actions – Human Services

- Funds next step to meet existing commitment of reaching 200,000 additional child care spaces above 2020 levels with 50,800 spaces added across 2026-27 and 2027-28. Costs for this expansion will be significantly absorbed by updating preschool costs to match current actual costs.
- Provides \$100 million for the CalFood program to support demand for emergency food as Californians lose access to CalFresh due to H.R. 1.
- Provides \$178 million for county CalFresh eligibility workers and \$14 million for the CalFresh Outreach Program to help Californians maintain access to CalFresh benefits in the wake of H.R. 1.
- Rejects the Governor’s proposals to shift the costs of growth in In-Home Supportive Services (IHSS) to counties and to eliminate the IHSS Back-up Provider system, resulting in additional costs of \$364 million. Approves the Governor’s proposal to align IHSS termination with Medi-Cal termination.
- Provides \$59 million for legal aid to support Californians impacted by federal immigration actions. Funds will be allocated throughout the state to support removal defense, unaccompanied children, legal capacity building, and emerging due process needs to support all immigrant groups.
- Rejects the Governor’s proposal to reverse the expansion of Adult Protective Services.

Subcommittee #4: **State Administration**

Major Actions

REVENUES

- Approves the May Revision proposal to apply sales tax to sales of electronically delivered pre-written software, increasing General Fund revenues by \$450 million in 2026-27 and by \$900 million in 2027-28 and ongoing.
- Approves the May Revision proposal to apply a permanent business tax credit limitation of the greater of \$5 million per company per year or 50 percent of a company's tax liability, increasing General Fund revenues of \$850 million in 2026-27 and \$1.7 billion in 2027-28 and ongoing.
- Approves the May Revision proposal to reduce the \$800 annual tax paid by limited liability companies and similar companies in their first year of existence to \$400. This reduction applies to tax years 2027, 2028, and 2029 and results in a General Fund revenue loss of \$100 million for each of those tax years.

HOUSING & HOMELESSNESS

- Invests in reducing the cost of housing statewide:
 - Provides significant new resources for the production and preservation of affordable rental housing:
 - \$500 million for the Multifamily Housing Program.
 - \$500 million in enhanced state Low Income Housing Tax Credits.
 - Provides significant new resources to increase access to affordable homeownership:
 - \$500 million for the California Dream for All program.
 - \$500 million for CalHOME.



- Invests in sustaining state progress on reducing homelessness:
 - Provides full funding of \$1 billion for Round 7 of the Homeless Housing, Assistance, and Prevention (HHAP) Program.
 - Adopts placeholder budget trailer bill language to govern administration of HHAP 7 that:
 - Ensures swift distribution of funding to jurisdictions that are ready for it.
 - Sets forth clear and streamlined system performance metrics.
 - Ensures any new Pro-Housing designation and local funding match requirements are appropriate, realistic, and not administratively burdensome.
 - Authorizes Round 8 of HHAP for the coming year.

ECONOMIC DEVELOPMENT

- Approves a five-year extension of the CalCompetes Tax Credit program at \$180 million per year to attract and retain high-quality companies that agree to hire and invest in California.
- Approves \$20 million for two additional years of the California Civic Media program, the public/private partnership initiative to build and sustain local journalism statewide, to be matched by private contributions.

CIVIL RIGHTS

- Approves investments in enhanced investigation and mediation of housing and employment discrimination claims including:
 - Over \$3 million in staffing and resources to enforce new state family medical leave, bereavement leave, and cannabis testing laws.
 - Almost \$1 million to address an increasing volume of housing and employment discrimination allegations generally.



GENERAL GOVERNMENT

- Approves the January Governor’s Budget proposal for \$96.5 million (\$76 million General Fund and \$20.5 million Exposition Park Improvement Fund) for utility replacement and site improvements at Exposition Park.
- Rejects the May Revision proposal to provide the Department of Technology with \$30 million General Fund in contingent funding for the Middle Mile Broadband Initiative.
- Approves January Governor’s Budget proposal \$24.6 million General Fund for the Farm to School Program in 2026-27 but rejects the ongoing funding requested in the proposal.
- Approves the Governor’s January and May Revise budget proposals for funding associated with various Senate Bills including SB 48 – Gonzalez, SB 638 – Padilla, SB 851 - Cervantes, SB 919 – Umberg, and SB 822 – Becker.

Subcommittee #5: **Public Safety, Judiciary, Labor & Transportation**

Major Actions

TRANSPORTATION

- Defers action on funding the State-to-State Verification System (S2S) Project until appropriate guardrails are agreed upon for the trailer bill proposal.
- Increases total funding for Clean California to \$50 million (\$25 million General Fund and \$25 million State Highway Account).
- Includes \$15 million in State Highway Account funds for the Trade Corridor Enhancement Program.

PUBLIC SAFETY AND THE JUDICIARY

- Includes the following new funding to support access to justice and the court system:
 - At least \$3 billion Lease Revenue Bond authority for courthouse construction.
 - \$20 million growing to \$44 million ongoing General Fund for new judgeships.
 - \$250 million one-time General Fund for courthouse construction and judgeship facility costs.
 - \$250 million one-time General Fund for deferred maintenance.



- Includes \$100 million one-time General Fund to continue implementation of Proposition 36 (2024).
- Approves funding to stabilize the Next Generation 9-1-1 system and support an independent evaluation.
- Approves funding for public safety grant programs, including:
 - \$40 million for the Nonprofit Security Grant.
 - \$10 million for the Missing and Murdered Indigenous People Grant.
 - \$10 million for a vertical prosecution grant to combat human trafficking.
- Increases Victims of Crime Act funding to \$50 million.
- Reflects the closure of one additional prison by 2027-28.

LABOR AND PUBLIC EMPLOYMENT

- Includes \$9 million ongoing Labor and Workforce Development Fund to support the Workers' Rights Enforcement Grant program at the Department of Industrial Relations.
- Includes \$30 million Labor and Workforce Development Fund annually for five years beginning in 2026-27 through 2030-31 to support the California Workplace Outreach Project program at the Department of Industrial Relations.