

Legislative Version of the Budget



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JUNE 11, 2026

OVERVIEW

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.

At the time of the release of the Foundation for the Future budget plan, neither the Administration nor the Assembly were on board with a balanced approach that included new revenues. Now, on time for the June 15 vote, the Legislature's Version of the **budget builds on the framework** first put forth by the Foundation for the Future plan and reflects the **movement** from both the **Administration** and the **Assembly** to **join the Senate's call for a balanced approach** to improve the long-term fiscal health of California.

TOTAL STATE RESERVES

The Legislature's Version builds record reserves, is projected to be balanced through 2027-28, and significantly reduces the long-term structural deficit to below \$10 billion.

The Legislature's Version of the budget includes \$355.9 billion in total expenditures in 2026-27, including \$253 billion from the General Fund, and contains total reserves of \$36.5 billion, including:

- \$4.5 billion in the Regular Reserve (Special Fund for Economic Uncertainties).
- \$15.1 billion in the Rainy Day Fund.
- \$9.5 billion in the Prop 98 Rainy Day Fund.
- \$7.4 billion in the Surplus Set-aside for 2027-28.

KEY FEATURES

Fair Share from Big Corporations. Establishes the Fair Share from Big Corporation program to combat the harm to health programs caused by HR 1 and to **reduce the taxpayer subsidies for big corporations** with employees enrolled in taxpayer-funded Medi-Cal instead of company-provided health plans.

- Under the program, the **Administration will be required to present fully viable options** to the Legislature for holding big corporations accountable for their employees' health care costs by April 1, 2027. The options will then be considered during next year's budget process. Implementing any option will require subsequent legislation.

New Revenues. Approves the Governor's May Revision proposal for \$5 billion in ongoing new revenues – consistent with the Senate's goals of a balanced approach. The items include:

- Federally compliant **Managed Care Organization tax.**
- Sales Tax on **pre-written software products.**
- Permanent **Cap on business tax credits.**

Child Care Expansion. Funds the next step to meet existing commitment of reaching 206,800 **additional childcare spaces above 2020 levels** by preserving the 6,800 spaces proposed to be eliminated by the Governor and adding 22,770 new child care spaces in 2026-27. Costs for this expansion will be significantly absorbed by updating preschool costs.

Homeless Housing, Assistance, and Prevention (HHAP). Provides **\$900 million for Round 7 of HHAP Round 7.** This level is \$400 million higher than proposed in the May Revision and \$100 million higher than included in the Assembly Version.

Affordable Housing. Provides **\$700 million for affordable** housing programs, including the Multifamily Housing Program and the Low Income Housing Tax Credit program.

In Home Supportive Services (IHSS). Maintains core funding for IHSS by rejecting all of the Governor's proposed cuts.

Full Scope Medi-Cal. **Maintains full scope Medi-Cal for asylees** and others that are no longer eligible for federal funding through the 2026-27 budget year, with commitment to work to maintain eligibility beyond that point.

KEY FEATURES

Dental Reductions Delay. **Maintains** dental programs that would otherwise be eliminated starting July 1, 2026 to July 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 July 1, 2027, resulting in a cost of \$1 billion in 2026-27.

Medi-Cal Premiums Delay and Trigger. Continues the **delay of Medi-Cal premiums** for the UIS population until July 1, 2027, but requires the Governor to set and announce a premium level between \$0 and \$50 by April 1, 2027.

CalFood. Provides \$100 million, **\$70 million more than the May Revision**, to support local food banks.

County Administration. Provides \$429 million (\$325 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 **\$175 million for Legal Aid programs**, \$80 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.

Public Safety Rehabilitation Programs. Provides \$46.5 million for rehabilitation programs.

Proposition 36 Funding. Provides **\$50 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.

KEY FEATURES

Rainy Day Fund Reform. Updates the Rainy Day Fund with reforms that will be before the voters in November of 2026. The Reforms includes:

- **Increasing the size of the Rainy Day Fund** and increasing deposits into the Rainy Day Fund during “boom” years.
- Exempting deposits into reserves from the State Appropriations Limit (Gann Limit) while making withdrawals from reserves subject to the limit.
- Extending the Budget Debt Repayment period beyond 2030 and updating the eligible budget debts.

SUBCOMMITTEE HIGHLIGHTS

EDUCATION: TK -12

- Maintains the Proposition 98 settle-up proposal from the May Revision, with a reliable schedule for schools and community colleges to receive funding under the Proposition 98 Guarantee. Re-allocates the proposed discretionary deposit into the Public School System Stabilization Account (PSSSA) into programs, and leaves a balance of \$9.5 billion in the PSSSA after 2026-27. Discussions are ongoing.
- Shifts non-Local Educational Agency State Preschool into Proposition 98, and re-benches 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. See bullet in Higher Education section for additional details.
- 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.

EDUCATION: TK -12 CONT.

- Increases the Expanded Learning Opportunities Program (ELOP) by \$62.4 million ongoing, with a new stable \$1,800 per unduplicated pupil rate for local education agencies with less than 55% total unduplicated pupils. Prioritizes ASES and 21st Century after school competitive grants for community schools with no ELOP funding.
- 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 \$5.2 billion one-time Proposition 98 General Fund, allocating funds based on average daily attendance, and includes support for dual enrollment, career pathways approaches, and professional development for educators in UTK, English Language Arts and Development, and mathematics, induction, mentorship, community schools, and deferred maintenance.
- Increases the Kitchen Infrastructure and Training Grant Funds to \$700 million 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.
- Provides \$500 million one-time Proposition 98 General Fund for teacher pipeline programs, which includes:
 - \$450 million to extend the Student Teacher Stipend program through 2031-2032, and expands the program for high-need fields and priority schools.

EDUCATION: TK -12 CONT.

- \$25 million to create the Bilingual Teacher Pathway Program.
- \$25 million to extend the Classified Employees Teacher Credentialing Program through 2032.

EDUCATION: HIGHER EDUCATION

- Beginning in 2026-27, restores \$241 million ongoing Proposition 98 General Fund to the California Community Colleges by restoring transitional kindergarten (TK) costs within the TK-12/CCC funding split.
- Does not maintain the supplemental funding for the Middle Class Scholarship program that has been in place for three years, meaning low and middle income students will see their awards cut in half from prior years and be funded at 17.5% of need rather than 35%, likely resulting in additional student borrowing.
- Beginning in 2026-27, includes \$47.7 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 an additional \$132.1 million ongoing Proposition 98 General Fund to support a total of 3.5% enrollment growth at the California Community Colleges.
- Increases the Student Support Block Grant to \$275 million one-time Proposition 98 General Fund at the California Community Colleges
- Includes \$116.5 million Proposition 98 General Fund, of which \$15 million is ongoing to support Dream Resource Centers at the California Community Colleges.
- Includes \$30 million annually from 2026-27 through 2028-29 to support LGBTQ+ Resource Centers.
- 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

RESOURCES, ENVIRONMENTAL PROTECTION, & ENERGY

- Defers action on the Greenhouse Gas Reduction Fund, with the exception of funding wildfire- and public safety-related programs at California Department of Forestry and Fire Protection, California Office of Emergency Services, and California Conservation Corps.
- 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.
- Maintains 356.2 vacant full-time equivalents (FTEs) (\$39.8 million Special Fund) at various departments, including 60.1 FTEs at the Department of Fish & Wildlife, which includes game warden positions.

HEALTH

- Delays or maintains until July 1, 2027, many of the Medi-Cal cuts adopted in last year's budget, including:
 - UIS – Monthly Premiums (previously scheduled for July 1, 2027; next Governor will determine whether premium increases to \$50 by April 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)
- Delays until July 1, 2027, many of the Governor's new 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 (set at \$21,000 in July 1, 2027, with agreement to work on a higher level next year)
- Rejects the following Medi-Cal cuts proposed by the Governor:
 - Cap Rates for Programs for All-Inclusive Care for the Elderly (PACE)
 - Elimination of the acupuncture benefit in Medi-Cal

HEALTH CONT.

- Begins the process to adopt the Fair Share from Big Corporations Act by requiring the Administration to present one or more options to the Legislature for holding the state's largest corporations accountable for the taxpayer costs of their employees enrolled in Medi-Cal, including data from EDD, DHCS, and elsewhere on how many workers at these corporations are enrolled in Medi-Cal.
- 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. Will work with the Administration to consider maintaining managed care for non-emergency services.
- 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" 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 \$100 million General Fund savings in 2026-27 and \$600 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.
- Allocates up to \$200 million to support distressed hospitals through additional forgivable loans and allocates \$250 million to support public hospitals.
- 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.

HEALTH CONT.

- Approves \$26 million to support and maintain access to gender affirming care.
- 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.

HUMAN SERVICES

- Funds next step to meet existing commitment of reaching 206,800 additional child care spaces above 2020 levels by preserving the 6,800 spaces proposed to be eliminated by the Governor and adding 22,770 new child care spaces in 2026-27. Costs for this expansion will be significantly absorbed by updating preschool 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 \$185 million above the May Revision 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, eliminate the IHSS Back-up Provider system, and align IHSS termination with Medi-Cal termination, resulting in additional costs of \$500 million by 2027-28.
- Provides \$80 million above the May Revision 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.
- Provides \$100 million for CDSS Housing Programs for vulnerable seniors and children involved in foster care.

HUMAN SERVICES CONT.

- Provides \$100 million for CDSS Housing Programs for vulnerable seniors and children involved in foster care.
- Provides \$20 million for Child Protective Services emergency response, \$30 million for the Stop the Hate program, \$16.5 million for diaper banks, \$12 million each year for three years for the Holocaust Survivor Assistance Program, and \$5 million for automation-only costs to expand the California Food Assistance Program to individuals losing CalFresh due to H.R. 1.

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 cap business tax credits at \$5 million or 50 percent of tax liability, whichever is higher, to generate \$900 million in 2026-27 and \$1.8 billion 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 in enhanced state Low Income Housing Tax Credits.
 - \$200 million for the Multifamily Housing Program.
- Establishes a \$100 million Disaster Rebuilding Fund and program to expand the availability and affordability of construction loans for homeowners rebuilding after a disaster.
- Invests in sustaining state progress on reducing homelessness:

HOUSING & HOMELESSNESS CONT.

- Provides \$900 million 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.

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 \$10 million for an additional year 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.

GENERAL GOVERNMENT CONT.

- 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.
- Includes \$15 million General Fund for the Local Food Purchase Assistance Cooperative Agreement Program.
- Includes \$15 million General Fund for the California Nutrition Incentive Program.
- Includes various General Fund appropriations for the Department of Veteran’s Affairs including 7 million for the Veterans Support to Self-Reliance Program, 2 million for a Transgender Discharged Service Members program, and 6 million for County Veterans Services Offices.
- Includes \$5 million General Fund for the California African American Museum.

TRANSPORTATION

- Defers action on funding the State-to-State Verification System (S2S) Project until appropriate guardrails are agreed upon for the trailer bill proposal.
- Includes \$40 million General Fund for Clean California program at the California Department of Transportation.
- Includes \$15 million in State Highway Account funds for the Trade Corridor Enhancement Program at the California Department of Transportation.

PUBLIC SAFETY AND THE JUDICIARY

- Includes the following new funding to support access to justice and the court system:
 - \$3 billion Lease Revenue Bond authority for courthouse construction.
 - \$20 million growing to \$44 million ongoing General Fund for new judgeships.

PUBLIC SAFETY AND THE JUDICIARY CONT.

- \$250 million one-time General Fund for courthouse construction and judgeship facility costs.
- \$150 million one-time General Fund for deferred maintenance.
- Includes \$50 million one-time General Fund to continue implementation of Proposition 36 (2024).
- Approves funding to stabilize the Next Generation 9-1-1 system.
- Approves funding for public safety grant programs, including:
 - \$80 million ongoing for the Nonprofit Security Grant.
 - \$15 million ongoing for the Missing and Murdered Indigenous People Grant.
 - \$10 million for a vertical prosecution grant to combat human trafficking.
 - \$10 million for services for victims of human trafficking, bringing the total for this to \$20 million.
- Increases Victims of Crime Act funding to \$50 million.
- Reflects the closure of one additional prison by 2027-28.
- Provides \$36.5 million for in-prison programs and supports, including Rehabilitative Investment Grants for Healing and Transformation (RIGHT) 4.0, the Hope and Redemption Team, Home After Harm, and Sister Warriors.

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.

LABOR AND PUBLIC EMPLOYMENT CONT.

- Includes \$5 million one-time Labor and Workforce Development Fund to support a Jail to Jobs pilot program at the Department of Industrial Relations. This pilot is intended to engage in activities to educate employers and workers about labor laws, workplace rights, and employment requirements related to pre-trial employment.
- Includes \$3 million one-time General Fund to support a High Road Workforce Initiative for regulated industries at the California Workforce Development Board.