

SENATE DEMOCRATS _____
FOUNDATION
for the **FUTURE**



_____ **2026–27 STATE BUDGET PLAN**

SENATOR MONIQUE LIMÓN

Senate President pro Tempore

SENATOR JOHN LAIRD

Committee on Budget and
Fiscal Review – Chair

SENATOR SASHA RENÉE PÉREZ

Subcommittee 1: Education – Chair

SENATOR ELOISE GÓMEZ REYES

Subcommittee 2: Resources,
Environmental Protection & Energy – Chair

SENATOR CAROLINE MENJIVAR

Subcommittee 3: Health and Human
Services – Chair

SENATOR MELISSA HURTADO

Subcommittee 4: State Administration &
General Government – Chair

SENATOR LAURA RICHARDSON

Subcommittee 5: Public Safety, Judiciary,
Labor & Transportation – Chair



Introduction

California faces significant fiscal uncertainty as the state navigates the challenges of the inherently volatile revenue system and the direct attacks on the economy from Washington D.C.

Based on recent forecasts and a short-term surge in revenues our finances are in decent condition through the 2026-27 budget year. But significant long term structural deficits persist, and the state faces a budget shortfall greater than \$20 billion in 2027-28.

The Senate's "Foundation for the Future" budget plan makes the tough decisions this year to not only craft a prudent budget for 2026-27 but also to close the projected 2027-28 budget shortfall and to improve the state's long-term fiscal health.

The three key pillars of the Foundation for the Future budget plan are:

- Responsible Budgeting, including reforms to the Rainy Day fund, building reserves, and holding the line on major new ongoing commitments.
- Maintaining vital programs that Californians and the economy depend upon.
- Balanced approach of ongoing solutions that improve the state's long-term fiscal health.

The Foundation for the Future budget plan starts with the January 10 proposed budget forecast but also takes into account a preliminary estimate of the current short-term revenue surge the state is experiencing which adds an additional \$15 billion in 2025-26 revenues and \$5 billion in 2026-27 revenues, for a total of \$20 billion through the budget year.

For 2026-27, the Foundation for the Future budget plan results in a \$4.5 billion Regular Reserve (Special Fund for Economic Uncertainties), about the same as proposed in January, and total reserves and set asides of \$38.9 billion.



For 2027-28, the Foundation for the Future budget plan eliminates the \$22 billion shortfall projected in in January budget and instead results in a balanced budget and \$27 billion in total reserves.

The revenue estimates and other aspects of the plan will be revised as the budget process advances and the Senate benefits from the public subcommittee process and updated fiscal information.

This budget plan provides a strong starting point for the collaboration in the crafting the state budget with the Assembly and the Administration.



Key Pillars

The Foundation for the Future budget plan's key pillars are:

1. Responsible Budgeting.
2. Maintaining vital programs.
3. Balanced approach for improving state's long term fiscal health.

1. Responsible Budgeting

The Foundation for the Future budget plan starts with responsible budgeting. Through smart reforms and prudent budget decisions, California will be positioned to manage revenue volatility and economic turmoil while strengthening the long term fiscal health of our state. Responsible decisions today will make future budget decisions less challenging and harmful for Californians and the economy. The Responsible Budgeting details are as follows:

- **Improving the Prop 2 Rainy Day Fund and Debt Repayments.** Since the passage of Proposition 2 in 2014 the Rainy Day Fund has been a key tool for managing the state's revenue volatility and provided a dedicated funding stream to repay budget debts. Under Proposition 2, 1.5 percent of annual revenues as well as spiking revenues from volatile capital gains are restricted from being allocated in the budget. Half of the restricted funds are deposited into the Rainy Day Fund and half required to be used to repay budget debts.

Over the past decade, revenue volatility has become even more pronounced. Now is the time to update the Rainy Day Fund. The Foundation for the Future proposes a Constitutional Amendment to make the following improvements to Proposition 2:

- Increases the maximum size of the Rainy Day Fund from 10 percent of the budget to 30 percent of the budget.



- Requires additional spiking revenues to be deposited into the Rainy Day Fund and used to repay debts during times of budget surpluses and lowers the regular annual transfer from 1.5 percent to 1.0 percent. Together this results in greater deposits by reducing ordinary annual deposits and increasing deposits from spiking revenues.
 - Changes the split between Rainy Day Fund deposits and debt repayments from 50/50 to 60/40 to increase the share used to build the Rainy Day Fund balance. Extends the deadline to require budget debt payments beyond the current 2030 date and enables federal Unemployment Insurance loan repayments to be made from this source.
 - Clarifies that withdrawals from the Rainy Day Fund and other reserves count toward the State Appropriations Limit (Gann Limit) and not deposits. This change more accurately measures appropriations levels when funds are actually spent and removes a barrier to building prudent reserves.
- **No New Major Ongoing Commitments.** California's fiscal outlook for 2026-27 is fairly stable, thanks in large part to the short-term revenue surge that the state is experiencing. However, the long term forecasts show significant structural deficits of more than \$20 billion.

Recognizing that the short-term revenue surge will not erase the structural deficit or be able to sustain new commitments, the Foundation for the Future contains no new major ongoing commitments from the General Fund or permanent restorations of budget solutions enacted in recent years.

Instead available resources from the short-term revenue surge are used primarily for building reserves and other one-time purposes.

- **Building Reserves.** Reserves and set asides are key tools for filling short-term budget gaps and for managing the transition period and the state works to eliminate the long term structural deficit. Therefore, the Foundation for the Future budget plan includes a major increase in reserves for a total of \$38.9 billion for 2026-27.

The components of the reserves for 2026-27 are as follows:



- \$4.5 billion Regular Reserve (SFEU)
- \$14.4 billion Rainy Day Fund
- \$10.0 billion Prop 98 Rainy Day Fund
- \$10.0 billion Set Aside for 2027-28
- **\$38.9 billion Total Reserves/Set Asides**

For 2027-28 the Foundation for the Future budget plan forecasts total reserves of \$27 billion, including:

- \$0.3 billion Regular Reserve (SFEU)
- \$16.9 billion Rainy Day Fund
- \$10.0 billion Prop 98 Rainy Day Fund
- **\$27.2 billion Total Reserves/Set Asides**

The Reserves for both 2026-27 and 2027-28 are dramatically higher than projected in January, which included \$23 billion in total reserves in 2026-27 and actually a negative total reserve of -\$465 million in 2027-28.

2. Maintaining Vital Programs and Commitments

The January proposed budget provides funding for vital programs for 2026-27. However, there are specific programs – primarily ones that are typically funded on a one-time basis one year at a time – that are not funded.

The Foundation for the Future budget plan funds the following vital programs that are not proposed to be funded in the proposed budget:

- ***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 \$1 billion for HHAP Round 8 to continue to support local efforts to reduce homelessness.
- ***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, which due to the short term revenue surge, grows from \$5.6 billion to \$11.6 billion, to provide additional resources for K-12 schools and community colleges. Of this amount, \$5.9 billion will be deposited into the Prop 98 Rainy Day Fund to take that balance up to \$10 billion. (A portion of the increase would use the Department of Finance accounting method to spread the General Fund impact over future years.)
- **Middle Class Scholarship.** Maintains current level of the Middle Class Scholarship for the 2026-27 school year.
- **Greenhouse Gas Reduction Fund Allocations.** Maintains the 2025 agreement to fund \$1 billion of GGRF legislative priorities, which will require freeing up an additional \$750 million of GGRF funds above what is available in the January proposed budget.
- **Child Care Slot Expansion.** Funds the next step to meet existing commitment of reaching a total of 200,000 additional slots above 2020 levels with 44,000 slots added in 2026-27. Costs for the slot expansion will be significantly absorbed by updated preschool costs to match current actual costs.
- **In Home Supportive Services (IHSS).** Maintains current support for IHSS by not approving proposed program changes, resulting in additional cost of \$323 million.
- **Full Scope Medi-Cal.** Maintains full scope Medi-Cal for asylees and others that are no longer eligible for federal funding. This results in a cost of \$786 million in 2026-27 and grows to \$1.1 billion annually ongoing.



- **Dental Reductions Delay.** Maintains dental programs that would otherwise be eliminated starting July 1, 2026 to January 1, 2028, including dental benefits for adults 19 and over regardless of immigration status and Prop 56 Dental Supplemental Payments. This results in a temporary cost \$446 million in 2026-27 and \$349 million in 2027-28.
- **Clinic Reductions Delay.** Delays implementation of planned reduction to Clinics from July 1, 2026 to January 1, 2028, 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 January 1, 2028, resulting in a temporary cost of \$125 million in 2027-28.
- **Proposition 36 Funding.** Continues providing \$100 million to fund Proposition 36 activities.
- **Victims of Crime Act.** Continues providing \$100 million for the Victims of Crime Act (VOCA) program to maintain support for crime victims.

3. Balanced Approach for Improving Long Term Fiscal Health

The Budget Act of 2025 took an important first step in reducing the long term structural deficit with over \$11 billion in ongoing General Fund solutions. Virtually all the ongoing solutions were program cuts.

Even with those difficult actions, the state continues to face a structural deficit of over \$20 billion.

The last time the state embarked on closing a persistent structural deficit was in 2011 in the aftermath of the Great Recession.

Today's circumstances are not nearly as dire as 2011, and the state has more tools to manage the budget challenge. Nevertheless, making significant improvement to the state's long term fiscal health cannot be done only through new revenues or only



through additional program cuts. A balanced approach that includes both new revenues and new spending reductions is required.

The Foundation for the Future budget plan embraces a balanced approach with targeted actions to bring overall costs down, including the following:

➤ **Balanced Approach: \$5-\$8 billion Fair Share Contribution.**

Medi-Cal costs are a driving factor in the state's long term structural deficit. Health care costs have grown significantly across the board, so Medi-Cal is not unique in facing expanding costs.

Particularly troubling, however, is that Medi-Cal costs have grown during stable economic times and not due to traditional reasons of a recession and growing unemployment that in the past have spiked Medi-Cal enrollment.

But when corporations pay too low, hold back on adequate hours, and fail to enroll their workforce in company health insurance plans, their workers remain in Medi-Cal at the cost to taxpayers. In fact, 42 percent of working-age Medi-Cal enrollees have full time jobs. The result is a multi-billion taxpayer funded corporate subsidy for profitable corporations in the state.

To bring fairness to taxpayers, the Foundation for the Future budget plan calls for establishing the Fair Share Contribution for the state's largest employers.

Details will be worked out through deliberations with the Assembly and the Administration, with the goal of applying only to the state's top one to two percent of the largest corporations – those with at least several hundreds of employees – and therefore would not include small and medium size employers. The corporations would be required to make a contribution to the state to offset a portion of taxpayer costs for paying their workers' healthcare costs.

Ideally, employers will choose to enroll their workforce in company insurance plans, which will directly reduce state Medi-Cal costs even more than if employers simply pay the contribution. But if employers do choose to make the contribution, the Fair Share Contribution is expected to generate \$5 -\$8 billion in total annual revenues.



Under the Foundation for the Future budget plan, the funds will be deposited into a Special Fund to primarily offset taxpayer costs for Medi-Cal, while a portion of the funds will also support struggling hospitals and support county costs for increased health and human services administrative work due to HR 1.

➤ **Balanced Approach: \$5 billion Ongoing Program Cuts.**

Improving the state's long term fiscal health requires additional spending reductions – on top of the roughly \$11 billion in ongoing solutions approved in the Budget Act of 2025.

The Foundation for the Future budget plan calls for an additional \$5 billion in ongoing program cuts. Following direction set in January, the Senate, Assembly, and Administration have begun deliberations on program cuts to be considered during budget negotiations this year.



Summary of Subcommittee Highlights

This section outlines highlights of the Foundation for the Future by subcommittee. Many items listed repeat items listed in other sections of this document in order to provide a more comprehensive picture of Subcommittee plans.

➤ **Subcommittee 1 on Education:**

- ***Pay Down \$11.6 billion 2025-26 Settle-Up Debt.*** The Short term revenue surge has grown the current year Prop 98 Settle-up amount from \$5.6 billion to \$11.6 billion.

The Foundation for the Future pays down the full \$11.6 billion amount to schools in 2025-26. The funds will be allocated as follows:

- \$5.9 billion deposited into the Prop 98 Rainy Day Fund.
- \$5.7 billion allocated for one-time purposes through the subcommittee process.

(Accounting for the \$11.6 billion will be split evenly between the traditional accounting and the Department of Finance mechanism that spreads the impact over future fiscal years to smooth the volatile impact of the settle-up payment.)

- ***Ongoing Prop 98 Funds.*** The short term revenue surge increases the Prop 98 guarantee by \$2 billion in 2026-27. Funds will be allocated through the subcommittee process.
- ***Preschool Adjustments.*** Adjusts Preschool costs to match current services levels and alligns all Preschool costs within Prop 98, rather than the current circumstance of a portion of Preschool is funded inside of Prop 98 and a portion is funded outside of Prop 98. The Prop 98 minimum will be “rebenched” up to accommodate the new Prop 98 Preschool costs.
- ***Middle Class Scholarship.*** Maintains current level of the Middle Class Scholarship for the 2026-27 school year. The \$600 million cost of maintaining the award level for 2026-27 is paid in arrears in the 2027-28 budget year.



➤ **Subcommittee 2 on Resources, Environmental Protection, and Energy:**

- **Greenhouse Gas Reduction Fund (GGRF) Allocations.** Provides \$1 billion of GGRF funds for Legislative priorities in accordance with the 2025 Cap and Invest agreement. Allocation decisions will be made through the budget process.
- **Prop 4 Climate Bond Investments.** Provides \$2.5 billion in Prop 4 allocations, roughly \$400 million above the level proposed in January to ensure the Legislature's Prop 4 priorities are reflected in the budget. Allocation decisions will be made through the budget process.

➤ **Subcommittee 3 on Health and Human Services:**

- **Child Care Slot Expansion.** Funds next step to meet existing commitment of reaching a total of 200,000 additional slots above 2020 levels with 44,000 slots added in 2026-27. Costs for the slots expansion will be significantly absorbed by updated preschool costs to match current actual costs.
- **In Home Supportive Services (IHSS).** Maintains current support for IHSS by not approving proposed program changes, resulting in additional costs of \$323 million.
- **Legal Aid.** Provides \$50 million for legal aid to support Californians impacted by federal immigration actions. Funds will be allocated broadly throughout the state and support all immigrant groups.
- **CalFood.** Provides \$100 million for CalFood to support local food banks.
- **Full Scope Medi-Cal.** Maintains full scope Medi-Cal for asylees and others that are no longer eligible for federal funding. This results in a cost of \$786 million in 2026-27 and grows to \$1.1 billion annually ongoing.
- **Dental Reductions Delay.** Maintains dental programs that would otherwise be eliminated starting July 1, 2026 to January 1, 2028, including dental benefits for adults 19 and over regardless of immigration status and Prop 56 Dental Supplemental Payments. This results in a temporary cost \$446 in 2026-27 and \$349 million in 2027-28.



- **Clinics Reduction Delay.** Delays reductions to Clinics that would otherwise begin on July 1, 2026 until January 1, 2028, 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 January 1, 2028, resulting in a temporary cost of \$125 million in 2027-28.
- **Local Healthcare Support.** Provides Special Fund support for local healthcare needs, including funding to support county workforce to meet increased administrative Medi-Cal work due to provisions of HR 1 and to support local hospitals that are struggling due to federal cuts and other factors.

➤ **Subcommittee 4 on State Administration and General Government:**

- **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 \$1 billion for HHAP Round 8 to continue to support local efforts to reduce homelessness.
- **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.
- **CalCompetes.** Approves expansion of CalCompetes, as proposed in the January budget.
- **Data Security and Privacy.** Provides oversight and review to ensure departments have data security and privacy protection resources.



➤ **Subcommittee 5 on Public Safety, Judiciary, Labor & Transportation:**

- **Access to Justice.** Funds critical access to justice commitments, including:
 - \$250 million General Fund for courthouse maintenance and repairs;
 - \$3 billion in Lease Revenue Bond funds, and associated General Fund costs, for new Courthouse construction; and
 - \$20 million for new judgeships starting in 2026-27, which will have an ongoing cost of \$44 million.
- **Proposition 36 Funding.** Continues providing \$100 million to fund Proposition 36 activities.
- **Victims of Crime Act (VOCA).** Continues providing \$100 million for the Victims of Crime Act program to maintain support for crime victims.



General Fund Summary 2026-27 and 2027-28

(in billions)

	2026-27	2027-28
Prior Year Balance	53.0	32.5
Revenues and Transfers	235.4	250.5
BAS Transfer	-3.0	-2.5
Total Available Resources	285.4	280.5
Expenditures	252.8	252.2
Fund Balance	32.6	28.3
<i>(reserve for encumbrances)</i>	<i>28.0</i>	<i>28.0</i>
Regular Reserve (SFEU)	4.6	0.3
Rainy Day Fund	14.4	16.9
Prop 98 Rainy Day Fund	10.0	10.0
2027-28 Set-aside	10.0	0.0
Total Reserves	38.9	27.2