



Highlights and Analysis of the 2026-27 Enacted Budget

September 30th, 2026

**SENATE REPUBLICAN
FISCAL OFFICE**



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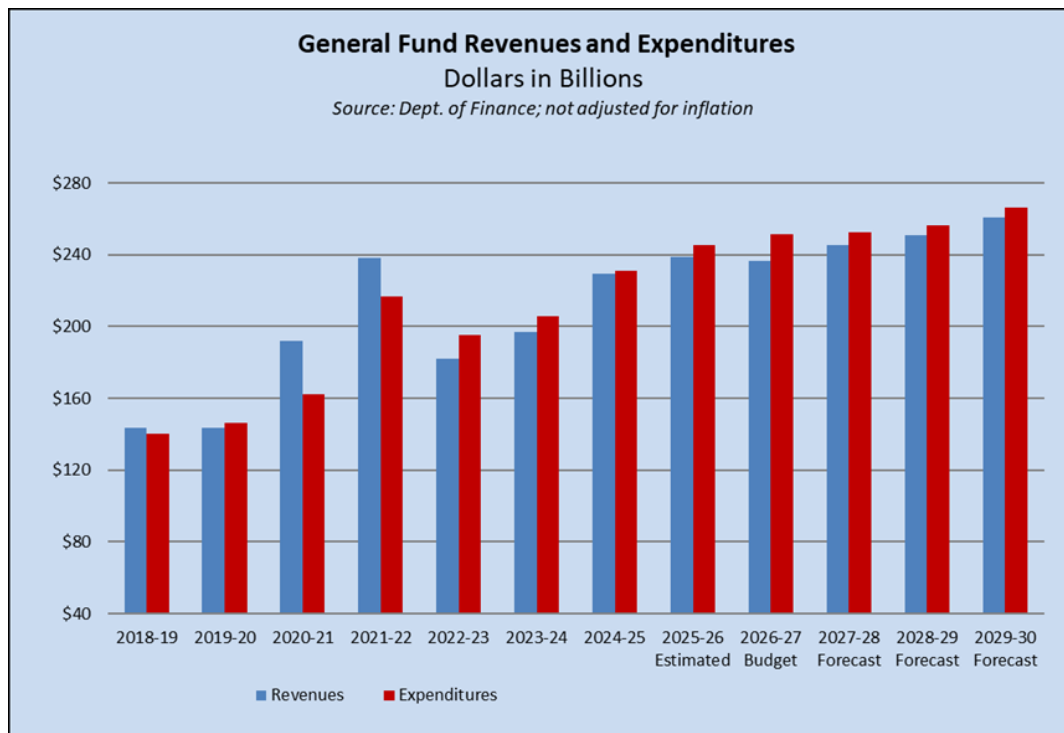
Executive Summary

Overview

Budget Rides Artificial Intelligence (AI) Tax Coattails. General Fund revenues in 2026-27 would reach \$237 billion, a slight drop of about 1 percent from 2025-26 but a gain of 3.2 percent from two years ago. The revenue forecast updates for the January 2026 Governor’s proposal and the enacted 2026 Budget Act both shifted estimates higher by a combined \$53 billion compared to expectations in place for the 2025 Budget Act, reflecting continued strength in AI-driven capital gains, at least for now.

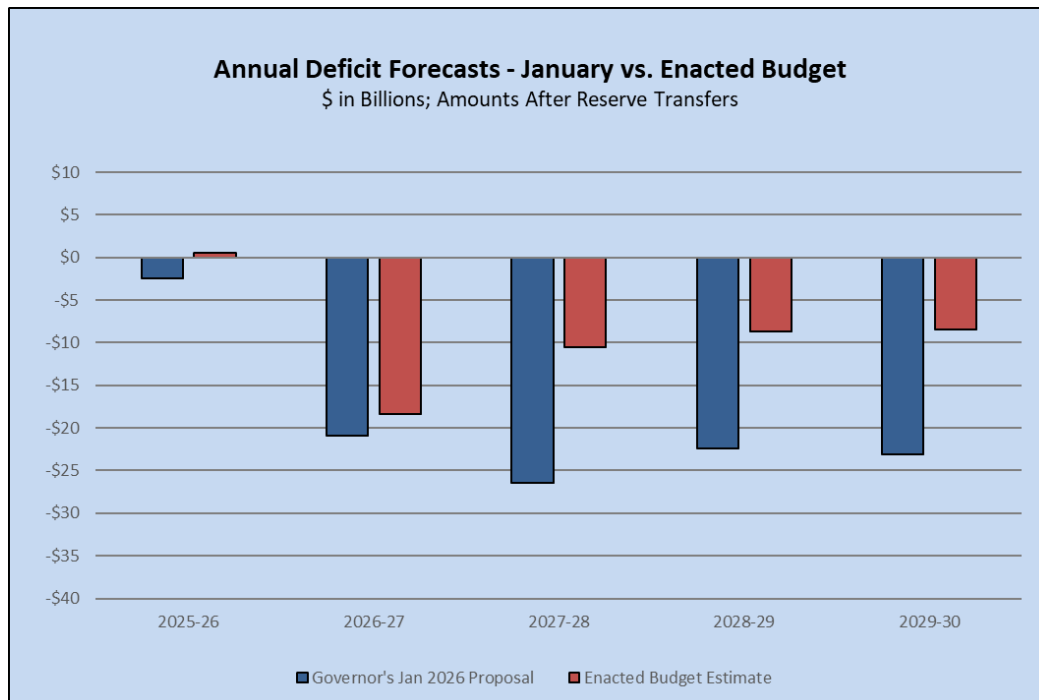
General Fund Spending Reaches Record High. The enacted budget authorizes General Fund spending of \$251 billion in 2026-27, an increase of \$23 billion or 10 percent over the enacted 2025-26 budget. Spending increases in two main areas, TK – 14 Education and Health & Human Services, totaled more than \$18 billion, accounting for 80 percent of that total spending increase.

Over Governor Newsom’s tenure, General Fund expenditures are set to grow by 79 percent through 2026-27. The table below tracks the revenues and expenditures seen since the year prior to Governor Newsom’s tenure through three years into the future. Unfortunately for California taxpayers, the state budget is systemically out of balance, as shown by the annual excess of expenditures over revenues throughout the forecast.



Tax Increases, Borrowing, and Reserves Prop Up Record Spending. The enacted budget reflects nearly \$14 billion in budget “solutions” to address deficits through new tax increases, borrowing, and additional use of reserves. These include \$5.4 billion from suspending the deposit into the Rainy Day Fund, \$3.9 billion in new borrowing known as an education “settle-up obligation,” and several tax increases generating \$2.0 billion in new revenue.

Insufficient Spending Solutions Leave Long-Term Deficits, Despite Higher Revenue. The Governor's January budget proposal estimated a deficit of \$2.9 billion for 2026-27 and a much larger deficit of \$22 billion for 2027-28. The enacted budget now reflects budgets that are technically balanced in 2026-27 and 2027-28. The lack of significant ongoing spending reductions means that revenues and expenditures will remain fundamentally out of balance for the duration of the budget forecast. Annual operating deficits, which exclude the funds carried in from prior years or reserves, range from \$18 billion in 2026-27 to \$8 billion in future years, as illustrated in the chart below. The persistence of these deficits means that the state budget is unsustainable over the long term.



Special Funds and Federal Funds Also Increase. State special funds add another \$95 billion in spending, an increase of 4.4 percent, bringing total state spending to \$352 billion in 2026-27. Federal funds of \$187 billion are also reflected in the budget, an increase of 4.9 percent, despite claims from some Democrats that the federal government has gutted programs. When counting all these fund sources, the budget spends \$539 billion in 2026-27, an increase of 2.6 percent.

Budgetary Borrowing Increases Despite Tax Revenue Surge. The budget adds another \$2 billion on net to the short-term borrowing approved in the past few budgets, bringing the budgetary "Wall of Debt" to nearly \$30 billion, despite the recent surge in General Fund tax revenues.

First Use of Projected Surplus Temporary Holding Account. The budget makes use of the recently established Projected Surplus Temporary Holding Account, a legislatively created account intended to shift resources forward by one year. The budget places \$6.4 billion into this account in 2026-27 to provide more resources to cover planned spending in 2027-28, which helps cover the operating deficit for that year.

TK-12 Education

Proposition 98 TK-14 Funding and Settle-Up Debt. The Proposition 98 TK-14 guarantee levels are \$125 billion for the 2024-25 fiscal year, \$125 billion in 2025-26, and \$128 billion in 2026-27. In the 2025-26 fiscal year, the budget underfunds the guarantee by \$3.9 billion, for a total guarantee of \$121 billion, creating a “settle-up” obligation.

Local Control Funding Formula (LCFF). The budget includes a 4.31 percent cost-of-living adjustment (COLA) for the LCFF. When combined with population growth adjustments, this will result in a \$2.2 billion increase in discretionary funds for schools. This is 1.44 percent above the statutorily required 2.87 percent COLA. The “super cola” is included to cover the paid pregnancy leave mandate.

Major Funding Increase for Special Education. The budget includes an increase of \$2.4 billion ongoing for special education, an increase of 43 percent, bringing the per-pupil base rate to \$1,340. The Legislative Analyst’s Office previously noted that local funds are currently covering about 60 percent of special education costs, and the increase in special education funding could reduce that by 12 percent.

Changes the Role of the Superintendent of Public Instruction. The budget reorganizes California’s education governance structure by establishing the role of the Education Commissioner, appointed by the Governor and confirmed by the Senate. The budget shifts the management of the California Department of Education (CDE) from the Superintendent of Public Instruction (SPI) to the Education Commissioner, beginning January 1, 2027.

Implements 14 Weeks of Paid Pregnancy Leave. The budget requires a school district, county office of education, charter school, or educational joint powers authority to provide up to 14 weeks of leave of absence with specified pay benefits because of pregnancy, miscarriage, childbirth, abortion, or recovery from those conditions, beginning January 1, 2027.

Significantly Expands Community School Funding. The budget provides \$1 billion ongoing Proposition 98 General Fund to continue the expansion of the community schools model. The Community Schools Partnership Act was established in 2021 and describes a community school as a public school with strong and intentional community partnerships to promote pupil learning and whole child and family development.

Shifts All California State Preschool Programs Under Proposition 98. The budget shifts non-LEA state preschool programs into Proposition 98 and “re-benches” Proposition 98 to account for this shift, which involves pulling more General Fund into the Proposition 98 guarantee. The budget also moves \$813 million from the General Fund to the Proposition 98 General Fund to avoid any negative impacts to Proposition 98 supported programs.

Higher Education

University Compact Increases Partially Restored. Previously agreed-upon “compacts” between the Governor and the University of California (UC) and the California State University (CSU) promised annual increases of 5 percent per year. However, the state delayed or pulled back compact increases in the past two budget cycles. The 2026-27 enacted budget provides the full 5 percent increase for Year 5 of the compacts, amounting to \$254 million for UC and \$265 million for CSU (\$519 million combined). However, the budget provides only a portion of

the previously delayed Year 4 increase, amounting to \$197 million combined. The budget continues to delay the remainder of the Year 4 increase, totaling \$241 million for UC and \$252 million for CSU (\$493 million combined).

Restoration of Base Budget Cuts Delayed. The 2025 Budget Act cut base funding for UC and CSU by 3 percent, or \$274 million, including \$130 million for UC and \$144 million for CSU. The budget also provided a no-interest loan to the two systems to help mitigate the effects of the cuts. The 2026-27 budget delays restoration of those 3 percent base cuts and rolls over the cash flow loan into another one-year loan that the UC and CSU would have to repay in 2027-28.

Middle Class Scholarship Amounts Cut by One-Third. The enacted budget reduces the program goal to meet only 23 percent of students' unmet college expenses, compared to 35 percent the prior year, though Governor Newsom initially proposed a level of only 17.5 percent. The budget sets program funding at \$691 million, a reduction of \$268 million. The average MCS award would fall by about one-third from \$2,937 to \$2,015.

Community Colleges Funding and Enrollment Increases. The community college budget, which is set overall by Proposition 98, would reach just over \$10 billion from the General Fund in 2026-27, an increase of \$1.3 billion, or 15 percent, over the 2025-26 level. Within that total are a variety of specified funding increases, including a cost-of-living adjustment to the Student Centered Funding Formula of 4.31 percent (\$441 million) and funding adjustments of \$153 million intended to reflect enrollment growth of 2.5 percent.

Health

New Managed Care Organization (MCO) Tax Harms Californians. The budget relies on \$575 million in new revenue in 2026-27 (and \$2.3 billion annually through 2030) from a new MCO tax on both Medi-Cal managed care plans and commercial health insurance plans. This equates to \$1.5 billion in health insurance premium hikes on individuals and businesses in California. A family of four on private insurance is likely to see their health premiums increase by several hundred dollars due to this misguided policy.

No Medi-Cal Managed Care Plans for the Undocumented. The budget reflects \$472 million in General Fund savings from the transition of undocumented Medi-Cal beneficiaries from managed care plans to the fee-for-service system. The budget also appropriates \$39 million for care coordination resources and navigators to aid in this transition. Undocumented adults will also begin to pay a premium of up to \$50 a month in 2027.

Delays Budget Solutions to Reduce Undocumented Care Medi-Cal Costs. The budget reflects costs of \$1.3 billion to delay two policies until July 1, 2027: (1) the elimination of prospective payment system reimbursement for community clinics for services to the undocumented, and (2) the elimination of dental benefits for undocumented Medi-Cal beneficiaries.

Legal Immigrants Kicked off Full-Scope Medi-Cal in 2027. The budget includes \$303 million in costs to fund *legal* immigrant populations (refugees, asylees, victims of human trafficking, etc.) in full-scope Medi-Cal for one year until July 1, 2027, when they will then be moved into restricted-scope Medi-Cal benefits (limited to emergency and pregnancy services). This action is a stark and highly objectionable contrast in that the budget will maintain full-scope benefits for *illegal immigrants* while shifting *legal immigrants* to restricted-scope benefits. This means

that Governor Newsom and the Democrats are penalizing immigrants who follow the laws while rewarding those who do not.

Dialysis Covered as a Restricted Scope Medi-Cal Benefit. The budget elevates outpatient dialysis to the equivalent of emergency care within restricted-scope Medi-Cal in order to prevent costlier kidney failure interventions. While covering outpatient dialysis as a restricted scope Medi-Cal benefit will likely prevent unnecessary ER visits, it could also begin a slippery slope of adding benefits for populations ineligible for Medi-Cal, including some illegal immigrants previously on state-only full-scope Medi-Cal.

Lower Medi-Cal Asset Limit in 2027. The budget includes \$278 million to retain the existing \$130,000 Medi-Cal asset limit for 2026-27, but then the asset test will decrease to \$21,000 for individuals and \$31,000 for couples on July 1, 2027. The Governor initially proposed an asset limit of \$2,000, so this policy takes a middle option. This will affect numerous seniors and the disabled.

County Administration Costs. The budget allocates \$197 million from the General Fund to support the county administration workload for the Medi-Cal program. This was a priority ask from the California State Association of Counties (CSAC).

Proposition 36 Behavioral Health Treatment Funding. The budget includes \$20 million in funding over three years, for county behavioral health departments to continue Prop. 36 related mandatory drug treatment, a tiny fraction of the real treatment need.

Insufficient Funding for Distressed Hospitals. The budget includes \$90 million to support grants to distressed hospitals and authorizes an additional \$50 million at the discretion of the Department of Finance. In addition, the budget allocates \$10 million to evaluate hospitals' financial distress across the state. This amount falls short of the \$300 million for which both Senate Republicans and the California Hospital Association had advocated.

Questionable Diaper Contract Continued. The budget contains a public contract code exemption for the Diaper Access Initiative to continue exclusive contracts with the non-profit Baby2Baby, run by friends of First Partner Jennifer Newsom. Last year's budget allocated \$20 million over two years for the program.

Human Services and Child Care

Provides a Temporary Waiver for County CalFresh Match Increases. The budget caps the share of CalFresh administrative costs a county must expend in fiscal years 2026-27 through 2028-29 at its contribution in the 2024-25 fiscal year, or however much the county was required to contribute to receive its full allocation of General Fund.

Targeting Siskiyou County IHSS on Behalf of Political Allies. The budget includes policy language in a trailer bill, AB 152, that will force Siskiyou County to come to an agreement with an IHSS employee organization or risk a 10 percent fiscal penalty on its IHSS funding from the state.

Additional Funding for Immigration Legal Services. The budget includes \$116 million in one-time General Fund to increase support for immigration legal services. When including previous ongoing baseline funding, this brings the total funding in the budget to \$179 million. The budget

also expands the eligibility for legal services to include “immigrant youth,” who are defined as immigrants younger than 21 in removal proceedings.

Child Care Funding. The enacted budget includes \$7.8 billion (\$5.3 billion General Fund) for child care and development programs in 2026-27. This is an increase of \$293 million General Fund over the revised 2025-26 budget. Included in this is \$112 million General Fund for a 2.01 percent COLA.

Adds Child Care Slots. The budget includes \$228 million from the General Fund to add 22,770 child care slots in 2026-27 and \$41 million General Fund to restore 3,430 slots due to decreases in federal funding and Proposition 64 reductions. Of these new slots, 2,070 would be for General Child Care, and 20,700 would be Alternative Payment Program slots.

Public Safety and the Judiciary

Proposition 36 Implementation Funding. The enacted budget provides \$50 million in new one-time General Fund support to continue implementation of Proposition 36 (2024), including \$10 million for court workload, \$20 million for pretrial services, and \$20 million for behavioral health treatment. This level of funding is well short of the \$350 million estimated to be the annual Proposition 36 need.

Prison Closures. This budget reflects General Fund savings of \$91 million in 2026-27 and \$138 million annually thereafter from the closure of the California Rehabilitation Center, the fourth prison to close since 2021. The passage of Proposition 36 in 2024 signaled that voters demand accountability for repeat criminals. If more tough-on-crime initiatives like this follow, the California Department of Corrections and Rehabilitation (CDCR) could find itself in a position of needing more prison capacity.

Mental Health Receivership. In August 2025, the *Coleman* court ordered CDCR into receivership, transferring the responsibility for mental health delivery in the prison system from CDCR to a new Mental Health Receiver. The budget includes \$46 million to establish the Office of the Mental Health Receiver and fund the first year of the receiver’s operations. Actual inmate mental health treatment and services are projected to cost more than \$760 million per year.

Federal Lawfare. The budget includes \$27 million per year through 2028-29 for the Attorney General to sue the federal administration to slow or stop the President’s agenda. As of August 4, 2026, the Attorney General had filed 82 lawsuits against the federal administration since President Trump assumed office in January 2025. This antagonistic posture could bring more harm than good for California.

Judgeships and Courthouses. The budget includes \$100 million General Fund in 2026-27 and \$44 million annually thereafter to fund 26 new judgeships plus related court facilities costs. In addition, the budget authorizes \$1.3 billion in lease-revenue bonds to address the replacement or renovation of courthouses with the most immediate and critical needs. This funding is a major step toward fully funding and supporting the judicial branch.

Victims of Crime Act Backfill. The budget includes \$50 million General Fund to continue partially backfilling the ongoing reduction of more than \$100 million per year in federal victim services funding through the Victims of Crime Act. This state backfill is a lifeline to victim

programs, allowing them to continue serving crime victims to the greatest extent possible given the reduction in federal support.

Next Generation 9-1-1. The budget includes \$326 million from the State Emergency Telephone Network Account for the Office of Emergency Services (OES) to continue supporting the legacy 9-1-1 system while transitioning the state to Next Generation 9-1-1 (Next Gen 911). After problems plagued several dispatch centers that had transitioned to Next Gen 911, OES halted rollout, reevaluated its implementation plan, and changed direction dramatically. To hopefully bring clarity to the situation, the 2026-27 budget requires OES to contract with the RAND Corporation for an independent evaluation.

Natural Resources and Environment

Lower Auction Revenue Cuts Funding for Lower-Tier Programs by More Than \$1 Billion. Estimated funding for Tier 3 programs fell from \$1.4 billion at Governor's budget to \$372 million by June as auction revenue estimates declined. The final budget also gives state operations and certain administrative costs priority ahead of Tier 2 and Tier 3 programs, leaving actual Tier 3 funding dependent on revenues available after higher-priority allocations.

More Than 60 Percent of Proposition 4 Allocated in First Two Years. The final budget provides \$2.7 billion in specific Proposition 4 appropriations for 2026-27. Together with \$3.5 billion appropriated in 2025-26, more than 60 percent of the \$10 billion authorized by voters has now been appropriated. As implementation continues, the results of these early funding decisions will provide a clearer picture of how effectively these funding choices reflect the state's highest priority needs.

Wildfire Prevention Increasingly Relies on Finite and Volatile Funding. The budget provides \$330 million from Proposition 4 for wildfire and forest prevention. While the budget maintains substantial funding for fire response, prevention increasingly relies on finite Proposition 4 bond funds and revenue dependent Greenhouse Gas Reduction Funds, rather than the large, one-time General Fund packages provided in prior years.

Final Budget Increases Proposition 4 Funding for Water. The final budget provides \$1.05 billion from Proposition 4 for water related programs, more than \$250 million above the Governor's January proposal. Major allocations include \$263 million for drinking water grants and loans, \$257 million for flood protection, and \$100 million for water recycling and reuse, along with funding for groundwater recharge, drought and watershed resilience, conveyance repairs, and multibenefit land repurposing.

Tax Policy

Expansion of Sales and Use Tax. The budget expands the state's sales and use tax to include sales of digital prewritten software, regardless of how the product is delivered to the purchaser, and Software-as-a-Service products. While many businesses across California are impacted, the tax expansion will hit the state's hospitals particularly hard. This change taxes the core tools hospitals use to provide patient care.

Limitation on Business Tax Credits, Including Research and Development. The budget extends the business tax credit cap at \$5 million for three years. For each of the 2027, 2028,

and 2029 taxable years, the budget allows a taxpayer to make an irrevocable annual election to receive a refundable tax credit in the amount of the credit over the \$5 million cap. After the three-year extension noted above, beginning with tax year 2030, the budget establishes a permanent business tax credit limitation that is the greater of \$5 million per corporation per year or 70 percent of a corporation's pre-credit tax liability.

CalCompetes Tax Credit Extension. The budget extends the \$180 million per year CalCompetes Tax Credit program within the Governor's Office of Business and Economic Development through 2035.

Income Tax Exclusion for Wildfire Mitigation Grants. The budget expands and extends an income tax exclusion for wildfire mitigation assistance. The budget extends the current income tax exemption for wildfire loss mitigation grants through 2030, expands the exclusion of payments to include new Proposition 4 grant programs, and would expressly cover assistance for a variety of activities.

Film and TV Tax Credit Expansion. The budget makes numerous changes to the Film and TV Tax Credit program, including, but not limited to, increasing and expediting refundable tax credits.

Housing

Multifamily Housing Program. The budget provides \$200 million from the General Fund for the Multifamily Housing Program, which provides low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households.

Federal Budget Bill Offers New Resources for Affordable Development. H.R. 1, the federal legislation enacted last summer, offers new resources for affordable housing. Prior to the enactment of H.R. 1, affordable housing developers needed to finance at least 50 percent of their projects with private activity bonds in order to gain access to 4 percent tax credits. H.R. 1 reduced this threshold to 25 percent, effectively doubling how many 4 percent tax credits California projects can draw down each year using the same amount of private activity bonds.

Restructures State's Affordable Housing Financing Programs. The 2026 budget significantly restructures how the state awards its affordable housing funding. In California, state funding for the construction of affordable housing can come from several different departments and multiple different programs.

Waiving Local Impact Fees Creates Pros and Cons. A new housing development will generally increase effects like wear and tear on local roads, the amount of effluent that will flow through local sewers, local demand for utilities, and the number of children attending local schools. To offset the associated costs, local jurisdictions frequently charge the project builder "impact fees." The budget includes changes in the imposition of these local development impact fees on state-funded affordable housing projects.

Low-Income Housing Tax Credit Program. The budget provides \$630 million in 2026-27 for the Low-Income Housing Tax Credit (LIHTC) program, which provides supplemental tax credits within the State Housing Tax Credit program.

Disaster Relief Program. The budget provides \$100 million (\$56 million General Fund, \$44 million National Mortgage Settlement Fund) for the new Disaster Relief Program within the California Housing Finance Agency to assist homeowners seeking to rebuild in the wake of natural disasters.

Homelessness

Budget Includes Homelessness Funding but Also New Match Requirements. The budget provides \$890 million for Round 7 of the Homeless Housing Assistance and Prevention Program (\$500 million included in the 2025 Budget Act and an additional \$390 million included in the 2026 Budget Act). The distribution of the funding would be subject to several layers of performance metrics and outcome data.

Business Support and Employment

California's Unemployment Debt Continues to Challenge Employers. Despite increased federal employer taxes intended to pay down the principal, California continues to carry a balance of \$19 billion for federal unemployment insurance (UI) loans and must pay \$668 million in interest in 2026-27.

No Principal Payment for UI Debt, but Ballot Measure Might Help. As part of the budget package, ACA 20 placed a measure on the November ballot that, if approved by voters, would authorize—but not require—the state to make additional payments on the UI debt from required budget set-asides.

Subsequent Injuries Benefits Trust Fund. Provides an increase of \$13 million from an employer-funded account to handle claims backlog and support growth within the Subsequent Injuries Benefits Trust Fund. Program reforms included in a trailer bill are expected to limit rising program costs.

Employment Development Department (EDD) Modernization. Includes \$146 million in funding for EDD IT systems, improved service for claimants, and fraud prevention, continuing a five-year modernization plan initially funded in 2022-23.

Transportation

Gasoline Taxes Increase Again. The automatic annual gas tax increase raised the price of gas by 2.2 cents per gallon and diesel fuel by 1.6 cents per gallon, effective July 1, 2026. These tax increases are estimated to generate an additional \$334 million in state tax revenues.

High-Speed Rail Budget. Includes \$1.5 billion in 2026-27 for continued construction and reflects increased 2025-26 spending of \$4.6 billion, mostly using carryover funds from the prior year.

High-Speed Rail 83 Percent Unfunded. Despite the commitment of \$1 billion annually from the state's Cap-and-Invest program, the project has a \$192 billion funding gap and could run out of cash in December 2027. Financing options remain uncertain and associated interest costs would significantly increase the overall cost of the project.

Transit Funding and Loans. Provides more than \$2 billion in state funds for transit in 2026-27 to subsidize operations, maintenance, and capital expenses. The state is required to issue up to \$590 million in loans to Bay Area transit entities as temporary financial assistance while voters consider a local tax measure on the November ballot that would increase local transit funding.

General Government

Member Requests and Local Projects. The budget includes just over \$1 billion in funding for a long list of over 500 different member requests, local projects, and last-minute awards. Most of the \$1 billion in awards never received any public discussion in a budget hearing. Out of this total, about \$360 million went to local governments for equipment such as fire or police vehicles or infrastructure projects. Another \$600 million was awarded directly or indirectly to private nonprofits across a wide range of activities.

Journalism Bail-Out Continues. The budget includes over \$30 million for various journalism bail-out efforts. This includes \$10 million General Fund for a second year, though the initial funding authorized in 2025-26 has not been allocated. The budget also provides the University of California with \$15 million for vague journalism “fellowships.” Additionally, last-minute budget giveaways include \$6 million General Fund for ethnic media outreach and public media stabilization grants. There are numerous struggling industries in California, and it is not clear why the budget picks journalism for assistance. Providing state funds for journalism also raises significant concerns about the partisanship of the reporting that will be produced.

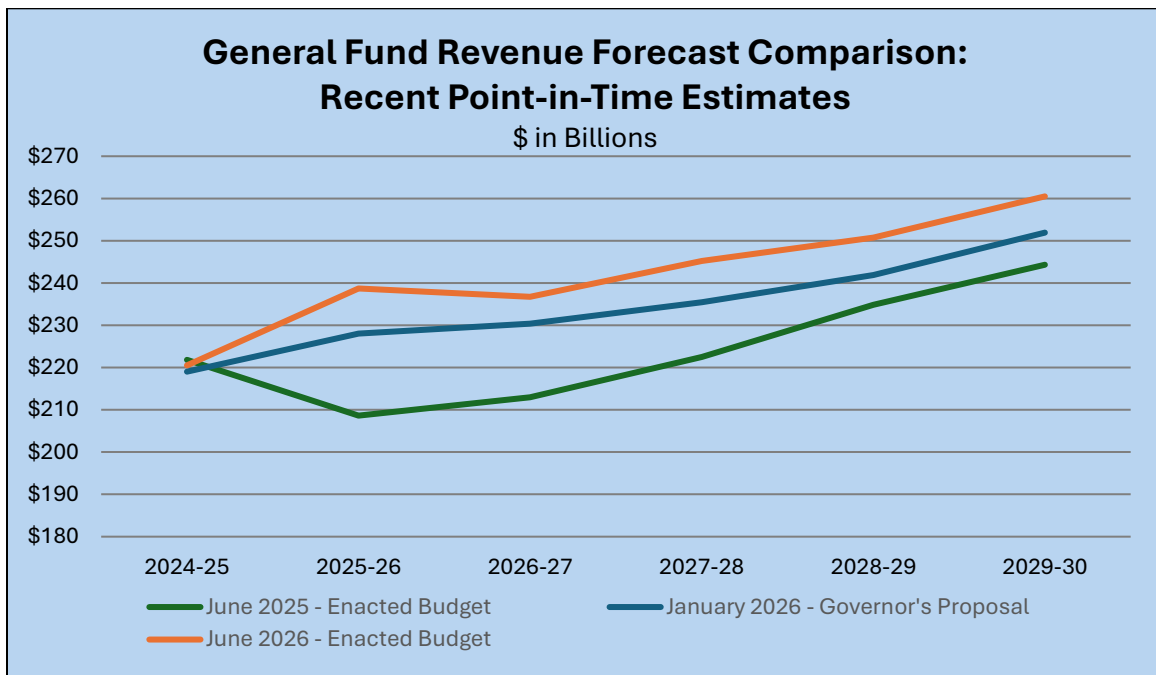
Voter Outreach and Election Activities. The budget provides several last-minute budget additions for various voter and election activities that provide nearly \$40 million to the Secretary of State and counties. While strengthening elections is laudable, the devil is in the details, which are largely absent so far.

Overall Revenues, Expenditures, and Reserves

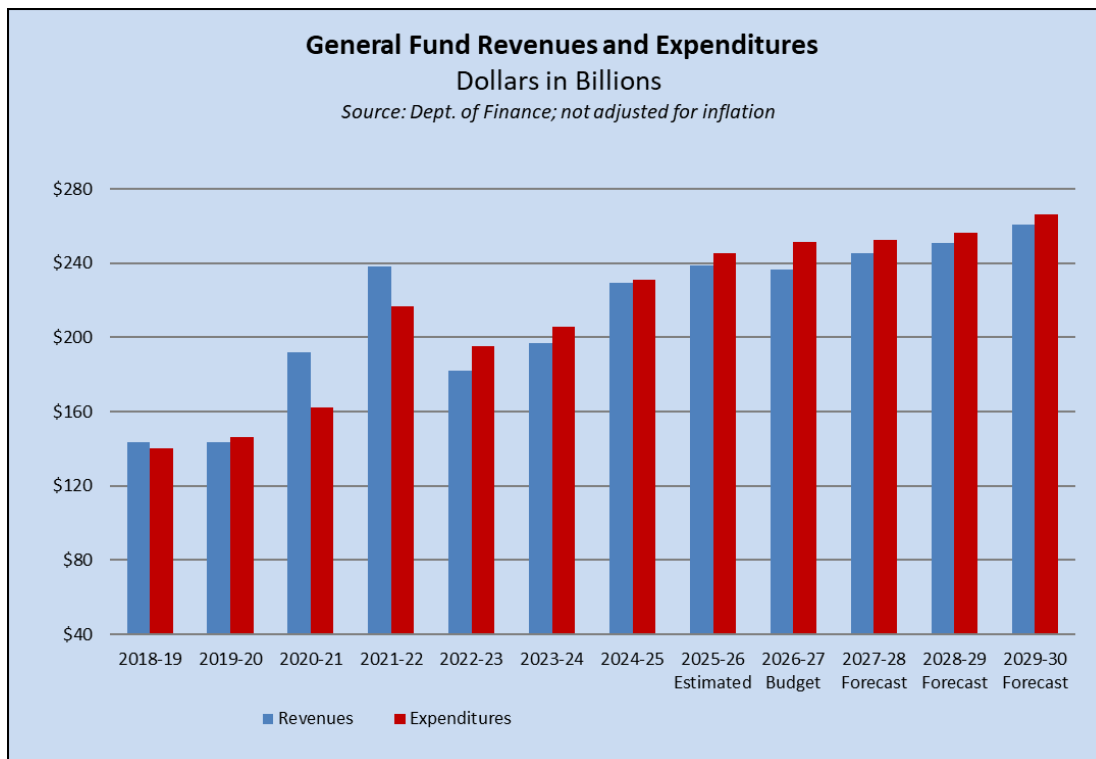
Key Points

- **Budget Rides Artificial Intelligence (AI) Tax Coattails.** Taxes from AI companies and employees continue to increase, driving revenues higher by \$53 billion compared to expectations in June 2025.
- **Annual Deficits Persist Despite Growing Revenues.** Annual deficits exceed \$8 billion in future years as record state spending continues to outpace tax revenues.
- **Budget “Solutions” Rely Largely on Borrowing and Reserves.** Budget includes \$14 billion in deficit “solutions,” most of which are borrowing or reserve withdrawals.
- **First Use of Temporary Holding Account.** Budget delays spending \$6.4 billion by one year through the recently created Projected Surplus Temporary Holding Account in order to help balance 2027-28.
- **Ballot Measure Would Change Reserve and Debt Rules.** Proposition 2 would expand reserves while creating a potential borrowing loophole.

Budget Rides Artificial Intelligence (AI) Tax Coattails. General Fund revenues in 2026-27 would reach \$237 billion, a slight drop of about 1 percent from 2025-26 but a gain of 3.2 percent from two years ago. The revenue forecast updates for the January 2026 Governor’s proposal and the enacted 2026 Budget Act both shifted estimates higher compared to expectations in place for the 2025 Budget Act, reflecting continued strength in AI-driven capital gains. The 2026-27 budget reflects General Fund tax revenues that are \$53 billion higher over the three-year budget window through 2026-27, as illustrated in the chart below, compared to the 2025 Budget Act. These increases in tax revenue are, for the moment, enabling spending growth that is unsustainable in the long term.



Record General Fund Spending Outpaces Revenues. The enacted budget includes General Fund spending of \$251 billion, an increase of 10 percent from the enacted 2025-26 budget or 2.5 percent growth from the revised 2025-26 level. Over Governor Newsom’s tenure, General Fund spending will have grown by 79 percent, comparing 2026-27 to 2018-19 (not adjusted for inflation). The chart below illustrates this dramatic growth. During Governor Newsom’s time, General Fund revenues will have grown by 65 percent, which, although substantial, is not enough to keep pace with the majority party’s spending spree.



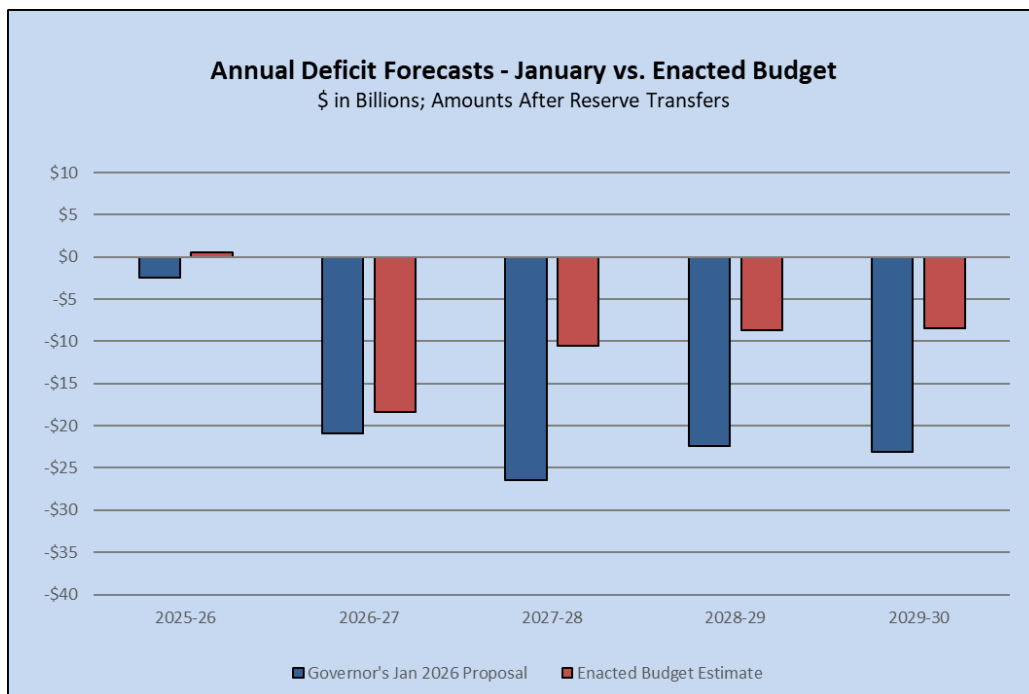
Tax Increases, Borrowing, and Reserves Prop Up Record Spending. The enacted budget reflects nearly \$14 billion in budget “solutions” through new tax increases, borrowing, and additional use of reserves for 2025-26 and 2026-27. Specifically, these include the following:

- \$5.4 billion by increasing the suspended deposit into the Rainy Day Fund in 2025-26. The effect of suspending the deposit is similar to withdrawing funds from reserves, a move that makes no fiscal sense during a time of rising tax revenues.
- \$3.9 billion in borrowing known as a “settle-up obligation” that results when the state does not fully fund the Proposition 98 funding guarantee for TK-14 education.
- Tax increases of \$2.0 billion in 2026-27, which would increase to \$5.1 billion by 2027-28. These include the following:
 - \$1 billion in 2026-27 by extending the current cap on business tax credits an additional three years. This is estimated to increase General Fund revenues by \$3.3 billion in 2027-28. Beginning in 2030, the business cap will become permanent, with businesses able to claim up to \$5 million or 70 percent of tax liability, whichever is greater.

- \$450 million by broadening sales taxes to include certain software services, which would rise to \$900 million by 2029-30. This sales tax increase would also raise local tax revenue by \$560 million in 2026-27 and \$1.1 billion annually.
- \$575 million by implementing a new structure for the managed care organization (MCO) taxes starting in 2027. The revenue increase would rise to \$2.3 billion in 2027-28.
- \$1.7 billion in a fund shift of “excess” revenues associated with the existing MCO tax.
- \$580 million in spending reductions, though these may reflect alignment of actual data to estimates, rather than true program reductions, such as a \$212 million reduction in State Preschool to align funding with program costs.

Reserves, borrowing, and fund shifts are one-time “solutions” that do not improve the budget’s long-term viability, and the use of measures like these during a time of growing revenues illustrate how badly the majority party has managed the budget and overextended spending commitments.

Insufficient Spending Solutions Leave Long-Term Deficits, Despite Higher Revenue. The Governor’s January budget proposal estimated a deficit of \$2.9 billion for 2026-27 and a much larger deficit of \$22 billion for 2027-28. The enacted budget now reflects budgets that are technically balanced in 2026-27 and 2027-28, as indicated by ending balances totaling \$4.5 billion and \$403 million, respectively, in the Special Fund for Economic Uncertainty (SFEU). A major factor in this improvement is retroactive recognition of higher-than-expected tax revenues for 2025-26, creating a large carry-in balance of \$57 billion going into 2026-27.



While striving to achieve balance in future years is commendable, the lack of significant ongoing spending reductions means that revenues and expenditures will remain fundamentally out of balance for the duration of the budget forecast. Annual operating deficits, which exclude the funds carried in from prior years or reserves, range from \$18 billion in 2026-27 to \$8 billion in

future years. The persistence of these deficits means that additional actions must be taken to achieve a truly sustainable budget, even if there is no significant reduction in anticipated tax revenues. A modest decline in tax revenues would create budget deficits in the tens of billions of dollars for years to come.

Education, Health & Human Services Drive Spending Growth. The table below shows spending by major agency or program area. The largest spending by agency occurs in Health and Human Services (HHS), which totals \$93.1 billion for 2026-27, a 7.2 percent increase over the enacted 2025-26 budget. Spending on TK-14 Education is just slightly below HHS at \$92.9 billion, following an increase of 15 percent over the enacted 2025-26 level. Spending increases for these two areas totaled more than \$18 billion, accounting for 80 percent of the total spending increase between the 2025 and 2026 Budget Acts. (Note that spending components within categories such as Government Operations tend to shift from the time of budget enactment to budget revision, so percentage changes in these areas may not be indicative of actual spending adjustments.)

General Fund Expenditures by Agency					
(Dollars in Millions)					
Agency	2025-26		2026-27		
	Enacted June 2025	Revised June 2026	Enacted June 2026	Change from Enacted 2025-26	Change as %
Legislative and Executive	\$4,794	\$7,162	\$3,837	-\$956	-19.9%
Courts	\$3,318	\$3,335	\$3,840	\$522	15.7%
Housing, Homelessness, & Business	\$720	\$2,418	\$1,357	\$638	88.6%
Transportation	\$166	\$208	\$81	-\$85	-51.3%
Natural Resources	\$2,690	\$4,918	\$3,137	\$447	16.6%
Environmental Protection	\$132	\$273	\$264	\$132	99.7%
Health and Human Services	\$86,869	\$90,646	\$93,111	\$6,242	7.2%
Corrections and Rehabilitation	\$12,994	\$14,038	\$13,968	\$975	7.5%
TK-14 Education (Proposition 98)	\$80,738	\$87,746	\$92,931	\$12,194	15.1%
Higher Education (Non-Prop. 98)	\$19,134	\$19,214	\$20,792	\$1,659	8.7%
Labor and Workforce Development	\$958	\$1,127	\$1,020	\$61	6.4%
Government Operations	\$2,465	\$3,053	\$4,960	\$2,495	101.2%
General Government	\$6,715	\$4,861	\$5,125	-\$1,590	-23.7%
Capital Outlay	\$683	\$722	\$480	-\$202	-29.6%
Debt Service	\$5,992	\$5,581	\$6,573	\$581	9.7%
Total, General Fund Expenditures	\$228,366	\$245,303	\$251,477	\$23,111	10.1%

Special Funds and Federal Funds Also Increase. State special funds add another \$95 billion in spending, an increase of 4.4 percent, bringing total state spending to \$352 billion in 2026-27. Federal funds of \$187 billion are also reflected in the budget, an increase of 4.9 percent, despite claims from some Democrats that the federal government has gutted programs. When counting all these fund sources, the budget spends \$539 billion in 2026-27, an increase of 2.6 percent, as illustrated in the table below. Notably, spending in 2025-26 is also revised significantly higher, showing an increase of 7.4 percent General Fund and 6.0 percent from all fund sources compared to the 2025-26 enacted budget.

Expenditures by Fund Category							
<i>Dollars in Billions</i>							
Fund Source	2025-26 Enacted	2025-26 Revised			2026-27 Enacted		
		\$	\$	% Change	\$	\$	% Change
General Fund	\$228	\$245	\$17	7.4%	\$251	\$6	2.5%
Special Funds	\$89	\$91	\$2	2.6%	\$95	\$4	4.4%
Bond Funds	\$4	\$11	\$7	171%	\$5	-\$5	-52%
Total, State Funds	\$321	\$347	\$26	8.1%	\$352	\$5	1.4%
Federal Funds	\$175	\$178	\$4	2.2%	\$187	\$9	4.9%
Total, All Funds	\$496	\$525	\$30	6.0%	\$539	\$14	2.6%

Rebuilt “Wall of Debt” Belies Governor’s Claims of Balanced Budgets. The nonpartisan Legislative Analyst’s Office documented in a February 2026 report how Governor Newsom and legislative Democrats rebuilt the “Wall of Debt” in recent budgets to pay for ongoing spending. Governor Jerry Brown had reduced the Wall of Debt to \$2 billion by the end of his tenure, but Governor Newsom and legislative Democrats drove that debt back up to nearly \$30 billion for 2026-27. Use of budgetary borrowing to this degree demonstrates that California’s budget is only balanced according to a technical definition. Any family with common sense would recognize that amassing credit card debt to pay regular bills cannot be considered a balanced budget. Governor Newsom’s last budget will leave that debt for future taxpayers to address.

The Wall of Debt is in addition to the \$19 billion debt owed to the federal government for unemployment insurance claims. California is the only state that failed to pay off its debt following the pandemic. As a result, employers face steadily increasing taxes to pay down the debt balance, while the state General Fund must pay the annual interest, amounting to \$668 million this year.

Budget Spends Down Reserves Despite Higher Tax Revenues. Despite tax revenues that have increased each year, the enacted budget continues to make use of \$14 billion in budget reserves in 2025-26, including a suspended deposit of \$7.0 billion and a withdrawal of \$7.1 billion. The 2024-25 budget also used \$6.5 billion in reserves, bringing the total use of reserves during that two-year window to nearly \$21 billion. This use of budget reserves occurred while revenues increased by nearly \$42 billion over the two years from 2023-24 to 2025-26.

This absurd approach illustrates weaknesses in the current constitutional rules regarding reserve withdrawals as well as foolish fiscal management by the Newsom administration.

The enacted budget reflects total reserves of \$29 billion, including the following:

- \$15 billion in the constitutional Budget Stabilization Account (also called the Rainy Day Fund). This includes \$13.3 billion in mandatory deposits, which represent 5.7 percent of General Fund revenues.
- \$4.5 billion in the Special Fund for Economic Uncertainties, which may be thought of as the state's checking account balance.
- \$9.2 billion in the Proposition 98 school reserve.

First Use of Projected Surplus Temporary Holding Account. The budget makes use of the recently established Projected Surplus Temporary Holding Account, a legislatively created account intended to shift resources forward by one year. The budget places \$6.4 billion into this account in 2026-27 to provide more resources to cover planned spending in 2027-28, which helps cover the operating deficit for that year. Notably, the Governor and Legislature could withdraw funds from that account midway through 2026-27 at their discretion if, for example, budget updates indicate an unexpected shortfall in revenues or higher expenses.

Ballot Measure Proposes Changes to Reserve and Debt Payment Rules. The Legislature passed Assembly Constitutional Amendment (ACA) 20 on June 25, 2026, to place a measure on the November ballot that would change the rules for reserves and mandatory debt reduction payments. This measure is now labeled Proposition 2 for the ballot, which is the same number as the 2014 ballot measure that established the current reserve rules. Most notably, the new Proposition 2 would amend the state constitution as follows:

- Raise the cap on mandatory reserve balances in the Rainy Day Fund from 10 percent of General Fund tax revenues to 20 percent.
- Set up a larger budget set-aside when taxes from capital gains exceed 10 percent of General Fund revenues.
- Allow debt payments from the set-aside to go toward the Unemployment Insurance debt as well as to current and future budgetary borrowing.
- Leave in place the current rules regarding reserve withdrawals and deposit suspensions.
- Place into the state constitution the Projected Surplus Temporary Holding Account and treat deposits and withdrawals from it similarly to the Rainy Day Fund.
- Exempt reserve deposits from the state spending limit, sometimes called the Gann limit, but count withdrawals from reserves against the spending limit. This change would reverse the current treatment of deposits and withdrawals.

Several components of the new Proposition 2 are commendable, including the potential increased reserve deposits in revenue boom years, higher cap on the reserve balance, and potential debt payments to reduce Unemployment Insurance debt. However, allowing mandatory debt payments to go toward *future* budgetary borrowing is a significant difference from the 2014 reserve measure, which permitted debt payments to only go toward budgetary borrowing *that already existed at that time*. This is a major weakness in the new version because it would enable a cycle of additional budgetary borrowing followed by use of mandated debt payments to reduce that borrowing. This could mean that the budget never pays down existing budgetary debts or long-term obligations. The 2014 measure tried to tear up the state's credit cards, while the new 2026 version raises the limits on those cards. Additionally, there is no requirement to pay down Unemployment Insurance debt, only an option to do so.

Federal Effects on State Budget

Key Points

- **Low-Income Housing Tax Credit Significantly Expanded.** House Resolution 1 (H.R. 1) significantly expanded the Low-Income Housing Tax Credit program.
- **More Federal Funding for Health and Human Services (HHS) Programs.** HHS programs to receive \$150 billion in 2026-27, a \$16 billion increase from 2025-26.
- **H.R. 1 Results in Both Savings and Costs for Medi-Cal.** The budget reflects net state costs in Medi-Cal attributable to H.R. 1 from a mix of programmatic savings and discretionary spending choices.
- **Change to State and Local Tax (SALT) Deduction Helps California Taxpayers.** Federal limit on the SALT deduction increases, a change sought by high-tax states, helping many California taxpayers.

On July 4, 2025, the federal government enacted House Resolution 1 (H.R. 1), more commonly known as the One Big Beautiful Bill Act. This law affects numerous fiscal policies, and its effects on the state budget and the economy may not be fully known for years to come. The actual effects on state programs from some federal changes are strongly influenced by how California is altering policies of its own to comply with new federal standards. The indirect economic effects from changes such as the income tax rate extensions or more stringent enforcement of immigration laws will be more difficult to assess. Such changes could actually increase state tax revenues and decrease state spending, depending again on California's own policy responses.

Democrats have repeatedly demonized H.R. 1 with claims that it will gut state programs, particularly in health and human services. Such claims are alarmist and misleading. In fact, H.R. 1's effects on federal funds for California are minor in the overall budget, and federal funds continue to increase for 2026-27. Also, the state and its taxpayers clearly benefit from H.R. 1 in several ways, as described in the paragraphs below.

State Receives \$187 Billion from Federal Government. Despite Democrats' claims about H.R. 1 gutting state services, California will receive more federal funds in 2026-27 than it did the previous year. Specifically, the state is budgeted to receive roughly \$187 billion from the federal government in 2026-27, a \$9 billion increase from the \$178 billion received in 2025-26. When added to the state fund total of \$352 billion, federal funds bring the overall budget total to \$534 billion for 2026-27, an increase of 54 percent compared to the state funds alone.

Could Significantly Boost Housing Production. With respect to funding for affordable housing, H.R. 1 offers new resources to California. Prior to the enactment of H.R. 1, affordable housing developers needed to finance at least 50 percent of their projects with private activity bonds in order gain access to 4% low-income housing tax credits. H.R. 1, reduced this threshold to 25 percent, thereby effectively doubling how many 4% tax credits California projects can draw down each year using the same amount of private activity bonds.

This could yield as much as \$4 billion in additional four percent affordable housing tax credits in California every year. Additionally, H.R. 1 increased the size of the 9% tax credit program by 12 percent indefinitely, which translates to about \$150 million more in these credits for California annually.

Significant Funding Increase for Health and Human Services (HHS) Programs. The majority of the federal \$187 billion for state programs funds flows to HHS programs, which are slated to receive \$150 billion in 2026-27, a massive \$16 billion increase (13 percent) from the prior year. Of the \$150 billion for HHS programs, \$135 billion is for Medi-Cal alone, \$17 billion more than 2025-26 (a 14 percent increase). The Department of Social Services will receive \$11 billion, essentially the same amount as 2025-26.

Federal Law Has Mixed Impact on State Medi-Cal Costs. While the 2026-27 budget reflects net costs in Medi-Cal attributable to H.R. 1 of approximately \$1.3 billion General Fund, that amount reflects a mix of programmatic savings and discretionary policy choices to increase state spending in certain areas impacted by the federal law changes. These include:

- **Work and Community Engagement Requirement.** An estimated reduction of \$90 million General Fund in 2026-27 resulting from the new work and community engagement requirements for the Affordable Care Act adult expansion population, effective January 1, 2027. Under this federal policy, these individuals must comply with federal work, education, or volunteer hour requirements, amounting to 80 hours per month, as a condition of Medi-Cal eligibility unless they meet an allowable exception. The administration projects 43,000 Medi-Cal disenrollments in 2026-27 out of a total adult expansion population of 4.5 million, a decline of less than one percent from that group. Notably, Medi-Cal's total enrollment amounts to 14 million, so the enrollment reduction is a tiny fraction of that total.
- **Reduced Retroactive Medi-Cal Timeframes.** A decrease of \$15 million General Fund in 2026-27 from the reduction of retroactive Medi-Cal coverage changes from three months before an individual's application date to one month for the Affordable Care Act adult expansion population and two months for all other members, effective no sooner than January 1, 2027.
- **Federal Medical Assistance Percentage for Emergency Services.** A General Fund cost of \$669 million in 2026-27 due to the federal match reduction from 90 percent to 50 percent for emergency services for Affordable Care Act adult expansion population members with unsatisfactory immigration status, effective October 1, 2026.
- **Federal Restrictions on Immigrant Eligibility.** A discretionary General Fund cost of \$365 million in 2026-27 to delay from October 1, 2016, until July 1, 2027, the transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens. Effective October 1, 2026, federal policy will exclude individuals with certain immigration statuses from being federally funded for full-scope Medi-Cal, which reduces federal funding for this population.
- **County Medi-Cal Administration.** Another discretionary expenditure of \$197 million General Fund in one-time support for county workload for the implementation of Medi-Cal eligibility changes pursuant to H.R. 1. The 2026-27 budget includes a total of \$3.3 billion (\$828 million General Fund) for Medi-Cal county administration.

New Federal Regulations Also Result in State Medi-Cal Savings. The budget reflects \$525 million in General Fund savings in 2026-27 for the transition of individuals with Unsatisfactory Immigration Status (UIS) off of Medi-Cal Managed Care and into Fee-for-Service. New federal policy that prohibits states from covering federally eligible emergency Medicaid services for UIS individuals in risk-based managed care delivery systems. To comply with this new federal requirement, UIS Medi-Cal members will receive all covered Medi-Cal services

through the fee-for-service delivery system, effective January 1, 2027. The budget also includes \$39 million General Fund in 2026-27 to provide care coordination and navigation services to this population.

State Share of CalFresh Benefits. Californians currently receive \$12 billion in federal CalFresh benefits, and the state does not share in those costs. However, beginning in 2028, states that fail to hold their payment error rates below 6 percent will begin to incur a state share-of-cost. California's error rate is nearly 11 percent for the 2025 federal fiscal year. It is very unlikely that this error rate will improve for the 2026 federal fiscal year, so the state will likely incur costs in the low billions of dollars annually.

Change to SALT Deduction Helps Higher-Income California Taxpayers. Ever since the 2017 federal tax law changes limited the SALT deduction to \$10,000 per household, high-tax states like California and New York have been clamoring for a reversal. High-tax states benefited from the previous lack of any limit on SALT deductions because higher-income earners could offset a portion of their state taxes with lower federal taxes. In essence, lower-tax states were subsidizing higher-tax states by paying a larger share of the federal tax total than they would in the absence of the SALT deduction.

H.R. 1 increases the limit from \$10,000 to \$40,000 for taxpayers with incomes up to \$500,000 and further raises the limit by 1 percent each year until 2030, when it drops back down to \$10,000. The higher limit for the next several years will once again allow many higher-income California taxpayers to lower their federal tax bill, thus reaping a benefit that is unavailable to lower-income taxpayers. Notably, this is a basically a "tax cut for the rich" that Democrats normally decry but have advocated in this case. Somehow, the same Democrats have failed to praise the federal tax change that doubled the standard deduction for most lower-income taxpayers, saving them potentially thousands of dollars per household per year.

Federal Research Funding for Universities. In 2025 the Trump Administration took unilateral action to freeze billions of dollars in research funding that the federal government gives directly to universities, largely through grants from the National Institutes for Health, the National Science Foundation, and the Environmental Protection Agency. As of September 2026, funds previously awarded to the University of California (UC) and then withdrawn amount to \$180 million. Another \$830 million in grants for UC were suspended, then reinstated by the court, and are now pending further appeal in higher courts. In 2025, the California State University system lost \$161 million spread out among 218 grants, compared to a baseline of \$602 million grants. Since the withdrawn funds were direct grants to universities, state funds are not necessarily affected, but absent federal restoration, pressure could result for the state to help offset the lost money.

Tax Policy

Key Points

- **Expanding Sales and Use Tax Increases Revenues.** Expands sales and use tax to include sales of digital prewritten software, increasing revenues by billions of dollars.
- **Permanent Cap on Business Tax Credits.** Beginning in 2030, transitions the temporary business tax credit cap into a permanent business tax credit cap.
- **Cal Competes Tax Credit Extension.** Extends the \$180 million per year Cal Competes Tax Credit program through 2035.
- **Expands the Hollywood Film and TV Tax Credit.** Prioritizes the Film and Television Tax credit program by allowing productions to receive more of the refundable tax credit in a shorter amount of time.

Expansion of Sales and Use Tax. The budget expands the state's sales and use tax to include sales of digital prewritten software, regardless of how the product is delivered to the purchaser, and Software-as-a-Service products. While many businesses across California are impacted, the tax expansion will hit the state's hospitals particularly hard. This expansion taxes the core tools hospitals use to provide patient care. Without a targeted exemption, hospitals will be asked to absorb a significant new operating cost. The state is appropriating tens of millions of dollars from the General Fund to keep struggling hospitals solvent. Taxing their essential software would undercut that investment and offset some of those state dollars through the back door, all while accelerating the financial distress the majority party claims it is working to prevent.

Limitation on Business Tax Credits, Including Research and Development. Currently, business tax credits claimed under the Personal Income Tax Law and the Corporate Tax Law may not exceed \$5 million for each of the taxable years 2024, 2025, and 2026. The budget extends the business tax credit cap at \$5 million for three years and continues to allow the tax credit to be refundable. For each of the 2027, 2028, and 2029 taxable years, the budget allows a taxpayer to make an irrevocable annual election to receive a refundable tax credit in the amount of the credit over the \$5 million cap.

After this three-year extension, beginning with tax year 2030, the budget establishes a permanent business tax credit limitation that is the greater of \$5 million per corporation per year or 70 percent of a corporation's pre-credit tax liability. The tax credit would no longer be refundable. The business tax credit cap does not apply to the following personal and refundable credits:

- Earned Income Tax Credit
- Young Child Tax Credit
- Foster Youth Tax Credit
- Child and Dependent Care Credit
- Adoption Credit
- Renter's Credit
- Personal Exemption Credit
- Certain Low-Income Housing Credits
- Pass-through entity elective tax credits
- Independent productions within the Film Tax Credit program.

Refundable credits generated under the limitations in 2024 through 2026 may continue to be claimed, in addition to the credit cap and refundable credits generated under the bill's limitations in 2027 through 2029. If a taxpayer cannot use all of its credits because of the limitation, the unused amount becomes a credit carryover that can be used in future years.

These tax credit changes disproportionately impact the very companies California should be fighting hardest to retain. Thirty-four states now offer competing research and development (R&D) incentives and are actively recruiting California companies, research facilities, advanced manufacturing operations, and high-skilled jobs. Every time California makes its business climate less predictable, other states seize the opportunity. Short-term revenue gains achieved by permanently limiting the R&D credit will come at the expense of long-term economic growth and competitiveness, which could lead to reduced revenues and growing structural fiscal deficits.

Cal Competes Tax Credit Extension. The budget extends the \$180 million per year Cal Competes Tax Credit program within the Governor's Office of Business and Economic Development through 2035. In a 2026-27 budget report, the nonpartisan Legislative Analyst's Office noted that recent evidence from academic research has found that the California Competes tax credit is relatively effective at increasing employment and providing an economic benefit to the state, especially relative to other tax expenditure programs in California and elsewhere.

Expands the Hollywood Film Tax Credit. The 2025 Budget Act increased the available Film and TV tax credits from \$330 million to \$750 million annually through 2029-30. The 2026 Budget Act continues to prioritize the Film and Television Tax credit through several program enhancements that allow productions to receive more of the refundable tax credit in a shorter amount of time, among other changes.

The 2023 Budget Act included SB 132, a budget trailer bill that made the tax credit refundable, meaning businesses without sufficient tax liability to offset the credit would now be able to participate in the program. The total refundable amount was defined as 90 percent of the tax credit amount, and the refunded amount would be spread out in equal payments for five years.

SB 196, a 2026 budget trailer bill, revises the total refundable amount to 95 percent, and the distribution of the tax credit would be equal payments over two years beginning in 2026-27, not only increasing the amount of funding received by qualified recipients but distributing the amount over two years instead of five years. The bill also exempted independent productions from the new \$5 million business tax credit limitation (see information on the permanent business tax credit cap above) and extended the life of certain film credits by extending the allowable carry forward of film tax credits from nine years to 15 years. To take advantage of the extended carry forward period, the company would have to remain an "active participant" in the motion-picture industry.

Reduces First-Year Tax for New Businesses. The budget reduces 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 for tax years 2027, 2028, and 2029. This would result in a General Fund revenue loss of approximately \$100 million annually. The reduction could provide very modest assistance with the startup costs for entrepreneurs and small business owners.

Senior Citizens and Disabled Citizens Property Tax Postponement Program. The budget allows the State Controller to utilize up to \$3 million of the amount available in the Property Tax Postponement Fund for residential dwellings that are manufactured homes. The program was established to allow certain senior citizens and disabled persons to defer property tax payments for residences. The State Controller utilizes monies in the fund to cover property tax obligations on behalf of qualifying individuals, with eventual repayment secured by a lien against the respective property.

100 Percent Tax on Trump Weaponization Fund. The budget creates a special California tax that effectively confiscates 100 percent of certain settlement payments connected to a lawsuit involving President Donald Trump and related parties, commonly referred to as the Anti-Weaponization Fund (Fund). The Fund was to be controlled by a five member commission, with Acting Attorney General Todd Blanche appointing four of the five members on the commission.

Specifically, a budget trailer bill, SB 122, would provide that from January 1, 2026 through December 31, 2029, if a taxpayer receives money from (1) the "Anti-Weaponization Fund" established in connection with *President Donald J. Trump v. Internal Revenue Service*, or (2) any similar fund created from a lawsuit brought by a current or former President, a member of that President's family, or an entity controlled by them, then California would impose a 100 percent tax on the amount received. The payment would not be treated as ordinary income, but instead, the budget creates an entirely new tax equal to 100 percent of the settlement fund payment received, and no deductions or tax credits would be allowed to reduce the tax liability.

Notably, although federal officials discussed the possibility of making payments from the federal settlement fund at one point, no such payments were ever authorized in federal law or executive policy. In June 2026, Blanche told Senators that the Fund had been scrapped, but there remains continuing uncertainty over whether the Administration might pursue similar payments through other legal mechanisms.

Health

Key Points

- **New Managed Care Organization (MCO) Tax Makes Healthcare More Unaffordable.** Democrats saddle Californians with \$1.5 billion in health insurance premium hikes.
- **H.R. 1 Results in General Fund Savings as well as Costs.** Despite Democratic claims that the federal government gutted health and human services, the truth is that H.R. 1 has a mixed impact on the state budget.
- **Lower Medi-Cal Asset Limit for Seniors, Disabled.** Medi-Cal asset limit drops in 2027, limiting eligibility for some seniors and disabled.
- **Legal Immigrants Kicked off Full-Scope Medi-Cal in 2027.** Removes 200,000 *legal* immigrants (refugees, asylees, domestic violence victims) from full-scope Medi-Cal in 2027, while continuing to budget \$10 billion for *illegal* immigrant care.
- **Insufficient Grant Funding for Distressed Hospitals.** While \$90 million for another round of grants for at-risk hospitals is welcome, it falls far short of hospitals' needs.
- **Secrecy Authorized for Gender Transitions and Abortions.** Provides an extra \$50 million for gender transition and abortions services while waiving normal transparency requirements for contracts.

New Managed Care Organization (MCO) Tax Harms Californians. The budget relies on \$575 million in new revenue in 2026-27 (and \$2.3 billion annually through 2030) from a new MCO tax on both Medi-Cal managed care plans and commercial health insurance plans. This equates to \$1.5 billion in health insurance premium hikes on individuals and businesses in California. A family of four on private insurance is likely to see their health premiums increase by more than \$400 annually due to this misguided policy. Additionally, this new MCO tax clearly undercuts voters' intentions in Proposition 35 (2022) to direct MCO tax revenue towards improving Medi-Cal provider payment rates, though the Newsom administration believes it has found a legal loophole by layering this new tax on "top" of the Proposition 35 requirements.

A New Employer Payroll Tax in 2027? The budget includes \$1 million for the Department of Finance to study and produce draft bill language in 2027 to impose a burdensome "Fair Share" Tax on California businesses to increase Medi-Cal funding. California repeatedly ranks as the most expensive state to run a business with high employee wages, utility costs, corporate income taxes, employer taxes, commercial real estate prices, insurance costs, and a plethora of regulations. But that means nothing to the Democrats, including gubernatorial candidate Xavier Becerra, who has already publicly endorsed this new potential tax.

H.R. 1 Has Mixed Impact on State Medi-Cal Costs. While the 2026-27 budget reflects net costs in Medi-Cal attributable to H.R. 1 of approximately \$1.3 billion General Fund, that amount reflects a mix of programmatic savings and discretionary policy choices to increase state spending in certain areas impacted by the federal law changes. These include:

- **Work and Community Engagement Requirement.** An estimated reduction of \$90 million General Fund in 2026-27 resulting from the new work and community engagement

requirements for the Affordable Care Act adult expansion population, effective January 1, 2027. This population includes about 4.5 million individuals, or 33 percent of Medi-Cal enrollment. Under this federal policy, these individuals must comply with modest federal work or community engagement requirements as a condition of Medi-Cal eligibility unless they meet an allowable exception. The administration projects 43,000 Medi-Cal disenrollments in 2026-27.

- **Reduced Retroactive Medi-Cal Timeframes.** A reduction of \$15 million General Fund in 2026-27 from the reduction of retroactive Medi-Cal coverage changes from three months before an individual's application date to one month for the Affordable Care Act adult expansion population and two months for all other members, effective no sooner than January 1, 2027.
- **Federal Medical Assistance Percentage for Emergency Services.** A General Fund cost of \$669 million in 2026-27 due to the federal match reduction from 90 percent to 50 percent for emergency services for Affordable Care Act adult expansion population members with unsatisfactory immigration status, effective October 1, 2026.
- **Federal Restrictions on Legal Immigrant Eligibility.** A discretionary General Fund cost of \$365 million in 2026-27 to delay from October 1, 2016, until July 1, 2027, the transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens, such as refugees and asylees. Effective October 1, 2026, federal policy will exclude roughly 200,000 individuals with certain immigration statuses from being federally funded for full-scope Medi-Cal, which reduces federal funding for this population.
- **County Medi-Cal Administration.** Another discretionary expenditure of \$197 million General Fund in one-time support for county workload for the implementation of Medi-Cal eligibility changes pursuant to H.R. 1. The 2026-27 budget includes a total of \$3.3 billion (\$828 million General Fund) for county administration of Medi-Cal.

New Federal Regulations Also Result in State Medi-Cal Savings. The budget reflects \$525 million in General Fund savings in 2026-27 for the transition of individuals with Unsatisfactory Immigration Status (UIS), which will include both legal and illegal immigrants, away from Medi-Cal Managed Care and into Fee-for-Service. New federal policy prohibits states from covering federally eligible emergency Medicaid services for UIS individuals in risk-based managed care delivery systems. To comply with this new federal requirement, UIS Medi-Cal members will receive all covered Medi-Cal services through the fee-for-service delivery system, effective January 1, 2027. The Budget also includes \$39 million General Fund in 2026-27 to provide care coordination and navigation services to this population. Illegal immigrant adults will also begin to pay a premium of up to \$50 a month in 2027.

Delays Solutions to Cut Down Illegal Immigrants Medi-Cal Costs. The budget reflects costs of \$1.3 billion to delay two policies until July 1, 2027: (1) the elimination of prospective payment system reimbursement for community clinics for services to the undocumented, and (2) the elimination of dental benefits for undocumented Medi-Cal beneficiaries. In total, the budget includes more than \$10 billion in General Fund costs to cover more than 1.5 million illegal immigrants on Medi-Cal. These delays in cost reductions only emphasize how expensive this eligibility expansion continues to be.

Legal Immigrants Kicked off Full-Scope Medi-Cal in 2027. The budget includes \$365 million in costs to fund *legal* immigrant populations (refugees, asylees, victims of human trafficking, etc.) in full-scope Medi-Cal for one year until July 1, 2027, when they will then be moved into

restricted-scope Medi-Cal benefits (limited to emergency and pregnancy services). This action is a stark and highly objectionable contrast in that the budget will maintain full-scope benefits for **illegal immigrants** while shifting **legal immigrants** to restricted-scope benefits. This means that Governor Newsom and the Democrats are penalizing immigrants who follow the laws while rewarding those who do not. The Newsom administration claimed that the state “can’t afford” to provide full benefits to legal immigrants, even though the cost of the legal population is billions of dollars less than the cost of benefits for illegal immigrants that this budget maintains.

Dialysis Covered as a Restricted Scope Medi-Cal Benefit. The budget elevates outpatient dialysis to the equivalent of emergency care within restricted-scope Medi-Cal in order to prevent costlier kidney failure interventions. The 2026-27 budget includes \$8 million General Fund for this benefit. While covering outpatient dialysis as a restricted scope Medi-Cal benefit will likely prevent unnecessary ER visits, it could also begin a slippery slope of adding benefits for populations ineligible for full-scope Medi-Cal, including some illegal immigrants previously on state-only full-scope Medi-Cal.

One More Year of Supplemental Payments to Dentists. The budget reflects costs of \$258 million to delay the elimination of Proposition 56 supplemental Medi-Cal provider payments for dental services until July 1, 2027. This delay is welcome given that Proposition 56’s tobacco tax increases were specifically approved in 2016 to enhance Medi-Cal provider reimbursements. Any elimination of these supplemental payments is a permanent rejection of the will of the voters.

Reduced Medi-Cal Asset Test in 2027 Impacts Seniors and the Disabled. The budget includes \$278 million to retain the existing \$130,000 Medi-Cal asset limit for 2026-27, but then the asset test will decrease to \$21,000 for individuals and \$31,000 for couples on July 1, 2027. The Governor initially proposed an asset limit of \$2,000, so this policy takes a middle option. The Medi-Cal asset test requires low-income seniors and the disabled to spend down their funds before they can enroll in Medi-Cal. They are the only population required to abide by an asset test. This will be the new limit in the amount of assets that a senior or disabled individual can hold to be able to apply for Medi-Cal. (Note that some assets, such as primary homes and one vehicle, are exempt from the asset limit.) The savings incurred from this action can only be achieved by denying coverage to these vulnerable low-income individuals.

Inadequate Proposition 36 Behavioral Health Treatment Funding. The budget includes \$20 million in funding, over the next three years, for county behavioral health departments to continue Prop. 36 related mandatory drug treatment, as overwhelmingly demanded by the voters in 2024. This is far below the county need of more than \$100 million annually and only a fraction of the amount prioritized by Senate Republicans in their December 2025 budget letter.

Insufficient Funding for Distressed Hospitals. The budget includes \$90 million to support grants to distressed hospitals and authorizes an additional \$50 million at the discretion of the Department of Finance. In addition, the budget allocates \$10 million to evaluate hospitals’ financial distress across the state. This amount falls short of the \$300 million for which both Senate Republicans and the California Hospital Association had advocated.

Note that the Governor and legislative Democrats have increased spending on illegal immigrants’ Medi-Cal eligibility by over \$10 billion annually just since 2022, but they have committed only a fraction of that total to helping distressed hospitals keep their doors open. A major factor contributing to hospitals’ financial distress is the inadequate reimbursement paid by Medi-Cal. If hospitals have high percentages of Medi-Cal usage and cannot cost-shift to private

payors, they face major financial hurdles. When the state spends its funds on raising Medi-Cal reimbursement rates to sustainable levels, the federal government matches those funds at roughly a 2-to-1 rate, but spending on benefits for illegal immigrants does not bring down a federal match. The Governor and legislative Democrats foolishly have chosen to prioritize benefits for illegal immigrants over keeping hospitals open for all citizens, at great cost to taxpayers and health care accessibility.

Anti-Fraud Reforms. The budget includes \$68 million in savings from anti-fraud reforms to enhanced care management and community support services in Medi-Cal. In addition, budget trailer bills (SB 164 and AB 173) impose a moratorium on new home health agency licenses to weed out fraudulent license holders, and adds strong new Medi-Cal enforcement tools to stop reimbursements headed to suspected bad actors. In their December 2025 budget letter, Senate Republicans called on the state's Democrats to follow the lead of the federal government and make the reduction of fraud in health and human services programs a top priority.

The Governor Finally Listens to Halle Berry on Menopause Care. In 2025 the Governor foolishly vetoed women's caucus priority bill, AB 432, that required health plans to cover menopause care, even though the bill received a unanimous Senate vote. Afterward, actress Halle Berry publicly criticized the Governor, saying that he "isn't ready to be President." Now, a new budget trailer bill (SB 164) implements the coverage requirements for perimenopause, menopause, and postmenopausal care for commercial health plans and in the Medi-Cal program. While this policy change is welcome, Mr. Newsom still isn't ready to be President.

Questionable Diaper Contract Continued. The budget contains a public contract code exemption for the Diaper Access Initiative to continue exclusive contracts with the non-profit Baby2Baby, run by friends of First Partner Jennifer Newsom. Last year's budget allocated \$20 million over two years for the program, which was criticized for spending more per diaper than the existing diaper bank program focused on providing free diapers to low-income parents.

Needles and Pipes to Addicts. The budget adds \$142 million in special fund dollars for a variety of sexually transmitted disease prevention programs, needle and other drug paraphernalia exchange programs, and transgender mental health programs. Note that this amount exceeds what Governor Newsom and Democrats were willing to provide to distressed hospitals.

Funding for Gender Transitions. The budget allocates \$10 million to cover the costs of gender transitions, including transitions for children, and subsidizes doctors who administer these transitions. The budget also takes the concerning step of waiving the Public Records Act to hide these contract expenditures from the public. If gender transitions are such an important health care service that we need to use tax dollars to fund them, the public should have the right to know about it.

Hides Planned Parenthood Giveaways. The budget appropriates \$40 million to support an abortion uncompensated care program and the so-called abortion "travel" fund. The budget also waives the public contract code rules and the Public Records Act for both programs to hide this special interest giveaway.

Human Services and Child Care

Key Points

- **Additional Funding for Immigration Legal Services.** Provides \$112 million in one-time General Fund to increase support for immigration legal services.
- **Provides a Temporary Waiver for County CalFresh Match Increases.** Caps the share of CalFresh administrative costs a county must spend from 2026-27 through 2028-29.
- **Child Care Slot Increase.** Includes \$228 million General Fund for an additional 22,770 child care slots.
- **Targets Siskiyou County In-Home Supportive Services (IHSS).** Includes language that will force Siskiyou County to come to an agreement with an IHSS employee organization.

Overall Department of Social Services (DSS) Budget

The 2026-27 local assistance budget for the Department of Social Services (DSS) is projected to be over \$68 billion (\$27 billion General Fund). This is \$4 billion (\$3 billion General Fund) more than the 2025 Budget Act. The department notes that it provides benefits to over 8.2 million Californians, or 21 percent of the population.

Food and Nutrition Programs

The budget includes \$4.6 billion (\$1.9 billion General Fund) in total food and nutrition expenditures. This is in addition to \$11.6 billion in federal benefits provided directly to recipients by the federal government. The budget includes an augmentation of \$460 million total funds (\$223 million General Fund) to support county administration workload associated with the implementation of H.R. 1's Able-Bodied Adult Without Dependents (ABAWD) policies.

Provides a Temporary Waiver for County CalFresh Match Increases. The budget caps the share of CalFresh administrative costs a county must expend in fiscal years 2026-27 through 2028-29 at its contribution in the 2024-25 fiscal year, or however much the county was required to contribute to receive its full allocation of General Fund. Under the provisions of H.R. 1, the federal government's share of administrative costs for CalFresh will drop from 50 percent to 25 percent beginning in October 2026. The remaining administrative costs are shared between the state and counties, with counties currently covering 15 percent of the total administrative costs, growing to 22.5 percent under H.R. 1. Providing temporary relief from the increase in the administrative match will provide counties with more time to ease into the new funding structure.

More Funding For CalFood. The budget includes a one-time increase of \$110 million General Fund for the CalFood program, which provides funding for food banks to purchase, store, or transport food grown or produced in California. This increase is in addition to the CalFood program baseline funding level of \$8 million General Fund, for a total funding level of \$118 million.

Other Food and Nutrition Program Programs:

- Provides \$17 million General Fund for various organizations to provide diapers and wipes. (Note that this is a long-standing program for low-income families, not the more expensive

program announced by Governor Newsom in 2025 that distributed funds through a nonprofit run by his wife's friends, as described in the *Health* section.)

- Includes \$20 million General Fund for the California Fruit and Vegetable Electronic Benefits Transfer (EBT) Pilot within the CalFresh program.
- Provides \$4.0 million General Fund for Feeding San Diego and \$1.5 million General Fund for the San Diego Food Bank, presumably based on individual member requests.

In-Home Supportive Services (IHSS)

Caseload and Cost Growth in IHSS. The Governor's budget includes \$34 billion (\$13 billion General Fund) in 2026-27 for the IHSS program, reflecting a \$3.6 billion (\$1.4 billion General Fund) increase (12 percent) compared to the 2025 Budget Act. The department notes that the increase in projected costs reflects continued caseload growth, cost per hour, and number of hours per case for IHSS overall.

Targeting Siskiyou County IHSS on Behalf of Political Allies. The budget includes policy language in a trailer bill, AB 152, that will force Siskiyou County to come to an agreement with an IHSS employee organization or risk a 10 percent fiscal penalty on its IHSS funding from the state. While the language does not specifically call out Siskiyou County, the changes are tailored to specifically target the county. In the existing statute, a county must have a current bargaining agreement that has expired to have the existing penalty applied. Siskiyou County does not have a bargaining agreement with an IHSS employee organization, which means the county has avoided penalties without negotiating a collective bargaining agreement. The budget mandates that, beginning July 1, 2026, a county has 90 days to reach an agreement with the employee organization if the fact-finding panel released their recommended settlement terms prior to June 30, 2026. The penalties implemented in this bill could reduce funding for other county realignment health and social service programs, like childcare and mental health. Moreover, it is wholly inappropriate for the state to tip the scales in a local negotiation on behalf of favored political interests.

Equity Programs

Additional Funding for Immigration Legal Services. The budget includes \$112 million in one-time General Fund to increase support for immigration legal services. When including previous ongoing baseline funding, this brings the total funding in the budget to \$179 million. The budget also expands the eligibility for legal services to include "immigrant youth," who are defined as immigrants younger than 21 in removal proceedings. The services are also expanded to include social services, which include intake screenings and assessments, coordination of care, and navigation services. Considering the costs facing legal citizens in the state and the demands on the budget from other laudable programs, the continued expansion of legal and social services for undocumented immigrants should not be a priority.

Tribal Foster Care Prevention Services. The budget establishes the Tribal Foster Care Prevention Services Initiative to assist federally recognized tribes with costs associated with providing services to keep families together and prevent children from entering the foster care system. Tribes that receive funding would be required to submit a progress report on the number of children served, the types of services provided, and how the funding has impacted the tribe's ability to provide more services.

Other Department of Social Services items:

- Provides \$100 million one-time General Fund for housing programs including \$15 million for Bringing Families Home, \$10 million for the Housing Support Program, \$50 million for Home Safe, and \$25 million for the Housing and Disability Advocacy Program.
- Provides over \$53 million in handouts for numerous community organizations and nonprofits.
- Includes \$60 million (Child Poverty and Family Supplemental Support Subaccount) for a CalWORKs Maximum Aid Payment (MAP) increase of 1.8 percent.

Child Care and Early Education

Child Care Fund and Slot Increases. The enacted budget includes \$7.8 billion (\$5.3 billion General Fund) for child care and development programs in 2026-27. This is an increase of \$293 million General Fund over the revised 2025-26 budget. Included in this is \$112 million General Fund for a 2.01 percent COLA. The following chart shows child care funding over the three-year budget window.

Child Care Funding					
(Dollars in Millions)					
	2024-25 Revised	2025-26 Revised	2026-27 Proposed	Change from 2025-26	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$614	\$648	\$668	\$21	3%
Stage 2	549	602	613	11	2
Stage 3	537	567	586	19	3
Subtotals	\$1,700	\$1,817	\$1,868	\$51	3%
Non-CalWORKs Child Care					
Alternative Payment Program	\$1,990	\$2,058	\$2,216	158	8%
General Child Caree	1,495	1,510	1,573	64	4
Bridge program for foster children	107	62	62	—	—
Migrant Child Care	79	79	79	—	—
Care for Children With Severe Disabilities	2	2	2	—	—
Subtotals	\$3,672	\$3,711	\$3,932	\$221	6%
Support Programs	\$2,161	\$1,964	\$1,985	\$21	1%
Totals	\$7,533	\$7,492	\$7,785	\$293	4%
Funding					
Proposition 98 General Fund	\$2	\$1	\$1	\$0.05	-4%
Non-Proposition 98 General Fund	4,450	5,080	5,352	272	5
Proposition 64 Special Fund	639	199	188	-11	-5
Federal	2,442	2,212	2,244	32	1

Source: [LAO EdBudget Figures](#)

Implements Child Care Fraud and Overpayment Provisions. The budget updates and implements provisions related to fraud and overpayment prevention in child care and

development programs. According to the Department of Social Services (DSS), the laws currently governing fraud and overpayment prevention in child care programs have not been updated since the transition of the child care program from the Department of Education to DSS. The updated language would allow DSS to support contractors and cross-program investigations through collaboration with counties. Child Care is one of the fastest-growing programs in the budget, with over \$7 billion in total funds, and ensuring program integrity should be a top priority.

Adds Child Care Slots. The budget includes \$228 million from the General Fund to add 22,770 child care slots in 2026-27 and \$41 million General Fund to restore 3,430 slots due to decreases in federal funding and Proposition 64 reductions. Of these new slots, 2,070 would be for General Child Care, and 20,700 would be Alternative Payment Program slots. Following these additions, the total number of child care slots would be 400,491, according the Legislative Analyst's Office.

Allows the Transfer of Funding Within Programs. This budget allows DSS to transfer funding across and within certain child care and development programs. This is meant to provide flexibility and ensure that child care funding is utilized to its fullest extent and serves as many families as possible. Unspent child care funding can be the result of a number of causes, including administrative barriers, facility issues, timing, and shifts in estimates. Providing flexibility to utilize the funding across programs would help ensure families are served and that funding could be directed to where the demand is.

Disaster Infrastructure Grants for Child Care Providers. The budget provides \$36 million total funds to DSS to issue disaster infrastructure grants to child care providers impacted by state or federally declared disasters. The funding includes \$11 million in Proposition 64 (cannabis legalization) funds for child care facilities impacted by disasters in 2025 and \$26 million in federal disaster relief funds for facilities impacted by disasters in 2023 and 2024.

Developmental Services (DDS)

New Accountability for Regional Centers. The Department of Developmental Services (DDS) is responsible for contracting with and overseeing 21 non-profit regional centers to deliver services to intellectually and developmentally disabled individuals statewide. These regional centers each have annual budgets approaching or exceeding \$1 billion and employ hundreds of employees. The budget included some governance structure changes at regional centers in hopes that regional centers will be run more professionally. Overall costs for DDS would reach \$21.6 billion, an increase of 16 percent over the enacted 2025-26 budget. This growth is largely due to the growth in caseload from 491,080 in the previous budget to 526,848 in 2026-27.

New Focus on Individuals in Locked Facilities. This budget includes trailer bill language (AB 175) requiring DDS to enhance community-based specialty services and supports to better serve individuals residing in the secure locked treatment facility at Porterville Developmental Center. The enhancements include supportive living and other assistance to potentially transition more complex needs individuals away from the locked facilities into community settings. The language also requires robust annual assessments of these individuals' needs. This change aims to reduce reliance on state-run mental health facilities while continuing to respect the existing court process whereby a judge makes an annual determination whether an individual living in one of these facilities is still a danger to themselves or to the public.

Housing

Key Points

- **Provides \$200 million For Housing Programs.** Provides \$200 million for the state's Multifamily Housing Program.
- **Federal Budget Increased Housing Funding.** H.R. 1 provided new resources for affordable housing production.
- **Restructures State's Affordable Housing Financing Programs.** Changes would move the state towards a coordinated access point for housing funding.
- **Waiving Local Impact Fees Creates Pros and Cons.** Includes changes in the imposition of local development impact fees for state-funded affordable housing projects.
- **Increases Funding for Low Income Housing Tax Credit.** Increases funding for the Low Income Housing Tax Credit Program.
- **Establishes \$100 million Disaster Relief Program.** Creates a new Disaster Relief Program utilizing current National Mortgage Settlement Funds and General Fund.
- **Local Projects Prioritized Through Housing Department.** Includes nearly \$90 million for local housing programs and projects.

Multifamily Housing Program. The budget provides \$200 million General Fund for the Multifamily Housing Program, which provides low-interest loans for new construction, rehabilitation, and preservation of rental housing for lower-income households. Previously, the program received \$1.5 billion in bond funds authorized by the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1), but as those bond funds have been fully expended, the state has provided General Fund to support the program in recent years. In 2025-26, the budget included \$120 million for the Multi-Family Housing Program.

Federal Legislation Offers New Resources for Affordable Housing Development. H.R. 1, the broad federal legislation enacted in 2025, offers new resources for affordable housing. Prior to the enactment of H.R. 1, affordable housing developers needed to finance at least 50 percent of their projects with private activity bonds in order to gain access to 4 percent tax credits. H.R. 1 reduced this threshold to 25 percent, effectively doubling how many 4 percent tax credits California projects can draw down each year using the same amount of private activity bonds. This change could yield as much as \$4 billion in additional 4 percent affordable housing tax credits in California every year. Additionally, H.R. 1 increased the size of the 9 percent tax credit program by 12 percent indefinitely, which translates to about \$150 million more in 9 percent tax credits for California annually.

Restructures State's Affordable Housing Financing Programs. The 2026 budget significantly restructures how the state awards its affordable housing funding. In California, state funding for the construction of affordable housing can come from several different departments and multiple programs. To add to the complexity, the last layer in nearly every affordable housing capital stack consists of tax-exempt private activity bonds and tax credits awarded by the California Debt Limit Allocation Committee (CDLAC) and the Tax Credit Allocation Committee (TCAC), respectively, both of which are part of the State Treasurer's Office. The changes included in the budget move the state towards a coordinated access point for housing

funding, which could move California closer to a one-stop shop for affordable housing developers seeking capital for projects.

Budget trailer bill AB 179 makes the following changes to the structure of affordable housing financing:

- Splits the Affordable Housing and Sustainable Communities (AHSC) program into two component parts:
 - 70 percent of future AHSC funds for affordable housing projects to be awarded through the recently created Housing Development Financing Committee (HDFC)
 - 30 percent for sustainable communities' projects still awarded by the Strategic Growth Council.
- Sets aside 90 percent of the state's annual private equity tax-exempt bond allocation for affordable housing for the next ten years (with an option to lower the set-aside to 80 percent upon a unanimous vote).
- Reserves a minimum of 50 percent of these affordable housing private equity bonds and the four percent Low Income Housing Tax Credits that come with them to be paired automatically with HDFC awards so that projects approved for HDFC awards emerge from the process fully funded without the need to submit further applications.

Waiving Local Impact Fees Creates Pros and Cons. A new housing development will generally increase effects like wear and tear on local roads, the amount of effluent that will flow through local sewers, local demand for utilities, and the number of children attending local schools. To offset the associated costs, local jurisdictions frequently charge the project builder "impact fees." The budget includes changes in the imposition of these local development impact fees on state-funded affordable housing projects. Budget trailer bill AB 179 makes the following policy changes related to these fees and affordable housing developments:

- Treats any waiver or reduction of development impact fees as a local contribution to an affordable housing project. The Newsom administration believes that this would make projects more competitive when seeking state funding for housing developments, since local contributions can boost a project's points within the application scoring system.
- Prohibits local jurisdictions that are seeking state housing funds for their own projects from imposing development impact fees.

This policy creates complex trade-offs. Developer fees drive up the cost of projects and therefore make housing less affordable, but many localities have come to rely on them for additional revenue. It is possible that these changes will make it harder to obtain state affordable housing awards unless local jurisdictions are willing to contribute the costs of any associated impacts. This could have the unintended consequence of dissuading some local jurisdictions from supporting affordable housing projects. Additionally, it is possible that if the scoring value of impact fee waivers is weighted by the amount of fees waived, this could provide local jurisdictions with an incentive to charge higher impact fees. Then there are the questions of how local governments would fund any increased demand for infrastructure and services resulting from the new projects, and whether some cities and counties would be disadvantaged because they cannot afford to waive the fees, despite having a need for more affordable housing.

These outstanding questions clearly reflect why significant housing policy changes should go through the legislature's policy committee process, which would ensure all stakeholders and interested parties have an opportunity to share insight and first-hand experience, providing critical information on these unknown and potentially harmful consequences.

Low-Income Housing Tax Credit Program. The budget provides \$630 million in 2026-27 for the Low-Income Housing Tax Credit (LIHTC) program, which provides supplemental tax credits within the State Housing Tax Credit program. The LIHTC works in conjunction with two federal tax credit programs to reduce funding gaps within development projects. The program offers developers nonrefundable and transferable tax credits to subsidize the construction and rehabilitation of housing developments that have strict income limits for eligible tenants. This enables affordable housing developers to secure a critical portion of the funds they need in order to make the construction and operation of properties financially viable.

By statute, the California budget includes a baseline allocation to support the state LIHTC program each year (Revenue & Tax Code § 17058). Set initially at \$70 million per year in 2001, the baseline statutory LIHTC allocation grows each year to reflect inflation. The 2026 statutorily required allocation is about \$130 million, and the budget includes an additional \$500 million General Fund above the statutory requirements.

Disaster Relief Program. The budget provides \$100 million (\$56 million General Fund, \$44 million National Mortgage Settlement Fund) for the new Disaster Relief Program within the California Housing Finance Agency. This program would assist homeowners seeking to rebuild in the wake of natural disasters, such as wildfire, through a combination of a loan loss guarantee program, an interest rate buydown program, and other tools intended to reduce borrowing costs and facilitate access to private financing.

Late Handouts for Local Housing Needs. The budget included a number of late August General Fund budget additions (totaling nearly \$90 million) for numerous housing projects across the state. Below are a few of the more notable handouts:

- \$17 million for regional housing finance authorities in San Diego, the Bay Area and Los Angeles.
- \$15 million to the California Community Foundation to establish a dedicated Disaster Recovery and Anti-Displacement Implementation Fund for administering activities related to homeowner rebuilding gap financing, community land banking and acquisition activities, nonprofit and Community Land Trust partnerships, and survivor oversight coordination.
- \$6.5 million for the San Diego Community College District to support the San Diego Regional Housing Finance Agency for preservation of housing near jobs, schools, and transit, and for internal infrastructure to establish long-term financial sustainability.
- \$6 million to the City of Santa Barbara for acquisition and rehabilitation of the historic Casa de la Raza building.
- \$5 million in one-time General Fund to WalkGood Inc. to advance community healing, resident services, and neighborhood investment for a proposed housing development.
- \$5 million in one-time General Fund to the Downtown Revitalization Core in Sacramento for a high-density housing and grocery project in a food desert.

- \$4 million shall be available to the Los Angeles County Affordable Housing Solutions Agency for coordination of housing investments, streamlining administrative processes, and strengthening regional capacity.
- \$3 million to the city of Newark for an Affordable Housing for Families (SAHA) project to provide critically needed homes to extremely low-, very low-, and low-income households and to support first time homebuyer program.
- \$1 million to city of Newark support its first-time homebuyer program.
- \$2 million for Sacramento Tiny Homes to address homelessness in Sacramento.

Homelessness

Key Points

- **Provides \$890 million For Flexible Local Homeless Programs.** Provides a total of \$890 million General Fund for local flexible homelessness funding.
- **Several Local Homelessness Projects Prioritized.** Includes \$22 million for local homeless programs and projects.

Slight Improvement in Homelessness Count But Cost-Effectiveness Unsubstantiated.

California has spent an extraordinary amount of money on homelessness, yet for most of the period from 2018 through 2024 the statewide homeless population increased substantially (from 130,000 in 2018 to 187,000 in 2024, roughly a 44 percent increase). California's 2025 count showed the first statewide decline in homelessness in more than a decade (nearly 182,000 homeless in 2025), driven primarily by a reduction in unsheltered homelessness. Recent declines in 2025–26 are encouraging but are still too small and too recent to justify declaring the state's current strategy a success.

The state has also failed for years to maintain the program level cost and outcome data necessary to determine whether billions in spending were effective. The California State Auditor's 2024 audit of the state's homelessness programs was unusually direct. California did not have sufficient information to determine the cost-effectiveness of many of its homelessness programs. Three of the five programs examined, including the Homeless Housing Assistance and Prevention Program (HHAP), could not be adequately evaluated for cost-effectiveness because of data limitations. Those three programs collectively received more than \$9.4 billion since 2020. The report found that the state couldn't reliably demonstrate which programs were producing value and positive outcomes.

Until California consistently tracks statewide homelessness spending, establishes a consistent method for measuring program costs against outcomes, and regularly evaluates whether programs are actually reducing homelessness the state will continue to spend billions of taxpayers dollars without being able to answer a very important question, which is "What measurable reduction in homelessness do taxpayers receive for each billion dollars spent?"

Budget Includes Homelessness Funding but Also New Match Requirements. The budget provides \$890 million for Round 7 of the Homeless Housing Assistance and Prevention Program (\$500 million included in the 2025 Budget Act and an additional \$390 million included in the 2026 Budget Act). The distribution of the funding would be subject to several layers of performance metrics and outcome data.

Pursuant to SB 158 (Stats. 2025), the 2025 Budget Act included \$500 million for Round 7 of HHAP, available as of July 1, 2026, and made the funding contingent upon the enactment of legislation providing the administrative framework for the newest round. A 2026 budget trailer bill, AB 179, includes the administrative framework required by SB 158. Among other new requirements, the budget requires local jurisdictions to provide matching funds to be eligible to receive Round 7 HHAP funds, including 35 percent in matching funds for the first award level, increasing to 70 percent in matching funds for the second distribution of HHAP funding.

In addition to the new local match requirement, the budget includes another significant change in HHAP requirements for Round 7. Cities that are HHAP recipients and the counties in which

those cities are located must now obtain a Pro-Housing Designation within a year of their first disbursement.. Currently, a Pro-Housing Designation gives cities and counties a scoring advantage when they apply for certain state funding, but it is not a state requirement. As of March 2026, nine of the 14 cities receiving HHAP funds (and 5 of the 11 counties where those cities are located) have a Pro-Housing Designation. This new requirement will likely have a significant impact on the administration of the local programs, increasing activities and workload within those cities and counties currently without a Pro-Housing Designation.

Local General Fund Handouts. The budget included several late August General Fund budget additions (totaling \$22 million) for numerous homelessness projects and programs across the state. Below are a few of the more notable handouts:

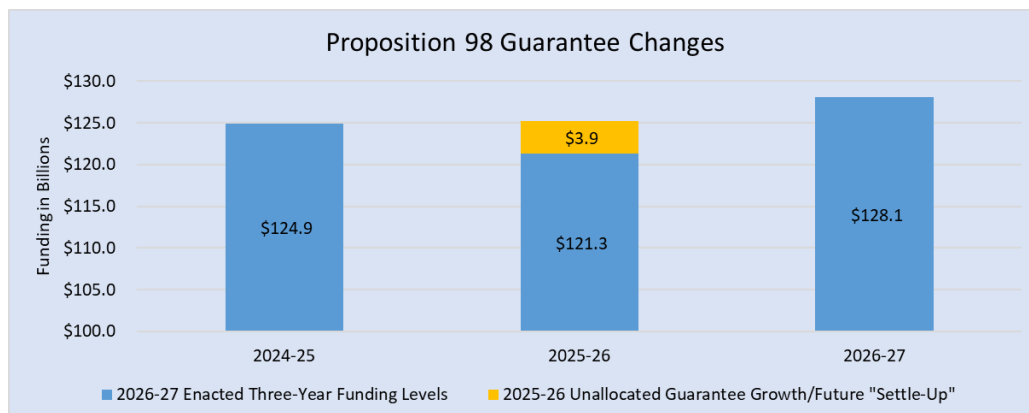
- \$3 million to the City of Oceanside for capital and hard costs associated with an interim housing project on city-owned land for the purpose of addressing street homelessness.
- \$3 million in one-time General Fund to San Francisco Safe House to support permanent supportive housing.\$2 million for Sacramento Tiny Homes to address homelessness in Sacramento.
- \$2 million to the City of Vista to fund an additional year of interim and transitional housing through the Buena Creek Navigation Center.

TK-12 Education

Key Points

- **Creates a Settle-Up Obligation.** Funds the 2025-26 Proposition 98 Guarantee at \$121 billion, \$3.9 billion less than the calculated guarantee, creating a “settle-up obligation” that must be paid back in the future.
- **Major Funding Increase for Special Education.** Increases special education funding by \$2.4 billion ongoing, an increase of 43 percent.
- **Changes the Role of the Superintendent of Public Instruction.** Changes the management of the California Department of Education (CDE) from the Superintendent of Public Instruction (SPI) to the newly appointed Education Commissioner.
- **Implements 14 Weeks of Paid Pregnancy Leave.** Requires schools to provide up to 14 weeks of leave for pregnancy, miscarriage, childbirth, termination of pregnancy, or recovery from those conditions.
- **Increases Discretionary Block Grant Funding.** Provides \$5 billion in one-time Proposition 98 General Fund for the Student Support and Professional Development Discretionary Block Grant.
- **Shifts All State Preschool Programs Under Proposition 98.** Shifts state preschool programs that are not run by local education agencies (LEAs) from regular General Fund into Proposition 98 funding.

Proposition 98 TK-14 Funding and Settle-Up Debt. The Proposition 98 TK-14 guarantee levels are \$125 billion for the 2024-25 fiscal year, \$125 billion in 2025-26, and \$128 billion in 2026-27, as summarized in the table below. In the 2025-26 fiscal year, the budget underfunds the guarantee by \$3.9 billion, for a total guarantee of \$121 billion, creating a “settle-up” obligation. According to the Newsom Administration, this is to provide a buffer for potential changes in the guarantee due to differences in actual revenues adjustments relative to projections when the final calculations are made. The budget also contains language that would require 33 percent of any higher-than-forecasted tax revenue (outside Propositions 98 and 2) for fiscal years 2025-26, 2026-27, and 2027-28 combined to be appropriated to pay all or part of the settle-up obligation. However, underfunding the guarantee in 2025-26 means schools get less money at least for now. The California Teacher Association filed a lawsuit against the state in September 2026, claiming the state is violating the constitution by withholding the Proposition 98 funding.



Record Spending, but Student Test Scores Decline. Spending per pupil in 2026-27 would be \$21,147 from Proposition 98 and \$28,252 from all funding sources. This is a Proposition 98 increase of \$9,358 per pupil, or 79 percent, compared to 2018-19. When accounting for all funds, it is an increase of \$11,076 per pupil, or 64 percent. Despite massive increases in per pupil spending since the Newsom administration began, student performance on California assessments has decreased overall. In 2018, California students were 6 points below standard on the English Language Arts assessment, versus 8.1 points below standard in 2025. In Mathematics, students were 36.4 points below standard in 2018 and 42.4 points below standard in 2025.¹

Proposition 98 Funding by Segment and Source <i>(Dollars in Millions Except Funding Per Student)</i>					
	2024-25 Final	2025-26 Revised	2026-27 Enacted	Change From 2025-26	
				Amount	Percent
K-12 Education					
General Fund ^a	\$77,248	\$75,070	\$82,990	\$7,920	10.6%
Local property tax	28,270	29,130	30,478	1,349	4.6%
Subtotals	\$105,518	\$104,200	\$113,468	\$9,269	8.9%
California Community Colleges					
General Fund	\$9,744	\$8,805	\$9,941	\$1,137	12.9%
Local property tax	4,343	4,444	4,661	218	4.9%
Subtotals	\$14,087	\$13,248	\$14,602	\$1,354	10.2%
Reserve Deposit/Withdrawal (+/-) ^b	\$5,324	\$3,871	-	-\$3,871	-100.0%
Settle Up (Unallocated) ^c	-	\$3,940	-	-\$3,940	-100.0%
Totals	\$124,929	\$125,259	\$128,070	\$2,812	2.2%
Enrollment					
K-12 attendance	5,436,215	5,399,416	5,365,567	-33,849	-0.6%
Community college FTE students	1,096,150	1,090,449	1,122,551	32,102	2.9%
Funding Per Student					
K-12 Education	\$19,410	\$19,298	\$21,147	\$1,849	9.6%
California Community Colleges	12,851	12,149	13,008	859	7.1%
^a Includes funding for instruction provided directly by state agencies. Includes funding for preschool programs administered by local educational agencies in 2024-25 and 2025-26 and funding for all state preschool programs beginning in 2026-27. ^b Proposition 98 Reserve established by Proposition 2 (2014). Amounts consist entirely of General Fund. ^c The state is required to allocate this amount for schools and community colleges in the future, assuming no reduction to the estimate of the Proposition 98 guarantee. Amount consists entirely of General Fund. June 2026 budget trailer legislation indicates the state will use this funding for discretionary reserve deposits. FTE = full-time equivalent.					

Proposition 98 Rainy Day Fund and Local Reserves. The 2026 Budget Act leaves a balance of \$9.2 billion in the Public School System Stabilization Account (school reserve) at the end of 2026-27. This reflects \$8.7 billion in mandatory deposits across the three-year budget window, and a discretionary deposit of \$500 million in 2025-26. Under current law, there is a cap of 10 percent on local school district reserves in fiscal years immediately succeeding those in which the school reserve balance is equal to or greater than 3 percent of the total TK-12 share

¹ California Dashboard. <https://www.caschooldashboard.org/reports/ca/2025>

of the Proposition 98 guarantee. The balance of \$9.2 billion triggers the school district reserve caps in 2026-27.

Local Control Funding Formula (LCFF). The budget includes a 4.31 percent cost-of-living adjustment (COLA) for the LCFF. When combined with population growth adjustments, this will result in a \$2.2 billion increase in discretionary funds for schools. This is 1.44 percent above the statutorily required 2.87 percent COLA. The “super cola” is included to cover the paid pregnancy leave mandate, which is discussed later in this section. Additionally, there is an ongoing increase of \$31 million Proposition 98 General Fund for a 20-percent increase in LCFF funding for Necessary Small Schools, which are schools that meet certain enrollment limits, travel distance requirements, district size limits, and topographical or hardship exceptions.

Major Funding Increase for Special Education. The budget includes an increase of \$2.4 billion ongoing for special education, an increase of 43 percent, bringing the per-pupil base rate to \$1,340. The Legislative Analyst’s Office previously noted that local funds are currently covering about 60 percent of special education costs, and the increase in special education funding could reduce that by 12 percent.

Changes the Role of the Superintendent of Public Instruction. The education budget continues the Democrats’ misguided use of the budget process for massive policy changes. Specifically, AB 181 reorganizes California’s education governance structure by establishing the role of the Education Commissioner, appointed by the Governor and confirmed by the Senate. The budget shifts the management of the California Department of Education (CDE) from the Superintendent of Public Instruction (SPI) to the Education Commissioner, beginning January 1, 2027. In addition to the boards and commission on which the SPI is already a voting member, the SPI will be added to the State Board of Education (SBE) and the Board of Governors of the California Community Colleges.

Some argue that these changes would provide better alignment between policy development and administration and offer clearer lines of accountability. Previously, the SPI was tasked with implementing policies created by the Governor and the Legislature. Moving administration of CDE to the Education Commissioner could allow the Governor to ensure policies are implemented in the way the Governor and Legislature intended them. This would also consolidate responsibility, allowing the public and Legislature to attribute results more directly to the Governor and the appointees acting on his or her behalf. Overall, school districts will also likely receive clearer guidance from the state.

Student Support and Professional Development Discretionary Block Grant. The budget appropriates \$5 billion in one-time Proposition 98 General Fund for the Student Support and Professional Development Discretionary Block Grant. The funding is intended to help with rising costs, career pathways and dual enrollment expansion efforts, teacher recruitment and retention, and professional development for teachers on the frameworks in mathematics, English language arts, and literacy. Providing a one-time discretionary block grant provides Local Education Agencies (LEAs) more flexibility to cover costs that are specific to that LEA’s priorities without creating ongoing funding pressure.

Implements 14 Weeks of Paid Pregnancy Leave. The budget requires a school district, county office of education, charter school, or educational joint powers authority to provide up to 14 weeks of leave of absence with specified pay benefits because of pregnancy, miscarriage, childbirth, abortion, or recovery from those conditions, beginning January 1, 2027. A “super cost-of-living adjustment (COLA)” of 1.44 percent is provided to cover the cost of the

requirement. While the administration notes that the requirement will be covered by the super COLA, the LAO previously noted that there is uncertainty around the cost, but it would likely be tens of millions for community colleges and hundreds of millions for school districts. It should be noted that the super COLA increases the funding received by the LEAs, regardless of the cost of their employees taking paid pregnancy leave. This means that LEAs could end up with more discretionary funding if their leave-of-absence costs are below their super COLA allocation. In addition, one of the allowances for the use of the leave is "termination of pregnancy". This raises the question of whether the state should be considering abortion as equivalent to pregnancy when using taxpayer dollars to cover the cost of leave.

Significantly Expands Community School Funding. The budget provides \$1 billion ongoing Proposition 98 General Fund to continue the expansion of the community schools model. The Community Schools Partnership Act was established in 2021 and describes a community school as a public school with strong and intentional community partnerships to promote pupil learning and whole child and family development. This includes integrated support services, such as mental health and social services; family, pupil, school site staff, and community engagement, such as home visits; and extended learning time, such as after school care and summer programs. One may argue that community schools are a great resource and help bring services to students where they are most accessible. Others view community schools as a potential overreach of the state and a way around parents on sensitive issues. It should also be noted that making this funding ongoing essentially creates a new "categorical" program. The slow creep of categorical programs is something worth keeping an eye on in future budgets.

Fully Restores Funding for the Learning Recovery Emergency Block Grant. The budget restores \$757 million from the Proposition 98 General Fund for the Learning Recovery Emergency Block Grant. This block grant was previously reduced in the 2023 Budget Act by \$1.6 billion. Intent language was included in the 2023-24 budget to begin restoring the funding by \$379 million per year, beginning in 2025-26 and continuing through 2027-28, for a total restoration of \$1.1 billion. This appropriation is the final installation in that restoration process and restores the funding one year earlier than planned.

Delays the Repayment Period for the Proposition 98 Maneuver Yet Again. This budget delays the repayment period for a second time for the Newsom administration's unprecedented and misguided accounting maneuver to solve for \$6.2 billion in overpayments to schools in the 2022-23 fiscal year. The repayments would be delayed by one year, beginning in 2028-29 through the 2040-41 fiscal year, for 13 years of repayments. When the maneuver was originally created, the repayments were supposed to be completed in only nine years, or 2035-36. The maneuver delayed recognizing the funding paid to schools until future years, essentially creating an interest-free loan from the state's cash reserves. The payments are being recognized as General Fund, instead of Proposition 98 General Fund, creating General Fund obligations in future years, which already have projected deficits.

Shifts All California State Preschool Programs Under Proposition 98. The budget shifts non-LEA state preschool programs into Proposition 98 and "re-bench" Proposition 98 to account for this shift. The re-bench process involves pulling more General Fund into the Proposition 98 guarantee, and increases the guarantee percentage under Test 1 from 39.3 percent to 39.6 percent. The budget also moves \$813 million from the General Fund to the Proposition 98 General Fund to avoid any negative impacts to Proposition 98 supported programs. These non-LEA programs were previously covered by the non-Proposition 98 General Fund. The practical effect of this shift is to elevate the priority for non-LEA preschool

programs by expanding the Proposition 98 guarantee, thus ensuring that these preschool programs will not compete against other non-Proposition 98 spending.

Continues Subsidized Preschool Eligibility Regardless of Income Change. The budget expands the policy around eligibility for subsidized preschool by using a family's initial income to establish ongoing income eligibility, regardless of an increase in the family's income, even when the family changes programs or voluntarily disenrolls their child during the eligibility window. This means that a subsidized preschool slot would continue to go to a particular family for two years even if that family's income rises past the eligibility cutoff. While some might argue this proposal would allow for more consistency in services being provided to families, the state has limited resources. Programs such as state preschool should be provided for only those who show adequate need. Every dollar that goes toward families who do not meet the income eligibility requirements is a dollar taken from other laudable education policy goals.

More Money for Undocumented Immigrant Programs. The budget provides \$100 million one-time to establish the California New Americans in Schools (CalNAS) program. This program will be ran by the CDE in consultation with the Department of Social Services, and provides services, including legal services, for newcomer pupils, English learners, and undocumented pupils and their families. The budget also includes an additional \$75 million one-time General Fund for Dream Resource Centers at high schools, which also provide services for undocumented immigrants. This budget continues the tidal wave of state funding going towards undocumented immigrant programs, while other vital services are cut or underfunded.

Other TK-12 Budget Adjustments. The budget also includes the following changes.

- **Student Teacher Stipend Program.** The budget includes \$408 million one-time Proposition 98 General Fund for the Student Teacher Stipend Program. This funding will extend the program and provide an additional \$5,000 stipend for student teachers pursuing credentials in a high-need field such as mathematics, special education, and science.
- **Additional Funding for Kitchens.** The budget includes an additional \$500 million one-time Proposition 98 General Fund for the Kitchen Infrastructure and Training Grant program. This is in addition to nearly \$900 million in funding provided since 2021 to support kitchen infrastructure upgrades.
- **Dual Enrollment.** The budget includes \$100 million one-time Proposition 98 General Fund to increase access to dual enrollment opportunities and college-to-career pathways.
- **Universal Prekindergarten Planning & Implementation Grant.** The budget provides an additional \$250 million for the grants, which can be used for classroom operating costs, planning costs, hiring and recruitment costs, staff training and professional development, classroom materials, and supplies. These grants are meant to support the expansion of State Preschool and Transitional Kindergarten Programs.

Impact of Federal Funding on TK-12 Education. The potential impacts of the 2025 federal budget bill, H.R. 1, on funding provided to the TK-12 education system are not yet fully understood. While there does not seem to be any major direct funding impact for TK-12, program changes in other areas such as Medicaid and the Supplemental Nutritional Assistance Program (SNAP), also known as CalFresh, could impact TK-12 schools through reimbursements and eligibility requirements for benefits.

Higher Education

Key Points

- **Cuts to Universities Partially Restored.** Restoration of base cuts for UC and CSU would be delayed, while previously promised compact funding increases would be partially fulfilled for 2025-26 and fully met for 2026-27.
- **Middle Class Scholarships Cut by One-Third.** Budget reduces Middle Class Scholarships by \$268 million, or about one-third on a per-person basis, thus undercutting financial aid stability for students.
- **Community Colleges Receive Substantial Increases.** Budget provides an increase of \$1.3 billion, or 15 percent for community colleges, including a cost-of-living increase, enrollment growth funding, and a variety of other increases for targeted programs.
- **Remaining Funds for Student Housing Projects.** A budget trailer bill updates procedures for community college housing lease-revenue bonds, for which \$218 million remains available from the 2024-25 allocation.

University of California (UC) and California State University (CSU)

University Compact Increases Partially Restored. In 2022 the Governor's administration entered into five-year agreements known as "compacts" with the UC and the CSU. These compacts promised annual increases of 5 percent per year and set out various enrollment and graduation goals. However, the state delayed or pulled back compact increases in the past two budget cycles. The 2026-27 enacted budget provides the full 5 percent increase for Year 5 of the compacts, amounting to \$254 million for UC and \$265 million for CSU (\$519 million combined).

However, the budget provides only a portion of the previously delayed Year 4 increase, amounting to \$197 million combined. The budget continues to delay the remainder of the Year 4 increase, totaling \$241 million for UC and \$252 million for CSU (\$493 million combined).

Restoration of Base Budget Cuts Delayed. The 2025 Budget Act cut base funding for UC and CSU by 3 percent, or \$274 million, including \$130 million for UC and \$144 million for CSU. In an odd turn of phrase, the Governor's administration referred to these as "base deferrals" rather than cuts. The budget also provided a no-interest loan to the two systems to help mitigate the effects of the cuts. The enacted budget delays restoration of those 3 percent base cuts to UC and CSU, and to roll over the cash flow loan into another one-year loan that the UC and CSU would have to repay in 2027-28.

Nonresident Tuition Funds Still Delayed. The state previously committed to provide UC with \$31 million to replace nonresident undergraduate tuition for 902 students at the Berkeley, Los Angeles, and San Diego campuses. These campuses continue to enroll nonresident students above targeted levels, and the extra funds would have encouraged more resident enrollment. The 2025-26 budget first delayed those funds, and the enacted 2026-27 budget continues that delay, which continues to harm enrollment of resident Californians at those campuses.

Republicans Prioritize Higher Education. In a December 2025 budget letter, Senate Republicans called for restoring the cuts made to Higher Education in recent budgets, and the enacted budget partially meets this goal. However, California revenues clearly allow for full

restoration of the cuts to UC and CSU and higher funding for financial aid if the state set different priorities. The CSU raises tuition on students by 6 percent each year, and the UC raises tuition by 5 percent for each incoming class of new students. Total tuition and fees paid by UC and CSU undergraduates amount to \$8.8 billion in 2026-27, which is less than what the state now pays for undocumented immigrants every year to receive free health care through Medi-Cal. In other words, for less than the cost of the recent Medi-Cal expansions to undocumented immigrants, the state could reduce tuition to zero for every undergraduate student in the UC and CSU.

Financial Aid

Cal Grant Scholarships Rise. The Cal Grant program, which functions largely as an entitlement based on enrollment and eligibility, is the state's primary financial aid vehicle. The budget estimates that about 584,000 students will receive Cal Grants in 2026-27 with budgeted expenditures of \$2.9 billion in 2025-26 and \$3.2 billion in 2026-27. Growth is based on enrollment increases, though the budget includes a policy change to expand the Cal Grant Transfer Entitlement program to students aged 29 through or 30 years old. Expenditures over five years for that expansion would be \$101 million.

Middle Class Scholarship Amounts Cut by One-Third. The 2025-26 budget package sought to stabilize the Middle Class Scholarship (MCS) program by shifting its budget to a cash loan that would be funded in the budget one year in arrears. This allowed the state to recognize \$918 million in savings initially in 2025-26, since the cash loan did not count as a budget expenditure until the following year. The 2025-26 budget package also established the goal that MCS would pay 35 percent of students' unmet expenses, after considering other resources. The newly enacted budget updates the program estimate for 2025-26 by \$41 million to reach \$959 million, which still counts as a loan in 2025-26 and a budget expenditure in 2026-27.

For 2026-27, the enacted budget reduces the program goal to meet only 23 percent of students' unmet college expenses, though the Governor proposed only a 17.5 percent goal, and sets program funding at \$691 million. Since the MCS program is now budgeted one year in arrears, the program reduction of \$268 million would appear in the 2027-28 budget.

This reduction would cut students' MCS scholarships by about one-third partway through their college careers, creating challenges for students who likely believed their scholarships would remain at the same level throughout college. Roughly 343,000 students are expected to receive MCS grants averaging about \$2,937 each in 2025-26. The enacted budget would result in average grants of \$2,015 per year in 2026-27, a cut of about one-third or \$922 per student.

California Community Colleges

Community Colleges Receive Significant Overall Increase. The constitutional formula authorized by Proposition 98 determines overall state funding for community colleges, though the Governor and Legislature have substantial discretion regarding how to spend the overall funding allotment. The community college budget would reach just over \$10 billion from the Proposition 98 General Fund in 2026-27, an increase of \$1.3 billion, or 15 percent, over the 2025-26 level.

Student-Centered Funding Formula (SCFF). The SCFF provides the majority of community colleges' funding within the Proposition 98 guarantee. The 2026-27 budget package amends the SCFF to base colleges' budgets on the greater of their most recent enrollment year or their three-year average. This change should help faster-growing districts, such as those in Riverside and San Bernardino counties, and it adds \$48 million to the budget. The SCFF budget also includes the following:

- \$441 million ongoing for a mandatory cost-of-living adjustment (COLA) of 2.87 percent plus a "super COLA" of 1.44 percent, consistent with TK-12 Education. The combined COLA is 4.31 percent.
- \$98 million ongoing for 1.5 percent enrollment growth in 2026-27, plus another \$55 million to recognize enrollment growth of 1 percent for 2025-26. These adjustments combine to fund enrollment growth of 2.5 percent.
- \$408 million one-time to pay off previously authorized deferrals from 2025-26.

Other Fiscal and Policy Changes. The budget also includes the following significant changes for community colleges:

- Mandates that colleges provide up to 14 weeks of leave for pregnancy, childbirth, abortion, and related conditions. The so-called super COLA mentioned above is intended to pay for the costs of this mandate. The budget includes \$13 million specifically targeted to cover the costs for "hold harmless" college districts that would not otherwise receive the COLA.
- Appropriates \$147 million from the Proposition 98 General Fund for the Student Support Block Grant through the Higher Education trailer bill, SB 135.
- Requires the Community College Chancellor's Office to establish the Credit for Prior Learning Initiative as a systemwide initiative to award credit for prior learning opportunities at community colleges, among other conforming changes. The budget includes \$37 million to support this Initiative, though only \$2 million is ongoing.
- Provides Proposition 98 funding targeted to specific groups, including \$30 million one-time for LGBTQ+ Resource Centers and \$71 million one-time for Dreamer Resource Centers.
- Includes nearly \$43 million in one-time Proposition 98 General Fund for the California Indian Nations College. This funding resulted from requests made by several legislators, including Republican Senator Rosilicie Ochoa Bogh (R-Yucaipa).
- \$121 million to address deferred maintenance needs.
- \$53 million for Calbright College, the all-online campus focused on vocational certifications, in order to transition from start-up mode to ongoing operations.
- \$37 million to provide the 2.87 percent COLA to certain categorical programs, matching the mandatory COLA for the SCFF.
- \$31 million ongoing Proposition 98 General Fund for the Student Equity and Achievement Program.
- \$16 million one-time Proposition 98 General Fund for the Strong Workforce Program.
- \$15 million one-time Proposition 98 General Fund to support the Future of Creative Industries Pilot Project.
- \$14 million to support the Health School Food Pathways Program, which assists food service workers through apprenticeship and training programs.

Student Housing Project Fund Availability. The 2021 budget provided General Fund grants for community college student housing projects, but the 2024-25 budget converted those awards to lease-revenue bonds, totaling \$805 million, after the majority party squandered the short-term surplus.

Two colleges who received lease-revenue project authorization chose not to move forward with their projects, including College of the Canyons, which determined that their housing project would not be feasible using lease-revenue bonds rather than grants. In contrast, the College of San Mateo applied for an increase to its initial award and received approval from the legislative majority in March 2026, even though the nonpartisan Legislative Analyst's Office raised several concerns about that increase, including that it violated statutory parameters.

Following these various developments, the program had \$218 million available out of the initial \$805 million to award for additional projects. The budget package includes a trailer bill, AB 167, that clarifies procedures for awarding the remaining funds.

General Obligation Bond Funds for Community College Facilities. Proposition 2 (2024) authorized a total of \$10 billion in general obligation bonds to pay for TK – 14 education facilities, including \$1.5 billion specifically for community colleges. The enacted budget includes one-time funds of \$737 million to finance 10 new projects and 29 existing projects at campuses around the state.

Public Safety and Judiciary

Key Points

- **Key Crime Reduction Initiative Remains Critically Underfunded.** \$50 million in new funding for Proposition 36 fails to meet \$350 million need.
- **Cost of Suing Federal Administration Swells.** Budget includes \$27 million annually for Attorney General to continue suing the federal government.
- **Bipartisan Effort Results in Significant Courthouse Funding Commitment.** Budget provides for 26 new judgeships, associated facilities needs, and renovation or replacement of aging courthouses.
- **Independent Review Bolsters Ailing Effort to Upgrade 9-1-1 System.** RAND Corporation to evaluate 9-1-1 upgrade plans after Newsom administration wastes years and hundreds of millions of dollars.

Proposition 36 Implementation Funding. The enacted budget provides \$50 million in new one-time General Fund support to continue implementation of Proposition 36 (2024), the key public safety initiative supported by 68 percent of California voters to crack down on drug and property crime while providing treatment services for drug offenders. The \$50 million includes \$10 million for court workload, \$20 million to temporarily undo a previous devastating cut to pretrial services, and \$20 million for behavioral health treatment. While this is certainly better than the Governor's proposal, which failed to include any new funding for Proposition 36, it is well short of the \$350 million estimated to be the annual Proposition 36 need, and the funds are only provided on a one-time basis.

Some legislative Democrats claimed that the budget provided \$375 million for Proposition 36, but this is a misleading claim. That claimed total counts \$325 million in preexisting funds that are already used for various other purposes, including \$90 million in funding for substance use disorder and mental health treatment via Proposition 47 (2014), \$70 million to support the increasing costs of trial court operations, \$50 million for pretrial services through the courts and probation departments, and \$115 million for "various victims programs and rehabilitation/reentry". It is unclear what specific programmatic funding they are counting in this last category. However, it is extremely cynical to count any funding that would otherwise support victims of crime as being available to provide treatment or services to criminals under Proposition 36.

Department of Corrections and Rehabilitation

Prison Closures. This budget reflects General Fund savings of \$91 million in 2026-27 and \$138 million annually thereafter due to the closure of the California Rehabilitation Center in Norco, the fourth prison to close since 2021. Legislative Democrats contemplated language requiring the Newsom administration to identify a fifth prison for closure, but that language was not part of the final budget deal. The passage of Proposition 36 by more than two-thirds of California voters in 2024 signals that Californians are fed up with pandering to repeat criminals. If more tough-on-crime initiatives like this follow, the California Department of Corrections and Rehabilitation (CDCR) could quickly find itself in a position of needing more prison capacity, not less.

Mental Health Receivership. After decades of subpar prison mental health service delivery, in August 2025 the *Coleman* court ordered CDCR into receivership, suspending the state's right to control mental health delivery in the prison system and transferring that responsibility to a new Mental Health Receiver. The budget includes \$46 million (\$40 million Mental Health Special Deposit Fund, \$5 million General Fund, \$1 million Behavioral Health Services Fund) to establish the Office of the Mental Health Receiver and to fund its operations in 2026-27. The costs of the care itself are anticipated to be about \$763 million annually, although costs could balloon rapidly as new and emerging edicts from the Mental Health Receiver and the courts are implemented.

Department of Justice

Federal Lawfare. The budget includes \$27 million per year through 2028-29, up from \$17 million in 2025-26, for the Attorney General to sue the federal administration to slow or stop the President's agenda. As of August 4, 2026, the Attorney General had filed 82 lawsuits against the federal administration in the 80 weeks President Trump had been in office. To date, this Trump Administration has been much more successful in its legal battles than the first Trump Administration. This suggests that the antagonistic posture the Governor and the Attorney General have assumed this time around may bring more harm than good for California.

Judicial Branch

Judgeships and Courthouses. The budget includes \$100 million General Fund in 2026-27 and \$44 million ongoing thereafter to fund 26 new judgeships plus the related costs of courthouse construction and modification. The judgeships were established in 2023, after years of delay, but were never funded. In addition, the budget authorizes \$1.3 billion in lease-revenue bonds for courthouse construction to address the replacement or renovation of courthouses with the most immediate and critical needs, including several projects that have already been approved. Finally, the budget includes \$150 million one-time General Fund in 2026-27 to address courthouse deferred maintenance. This funding represents a significant bipartisan effort and a major step toward fully funding and supporting the judicial branch.

Office of Emergency Services

Next Generation 9-1-1. The budget includes \$326 million from the State Emergency Telephone Network Account for the Office of Emergency Services (OES) to continue supporting the legacy 9-1-1 system and transitioning the state to Next Generation 9-1-1 (Next Gen 911). Next Gen 911 is an internet protocol-based system that is expected to improve reliability and location accuracy, allow text-to-911, and enable users to send photos or video to dispatchers. In short, it will modernize the state's antiquated 9-1-1 system.

When Next Gen 911 was first funded in 2019, OES estimated it would be fully deployed and the legacy system decommissioned by the end of 2022. After exceeding the original implementation timeline by nearly two years, OES had only deployed the new system to a few dozen of the state's more than 400 public safety answering points (PSAPs). In the fall of 2024, amid rumors and media reports of major outages, dropped calls, and myriad other technical issues at several PSAPs running Next Gen 911, OES suspended further rollout. In early 2025, OES indicated it was scrapping its regional Next Gen 911 approach in favor of a statewide model.

One of the main problems appears to have been that OES was operating in a vacuum without independent oversight and without keeping the Legislature in the loop. To address this, **Senator Tony Strickland (R-Huntington Beach)** authored SB 985, which would have required OES to report quarterly on its progress in implementing Next Gen 911, but legislative Democrats killed the bill, only to “borrow” the SB 985 reporting language and include it in the June 2026 state government trailer bill (SB 172, Committee on Budget and Fiscal Review). SB 172 also required OES to contract with the RAND Corporation to conduct an independent evaluation of the current Next Gen 911 plan.

The first quarterly report is due October 1, 2026. As of the date of this analysis, the RAND evaluation was underway and on track to meet both the December 15, 2026, deadline for an initial evaluation and preliminary report, followed by a final report by May 1, 2027. Hopefully, these measures will provide clarity to the Legislature and other stakeholders whether OES’s current plan is prudent or if additional course corrections are needed. Nonetheless, the Newsom administration’s inability to implement this essential system, which any Californian may need to rely upon at some point, demonstrates a major failure.

Victims of Crime Act Backfill. The budget includes \$50 million General Fund to continue backfilling the ongoing reduction of more than \$100 million per year since federal Victims of Crime Act (VOCA) funding peaked circa 2018. Revenues to the VOCA program declined sharply when the federal government dramatically eased prosecution of white-collar and corporate crimes. This state General Fund backfill represents a lifeline to victim programs, allowing them to continue serving crime victims to the greatest extent possible given the reduction in federal support.

Transportation

Key Points

- **Gasoline Taxes Increase Again.** The automatic annual gas tax increase raised the price of gas by 2.2 cents per gallon, effective July 1, 2026.
- **Greening the Caltrans Fleet.** The budget adds \$225 million for Caltrans to upgrade its vehicle and equipment fleet with a preference for zero-emission vehicles.
- **High-Speed Rail Budget.** Includes \$1.5 billion in 2026-27 for continued construction and reflects increased 2025-26 spending of \$4.6 billion, mostly using carryover funds from the prior year.
- **High-Speed Rail 83 Percent Unfunded.** Despite the commitment of \$1 billion annually from the state's Cap-and-Invest program, the project has a \$192 billion funding gap and could run out of cash in December 2027.
- **Transit Funding and Loans.** Provides more than \$2 billion in state funds for transit in 2026-27. The state is required to issue up to \$590 million in loans to Bay Area transit entities.

Gasoline and Diesel Taxes Rise Again. Despite claims to prioritize affordability for Californians, the Governor and legislative Democrats made no changes to the existing law that automatically raises gasoline and diesel taxes every year. On July 1, 2026, gasoline excise tax increased by 2.2 cents per gallon, and the diesel excise tax increased by 1.6 cents per gallon. These increases and the resulting revenues are reflected in the chart below.

July 1, 2026 Gas and Diesel Fuel Tax Increases					
	Current Tax (per gallon)	Increase (per gallon)	New Tax Amount (per gallon)	Increased Tax Revenue (in millions)	Total Tax Revenue (in millions)
Gasoline	\$0.612	\$0.022	\$0.634	\$283	\$8,151
Diesel	\$0.466	\$0.016	\$0.482	\$51	\$1,538
Total				\$334	\$9,689

(Compiled with data from Department of Finance)

California's Gasoline Prices and Taxes Nation's Highest. California leads the way in many categories, including the nation's highest gas prices and highest gas taxes. As of September 29, 2026, the average price for a gallon of gasoline in California was \$6.38, the highest in the nation, and 43 percent higher than the national average. As noted above, California's gas tax of 63.4 cents per gallon is the highest gas tax in the country. The gas and diesel tax increases are estimated to generate an additional \$334 million in state tax revenues. The state has more than enough General Fund revenue to both reduce gas taxes and continue maintaining its roads, if the majority party truly wanted to prioritize affordability, but Governor Newsom and legislative Democrats repeatedly refuse to help strained California drivers at the pump.

Continuing to Green the Caltrans Fleet. Over the past four years, the budget has provided \$1.4 billion in additional funding for Caltrans to replace and upgrade its fleet, with a preference for zero-emission vehicles (ZEVs). Still, Caltrans asserts, "Additional funding is imperative to Caltrans' goal of becoming the greenest fleet in the nation..." This budget adds another

\$225 million for this purpose, bringing the cumulative total to more than \$1.6 billion. The money for these vehicles comes out of dollars that would otherwise be spent on transportation projects. With California ranking next to last in the country for overall road condition, it would seem Caltrans' goals are misplaced. After all, as the state's transportation department, one might assume a functional, safe transportation system would be their top priority.

California High-Speed Rail

Continues to Fund the High-Speed Rail Project. Despite bipartisan concerns about the project's 2026 Business Plan, the budget continues to fund high-speed rail, with anticipated expenditures of \$1.5 billion in 2026-27. Expenditures are summarized in the chart below.

High-Speed Rail Expenditures			
(Dollars in Millions)			
Fund Type	2024-25	2025-26	2026-27
Cap and Invest Funds	\$349	\$4,562	\$1,000
Bond Funds (Proposition 1A)	\$33	\$39	\$463
High-Speed Rail Property Fund	\$1	\$9	\$3
Reimbursements	-	\$2	\$2
Total	\$383	\$4,612	\$1,468

(Compiled with data from Department of Finance)

High-Speed Rail Finances Deficient by an Absurd 83 Percent. The budget includes \$1 billion for high-speed rail from Cap-and-Invest revenues, consistent with the annual \$1 billion allocation provided by SB 840 (Limón, 2025). Previously, the project received 25 percent of Cap-and-Invest (formerly Cap-and-Trade) revenues annually, which fluctuated between \$750 million and \$1 billion. The change to the funding methodology is an effort to allow the Authority to sell bonds with future revenues as collateral. The Authority intends to securitize nearly \$20 billion the project is slated to receive by selling revenue bonds, resulting in estimated interest costs of over \$10 billion, further increasing the project's price tag. The HSR-IG warns that absent financing, the Authority will run out of funds as early as December 2027, noting the need to finance about \$10 billion before 2031 for the project to remain on schedule.

However, the viability of selling bonds remains uncertain, and the Authority has yet to provide a financing plan. Historically, Cap-and-Invest revenues were volatile, and this revenue stream is unlikely to be strong enough to bond against without a General Fund backstop, which is not currently authorized in law. While this plan may close the funding gap for the Merced-Bakersfield segment, the system-wide project would continue to have a gap of about \$192 billion, not accounting for financing costs, which could require new revenues beyond the amounts expected from Cap-and-Invest. This represents a shortfall of 83 percent, as shown by comparing funds known to be available to the total cost to build project as envisioned when approved by voters. Governor Newsom and legislative Democrats continue to downplay this absurd level of financial failure.

Despite this dim outlook and years of valid criticism, Democrats have yet to offer any plausible plan for how to obtain funds to complete the entire project. Instead, they continue to throw good money after bad in their high-speed rail fantasyland and call on California taxpayers to foot the growing bill.

New Level of Secrecy Authorized in Law. The 2026 Business Plan was criticized by the High-Speed Rail Inspector General (HSR-IG) for lacking transparency and being late, limiting the ability of the public to review and comment on the plan prior to adoption by the Board of Directors. For example, the plan touts a \$1 billion cost decrease in the Merced-Bakersfield segment. However, the California High-Speed Rail Authority (Authority) obscures the specific causes of this decrease. Only a detailed review of the underlying assumptions and supporting documents would reveal the reduction is driven by shortening the segment from 171 miles to 162 miles with a temporary station north of Bakersfield rather than downtown, relocating the Merced station away from downtown, and reducing from full dual track to only having passing tracks near stations. Ignoring the project's troubles, the budget package also includes trailer bill language in SB 169 authorizing project reports and audits to be withheld from the public under the guise of project "risk." Would this type of scrutiny be withheld from the public in the future under the new law?

Transit

State Transit Funding. The state is expected to allocate about \$2.2 billion in funds to local transit entities over the 2026-27 fiscal year. About half of this amount is provided through the State Transit Assistance program, which is funded by taxes on diesel fuels. The remaining funding is spread among five other programs and is derived from Cap-and-Invest funds, General Fund, and other vehicle taxes and fees. The chart below details these programs and funding.

Major State Transit Funding Programs		
(Dollars in Millions)		
Program	Description	
State Transit Assistance	Provides operational and capital support.	\$1,161
Zero-Emission Transit Capital Program	Funds zero-emission transit vehicles or may support operational costs.	\$230
Low Carbon Transit Operations Program	Provides operational and capital support to reduce GHG emissions and improve mobility.	\$200
State of Good Repair	Provides support for maintenance, rehabilitation, and capital projects.	\$140
State Rail Assistance	Provides operational and capital support for commuter and intercity rail agencies.	\$60
Competitive Transit and Intercity Rail Capital Program	Funds capital projects that reduce GHG emissions, vehicle miles traveled, and congestion.	\$418
Major Events Assistance	Funds for transit entities for major events.	\$20
Total		\$2,229

Transit Loans to Bay Area Entities. In February of this year, the Governor and Democrats passed AB 117 as an early budget action, requiring the state to loan up to \$590 million in state transportation dollars to certain Bay Area transit entities to support operations costs. The state loans this money directly to the Metropolitan Transportation Commission (MTC), which then allocates the funds to the local entities. The funds loaned to the MTC are existing funds previously awarded to transit capital projects under the purview of the MTC but not yet spent or fully allocated to projects. Thus, the funds are sitting in accounts earning interest. However, borrowing money already earmarked for certain capital outlay projects to instead cover financial

operations shortfalls introduces a new layer of risk to those projects. Additionally, should the MTC and its transit entities be unable to repay these loans, it is likely they would seek forgiveness. The repayments likely hinge on a pending ballot measure pursuant to SB 63 (Wiener, 2025), slated to be voted on by Bay Area residents in November 2026. If passed, the ballot measure would impose increased sales taxes in Bay Area counties of ½ to 1 percent for a 14-year period to fund transit in those areas. This tax is expected to be a primary source of repayment for the state loans in this bill, if it passes. Should the measure fail and other funding not become available for repayments, the state could withhold future transit allocations to recover outstanding loan amounts.

Natural Resources and Environment

Key Points

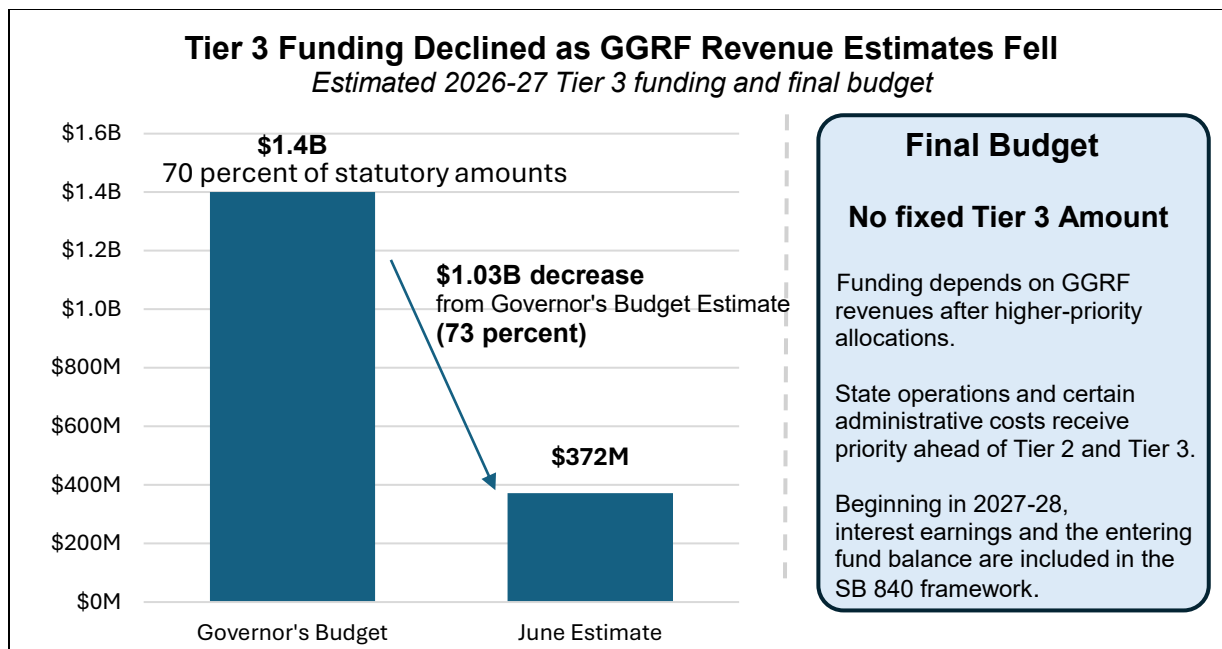
- **Lower Greenhouse Gas Auction Revenues Reduce Funding for Lower-Tier Programs.** Estimated Tier 3 funding fell from \$1.4 billion at Governor's budget to \$372 million by June. Final funding remains dependent on auction revenues available after higher-priority allocations.
- **Final Budget Allocates \$2.7 Billion from Proposition 4.** The final package replaced the June contingent appropriation with specific program allocations, bringing total Proposition 4 appropriations over the first two years to \$6.2 billion of the \$10 billion authorized by voters.
- **Wildfire Prevention Increasingly Relies on Finite and Volatile Funding.** The budget provides \$330 million from Proposition 4 for wildfire prevention, while fire response continues to receive substantially greater ongoing support.

Overall Environment Funding Framework. The 2026-27 budget relies heavily on the Greenhouse Gas Reduction Fund (GGRF) and Proposition 4 bond funds to support natural resources and environmental programs. Both underwent significant changes over the course of the budget process. Declining GGRF auction revenue estimates reduced the amount expected to reach lower tier programs, while the Proposition 4 spending plan shifted from the Newsom administration's proposed allocations in January to a contingent appropriation and, ultimately, specific program appropriations. These changes affected funding for wildfire prevention and response, water, biodiversity, parks, agriculture and other resources programs.

Greenhouse Gas Reduction Fund. The Governor's January budget projected \$3.8 billion in GGRF auction proceeds for 2026-27 and proposed allocating the full amount through the new funding structure established by SB 840 (Limon, 2026). However, even at that revenue level, there was not enough funding to provide the full amounts identified for Tier 3 programs, which include wildfire and forest resilience, safe drinking water, community air protection, housing, and transit. The Newsom administration estimated at that time that Tier 3 programs would receive \$1.4 billion, or 70 percent of their statutory amounts.

The revenue outlook worsened as the budget process continued. By the June budget, the estimated Tier 3 funding had fallen from \$1.4 billion at Governor's budget to \$372 million. Rather than resolve the remaining GGRF spending plan in June, the Legislature opted to defer action until August. The lower revenue estimates also raised questions around how SB 840 should treat interest earnings, fund balances, and state operations costs, all of which affect the amount ultimately available for lower tier programs.

The final budget package made several changes to the SB 840 funding structure. A budget trailer bill, AB 193, gives state operations and certain administrative costs priority ahead of Tier 2 and Tier 3 programs and maintains the \$1 billion High-Speed Rail allocation and \$1 billion discretionary set-aside ahead of Tier 3. For 2026-27, interest earnings remain outside the tiered allocation formula; beginning in 2027-28, interest earnings and the entering fund balance will be included in the funds subject to the SB 840 framework. As a result, actual Tier 3 funding will continue to depend on available GGRF revenues after higher-priority allocations and will be proportionally reduced if revenues are insufficient.



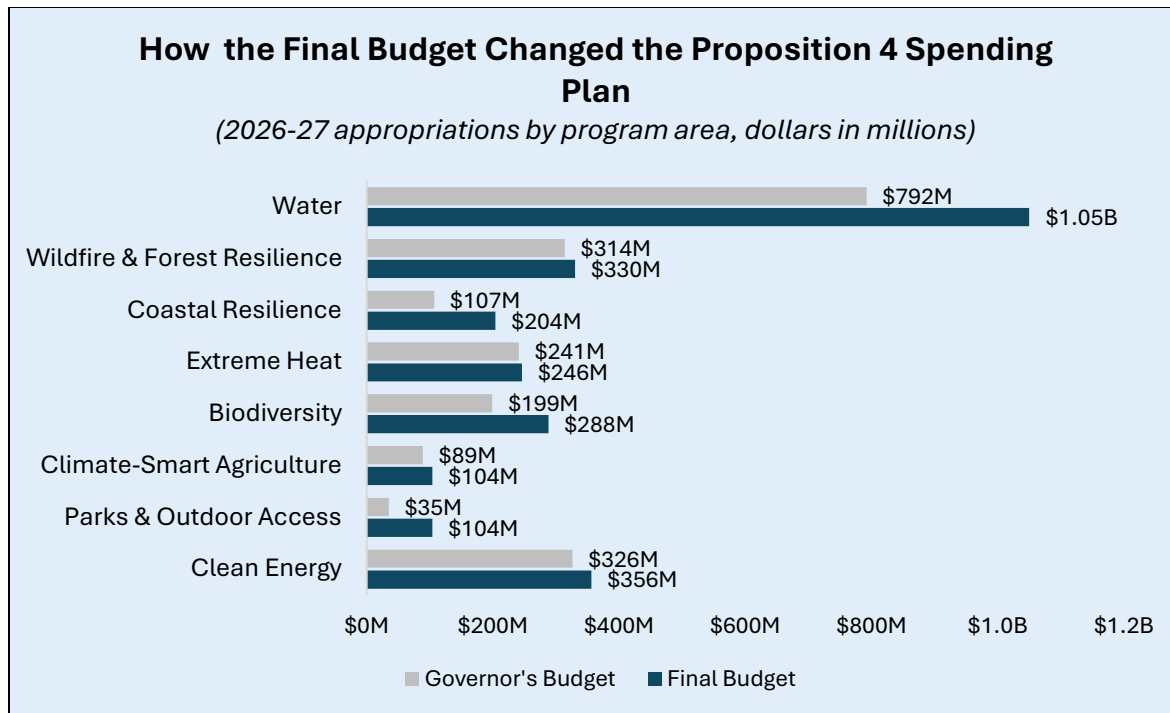
Note: The final budget did not establish a fixed Tier 3 amount. Actual funding depends on GGRF revenues available after higher-priority allocations and is proportionally reduced if revenues are insufficient.

Source: Department of Finance, Legislative Analyst's Office, and 2026-27 budget legislation.

Proposition 4 Bond Spending. Voters approved Proposition 4 in November 2024, authorizing \$10 billion in general obligation bonds for natural resources and climate-related programs. The 2025-26 budget appropriated \$3.5 billion for the first year of implementation. For 2026-27, the Governor initially proposed another \$2.1 billion. The May Revision increased the proposed spending plan to \$2.3 billion.

The Legislature did not adopt the Newsom administration's proposed allocations during the regular budget process. Instead, the June budget included a \$2.6 billion contingent appropriation, leaving the specific allocations to subsequent budget legislation. None of the funding could be spent until those allocations were enacted.

The final budget package replaced the contingent appropriation with \$2.7 billion in specific Proposition 4 appropriations for 2026-27. Funding was provided for wildfire and forest resilience, water supply and flood protection, biodiversity and habitat, coastal resilience, parks, clean energy, and agriculture. Together with the \$3.5 billion appropriated in 2025-26, the state has now appropriated \$6.2 billion of the \$10 billion authorized by voters. Proposition 4 establishes broad funding priorities and accountability requirements, but there is no single statewide framework for weighing competing risks, needs, and expected benefits across these programs. Committing a substantial share of the bond early is not inherently problematic, but it places greater importance on how those initial choices were made: whether the projects selected addressed the state's most consequential needs, and whether sufficient flexibility remains to respond to priorities that emerge over the life of the bond. The chart on the next page illustrates the Proposition 4 budget allocations.



Note: Amounts are rounded. Program areas correspond to Proposition 4 funding categories.

Source: Department of Finance, Legislative Analyst's Office, and 2026-27 Final Budget Package (AB 113)

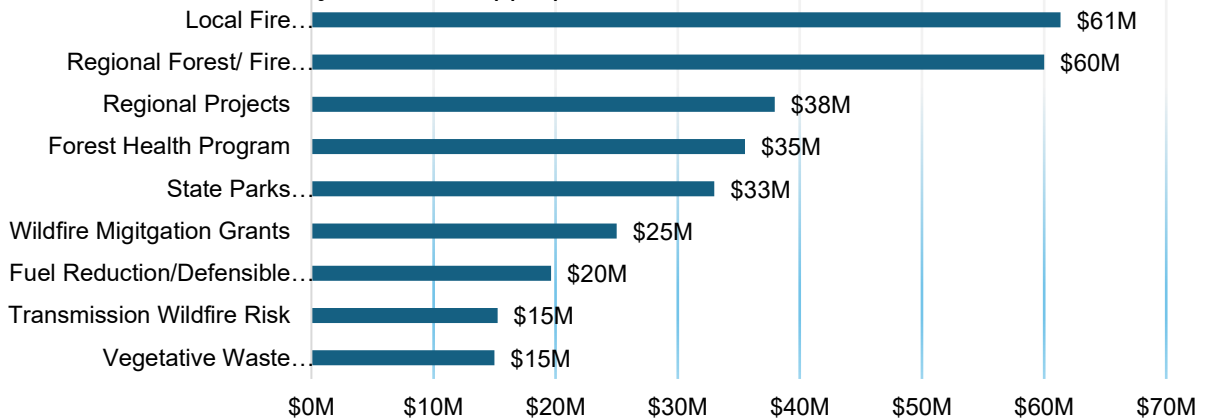
Wildfire and Forest Resilience: Overall, the 2026-27 budget provides \$5 billion for CalFIRE, which includes wildfire response, prevention, resource management, and other departmental activities. Funding for fire protection and wildfire response remains substantially larger than amounts specifically identified for prevention and forest resilience, while prevention increasingly relies on finite or less predictable funding sources, including GGRF and Proposition 4 bond funds.

Major budget actions for fire protection and response include \$1.15 billion GGRF for CalFIRE state operations and fire protection, \$67 million General Fund for increased aviation contract costs, and \$12 million General Fund to expand California Conservation Corps hand crews to a seven-day operational schedule. The \$1.15 billion GGRF appropriation was reduced from \$1.25 billion in the June budget as part of the final GGRF spending plan.

Prevention and resilience funding is considerably smaller and increasingly relies on Proposition 4 and the Greenhouse Gas Reduction Fund rather than the large, one-time General Fund packages provided in prior years. The final budget provides \$330 million from Proposition 4 for wildfire and forest prevention, including local fire prevention grants, the Regional Forest and Fire Capacity Program, forest health, regional projects, defensible space and fuel reduction, wildfire mitigation grants, and wildfire risk reduction for electric transmission infrastructure. These funding sources maintain near-term prevention and resilience spending but provide less certainty in future years. Proposition 4 is finite, while future GGRF support will depend on auction revenues and the amount available after higher-priority allocations.

Proposition 4 Provides \$330M for Wildfire and Forest Resilience

Major 2026-27 appropriations, dollars in millions



Major programs shown: \$303 million of the \$330 total

Note: Amounts are rounded. The chart shows major 2026-27 Proposition 4 Wildfire and Forest Resilience appropriations. Smaller program, workforce, training, and administrative appropriations are not shown.

Source: 2026-27 final budget legislation.

Water Resources. The 2026-27 budget provides \$5.1 billion for the Department of Water Resources and State Water Resources Control Board combined, including \$341 million in General Fund resources. Overall funding is modestly below the \$5.3 billion proposed in the Governor's budget, but the budget process substantially changed how funding was distributed across water programs, largely through the final Proposition 4 spending plan.

The Governor's budget initially proposed \$792 million from Proposition 4 for water-related programs, including drinking water, flood protection, groundwater, recycling, conveyance, and watershed projects administered across several departments and conservancies. The June budget did not settle the final Proposition 4 spending plan, but it did adopt several other significant water actions, including \$25 million General Fund for the Healthy Rivers and Landscapes Program and \$7.9 million General Fund for Delta levee mitigation, as well as funding for the South Delta Gates and Salton Sea projects.

The final budget subsequently resolved Proposition 4 allocations, providing \$1.1 billion for water related programs, more than \$250 million above the Governor's January budget proposal. Major Proposition 4 appropriations included \$263 million for drinking water grants and loans, \$100 million for water recycling and reuse, \$257 million for flood protection, and funding for groundwater recharge, drought and watershed resilience, conveyance repairs, and multibenefit land repurposing. The final spending plan therefore increased near-term water funding above the Governor's proposal, but much of the increase is bond-funded, and thus limited-term, rather than from an ongoing source of support.

Air Quality and Climate Programs. The 2026-27 budget provides \$150 million General Fund for the California Air Resources Board's Community Air Protection Program and \$72 million from the Hino Motors settlement, which resulted from emissions violations involving diesel

engines, for vehicle and engine certification, testing, enforcement, and other air pollution activities.

The budget also establishes a new light-duty zero-emission vehicle incentive program at a lower funding level than originally proposed. The Governor's budget proposed \$200 million, including \$115 million from the GGRF and \$85 million from the Air Pollution Control Fund. The final budget retains the \$115 million GGRF appropriation but reduces the Air Pollution Control Fund contribution to \$21 million, for total funding of \$136 million.

Fish, Wildlife, and Biodiversity. The 2026-27 budget provides Proposition 4 funding for habitat conservation, fisheries, and biodiversity projects administered primarily by the Wildlife Conservation Board and the Department of Fish and Wildlife. Major appropriations include \$198 million for land acquisitions and other biodiversity projects, \$39 million for fisheries enhancement projects, and \$20 million for the Stream Flow Enhancement Program. The final package also included funding for wetlands, wildlife refuges, and other habitat restoration activities.

The acquisition of Golden Gate Fields was one of the more prominent Proposition 4 proposals considered during the budget process. The May Revision proposed \$125 million from four Proposition 4 categories for the acquisition and related shoreline, recreation, wetland, and habitat purposes. The proposal was deferred during the regular budget process and ultimately incorporated into the final Proposition 4 spending plan, which included \$53 million for the acquisition.

State Parks and Recreation. Major actions include \$24 million for operations and transition activities, including \$19.2 million General Fund and \$5.2 million State Parks and Recreation Fund, for Will Rogers State Beach and Dockweiler State Beach, \$29 million from the Off-Highway Vehicle Trust Fund for local assistance grants, \$23 million from Proposition 68, including \$12 million for the Statewide Park Program and \$11 million for Redwoods Rising restoration projects.

The final budget package also provides \$33 million from Proposition 4 for forest health, fire prevention, fuels reduction, and vegetation management and \$6.8 million General Fund ongoing to continue the State Parks Library Pass Program. It also provides \$3.6 million in 2026-27, and \$3.3 million ongoing, for operations at the new Fort Ord Dunes State Park campground.

Food and Agriculture. The 2026-27 budget provides funding for several agriculture, food, and pest prevention programs, including:

- \$25 million General Fund for Farm to School and Local Food Systems initiatives.
- \$23 million General Fund for the Enteric Fermentation Incentive Program.
- \$37 million (\$12 million General Fund and \$25 million Proposition 4) for the Healthy Soils Program.
- \$11 million General Fund for Plant Health and Pest Prevention Programs.
- \$8.3 million General Fund for the Industrial Hemp Program, and \$4 million General Fund for the Invasive Fruit Fly Program.
- \$2.5 million General Fund for the Managed Honeybee Health Program.

The final budget package also provides \$51 million from Proposition 4 for other agricultural programs, including farmers' markets, regional farm equipment sharing, Tribal Food Sovereignty, and agricultural land access. Most of this funding is administered by the California Department of Food and Agriculture, with \$4.6 million provided through the Department of Conservation for agricultural land access.

Several of these actions increase General Fund spending at a time when the state continues to face projected multiyear deficits. The Legislative Analyst's Office specifically questioned the Farm to School and Local Food Systems initiatives and Enteric Fermentation Incentive Program, finding that they did not meet its recommended threshold for new discretionary spending given the state's fiscal condition.

Cannabis Regulation. The 2026-27 budget expands enforcement and regulatory activities at the Department of Cannabis Control. The budget provides \$7.6 million and 16 positions in 2026-27 to establish a sworn officer presence in Northern California and address legal workload, and \$7.3 million and 22 positions to implement new hemp enforcement and regulatory responsibilities established by AB 8 (Aguiar-Curry, 2025). The budget also provides \$7.2 million one-time from the Cannabis Control Fund to begin consolidating the department's cannabis regulatory systems. The final budget also authorizes a temporary loan of up to \$52 million between departments' cannabis funds to address cash-flow timing differences, with the loan required to be repaid within the fiscal year.

Environmental Protection. The 2026-27 budget provides \$70 million in both 2026-27 and 2027-28 for residential cleanup related to the former Exide facility, consisting of \$50 million General Fund and \$20 million from the Lead-Acid Battery Cleanup Fund annually. The funding is expected to support cleanup at 1,000 additional properties. The budget also provides \$3.5 million from the Lead-Acid Battery Cleanup Fund to investigate 330 residential and other sensitive properties near the former Berg Metals facility.

The budget also transfers \$40 million from the Toxic Substances Control Account to the Site Remediation Account for National Priorities List sites, state orphan sites, and statewide cleanup contracts. It shifts \$9.6 million in ongoing General Fund costs across California Environmental Protection Agency boards and departments to alternative fund sources, including costs for Department of Toxic Substances Control emergency response, California Environmental Protection Agency operations, and California Air Resources Board administration. These shifts reduce General Fund costs without reducing the underlying program expenditures.

Pursuing Minimum Supply Inventories for Gasoline Refiners. The budget includes an increase of \$1.9 million and eight positions for the California Energy Commission (CEC) to continue efforts to impose minimum supply requirements on gasoline refiners, as authorized in AB X2 1 (Hart, 2024). These resources are in addition to the \$6.4 million and 14 positions making up the Division of Petroleum Market Oversight at the CEC. Since in-state refining capacity is already inadequate and continues to decline, these regulations are likely to result in refiners withholding gasoline from the market or importing additional supply to meet the inventory requirements. These measures are likely to further increase the price of gas in California, which is already the most expensive in the nation.

Labor and Workforce Development

Key Points

- **California's Unemployment Debt Continues to Challenge Employers.** Despite increased federal employer taxes intended to pay down the principal, California continues to carry a balance of \$19 billion for federal unemployment insurance (UI) loans and must pay \$668 million in interest in 2026-27.
- **No Principal Payment for UI Debt, but Ballot Measure Might Help.** As part of the budget package, ACA 20 placed a measure on the November ballot that, if approved by voters, would authorize—but not require—the state to make additional payments on the UI debt from required budget set-asides.
- **Subsequent Injuries Benefits Trust Fund.** Provides an increase of \$13 million from an employer-funded account to handle claims backlog and support growth within the Subsequent Injuries Benefits Trust Fund. Program reforms included in a trailer bill are expected to limit rising program costs.
- **Employment Development Department (EDD) Modernization.** Includes \$146 million in funding for EDD IT systems, improved service for claimants, and fraud prevention, continuing a five-year modernization plan initially funded in 2022-23.

California's UI Debt Continues to Challenge Employers. California is the only deadbeat state that is still neglecting to pay off its UI debt to the federal government following the pandemic. Employers must pay down the debt principal through increased federal employer taxes, which ratchet up each year until the debt is paid off. As of August, California's unemployment rate was 5.1 percent, tied with two other states for the highest of any state in the nation. California's debt balance of \$19 billion remains relatively flat despite increased payments from these employer taxes, reflective of continued borrowing to pay benefits.

For 2025, employers paid \$84 more per employee, when compared to the baseline federal employer taxes with no UI debt, for a total tax of \$126 per employee. Next year the tax will increase another \$21 for each worker.² Governor Newsom likes to claim he does not support broad tax increases, but by refusing to pay off California's UI debt when a surplus was available, the Governor and other Democrats allowed those tax increases go into effect.

UI Debt Interest Payment. While increased federal employer taxes pay down the principal on the federal UI loans, the state is responsible for the interest payments. The budget includes \$668 million General Fund to pay the annual interest for 2026-27. In total, California has paid \$1.8 billion in interest costs for this debt since interest payments first became due in 2021. These interest payments would have been avoided entirely if the Governor and legislative Democrats had done what nearly every other state did: use past state surplus funds or federal pandemic funds to pay off the federal loan.

No Principal Payment for UI Debt, but Ballot Measure Might Help. Despite racking up interest costs and the additional tax burden on employers, there is no additional principal repayment or payment plan included in this budget to pay down the remaining debt of

² Total federal tax of \$126 per employee for the 2025 taxable year and \$147 per employee for the 2026 taxable year, with taxes for each year due the following January. Absent a UI debt, employers pay \$42 per employee in federal taxes.

\$19 billion. However, as part of the budget package, ACA 20 placed a measure on the November ballot that, if approved by voters, would authorize—but not require—the state to make additional payments on the UI debt from required budget set-asides. This new ballot measure, Proposition 2, would amend the process set up in 2014 by a measure also entitled Proposition 2. Notably, there is nothing preventing the state from making additional payments under existing law, and additional payments will only be made under this mechanism if the majority party chooses to prioritize repaying this debt. Governor Newsom and legislative Democrats have prioritized spending tens of billions of dollars on many other program expansions, rather than paying down the debt that the mandated shut-downs imposed on employers. Perhaps the next governor will prioritize relief for the businesses that are a critical component of California's economy.

Subsequent Injuries Benefits Trust Fund (SIBTF). The budget includes an increase of \$13 million (Workers' Compensation Administration Revolving Fund) and 57 new positions to handle claims backlog and support growth of the SIBTF program. To encourage employment of disabled persons, the SIBTF program was designed to relieve employers of liability for additional permanent disability when an already-disabled worker suffers a subsequent industrial injury on the job. Under the program employers are only responsible for any disability from the subsequent injury, and the SIBTF program pays additional disability benefits if the new injury and the previous disability or impairment result in a permanent disability of 70 percent or more.

Unfortunately, the program has expanded beyond its original intent because of court decisions interpreting existing law broadly, changes to administrative rules, and unintended consequences of prior workers' compensation reforms. Most claims now include common chronic health conditions such as hypertension, sleep apnea, arthritis, diabetes, headaches, acid reflux, asthma, and allergies, as pre-existing disabilities rather than the severe disabilities originally intended. Consequently, average annual claims have grown from 1,000 prior to 2015 to 5,400 in 2024-25. The claims growth has resulted in a backlog of nearly 30,000 pending cases. Likewise, benefit payments have grown from around \$30 million in 2014-15 to an estimated \$530 million in 2025-26, and they are projected to reach \$1.5 billion by 2030, absent program reforms. This program is funded by an assessment on employers, which has grown from \$18 million in 2014-15 to \$860 million in 2025-26.

To rein in the program, the budget package includes reforms in SB 171, a budget trailer bill. These reforms require pre-existing conditions to have been medically documented and labor-disabling at the time of the subsequent injury; require the use of certified physicians; change the methodology used to account for the overlap of injuries; and apply the reforms to pending claims. These changes are expected to restore the program to its original intent and limit the rising cost burden for employers.

Continues Funding to Modernize the EDD. The budget includes \$146 million (\$61 million General Fund and \$85 million from the Unemployment Compensation Disability Fund) for EDDNext, a five-year plan to modernize the EDD. This represents the fifth year of funding, with many projects wrapping up and entering the maintenance and operations phase. EDDNext includes modernization of EDD's benefit systems, improved customer service delivery, simplified forms and notices, implementation of anti-fraud analysis tools, and faster application processing. The modernization effort was long overdue. The majority party knew over a decade ago that EDD's systems were inadequate for its mission, but Democrats prioritized many other programs in the budget. This neglect contributed to EDD's poor performance during the pandemic and the payment of tens of billions of dollars in fraudulent claims.

General and Local Government

Key Points

- **Local Projects Awards Top \$1 Billion.** Provides over \$1 billion General Fund to more than 500 nonprofits or local government programs based on member requests.
- **Journalism Bail-Out Continues.** Includes over \$30 million General Fund to bail out select recipients within the journalism industry.
- **Voter Outreach and Election Activities.** Provides several last-minute budget additions for various voter and election activities.
- **Victims of Corporate Fraud Left Without Protections.** Eliminates the Victims of Corporate Fraud Compensation program and fund once all outstanding claims are paid.
- **Vehicle License Fee.** Provides \$80 million General Fund and promises local governments a mutually agreeable legislative and fiscal solution to revenue shortfalls.

Member Requests and Local Projects. The 2026-27 budget includes just over \$1 billion in funding for a long list of over 500 different member requests, local projects, and last-minute awards. Most of the \$1 billion in awards never received any public discussion in a budget hearing. Out of this total, about \$360 million went to local governments for equipment such as fire or police vehicles or infrastructure projects. Another \$600 million was awarded directly or indirectly to private nonprofits across a wide range of activities. A small portion of the \$1 billion in awards, or about \$54 million, went to specified programs run by the state, though formal proposals for these expenditures were not provided during the budget process.

Examples of awards to local governments include the following:

- \$10 million to the City and County of San Francisco for street resurfacing.
- \$10 million to Los Angeles for emergency repairs to damaged roadways and street substructures in and around Pacific Palisades.
- \$6.2 million to the City and County of San Francisco for the conversion of vacant property to a park.
- \$3 million to the Downtown Sacramento Foundation for student housing tenant improvements.
- \$130,000 to Los Angeles for solar-powered mobile surveillance trailers in Pacific Palisades.

Additional examples of awards to nonprofits appear below under the state department tasked with actually distributing the funds. These funding awards typically stem from requests by individual senators or Assembly members, though the requests themselves and the specific planned use of funds are not typically made public. While many of the awards may be for worthy causes, the budget's lack of transparency in making the awards raises concerns about how the state sets priorities. Also, the lack of specific details about the spending plans makes accountability and program integrity difficult.

The budget takes one very rare step by retracting a nonprofit award made in the June budget bill, SB 113. That bill gave \$6 million to the nonprofit Center Against Racism and Trauma, but media reports subsequently pointed out that this nonprofit was founded by the Chair of the Assembly Human Services Committee and that it had no employees, raising major questions

about the award. However, the secretive nature of the award process means that due diligence prior to the award is virtually impossible.

Journalism Bail-Out Continues. The 2026-27 budget includes over \$30 million for various journalism bail-out efforts. This includes \$10 million General Fund for a second year, with a commitment to provide an additional \$10 million in 2027-28, to provide funds to the journalism industry through the Governor's Office of Business and Economic Development (GO-Biz). The initial funding authorized in 2025-26 has not been allocated, and yet the 2026-27 budget prioritizes even more General Fund. The budget also provides the University of California with \$15 million for unclear journalism "fellowships." Additionally, last-minute budget giveaways within this industry include \$6 million General Fund for ethnic media outreach and public media stabilization grants. It makes little sense to prioritize funding to a program without a clear structure, identified metrics, or a review of previous outcomes. Moreover, there are numerous struggling industries in California, and it is not clear why the budget picks this one for assistance. Providing state funds for journalism also raises significant concerns about the partisanship of the reporting that will be produced.

California Arts Program. The budget provides more than \$50 million dollars in last-minute funding awards for numerous performance art nonprofits, including the items below:

- \$5 million General Fund to the Arts Council for cultural investments.
- \$5 million General Fund to support for LA28 related arts and cultural programming.
- \$5 million General Fund for Protagonist Black, which seeks to foster books-in-homes for marginalized communities.
- \$2.8 million to the Center for the Art of Translation.
- \$2 million to the City of Santa Ynez to support the development of the Santa Ynez Valley Children's Museum.
- \$1.8 million General Fund for the Actor's Gang Prison Project.
- \$1.5 million to the Magic Theatre to support dramatic theater productions.
- \$1 million to the LA Commons to support the Historic South Los Angeles Black Cultural District.
- \$1 million to the San Francisco Girls Chorus.
- \$400,000 to the San Francisco Mime Troupe to support their capacity to reach additional students.

Governor's Office of Business and Economic Development. The budget includes nearly \$56 million for several new programs within GO-Biz, including the examples below. These were added late in the budget process with little or no public discussion.

- \$30 million in one-time General Fund for California's leadership in quantum technologies and deep space research.
- \$12 million for the Performing Arts Equitable Payroll Fund.
- \$6.5 million General Fund for the Black Women's Collective Empowerment Institute,
- \$2 million General Fund for the Black Freedom Fund California Policy Fellowship,

- \$2 million General Fund to support infrastructure and facility modernization at the Urban Business Finance Center,
- \$1 million General Fund for the Black Freedom Fund Trust and Reconciliation Initiative.
- \$1.5 million for the INDSTRY Workforce Development Initiative.
- \$1 million for California Fringe.

California Education Learning Lab. Established in 2018 under the Governor’s Office of Land Use and Climate Innovation (GO-LUCI), the Education Learning Lab was intended to improve learning outcomes and close equity gaps across California’s public higher education segments, particularly in the Science, Technology, Engineering, and Math (STEM) disciplines. Learning Lab awards grant funds to support faculty-led innovations in teaching and learning that leverage technology in the teaching process. The 2025-26 budget provided \$5.3 million for the Lab, but the budget stated intent to eliminate the program and funding beginning in 2026-27. Unfortunately, the elimination was short-lived, and the budget reinstates the program and provides \$4 million General Fund within the Government Operations Agency.

Voter Outreach and Education, Election Activities. The budget provides several additions for various voter and election activities within the Secretary of State (SOS), including the following:

- \$29 million General Fund for counties to increase the number of available staff to tabulate votes, make equipment purchases or technology upgrades, or acquire space to accommodate additional staff or equipment purchases to expedite the vote counting process and strengthen and protect election integrity.
- \$10 million General Fund to counties to provide voter outreach and education before the November 3, 2026, statewide general election, including with respect to the benefits of submitting ballots before election day.
- \$250,000 General Fund for supporting and strengthening administration of the November 3, 2026, statewide election.

While strengthening elections is laudable, the devil is in the details, which are largely absent so far. Funding provided as part of last minute budget negotiations has the potential for abuse, such as the case in 2020 when then-Secretary of State Alex Padilla diverted \$35 million from counties to a public relations firm that touted itself as being on “Team Biden,” ostensibly for voter “outreach.”

Department of Technology-Middle Mile Broadband Initiative. The budget authorizes an augmentation of up to \$22 million General Fund to the Department of Technology for the Middle Mile Broadband Initiative. The budget includes provisional language for quarterly reporting, and a revised Middle-Mile Broadband Network Business Plan to be submitted on or before February 1, 2027.

Victims of Corporate Fraud Left Without Protections. The budget eliminates the Victims of Corporate Fraud Compensation program and fund. It requires the SOS to wind down the fund, and once all outstanding claims are paid, any remaining funding could only be used for other purposes if the Legislature appropriates funding through the annual Budget Act. Eliminating the program would leave future victims of corporate fraud without a meaningful source of protection or compensation. By closing the Victim Corporate Fraud fund to new claimants and winding down its activities, the budget eliminates an important safety net for individuals and businesses

harmed by corporate fraud, particularly when other avenues for recovery may be limited or unavailable. Corporate fraud can be difficult and costly for victims to pursue through private litigation, and without a dedicated fund or comparable mechanism, victims could be left to absorb their losses. The Legislature should ensure that adequate protections and resources remain in place to assist victims of corporate fraud and hold bad actors accountable.

New Funding for Veterans Affairs. The budget includes \$9 million for the Southern California veteran's cemetery in Orange County, \$7 million for a self-reliance program for homeless veterans, \$6 million in new funding for the County Veterans Services Offices, and \$2 million for discharged transgender veterans.

Vehicle License Fee. The budget provides \$80 million General Fund to backfill revenues in three counties with insufficient Education Revenue Augmentation Fund (ERAF). Those counties are San Mateo, Alpine, and Mono County. Additionally, the budget includes legislative intent to work with potentially impacted local governments to develop a mutually agreeable legislative and fiscal solution to address potential local revenue losses from the vehicle license fee (VLF), property tax provisions, and the state ERAF. Any solution would be intended to take effect beginning in 2027–28 and would apply statewide to any county or city experiencing a VLF revenue shortfall resulting from the property tax and VLF provisions. While the budget only expresses legislative intent, it could be interpreted to create an open-ended state obligation to backfill local government revenue losses.

California Military Department. The budget provides \$15 million General Fund in 2026-27 (and includes a commitment to provide funding in 2027-28) for the Drug Interdiction Task Force. The budget also includes \$3.1 million to align pay of state active duty employees, provides \$554,000 and 7 new positions for Consolidated Headquarters staffing, \$8.6 million for pay and benefit adjustments due to poor budget management, and \$5.4 million for Taskforce Rattlesnake, which is a specialized wildland firefighting corps of the California National Guard that works alongside CAL FIRE to prevent and suppress wildfires.

Cannabis. The budget strengthens cannabis and hemp enforcement by providing \$5.6 million annually for cannabis tax audit and enforcement activities and \$3.3 million to expand enforcement of hemp-derived cannabinoids. The budget also maintains regulatory operations at the Department of Cannabis Control and authorizes a temporary \$52 million cashflow loan to address timing differences in cannabis tax revenues.

“Poppy”- California’s Digital Assistant. The budget provides \$1 million to the Department of Technology in 2026–27 to support the scale-up and ongoing operation of Poppy, California’s Digital Assistant, as a shared statewide platform for broader adoption across state departments.

Statewide Debts and Liabilities

Key Points

- **Budgetary Borrowing Increases Despite Revenue Surge.** Budgetary debt increases by \$2 billion as majority party keeps borrowing and spending.
- **Continued Failure to Pay Down Unemployment Insurance (UI) Debt.** Budget fails to reduce the state's UI debt as General Fund interest costs reach \$668 million.
- **November Ballot Could Significantly Affect Borrowing and Repayments.** Ballot includes two new bond measures totaling nearly \$20 billion in potential debt, plus a measure that would revise budget reserves and debt payment requirements.

Rebuilding the “Wall of Debt.” During the Great Recession budget crisis, California borrowed substantially from internal sources, building up \$34 billion in obligations that Governor Jerry Brown labeled the “Wall of Debt.” Republicans had long advocated spending caps or a stronger mandatory reserve policy, and in 2014 Governor Brown proposed a reserve policy that evolved into Proposition 2 with bipartisan legislative amendments. That measure, known best for establishing the Rainy Day Fund, also required payments to reduce the Wall of Debt. By the end of Governor Brown's tenure, that debt amounted to about \$2 billion. Unfortunately, Governor Newsom and legislative Democrats resumed budgetary borrowing in recent years, and the Wall of Debt is now nearly \$30 billion. This new budgetary borrowing has occurred even as the state makes mandated payments to long-term obligations under Proposition 2. The majority party of today does not appear to have learned the lessons of just a decade ago.

Budgetary Borrowing Increases. The 2026-27 budget schedules payments of about \$1 billion in total to reduce various special fund loans, but at the same time, obligations for future tax credit claims are expected to rise by about \$1 billion. Borrowing from schools under Proposition 98, an obligation known as “settle-up,” will increase by nearly \$2 billion as well. The net effect of these changes will raise budgetary borrowing by \$2 billion to reach nearly \$30 billion. This increase would occur even as General Fund tax revenues are increasing by tens of billions of dollars compared to the 2025 Budget Act. The table on the following page summarizes this budgetary borrowing and other state debts and liabilities.

Continued Failure to Pay Down Unemployment Insurance (UI) Debt. As described in the *Labor and Workforce Development* section of this report, the budget provides \$668 million to make the annual interest payment on the state's UI debt, which amounted to \$19 billion as of July 2026. The budget once again fails to include any funds to pay down this massive debt, though Senate Republicans have advocated for paying down this debt since it was incurred.

The default course of action under federal law is for employers to repay the UI debt via a tax surcharge on each employee, which began in 2023. The state itself is legally responsible for the interest on the UI debt, not the principal, but 48 other states paid off their debts entirely by early 2023. California is now the only state that still has a UI debt balance, after the other long-term holdout state, New York, paid off its outstanding \$7 billion debt in June 2025. California's failure to use federal funds or other temporary surplus state funds in 2021 or 2022 to pay down its UI debt directly led to tax increases on California employers that will likely continue for decades to come, further weakening prospects for employment in California.

State and Other Public Debts and Liabilities				
<i>(Dollars in Millions)</i>				
	2024-25	2025-26	2026-27	2026-27: Change from Prior Year
State Budgetary Borrowing				
Special Fund Loans	\$2,089	\$6,032	\$4,967	-\$1,065
Business Tax Limitation		\$6,800	\$7,800	\$1,000
Medi-Cal Loan	\$2,150	\$4,441	\$4,441	\$0
Proposition 98 Deferral Maneuver	\$6,213	\$6,213	\$6,213	\$0
Proposition 98 Underfunding (Settle-Up)	\$1,917	\$1,917	\$3,900	\$1,983
Payroll Deferral	\$1,577	\$1,577	\$1,577	\$0
University Payment Deferrals			\$300	\$300
Middle Class Scholarship Loan	-	\$918	\$700	-\$218
Subtotal, Budgetary Borrowing	\$13,946	\$27,898	\$29,898	\$2,001
State Retirement Unfunded Liabilities ⁽¹⁾				
State Retiree Health	\$82,413	\$92,027	\$91,476	-\$551
State Employee Pensions	\$69,515	\$64,088	\$61,043	-\$3,045
Teachers' Pensions (state portion)	\$8,391	\$10,169	\$10,169	\$0
Unemployment Insurance ⁽²⁾	\$20,468	\$20,564	\$19,160	-\$1,404
Judges' Pensions	\$2,646	\$2,437	\$2,163	-\$274
SB 84 Loan - Surplus Money Invst. Fund	\$2,264	\$1,419	\$863	-\$556
Subtotal	\$185,697	\$190,704	\$184,874	-\$5,830
Other State Liabilities				
Long-Term Bonds - General Obligation & Lease-Revenue	\$80,310	\$80,772	\$80,800	\$28
Suspended Local Mandates	\$549	\$550	\$524	-\$26
Education Mandates	\$785	\$785	\$785	\$0
Subtotal	\$81,644	\$82,107	\$82,109	\$2
Total State Debt	\$281,287	\$300,709	\$296,881	-\$3,828
Other Public Debts				
Teachers' Pensions (Local Districts)	\$77,180	\$75,363	\$75,390	\$27
University of California Liabilities ⁽³⁾				
UC Employee Pensions	\$19,600	\$17,300	\$12,172	-\$5,128
UC Retiree Health	\$21,900	\$20,300	\$19,500	-\$800
Total - Other Public Debts	\$118,680	\$112,963	\$107,062	-\$5,901
(1) Unfunded liabilities for pensions and retiree health are determined by actuarial valuations as well as state budget choices. They may change based on stock market performance or demographic factors, as well as state payments. (2) The state pays the interest on the Unemployment Insurance debt, while employers pay the principal through higher payroll taxes. However, the state could choose to pay down the debt principal, as most other states chose to do following the pandemic-related debt increases. (3) UC liabilities technically belong to the UC system alone, not the State of California, due to UC's constitutional autonomy, but these liabilities are nonetheless included as eligible for repayment under Proposition 2 (2014).				

Total State Debt Decreases Slightly. The state continues to face voluminous debts from various sources, which are estimated to drop slightly from \$301 billion in 2025-26 to \$298 billion by the end of 2026-27, a decrease of \$3.8 billion. The most significant cause of the decrease is the mandated, formula-driven payment of \$3.6 billion toward long-term liabilities imposed by 2014's Proposition 2. This payment is offset somewhat by an increase of \$2.0 billion in budgetary borrowing enacted by the majority party. These state debt totals do not count pension and other retiree debts faced by the University of California (\$32 billion) or teacher pension debts held by local school districts (\$75 billion).

New Proposition 2 Could Affect Budgetary and Unemployment Debt. The Legislature passed Assembly Constitutional Amendment (ACA) 20 on June 25, 2026, to place a measure on the November ballot that would change the rules for deposits and mandatory debt reduction payments. This measure is now Proposition 2 on the ballot, the same number as the 2014 measure that established the current Rainy Day Fund and debt payment requirements.

In addition to various budget reserve policy changes, this new Proposition 2 would add the UI debt and new budgetary borrowing to the existing list of debts that the mandated budgetary set-aside can pay down. Adding the UI debt as an option for debt reduction is a positive step, though there is no actual requirement that the debt payment must be applied to the UI debt. On the negative side, allowing debt payments to go toward future budgetary borrowing is a significant difference from the 2014 version of Proposition 2, which permitted debt payments to only apply to budgetary borrowing *that already existed at that time*. Permitting debt payments for new budgetary borrowing is a misguided loophole that could create a cycle of short-term borrowing and repayments that fail to actually reduce either short- or long-term debts.

Additional Bonds on Ballot. This November's ballot includes two more general obligation bonds that, if passed, would authorize nearly \$20 billion in new general obligation bonds. These two bonds are the following:

- **Proposition 1 – Housing Bond.** Authorizes \$11 billion in general obligation bonds for housing affordability programs, including multifamily rental housing, mortgages for veterans, supportive housing, preservation of existing affordable housing, and downpayment assistance.
- **Proposition 38 – Medical Research Bond.** Authorizes \$8.4 billion in general obligation bonds for immunology and immunotherapy research, half to a single University of California-affiliated nonprofit medical research institute and half to research grants.

If passed, these bonds would be in addition to a total of \$26 billion in bonds authorized between three measures that voters approved in 2024.

Current Bonds and Debt Service. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling \$71 billion and has authorization to issue \$38 billion more. Additionally, outstanding lease-revenue bonds total nearly \$10 billion.³ The state must pay \$7.2 billion in debt service (interest and principal) for these bonds in 2026-27, as required by the constitution and debt covenants.

³ State Treasurer *Debt Highlights*, accessed 9/18/2026 at https://www.treasurer.ca.gov/inside/divisions/PFD/debt-highlights?utm_source=chatgpt.com.

State Debt Comparison. Among the ten most populous states, California has the third-highest debt per capita at \$2,563 according to the State Treasurer's October 2025 report,⁴ behind only Illinois and New York. This debt is four times higher than both Texas and Florida, both of whom have perfect AAA bond ratings. California's ratings of Aa2/AA-/AA from the three major agencies have remained the same since at least 2019.

⁴ State Treasurer *Debt Affordability Report*, accessed 9/18/2026 at <https://www.treasurer.ca.gov/sites/default/files/executive-office/2025-Debt-Affordability-Report.pdf>

Appendix A: Spring and June Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
SB 106	Budget Act of 2025 (Chaptered February 11, 2026) Amends the 2025-26 budget to allocate \$90 million General Fund for no-bid operational grants to abortion clinics. Exempts these grants from both the Public Records Act and from standard state contract procedures.
AB 107	Budget Acts of 2023, 2024, and 2025 (Chaptered February 19, 2026) Exempts climate bonds (Proposition 4) from standard regulatory procedures and makes technical adjustments and fund shifts to the 2025-26 budget package.
AB 108	Budget Act of 2025 (Chaptered May 7, 2026) Appropriates up to \$25 million General Fund to the Department of Health Care Access and Information in order to issue relief grants to hospitals that report less than 10 days cash-on-hand.
AB 109	Budget Act of 2026 (Chaptered June 29, 2026) Initial legislative Democrat budget bill passed to meet the June 15 deadline.
SB 110	Budget Act of 2026 (Chaptered June 29, 2026) Adds six bills to the list of considered to be trailer bills for 2026-27.
SB 111	Budget Act of 2026 (Chaptered June 29, 2026) Primary budget bill to enact the real budget agreed upon by the Governor and legislative Democrats.
AB 112	Budget Acts of 2022, 2023, 2024, and 2025 (Chaptered June 29, 2026) Amends four previous budget acts to (1) extend the availability of response and recovery funds for the January 2025 Los Angeles wildfires; (2) Increase the suspended deposit for 2025-26 from \$1.5 billion to nearly \$7.0 billion; (3) Increase Medi-Cal spending by \$4.2 billion in order to cover a current year cashflow loan; and (4) Make miscellaneous other changes.
AB 117	Transit Loans: San Francisco Bay Area (Chaptered February 19, 2026) Requires the state to loan up to \$590 million in state transportation dollars to specified Bay Area transit entities to support operations costs. The state loan is made directly to the Metropolitan Transportation Commission, which allocates the funds to the local entities

SB 122	Taxation (Chaptered June 29, 2026) Expand the state's sales and use tax to include sales of digital prewritten software, extends temporary (through 2029) and establishes permanent (beginning in 2030) business tax credit cap, requires 100 percent tax on funds that come from the Trump Weaponization Fund, and reduces the initial filing fee by \$400 (50 percent) for LLCs and limited partnerships.
SB 125	Medi-Cal: Managed Care Organization Provider Tax (Chaptered June 29, 2026) Raises managed care organization (MCO) taxes by nearly \$7 billion over four years by imposing a new tax of \$8.85 per month per enrollee on both Medi-Cal managed care plans and commercial health insurance plans, resulting in a \$1.5 billion annual cost to commercial health insurance through 2030, which will be passed along to individuals and employers through higher premiums. Uses most of the revenues as a General Fund budget solution rather than higher reimbursements for healthcare providers.
AB 126	Education Finance: Education Omnibus Trailer Bill (Chaptered July 9, 2026) The is the TK-2 Omnibus, which implements the Proposition 98 framework, including a \$3.9 billion settle-up obligation, delays repayment of the previous maneuver borrowing, and contains significant policy changes that should follow the policy bill process. Some positive aspects of the bill are increased special education base rates, full restoration of the Learning Recovery Emergency Block Grant, and additional funding towards the Student Support and Professional Development Discretionary Block Grant.
SB 135	Higher Education Budget Trailer Bill (Chaptered July 13, 2026) Provides hundreds of millions of dollars for various community college programs, plus a new mandate for community colleges to provide 14 weeks of pregnancy or abortion leave.
AB 150	Early Care and Education (Chaptered June 29, 2026) Major positive changes in this bill include providing the Department of Social Services with more fraud and overpayment prevention tools, updates to child care site safety, infrastructure grants for child care providers impacted by disasters. However, the bill also provides indefinite subsidized preschool eligibility for families regardless of income changes, allows the transfer of child care funding across certain programs, and continues to apply a cost-of-living adjustment increase to the cost of care plus payments.
AB 152	Human Services (Chaptered June 29, 2026) Significant provisions include Tribal Foster Care Prevention Services, In-Home Supportive Services Collective Bargaining changes, expanding undocumented immigrant services, and fiscal relief from increased administrative costs for counties due to H.R. 1.

SB 163	Developmental Services (Chaptered July 13, 2026) Strengthens Department of Developmental Services oversight of the state's 21 regional centers; removes bureaucratic hurdles that hamper disabled individuals from accessing employment assistance services; tinkers with regional center governing boards by imposing specific competency standards on board members; extends a public contract code exemption for one state contractor to do continue an analysis of vendor reimbursement rates; and solidifies an overtime pay rule that misses an opportunity for potential program savings.
SB 164	Health (Chaptered June 29, 2026) Implements the H.R. 1 requirements for counties to conduct Medi-Cal eligibility redeterminations every six months as well as to enforce work and community engagement requirements; imposes a moratorium on the licensure of new home health agencies in order to combat Medi-Cal and Medicare fraud; requires health plans to cover the treatment of menopause symptoms; expands the amount of state funding available for abortions and gender transition services; removes 200,000 <i>legal</i> immigrants (like refugees) from full-scope Medi-Cal benefits while maintaining full-scope Medi-Cal coverage for more than 1.5 million <i>illegal</i> immigrants; delays until July 2027 various budget solutions; and decreases the Medi-Cal asset eligibility limit imposed on seniors and the disabled from \$130,000 to \$21,000 effective July 1, 2027.
SB 165	Skilled Nursing Facilities: Reimbursement Rates (Chaptered July 6, 2026) Extends for one year the existing Skilled Nursing Facility (SNF) Quality Assurance Fee, a Medi-Cal provider tax levied on SNFs that is used to draw down matching federal funds in order to increase the reimbursement rates to free standing SNFs.
SB 166	Public Resources Trailer Bill (Chaptered July 6, 2026) Changes State Fire Marshal training-fee authority and hazardous-waste fee administration, increases the maximum plastic market-development payment from \$150 to \$250 per ton, extends the payments through 2028–29, and authorizes grants for in-state plastic recycling infrastructure.
SB 168	Energy Trailer Bill (Chaptered July 13, 2026) Creates a new zero-emission vehicle incentive program at the California Air Resources Board, authorizes the use of funds previously appropriated for the Distributed Electricity Backup Assets Program to also be used for the Demand Side Grid Support Program, provides a salary increase for the vice chair of the California Energy Commission, and makes other technical changes.

SB 169	Transportation Budget Trailer Bill (Chaptered July 13, 2026) Includes provisions allowing audits of the high-speed rail project to be hidden from the public, diverts road money to a workforce development program, creates an automated enforcement program for Olympic VIP lanes, establishes parameters for the Department of Motor Vehicles (DMV) to participate in the federal REAL ID State-to-State Verification System, expands the Mobile Driver's License Program, and enacts various changes within DMV's operations to enhance efficiency.
SB 170	Governor's Reorganization Plan No. 1 of 2025 (Chaptered June 29, 2026) Codifies several components of the Governor's housing and homelessness reorganization plan approved as part of the 2025 Budget Act, including the creation of a new Housing and Homelessness Agency.
SB 171	Labor (Chaptered July 13, 2026) Makes significant reforms to the Subsequent Injuries Benefits Trust Fund Program, requires annual employer assessments to be submitted electronically, streamlines workforce development program reporting timelines, and provides \$1 million to implement the Fair Share from Big Corporations Act.
SB 172	State Government (Chaptered July 13, 2026) Eliminates the current sunset date for the Projected Temporary Surplus Account, making the account permanent, reinstates the California Education Learning Lab within the Government Operation's Agency, modifies certain fees for the State Athletic Commission, and requires an independent evaluation of the current Next Gen 911 plan and quarterly progress reports.
SB 174	Courts (Chaptered June 29, 2026) Clarifies existing law regarding when remote court appearances may be disallowed and extends the sunset on statute authorizing remote appearances from January 1, 2027 to January 1, 2032. Extends the deadline for superior courts to provide court users access to lactation rooms from July 1, 2026 to July 1, 2029.
SB 177	Medi-Cal: Fair Share from Big Corporations Act (Chaptered July 6, 2026) Creates the "Fair Share from Big Corporations" Act which requires the Department of Finance to research and report to the Legislature by March 1, 2027, options for "holding the state's largest corporations accountable" for the costs of their employees who are on Medi-Cal, including the imposition of a "fair share" payroll tax on employers with at least 250 employees.

AB 179	Housing (Chaptered July 13, 2026) (1) Makes significant changes in the treatment of local development impact fees on affordable housing projects, including requiring financial participation from local agencies; (2) Establishes a set aside of the state's private activity bond allocation for affordable housing; (3) Creates a coordinated housing finance system which is intended to establish a "one-stop shop" for developers by establishing the new Housing Development Finance Committee; (4) Provides requirements for the disbursement of \$900 million for a 7 th round of flexible homelessness funding; and (5) Establishes the Disaster Rebuilding program within the California Housing Finance Agency, among other changes.
SB 180	Taxation Trailer Bill (Chaptered July 13, 2026) Establishes a dedicated \$300,000 set-aside for owners of manufactured homes to participate in the Property Tax Postponement program, extends the Cal Competes Tax Credit program through 2035, and provides tax conformity with federal law for new tax-deferred investment accounts.
AB 181	Education governance: State Board of Education (Chaptered July 10, 2026) This bill reorganizes California's education governance structure by establishing the role of the Education Commissioner, appointed by the Governor and confirmed by the Senate, and shifts the management of the Department of Education (CDE) from the Superintendent of Public Instruction (SPI) to the commissioner on January 1, 2027. Adds the SPI as a voting member of the State Board of Education (SBE) and the Board of Governors of the California Community Colleges. The bill also transfers numerous statutory duties from the SPI to the commissioner.
AB 182	November 3, 2026, Statewide General Election: Ballot Measures (Ch. June 29, 2026) Prescribes the ballot placement and numbering for five ballot measures for the November 3, 2026, statewide general election.

Appendix B: End-of-Session Trailer Bills

Bill	Subject (Date Enrolled or Chaptered)
AB 113	Budget Act of 2026: Budget Bill Jr. (Chaptered September 18, 2026) Amends the Budget Act of 2026 to add \$2.7 billion in Proposition 4 climate bond spending and hundreds of millions of dollars in new General Fund spending, including district-specific legislative priorities.
SB 114	Budget Act of 2025: (“Prior Year” Budget Bill Jr.) (Chaptered August 28, 2026) Amends the Budget Acts of 2022, 2023, 2024, and 2025 to make minor adjustments to previously awarded local priority spending projects.
SB 133	Education Omnibus Trailer Bill (Chaptered September 18, 2026) Makes various technical, clarifying, and minor policy changes pertaining to Dream Resource Centers, Community Schools Program, Golden State Pathways Program, and other programs, as well as technical and clean-up changes related to the 2026 Budget Act.
AB 167	Higher Education Trailer Bill (Chaptered Sept. 18, 2026) Sets out revised terms for the community college student housing lease-revenue bond program, expands the uses for the Student Services Support Grant for community colleges, and fixes errors.
AB 173	Health (Chaptered Sept. 18, 2026) Makes policy changes to several health programs including the 988 Suicide Hotline, Medi-Cal dialysis coverage, Medi-Cal program integrity enhancements, and a transfer of Palomar Health District hospital assets to a joint powers authority (JPA) involving the University of California San Diego health system.
AB 175	Developmental Services Community Placement (Chaptered Sept. 18, 2026) Requires the Department of Developmental Services (DDS) along with the 21 regional centers (RCs) to enhance the specialty services and supports available in the community in order to potentially transition more complex needs individuals away from the departments' secure locked treatment facilities and into community settings. Requires the RCs to conduct robust annual assessments of these individuals' needs and recasts existing funding streams for RCs to begin this task.

SB 178	Public Resources Trailer Bill (Chaptered Sept. 18, 2026) Establishes a Proposition 4-funded farmland access program, provides an additional \$60 million for community conservation corps recycling and litter-reduction grants, temporarily suspends the existing grant cap, and appropriates \$150,000 for a Point Lobos traffic, safety, and public-access report.
AB 184	State Government (Chaptered Sept. 18, 2026) Expresses intent to work with counties and other impacted local governments to develop a solution to address potential local revenue losses from the vehicle license fee, property tax provisions, and the state Educational Revenue Augmentation Fund, closes the Victims of Corporate Fraud Compensation Fund to new claims, reduces, the amount of bond indebtedness authorized under several bond acts, makes changes to the State Leadership Accountability Act, and creates a limited exception to the state's obligation to retain property acquired through a land exchange for a specified development purpose.
SB 186	Income Taxes: Film Tax Credit (Chaptered Sept. 19, 2026) Provides an expedited (two years) and higher (95 percent) tax credit refund to a qualifying production, allows a company that buys a film tax credit to use the purchased credit without having that credit count towards the company's \$5 million business tax credit cap, exempts independent productions from the recently enacted business tax credits caps, and extends the carry forward period from nine years to 15 years.
AB 187	Labor and Employment Trailer Bill (Chaptered Sept. 18, 2026) Makes several non-budget policy changes, including addressing goat herder compensation, union orientation rules for public employers, and other issues.
AB 190	Early Care and Education (Chaptered Sept. 18, 2026) Makes a number of new policy and administrative changes pertaining to preschool and subsidized child care programs, including continuing the implementation of the costly alternative methodology, as well as technical and clean-up changes related to the 2026 Budget Act.
AB 191	2028 Olympic and Paralympic Games (Chaptered Sept. 20, 2026) Temporarily exempts shooting sport competitors in the Olympic Games from various California gun laws. Exempts contests conducted under the supervision or control of an entity authorized by the International Olympic Committee or the International Paralympic Committee from regulation by the State Athletic Commission. Creates a temporary, statewide building-code exception for structures used in connection with the 2028 Olympic and Paralympic Games in Los Angeles. Allows a qualifying film or television production that is relocated due to the Olympics to retain its tax credit, as specified.

AB 192	Energy: Transmission Infrastructure Accelerator: Financing (Ch. Sept. 18, 2026) This bill makes various changes to the Transmission Infrastructure Accelerator Program, a state financing program administered by the Governor's Office of Business and Economic Development for electrical transmission infrastructure. Because this bill changes the definition of an "eligible transmission project" for the purposes of qualifying for the existing 20 percent tax credit on accelerator projects, some projects may no longer qualify for the tax credit, making this measure a 2/3 vote bill.
SB 193	Greenhouse Gas Reduction Fund (Chaptered Sept. 18, 2026) Restructures the Greenhouse Gas Reduction Fund allocation framework, includes interest earnings and the entering fund balance in available funding, gives priority to state operations and administrative costs, and provides ongoing funding for high-speed rail, a \$1 billion legislative reserve, and specified climate programs.
SB 194	Transportation (Chaptered Sept. 18, 2026) Extends security protection provided by the CHP to the immediate family of a current or former constitutional officer or legislator. Prohibits the planned reduction of lanes on a local street project in Los Angeles without a vote of the city council.
SB 195	Income Taxes: Exclusions Wildfire Loss Payments (Ch. Sept. 18, 2026) Extends the exclusion of wildfire loss mitigation payments from California taxable income for tax years through 2030, expands the income tax exclusion to grants provided through Proposition 4 wildfire mitigation programs, and requires the Office of Emergency Services to provide a report to the Legislature by December 1, 2031 on the amount of grant funding distributed and the number of recipients who may qualify for the tax exclusion.

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