



Highlights and Analysis of the 2026-27 Governor's Budget

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**SENATE REPUBLICAN
FISCAL OFFICE**



Contents

Executive Summary	1
Overall Budget	9
Tax Policy	15
Health.....	16
Human Services and Child Care	19
Housing and Homelessness	22
TK-12 Education.....	25
Higher Education	28
Public Safety and Judiciary.....	30
Transportation.....	33
Wildfire and Climate Issues.....	35
Labor and Workforce Development.....	38
General Government.....	40
Senate Republican Fiscal Staff Assignments	42

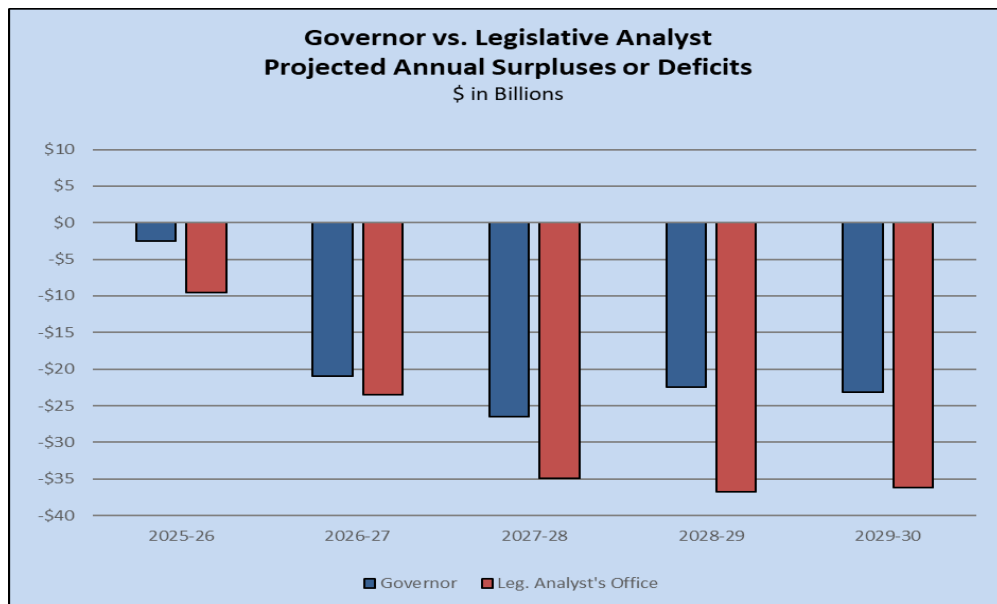
Executive Summary

Overview: Stumbling Forward for Now on an AI High. Governor Newsom is counting on a recent surge of Artificial Intelligence (AI)-fueled revenue to paint an optimistic picture of state taxes and to continue recent reckless spending patterns. However, a lack of any ongoing spending restraint in the Governor’s new budget proposal means that massive deficits will continue for the foreseeable future, even under the Governor’s rose-tinted projections. Meanwhile, the budget largely fails to address key issues that Senate Republicans recently [outlined](#) in a budget priority letter, including public safety, fire prevention, and affordability.

Governor’s Revenue Forecast Dramatically Higher than Nonpartisan Estimate. The Governor’s budget estimates that General Fund revenues will be \$42 billion higher over the three years ending in 2026-27 compared to levels assumed in last summer’s enacted budget. This includes total General Fund revenues of \$228 billion in the current 2025-26 fiscal year, which are higher than the enacted budget level by \$19 billion. General Fund revenues then would grow by a meager 1.0 percent to reach \$230 billion in 2026-27, which is \$17 billion higher than forecast in last year’s budget package.

In November 2025, the nonpartisan Legislative Analyst’s Office (LAO) projected that General Fund revenues would exceed budgeted levels over the three-year window by \$11 billion, roughly one-fourth of the Governor’s estimate. Both estimates attribute the increases to strong technology stock market and capital gains performance, particularly associated with California’s AI sector, but while the LAO cautions that the AI-driven gains are not likely to last, the Governor appears to be going all-in on a sustained AI boom to prop up his spending plans.

Massive Deficits Projected for Years to Come. The Governor claimed the General Fund deficit for 2026-27 would be \$2.9 billion, while the LAO’s estimate is roughly six times higher at \$18 billion. Both sources project long-term unsustainable budgets for years to come, as illustrated in the chart below.



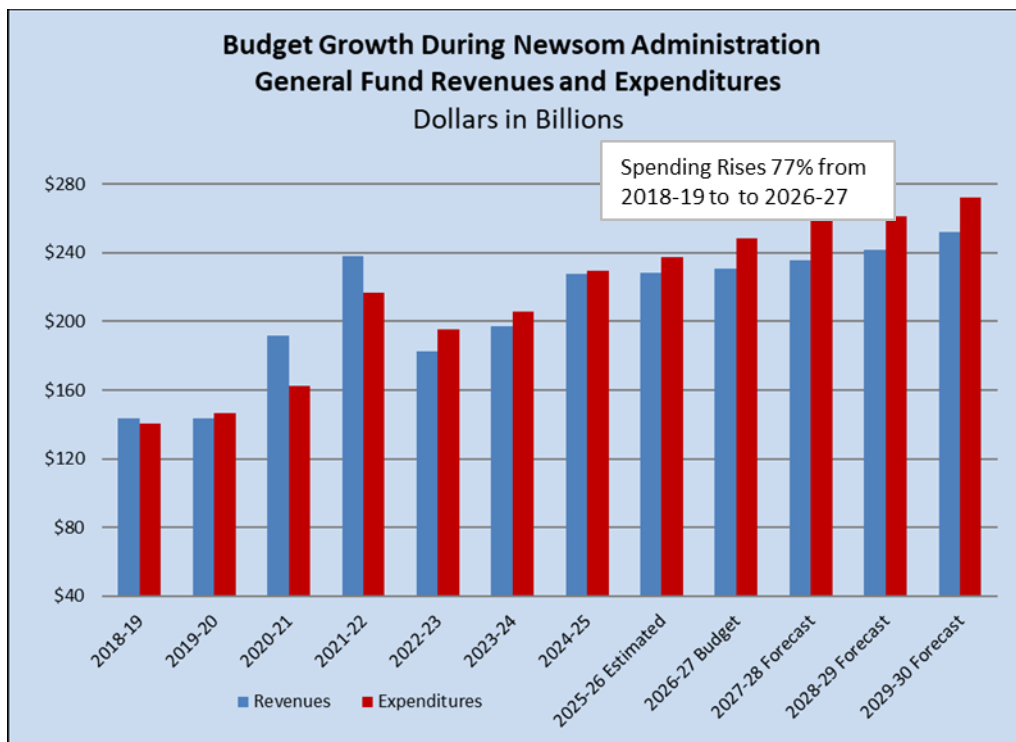
As seen in the chart, the Governor’s budget projects annual operating deficits ranging from \$22 billion to \$26 billion each year through 2029-30. The LAO forecasts even higher deficits each year. Notably, these repeated deficits are occurring during a period of tax revenue growth, not during a recession, a remarkable result that reflects reckless budgeting choices made by Governor Newsom and supermajority Democrats in the Legislature in recent years.

No Plan for A Sustainable Budget as Deficit Solutions Rely on Borrowing and Reserves.

The Governor’s budget includes several proposals totaling \$9.5 billion to help paper over the 2026-27 budget deficit, but \$8.4 billion of these consist of one-time actions like borrowing (\$5.6 billion for a school funding “settle-up” obligation) and further use of reserves (\$2.8 billion). The Governor’s Director of Finance indicated there would be additional proposals in the May Revision to address the 2027-28 deficit, but there is no indication at this time of any plan to return California’s budget to a sustainable path beyond Governor Newsom’s tenure.

Rapid Expenditure Growth Continues. General Fund expenditures under the Governor’s proposal would reach a revised total of nearly \$238 billion in the current fiscal year, which is \$9.3 billion above the level enacted seven months ago for the 2025-26 budget. Proposed General Fund expenditures would reach \$248 billion in 2026-27, which is \$20 billion above the enacted 2025-26 level. This increase is driven largely by the growth in Proposition 98 school spending (\$9.1 billion) and in Health and Human Services programs (\$6.4 billion). When counting all state funds, such as gas taxes and Cap-and-Invest funds, the 2026-27 budget would reach \$349 billion, an increase of about \$6.5 billion from the revised current year.

As illustrated in the chart below, spending has risen by 77 percent during Governor Newsom’s tenure and would continue to outpace revenues every year for the foreseeable future.



Reserve Use Expanded in Current Year; Small Deposit for 2026-27. The proposed budget would suspend a deposit of \$2.9 billion to the Rainy Day Fund that would otherwise be required

by the constitution in 2025-26, while maintaining last year's action to withdraw \$7.1 billion. The budget would then deposit \$3 billion to the Rainy Day Fund in 2026-27 in accordance with constitutional requirements. These actions would raise the Rainy Day Fund balance to \$14 billion by the end of 2026-27, which is a relatively low 6.2 percent of General Fund revenues. Total reserve balances would amount to nearly \$23 billion by the end of 2026-27.

Housing and Homelessness

No New Funding for Local Homelessness Programs. The Governor's budget does not include any new funding for local homelessness programs above what was included in the 2025-26 budget agreement (\$500 million General Fund). The January budget continues to seek enhanced accountability and performance requirements but fails to include specific details, passing the buck to the Legislature to determine what those priorities should include.

No New Funding for Housing Programs. The Governor's budget fails to include additional General Fund for the state's numerous housing programs. Last month Senate Republicans issued a letter setting out budget priorities for the upcoming year, including lowering costs for renters and helping more Californians buy homes. Unfortunately, the Governor's budget fails to provide any funding for the expanded renter's tax credit (AB 130, a 2025 budget trailer bill, expanded the tax credit subject to funding), which could provide some much-needed relief to Californians experiencing some of the highest rental costs in the nation.

TK-12 Education

Proposition 98 Education. Proposition 98 funding for TK-12 schools and community colleges in 2026-27 is \$126 billion. The revised 2025-26 Proposition 98 guarantee is calculated at \$121.4 billion, but the budget proposes to fund the guarantee at only \$115.9 billion, creating a settle-up obligation of \$5.6 billion. Proposition 98 spending per pupil would be \$20,512 in 2026-27 and \$27,418 per pupil from all funding sources. According to the Department of Finance, this is a Proposition 98 increase of 75 percent compared to 2018-19 and a 61 percent increase when accounting for all funds.

Local Control Funding Formula. The Governor's budget proposes a \$2 billion increase in the Local Control Funding Formula (LCFF). This reflects a 2.41 percent cost of living adjustment (COLA) and population growth adjustments.

Proposition 98 Reserve. The budget reflects a revised balance in the Public School System Stabilization Account of \$4.1 billion at the end of 2026-27. This reflects mandatory revised deposits of \$3.8 billion and \$424 million in 2024-25 and 2025-26 respectively, and a mandatory withdrawal of \$407 million in 2026-27. The budget also proposes to include a discretionary deposit in 2025-26 of \$240 million. The balance over the three-year budget window triggers the previously authorized (but ill-advised) 10 percent cap on local school district reserves in 2025-26 and 2026-27.

Special Education Base Rate Increase. The budget includes a proposal to provide \$509 million ongoing Proposition 98 General Fund to increase the special education base rates. The Department of Finance highlights that this increase is in response to the growing number of students in special education over the years.

Student Support and Professional Development Discretionary Block Grant. The Governor's budget proposes \$2.8 billion one-time Proposition 98 General Fund for the Student Support and Professional Development Discretionary Block Grant. This is in addition to \$1.7 billion provided in the 2025-26 budget. Providing a one-time discretionary block grant provides schools with more flexibility to cover costs that are specific to their individual priorities without creating ongoing funding pressure.

Community Schools Expansion. The Governor's budget proposes \$1 billion ongoing Proposition 98 General Fund to expand the community schools model. Community schools are public schools that seek to provide community partnerships that integrate education with whole family and child development. This includes, but is not limited to, integrated supportive services like mental health, social services, home visits, professional development, and extended learning time and opportunities.

Charter School Accountability. The Governor's budget notes that new requirements for charter schools will be proposed. Additional details on these requirements were not available at the time this summary was written and will likely be provided in trailer bill language at a later time.

Higher Education

University Compact Increases Partially Restored. The Governor's budget would provide the previously promised 5 percent increase representing Year 5 of the current compacts between the Governor and the University of California (UC) and California State University (CSU) systems. This increase amounts to \$254 million for the UC and \$265 million for the CSU. Additionally, the budget would provide a portion of the previously delayed Year 4 increase, amounting to \$96 million for UC and \$101 million for CSU. However, the budget would continue to delay the remainder of the Year 4 increase, totaling \$241 million for UC and \$252 million for CSU, as well as \$31 million for UC intended to replace nonresident undergraduate tuition.

Restoration of Base Budget Cuts Delayed. The 2025 Budget Act cut base funding for UC and CSU by 3 percent, or \$274 million combined. The budget also provided a no-interest loan to the two systems to help mitigate the effects of the cuts. The Governor's budget now proposes to delay restoration of those 3 percent base cuts 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.

Middle Class Scholarships Cut in Half. 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. The budget package also established the goal that MCS would pay 35 percent of students' unmet expenses, after considering other resources. The Governor's budget now proposes to reduce the program funding by about half (\$541 million) and to lower its goal to meet only 17.5 percent of students' unmet expenses. Since the MCS program is now budgeted one year in arrears, the proposed savings of \$541 million would appear in the 2027-28 budget.

Community Colleges Funding and Enrollment Increases. The community college budget would increase by \$1.3 billion (9 percent) in 2026-27 to \$15.4 billion in accordance with Proposition 98. The Governor's budget notably includes various adjustments totaling more than \$700 million for the Student-Centered Funding Formula with the intent to support overall enrollment growth of 1.5 percent.

Health

Governor Favors Helping Planned Parenthood Over Saving Hospitals from Closure.

Despite many at-risk hospitals in need of funding to stave off closures, the Governor's top healthcare priority is quickly providing \$60 million in new General Fund to prop up abortion providers like Planned Parenthood. This funding is on top of \$146 million in special funds currently in the budget for abortion provider grants. Shockingly, the Governor requests that the Legislature expedite this new \$60 million through an early 2026 budget bill. Last month, Senate Republicans issued a letter setting out budget priorities for the upcoming year, including a \$300 million request for hospitals at-risk of closure. The Governor proposed no funding to save these hospitals.

Despite Drop in Caseload, Medi-Cal Budget Still Grows Due to Undocumented Care. The Governor's budget estimates that Medi-Cal enrollment will decrease by roughly 500,000 individuals in 2026-27, yet the General Fund spending will grow by \$4.4 billion over the June 2025 Budget Act to a record-high \$49 billion in 2026-27. This includes more than \$12 billion General Fund to cover the annual costs of the estimated 1.7 million undocumented individuals currently enrolled in Medi-Cal, meaning that roughly one out of every four General Fund dollars in Medi-Cal pays for free care to the undocumented.

Some Legal Non-Citizens Moved Off Full-Scope Medi-Cal. While the budget includes \$1.9 billion in General Fund savings from previously enacted budget solutions to freeze new enrollment and decrease benefits to undocumented individuals, the Governor's budget includes \$786 million in additional General Fund savings by moving an estimated 200,000 temporarily legal non-citizens (such as individuals seeking asylum) away from full-scope Medi-Cal benefit eligibility and towards emergency and pregnancy only restricted-scope benefits. This creates an odd scenario whereby those non-citizens who are here legally aren't covered, but those who are here illegally are covered.

Governor Doesn't Prioritize Care for Vulnerable Populations. The Governor's budget fails to include any new or ongoing funding for court-ordered substance use treatment as required by Proposition 36, nor does it provide additional funding for critical air ambulance services and necessary care for medically fragile children. Californians deserve these items to be funded as was outlined in the Senate Republican Caucus budget priorities letter.

Human Services and Child Care

Department of Social Services Total Budget. The Governor's proposed budget for the Department of Social Services is \$59 billion (\$26 billion General Fund) for 2026-27, a General Fund increase of \$1.3 billion from the 2025 Budget Act

CalFresh Cost Sharing and Eligibility Changes. The 2025 federal budget reconciliation bill, H.R. 1, shifts a portion of CalFresh administrative costs to California. The increased costs are estimated to be \$383 million, reflecting a federal cost sharing change from 50 percent to 25 percent. CalFresh "benefits" cost sharing will not begin until October 2027, and the Newsom administration continues to monitor that potential fiscal impact. Early estimates have put the impact up to \$2 billion. The budget also includes \$66 million in reduced General Fund costs in 2026-27 due to federal eligibility changes.

In-Home Supportive Services (IHSS) Changes. The Governor’s budget includes several modest reductions related to IHSS, including \$86 million General Fund to conform the IHSS residual program with the timing of Medi-Cal coverage, \$3.5 million General Fund to eliminate the Backup Provider System, and \$234 million to remove the state’s share of costs for growth in IHSS hours per case. Details have not been provided on how the state’s share of the IHSS hours per case growth will be “removed”. The Newsom administration indicates that discussions are underway with counties on how to achieve this.

Child Care Increases and Infrastructure. The Governor’s budget includes \$6.8 billion (\$5.1 billion General Fund) for child care and development programs in 2026-27. The budget includes \$89 million to provide a cost-of-living (COLA) adjustment for Department of Social Services child care programs. The budget also includes an increase of \$12 million one-time Proposition 64 (marijuana taxes) for child care infrastructure and notes that the funding is specifically for fire-impacted communities.

Silent on Potential Fraud in Health and Human Services. Recent reports have documented widespread fraud in various health and human services programs in other states, including allegations of \$1 billion in fraudulent claims in Minnesota. Senate Republicans called for greater anti-fraud efforts in their recent priority letter, but the Governor’s budget proposal is notably silent on potential fraud mitigation or investigations across health and human services programs.

Public Safety

Governor Rebuffs Voter-Enacted Crime Reduction Initiative...Again. Last month, Senate Republicans issued a letter setting out budget priorities for the upcoming year, including sufficiently funding Proposition 36. Unfortunately, the Governor’s budget fails to provide any new funding for this key public safety initiative that 68 percent of Californians voted to support in 2024. Notably, there is still no funding proposed for county probation departments that play a critical role in ensuring offenders’ adherence to court-ordered treatment under the measure. Equally notable, the Governor’s plan does not provide any additional funding for county behavioral health departments beyond the initial \$50 million in 2025-26, which is somewhere between eight and fifty percent of the identified need. It seems he is intent on ensuring the failure of this important public safety initiative.

Funding for State to Sue Federal Administration Expands. The 2024-25 Budget included \$25 million one time, available through June 30, 2026, for the state (led by the Attorney General) to sue the federal administration in order to slow or stop the President’s agenda. In addition, the 2025-26 budget provided nearly \$17 million annually for this purpose. The Governor’s proposed 2026-27 budget adds \$10 million to the ongoing \$17 million (for a total of \$27 million annually) for the Attorney General to litigate against the federal administration. To date, the Attorney General has filed 53 cases against the current administration in just under a year.

Fentanyl Interdiction Funding Continues. A bright spot in the Governor’s 2026-27 budget proposal is that it would continue funding for the California Military Department to support law enforcement efforts to interdict illicit trafficking of fentanyl within the state that is set to expire at the end of 2025-26. The budget includes \$30 million (\$15 million in 2026-27 and \$15 million in 2027-28) to continue this effort for another two years.

Resources and Environment

Wildfire Is Now a Permanent Cost for Taxpayers. The Governor's Budget shows that wildfire and climate spending are no longer temporary or episodic. They are now built into California's ongoing cost structure. Wildfire response is treated as a standing state responsibility rather than an emergency expense. CAL FIRE is funded at \$5.3 billion with more than 14,000 permanent positions, locking in payroll, overtime, and pension costs that continue to grow regardless of fire activity.

Costs Shifted to Cap and Invest and Households. To support these obligations, the budget moves away from stable General Fund support and relies more heavily on Cap-and-Invest revenues and borrowing. In 2026–27, \$1.25 billion in Cap-and-Invest revenue is used to backfill CAL FIRE wildfire costs. Those costs are passed through to households through higher electricity, fuel, and energy bills, raising the cost of living while tying permanent wildfire spending to volatile auction revenue.

Bond Funds Replace General Fund Financing. The budget also commits \$2.1 billion in Proposition 4 climate bond funds for wildfire prevention, forest health, water, and environmental programs. This approach replaces prior General Fund support with debt, shifting routine program costs onto future taxpayers and leaving the state responsible for long-term debt service after project funds are spent.

Includes One-Time Spending on Top of Ongoing Commitments. On top of these commitments, the budget includes additional one-time climate spending, including \$200 million for a new light-duty zero-emission vehicle incentive program. Taken together, the Resources and Environment budget prioritizes permanent staffing and increases reliance on volatile revenues and borrowing, raising long-term fiscal and cost-of-living risks.

Tax Policy

Changes to Marketplace Facilitators Provides Additional Revenue. The Governor's budget proposes to change the tax delivery requirements for businesses facilitating the delivery of local goods, such as prepared food, known as Delivery Network Companies. These companies are currently exempt from the requirement to register as a marketplace facilitator (consistent with other large online marketplaces). The proposal would provide consistency between facilitators of goods, as well as \$20 million in additional General Fund revenue.

Early Extension of CalCompetes Tax Credit Program. Although the CalCompetes Tax Credit program is not set to expire until 2027-28, the Governor's January budget proposes to extend the program at its current level of \$180 million annually through 2032-33.

Tax Credits for Sustainable Aviation Fuel. The January budget proposes to provide tax credits against diesel tax liability to incentivize the development and production of sustainable aviation fuels. While proposal details are forthcoming, the Newsom administration provided an estimate of lost diesel tax revenues of \$165 million initially, ramping up to \$300 million at full program implementation. These revenues fund various transportation programs, and it is unknown which programs would be impacted.

Business Support and Employment

Unemployment Insurance Debt. The January budget proposes \$662 million to pay the annual interest payment on the state's Unemployment Insurance (UI) loan from the federal government, as required under existing law. Last month Senate Republicans issued a letter setting out budget priorities for the upcoming year, including supporting job creators by reducing the UI debt burden placed on them. Unfortunately, the Governor's budget fails to provide any new funding to pay down this debt, resulting in increased federal tax burdens on California employers to repay the debt caused by state-mandated pandemic shutdowns. California is the only state that failed to pay the federal government back for its pandemic-era UI loan.

Subsequent Injuries Benefits Trust Fund Program Growth. The Governor's budget proposes an increase of \$13 million from an employer-funded account to handle claims backlog and support growth of the Subsequent Injuries Benefits Trust Fund program. Program growth has resulted in massive increases in the employer assessment to fund the increased claims.

Transportation

Gas Taxes Increase Again. Despite claims to prioritize affordability for Californians, the Governor proposes no changes to existing law, continuing the automatic annual tax increases to gasoline and diesel fuel. Gasoline taxes are estimated to increase as of July 1, 2026, by 2.2 cents per gallon (cpg), or 3.6 percent, to 63.4 cpg, and diesel fuel taxes would increase by 1.6 cpg, or 3.4 percent, to 48.2 cpg.

High-Speed Rail Funding. The proposed budget includes \$1 billion from Cap-and-Invest revenues for the California High-Speed Rail Project, consistent with SB 840 (2025), bringing total funding for the project in 2026-27 to \$1.5 billion.

General Government

Facing Multiyear Deficits, Governor Continues to Expand Bureaucracy. Despite years of deficits ahead, the Governor continues to propose yet more bureaucracy that would cost Californians millions of dollars annually. The budget includes a new Office of Civil Rights within the Government Operations Agency (to provide educational resources and training to local education agencies) and the reinstatement of the California Education Learning Lab with \$4 million in General Fund (the Lab was eliminated in the 2025 Budget Act), to name a few.

Billions in Deficits, Yet Budget Includes Governor Newsom's High-Priced Portrait. As 2026 will be the last year of Governor Newsom's tenure, the budget proposes \$33,000 for some lucky artist to paint his portrait. Given the significant deficits facing the state due to the Newsom administration's expansion of several costly programs, it seems tone-deaf for the Governor to spend tens of thousands of dollars on a portrait while Californians continue to struggle with the state's high cost of living.

Overall Budget

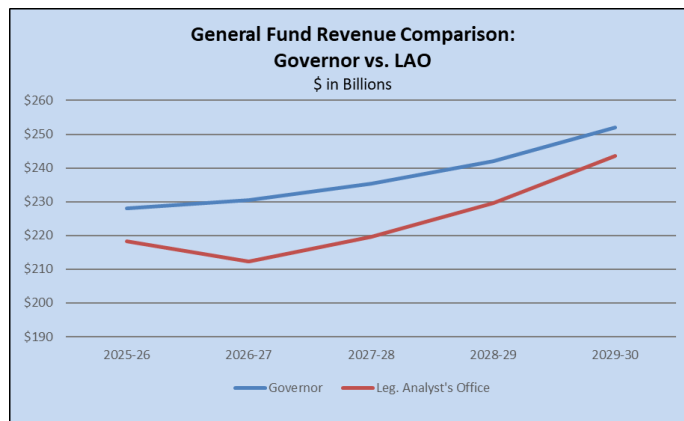
Key Points

- **Governor Plays Revenue Roulette with Tax Projection.** Governor’s projected \$42 billion revenue surge is nearly four times higher than nonpartisan estimates and ignores economic risks from a potentially overheated technology stock market.
- **Annual Deficits Persist Despite Growing Revenues.** Annual deficits exceed \$22 billion in future years as state spending growth continues to outpace tax revenues, despite the tax bump from Artificial Intelligence (AI) companies and employees.
- **Budget “Solutions” Rely Largely on Borrowing and Reserves.** Governor proposes \$9.5 billion in deficit solutions, most of which are borrowing or reserve use.

Overview: Stumbling By on an AI High. Governor Newsom is counting on a recent surge of Artificial Intelligence (AI)-fueled revenue to paint an optimistic picture of state taxes and to continue recent reckless spending patterns. However, a lack of any real spending restraint in the Governor’s new budget proposal means that massive deficits persist and grow significantly by 2027-28, even under the Governor’s rose-tinted projections. Meanwhile, the budget largely fails to address key priorities for public safety, fire prevention, affordability, and other issues that Senate Republicans recently [outlined](#) in a December 2025 budget priority letter to the Governor and legislative Democrats.

Governor Plays Revenue Roulette with Tax Projection. The Governor’s budget estimates that General Fund revenues will be \$42 billion higher over the three years ending in 2026-27 compared to levels assumed in last summer’s enacted budget. This includes total General Fund revenues of \$228 billion in the current 2025-26 fiscal year, which are higher than the enacted budget level by \$19 billion. General Fund revenues then would grow by a meager 1.0 percent to reach \$230 billion in 2026-27, which is \$17 billion higher than forecast in last year’s budget.

The Governor’s optimistic forecast dramatically exceeds the projection published by the nonpartisan Legislative Analyst’s Office (LAO) in November 2025. The LAO projected that General Fund revenues would exceed budgeted levels over the three-year window by \$11 billion, roughly one-fourth of the Governor’s estimate. In looking further ahead, the chart below compares General Fund revenue projections through 2029-20, indicating that the Governor consistently projects higher revenue.



Through 2029-30, the Governor’s revenue forecast exceeds the LAO’s by a cumulative \$64 billion. Both estimates attribute the increases to strong technology stock market and capital gains performance, particularly associated with California’s AI sector, but the LAO cautions that the AI-driven gains are not likely to last. The LAO notes in its November 2025 Outlook report,¹ “History suggests that the stock market is prone to overreact to major technological advances, even if the technology itself turns out to be revolutionary.” In contrast, the Governor appears to be going all-in on a sustained AI boom to prop up his spending plans.

Rapid Expenditure Growth Continues. General Fund expenditures under the Governor’s proposal would reach a revised total of nearly \$238 billion in the current fiscal year, which is \$9.3 billion above the level enacted just seven months ago for the 2025-26 budget. The proposed 2026-27 spending level would be \$20 billion above the *enacted* 2025-26 level. The table below breaks out spending by agency for the current year and budget years. The \$20 billion increase is driven largely by the growth in Proposition 98 spending (\$9.1 billion) and in Health and Human Services programs (\$6.4 billion).

General Fund Expenditures by Agency					
(Dollars in Millions)					
Agency	2025-26		2026-27		
	Enacted June 2025	Revised Jan. 2026	Proposed Jan. 2026	Change from Enacted 2025-26	Change as %
Legislative and Executive	\$4,794	\$6,714	\$3,441	-\$1,353	-28.2%
Courts	\$3,318	\$3,346	\$3,539	\$221	6.7%
Business, Consumer Services, Housing	\$720	\$2,429	\$680	-\$40	-5.5%
Transportation	\$166	\$195	\$32	-\$134	-80.7%
Natural Resources	\$2,690	\$4,531	\$3,073	\$383	14.2%
Environmental Protection	\$132	\$270	\$118	-\$14	-10.7%
Health and Human Services	\$86,869	\$88,977	\$93,304	\$6,435	7.4%
Corrections and Rehabilitation	\$12,994	\$13,840	\$13,477	\$484	3.7%
TK-12 Education (Proposition 98)	\$80,738	\$81,913	\$89,877	\$9,139	11.3%
Higher & Other Education (Non-Prop. 98)	\$19,134	\$19,388	\$21,769	\$2,635	13.8%
Labor and Workforce Development	\$958	\$1,127	\$983	\$25	2.6%
Government Operations	\$2,465	\$2,919	\$4,533	\$2,068	83.9%
General Government	\$6,715	\$5,511	\$6,379	-\$336	-5.0%
Capital Outlay	\$683	\$854	\$310	-\$373	-54.6%
Debt Service	\$5,992	\$5,648	\$6,816	\$824	13.8%
Total, General Fund Expenditures	\$228,366	\$237,662	\$248,331	\$19,965	8.7%

Source: Data from Department of Finance. Table by Senate Republican Fiscal Office.

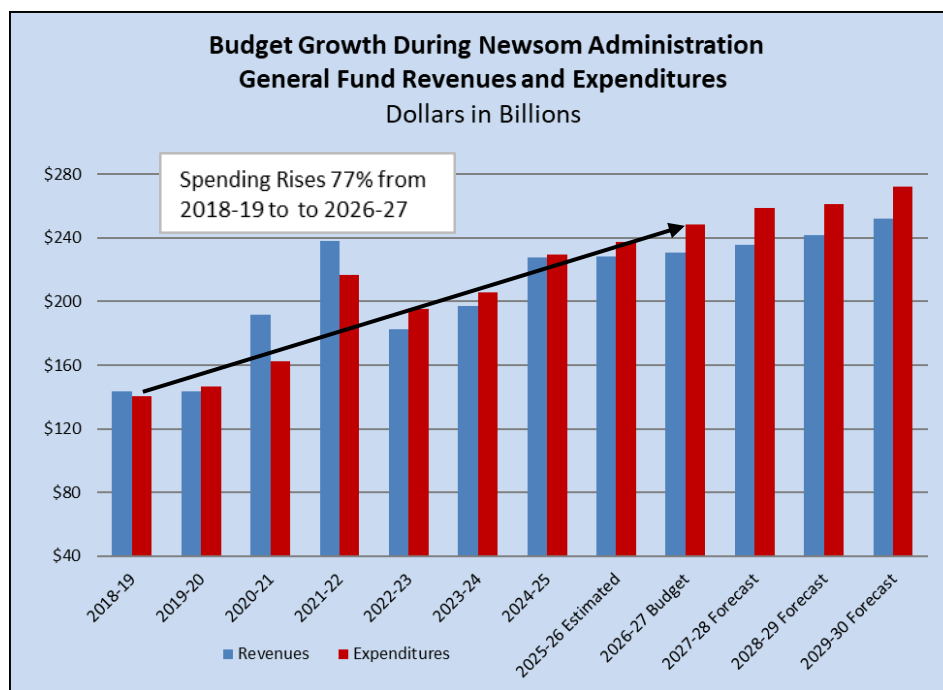
¹ Legislative Analyst’s Office, November 2025. <https://lao.ca.gov/Publications/Report/5091>

Total Budget Also Grows. When counting all state funds, such as gas taxes and Cap-and-Invest funds, the 2026-27 budget would reach \$349 billion, an increase of about \$6.5 billion from the revised current year. Federal funds would add another \$190 billion in 2026-27, an increase of \$10 billion from current year levels. When including these federal funds, total budgetary spending would reach \$539 billion in 2026-27, an increase of 3.1 percent.

Expenditures by Fund Category							
<i>Dollars in Billions</i>							
	2025-26 Enacted	2025-26 Revised			2026-27 Proposed		
		\$	% Change	% Change	\$	% Change	% Change
General Fund	\$228	\$238	\$9	4%	\$248	\$11	4%
Special Funds	\$89	\$95	\$6	6%	\$94	-\$1	-1%
Bond Funds	\$4	\$10	\$6	162%	\$7	-\$3	-32%
Total, State Funds	\$321	\$342	\$21	7%	\$349	\$7	2%
Federal Funds	\$175	\$180	\$6	3%	\$190	\$10	5%
Total, All Funds	\$496	\$523	\$27	5%	\$539	\$16	3%

Source: Data from Department of Finance. Table by Senate Republican Fiscal Office.

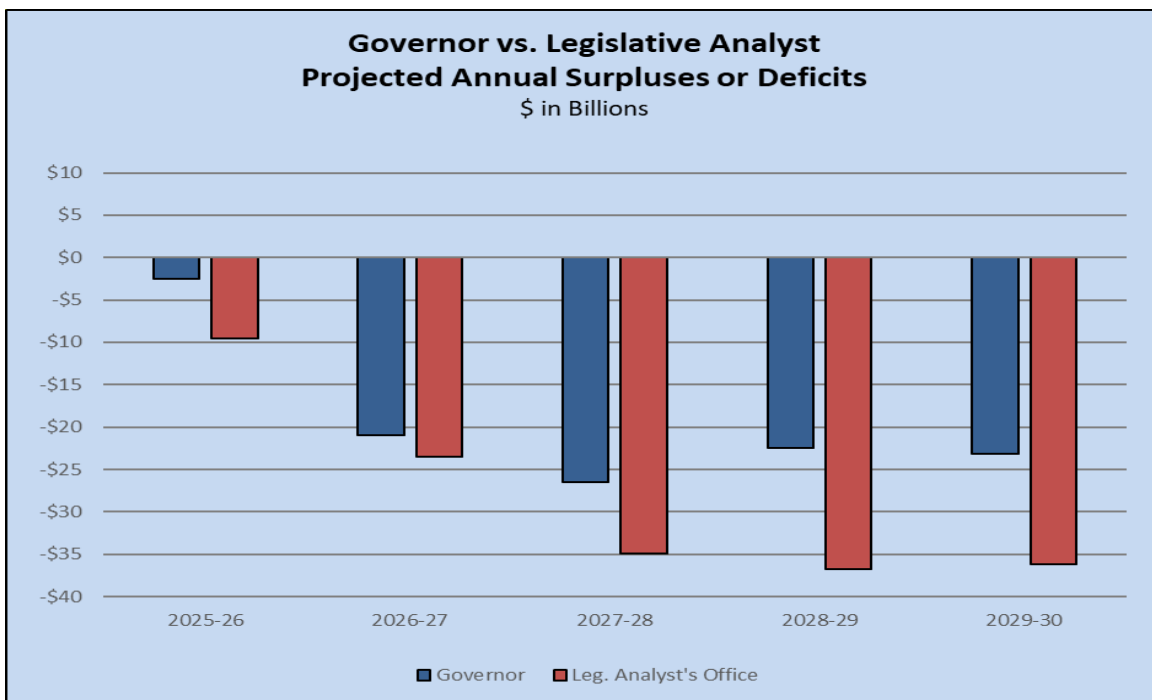
Long-Term Spending Increase Unsustainable. The chart below illustrates growth in both revenues and expenditures under the Governor’s administration. Notably, General Fund spending would rise by 77 percent during the Newsom administration, as shown by comparing the 2026-27 budget to 2018-19. General Fund revenues grow by 61 percent over the same period. The Governor’s projections through 2029-30 show that spending would exceed revenue each year, illustrating an entirely unsustainable path.



Source: Data from Department of Finance. Table by Senate Republican Fiscal Office.

Massive Annual Operating Deficits for Years to Come. The Governor claimed that the General Fund deficit for 2026-27 is \$2.9 billion, while the LAO's estimate for that year is roughly six times higher at \$18 billion. Much of the difference is due to the Governor's higher revenue projections, but there are also differences in how each estimate accounts for reserve deposits and balances. Both deficit estimates are also point-in-time calculations for June 2026 that are substantially lower due to higher-than-anticipated revenues received in 2024-25 and 2025-26. When revenues emerge at levels higher than budgeted, the discretionary reserve automatically rises after the fact. Even when accounting for these past-year revenues, however, the Governor's budget still projects the return of a massive \$22 billion deficit for 2027-28.

Another definition of the deficit is the annual operating deficit, which is the difference between the revenues and expenditures in a single year alone, setting aside the beginning balance from past-year revenues. The chart below compares the Governor's and LAO's annual operating deficit forecasts through 2029-30. The Governor projects annual deficits ranging from \$22 billion to \$26 billion each year beginning in 2026-27, while the LAO projection shows higher deficits every year, reaching \$35 billion annually by 2027-28. Both the Governor's and LAO's forecasts clearly demonstrate that California faces ongoing, structural deficits under its current trajectory. Notably, these repeated deficits are occurring during a period of tax revenue growth, not during a recession, a remarkable result that reflects reckless budgeting choices made by Governor Newsom and supermajority legislative Democrats in recent years.



Source: Data from Department of Finance and LAO. Table by Senate Republican Fiscal Office.

California Deficits Preceded the Trump Administration. While the Governor and Democrats are quick to blame the Trump administration for revenue and economic problems, California Democrats themselves are squarely to blame for spending the surpluses of previous years into annual multibillion dollar deficits. California's budget turned from surpluses to deficits in 2023-24, well before the 2024 election, despite no economic downturn. These deficits are clearly the result of overspending, combined with a subsequent refusal to reverse unsustainable program expansions.

Deficit Solutions Rely Primarily on Borrowing and Reserves. The Governor’s budget includes several significant proposals totaling \$9.5 billion to help paper over the 2026-27 budget deficit, as follows:

- \$5.6 billion by borrowing from future school budgets. This proposal would increase a Proposition 98 obligation known as “settle-up” in 2025-26. If this action were taken, state budgetary borrowing would increase from the current year to reach nearly \$25 billion.
- \$2.8 billion by suspending the true-up deposit into the state’s Rainy Day Fund reserve.
- \$1.1 billion in spending reductions, most notably including switching certain immigrant populations in Medi-Cal to limited-scope rather than full benefits.

Unfortunately for California’s fiscal stability, the borrowing and reserve solutions are one-time in nature but make up 88 percent of the solution total. The LAO has pointed out that, due to constitutional requirements like Proposition 98, revenues need to be roughly twice as large as the annual deficit in order to bring the budget into balance. Revenues of that magnitude are highly unlikely, and even the Governor’s optimistic revenue forecast does bring the budget into balance. Significant corrections to ongoing spending patterns are necessary.

Major Proposals Pending for May. The Governor’s Director of Finance indicated there will be additional proposals in the May Revision to address the 2027-28 deficit, but there is no indication of any plan to return California’s budget to a long-term sustainable path. Additionally, the LAO points out that delaying potentially difficult decisions until the May Revision leaves very little time for the Legislature to review any proposals in time to pass the 2026-27 budget bill by the June 15th deadline. By failing to propose real, ongoing solutions in his January budget, Governor Newsom is playing revenue roulette with volatile taxes and the AI sector, and major solutions may be rushed through with little transparency in May and June.

Reserves Used in 2025-26 Despite Revenue Surge; Grow Modestly in 2026-27. The proposed budget would suspend a deposit of \$2.9 billion to the Rainy Day Fund that would otherwise be made in 2025-26. This proposal results in a lower reserve balance for 2025-26. Technically, the Governor’s budget refers to this new action as “suspending the true-up” of the reserve under Proposition 2 (enacted in 2014), but the practical effect is to use reserves to support spending. Last year’s budget already authorized a withdrawal of \$7.1 billion from the Rainy Day Fund, which the Governor’s new budget maintains, despite the improved revenue situation. The budget would then deposit \$3 billion to the Rainy Day Fund in 2026-27 in accordance with Proposition 2’s requirements. These actions would raise the Rainy Day Fund balance to \$14 billion by the end of 2026-27, which is a relatively low 6.2 percent of General Fund revenues.

Other reserves would include a balance of \$4.1 billion in the TK-12 school reserve and \$4.5 billion in the discretionary reserve (technically called the Special Fund for Economic Uncertainty). Altogether, the combined reserve balances would total nearly \$23 billion by the end of 2026-27. Notably, however, there are no discretionary proposals to increase reserves. The only proposed departure from the constitutional formula is the Governor’s plan to further reduce reserves by \$2.9 billion in the current year.

Reality for California Jobs Undercuts Newsom’s Rhetoric. Despite Governor Newsom’s frequent boasts about California’s economic leadership, the Governor’s own economic forecast notes that California job growth is heading in the opposite direction from the nation as a whole. California nonfarm payroll employment levels now appear lower than forecast during last year’s

budget process, which projected growth of 5,000 jobs per month.² Actual results showed average job losses of 4,400 per month through September 2025 (the last month available in the Governor's forecast), including four straight months of job losses. In contrast, job growth for the nation as a whole has been revised upward, showing growth of 35,000 jobs per month on average through November 2025 compared to last year's forecasted growth of 23,000 jobs per month. California's dismal overall jobs performance illustrates that the General Fund revenue surge is driven by the very narrow AI sector of the economy, further highlighting the reliance on this one sector for tax revenue growth.

² Governor's Budget Summary, Economic Outlook, page 166. [Economic Outlook - 2026-27 GB Budget Summary](#)

Tax Policy

Key Points

- **Extends the CalCompetes Tax Credit Program.** Extends the CalCompetes tax credit program to 2032-33 and maintains \$180 million annually for the tax credit.
- **Sustainable Aviation Fuel.** Provides tax credits to incentivize the development and production of sustainable aviation fuels, but these credits would reduce road and highway maintenance and repair funding.
- **Changes to Marketplace Facilitators Provides Additional Revenue.** Proposes to change the tax delivery requirements for businesses facilitating the delivery of local goods such as prepared food, increasing General Fund revenue by potentially \$20 million.

Early Extension of CalCompetes Tax Credit Program. Although the CalCompetes Tax Credit program is not set to expire until 2027-28, the Governor's budget proposes to extend the program at its current level of \$180 million annually through 2032-33. The Legislative Analyst's Office has been supportive of the performance of the tax credit program, observing that recent academic research found the program to be fairly effective at increasing employment and providing economic benefit to the state.

Tax Credits for Sustainable Aviation Fuel. The January budget proposes to provide tax credits against diesel taxes owed to the state to incentivize the development and production of sustainable aviation fuels. While proposal details remain forthcoming, the Newsom administration provided an estimate of lost diesel tax revenues of \$165 million initially, ramping up to \$300 million at full program implementation. These revenues fund state and local highway and road maintenance and repairs, corridor-based freight projects, and multimodal transportation programs. This appears to be another attempt to hijack road money to fund a program meant to reduce carbon pollution. If this is a priority for the majority party it should be supported by money from the General Fund.

Changes to Marketplace Facilitators Provides Additional Revenue. The Governor's budget proposes to change the tax collection process for businesses facilitating the delivery of local goods such as prepared food (known as Delivery Network Companies). These companies are currently exempt from the requirement to register as marketplace facilitators (other large online marketplaces are required to register as marketplace facilitators). The proposal would require larger delivery network companies to collect and submit sales tax, shifting that responsibility away from small businesses. The budget projects \$20 million in General Fund revenue upon full implementation. As food and grocery deliveries become more commonplace, this administrative change could help ease the administrative burden for small businesses.

Health

Key Points

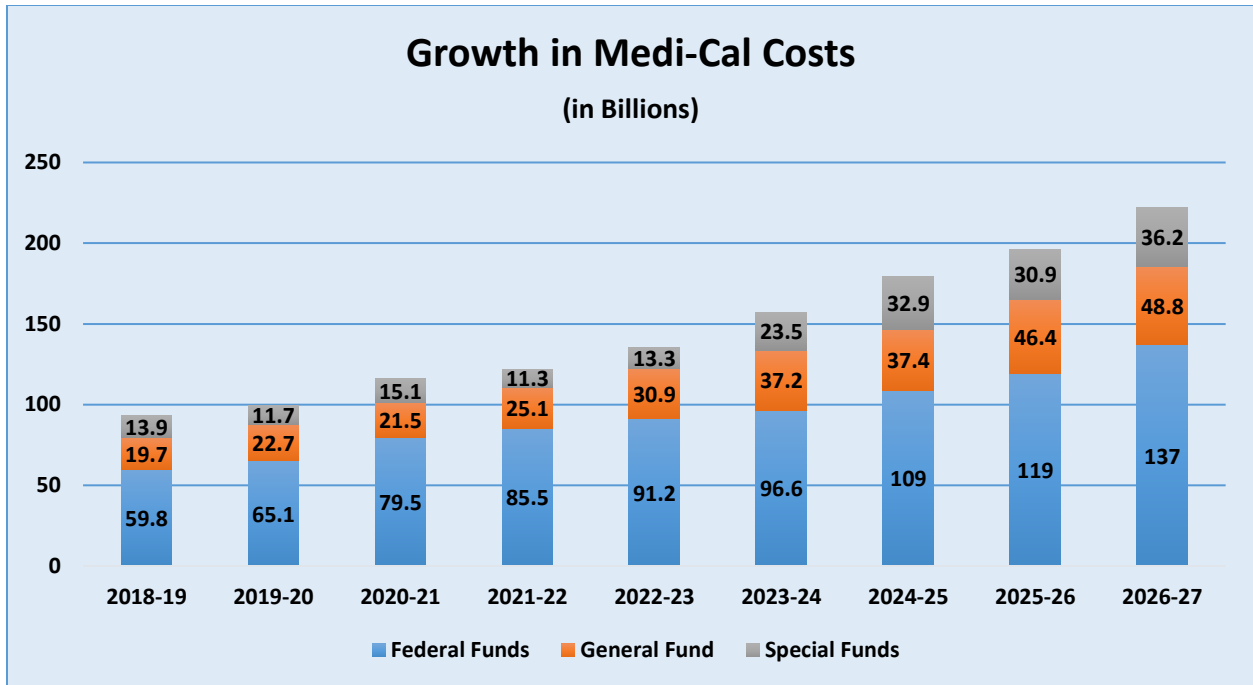
- **Medi-Cal Caseload Down, General Fund Costs Up.** Medi-Cal enrollment will decrease in 2026-27, yet General Fund spending will grow by \$4.4 billion over the June 2025 Budget Act to a record-high \$49 billion.
- **Despite Medi-Cal Enrollment Freeze, Costs for Undocumented Care Increase.** The Governor's budget includes more than \$12 billion General Fund to cover the costs of 1.7 million undocumented individuals currently enrolled in Medi-Cal.
- **Early Action Proposed for \$60 Million Abortion Handout.** Newsom proposes an early action budget bill to give abortion providers \$60 million.
- **No New Proposition 36 Treatment Funds to Counties.** The Governor bucks the will of the voters yet again by providing no ongoing funding for court-ordered drug treatment.

Medi-Cal Costs Keep Rising Despite Drop in Caseload. The 2025 Budget Act projected a Medi-Cal caseload of 15 million individuals at a cost of \$195 billion (\$45 billion General Fund). The Governor's budget now projects caseload for the current 2025-26 fiscal year to be 14.5 million individuals at a cost of \$197 billion (\$46 billion General Fund). In the 2026-27 budget year, the Governor estimates costs will balloon to \$222 billion (\$48.8 billion General Fund, \$4.4 billion more than the amount in the June 2025 budget) for a caseload of 14 million Californians. Medi-Cal's enrollment is now larger than the entire populations of 46 states. The entire population of Pennsylvania, the nation's fifth largest state, is only 13 million people.

As shown in the chart on the following page, during the eight years of the Newsom administration, costs for Medi-Cal have exploded, including the following changes:

- The total costs of the Medi-Cal program (including all state and federal funds) have more than doubled from \$93 billion in 2018-19 to a projected \$222 billion in 2026-27.
- Annual General Fund costs in Medi-Cal have grown from nearly \$20 billion to just under \$49 billion.
- Other state funds, which consist mostly of managed care taxes and hospital taxes have almost tripled, rising from \$14 billion in 2018-19 to \$36 billion in 2026-27.

Medi-Cal Work Requirements and Twice-a-year Eligibility Reviews Begin. Recent federal legislation, HR 1 of 2025, added new requirements on those childless adults who are enrolled within Medi-Cal's optional adult expansion (created under the Affordable Care Act). This includes a work and community engagement requirement consisting of a minimum of 80 hours of work per month or enrollment in school or involvement in charitable activity. The Governor's budget estimates \$102 million in General Fund savings in 2026-27 and billions of dollars in savings annually in future years from this requirement. HR 1 also increases the frequency of required eligibility redeterminations on childless adults from once-a-year to every six months. This change is estimated to save the state \$74 million in 2026-27 and \$474 million annually in future fiscal years.



Despite Enrollment Freeze, Costs for Undocumented Care Increase. The 2025 Budget Act, approved last June, contained several program changes to control the rising costs of covering an estimated 1.7 million undocumented individuals in Medi-Cal. These changes included benefit reductions, the imposition of a \$30-a-month premium starting in 2027, and a freeze in new enrollments for undocumented adults starting January 1, 2026. While these changes are estimated to lower costs by an estimated \$1.9 billion in 2026-27, the Governor’s budget still includes more than \$12 billion General Fund to cover the four cohorts that were part of the undocumented eligibility expansion, meaning that roughly one out of every four General Fund dollars in Medi-Cal pays for free care for the undocumented. As the chart below shows, cumulative costs in 2026-27 are still higher than in 2025-26. The Newsom administration projects these costs will begin to decline in future fiscal years as the impact of the cost control measures are fully realized.

Age Cohort	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Totals
0-18	\$1.0	\$0.9	\$0.5	\$0.5	\$0.3	\$0.6	\$0.5	\$0.4	\$0.7	\$0.9	\$1.0	\$7.3
19-25	N/A	N/A	N/A	\$0.1	\$0.3	\$0.4	\$0.5	\$0.5	\$0.4	\$1.0	\$1.1	\$4.3
26-49	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$1.2	\$5.2	\$5.6	\$6.0	\$18.0
50+	N/A	N/A	N/A	N/A	N/A	\$0.1	\$0.6	\$1.7	\$3.3	\$3.8	\$4.2	\$13.7
Totals	\$1.0	\$0.9	\$0.5	\$0.6	\$0.6	\$1.1	\$1.6	\$3.8	\$9.6	\$11.3	\$12.3	\$43.3

Some Legal Non-Citizens to be Moved Off Full-Scope Medi-Cal. The Governor’s budget includes \$786 million in General Fund savings by moving an estimated 200,000 temporarily legal non-citizens (such as individuals seeking asylum) away from full-scope Medi-Cal benefit eligibility and towards emergency-and-pregnancy-only restricted-scope benefits. This proposal would create a bizarre scenario whereby the state of California is removing from Medi-Cal temporarily legal non-citizens who may be legitimately escaping oppressive foreign governments, while keeping those undocumented individuals who are residing in California illegally on full-scope Medi-Cal.

Governor Favors Helping Planned Parenthood Over Saving Hospitals from Closure.

Despite many at-risk hospitals in need of funding to stave off closures, the Governor's top healthcare priority is quickly providing \$60 million in new General Fund to prop up abortion providers like Planned Parenthood. This funding is on top of \$146 million in special funds currently in the budget for abortion provider grants. This funding will be used to supplement operational costs at the clinics. Shockingly, the Governor requests that the Legislature expedite this new \$60 million through an early 2026 budget bill.

Last month, Senate Republicans issued a letter setting out budget priorities for the upcoming year, including a \$300 million request for hospitals at risk of closure through the Distressed Hospital Loan Program. The Governor proposed no funding to save these hospitals.

No Funding for Vulnerable Populations. In the Senate Republican Caucus budget priorities letter, two additional healthcare priorities were highlighted:

- **Air Ambulances.** Air ambulances connect the sick or injured with emergency, trauma or specialty care. Many in rural areas depend on this emergency medical resource, but recent state budgets have shortchanged these crucial providers. Senate Republicans call upon the Governor to fully fund the Medi-Cal base reimbursement rate for air ambulance services at an estimated \$8 million in 2026-27. The Governor's budget fails to provide this or any additional funding.
- **Care of Medically Fragile Children.** Pediatric day health centers are facilities that provide nursing care for severely disabled and medically fragile children while their parents work full-time jobs. Unfortunately, the state has underfunded these facilities for years. Senate Republicans call for \$4 million in 2026-27 to increase the Medi-Cal provider reimbursement rates to a sustainable level for these essential services. Once again, the Governor's budget does not include this funding.

New Federal Health Funding for Rural California. HR 1 provided all 50 states funding to expand access to care in rural communities. California was recently awarded \$234 million in federal funds, to be administered within the Rural Health Transformation Program at the Department of Health Care Access and Information (HCAI). HCAI's approved award application emphasized strengthening the healthcare workforce and updating healthcare infrastructure in rural and frontier communities. Unfortunately, this funding cannot be used for operations costs for hospitals at risk of closure. HCAI will begin issuing grants from these funds in early 2026.

Fails to Provide New Funding for Proposition 36 Drug Treatment Costs. The 2025 Budget Act provided only \$50 million in one-time funding to California's 58 county (and two city) behavioral health departments for court-ordered drug treatment for those arrested for drug crimes under Proposition 36. This came after Governor Newsom proposed zero funding in both his proposed January 2025 budget and his 2025 May Revision. Now, in the Governor's proposed budget for 2026-27, he once again provides no funding to the counties to help treat those trapped in debilitating addictions. Fortunately for the California voters who approved Proposition 36 in every county, Republican Senators fought tirelessly in 2025 for initial implementation funding. As outlined in their recent budget priorities letter for 2026, Senate Republicans will once again work to secure full permanent funding.

Human Services and Child Care

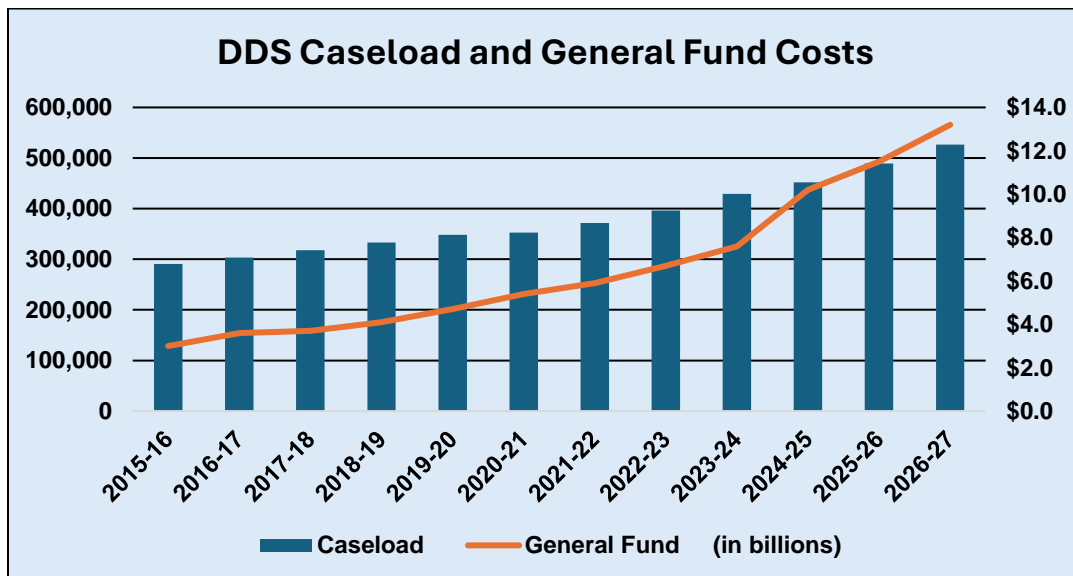
Key Points

- **No Proposals Included to Address Potential Fraud.** Despite reports of billions in fraud in other states, the Governor’s budget is notably silent on potential fraud mitigation or investigations across human services programs.
- **CalFresh Federal Cost Sharing Impacts.** Increases CalFresh administrative General Fund costs by \$383 million to reflect recent federal cost sharing changes.
- **Child Care Cost-of-Living Adjustment (COLA).** Includes an increase of \$89 million ongoing General Fund to provide a 2.41 percent COLA.
- **IHSS Cost and Caseload Growth.** Includes \$34 billion (\$13 billion General Fund) in 2026-27 for the IHSS program, with a projected average caseload of 875,344.

Department of Developmental Services (DDS)

Regional Center Caseload Driving up General Fund Costs. For the past decade, DDS has seen a rapidly growing regional center caseload. As shown in the chart below, the number of intellectually and developmentally disabled individuals served by regional centers is expected to reach more than 526,000 in 2026-27, a nearly 38,000 (or eight percent) increase from 2025-26. In fact, caseload at DDS has increased by roughly 236,000 individuals (or an 81 percent increase) since 2015-16. DDS states that the trend in caseload is largely due to a substantial increase in the number of autism spectrum diagnoses.

These caseload increases are a factor in the sizable growth in General Fund costs at DDS. The Governor’s budget includes \$13 billion General Fund for 2026-27, a \$1.5 billion increase (14 percent) from 2025-26, and a \$10 billion increase (an amazing 440 percent) since 2015-16. Despite the trend, the department projects that both caseload and costs will level off by 2030.



Department of Social Services (DSS)

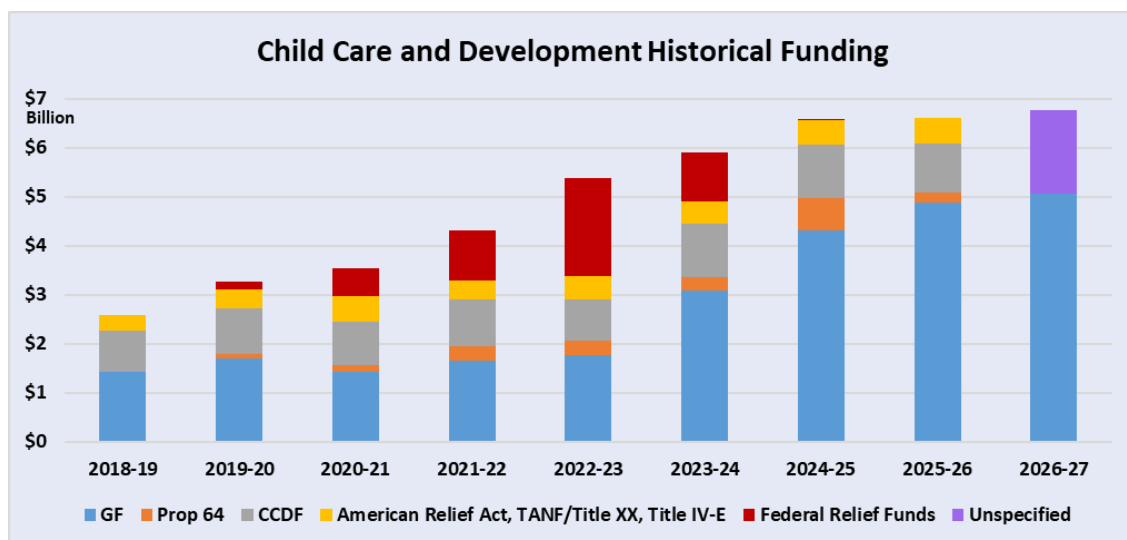
The 2026-27 local assistance budget for the Department of Social Services (DSS) is projected to be over \$59 billion (\$26 billion General Fund). This is \$2.5 billion (\$1.3 billion General Fund) more than the 2025 Budget Act, an increase of 8 percent General Fund. The department notes that it provides benefits to over 8.4 million Californians, or 21 percent of the population. The Governor's budget foregoes substantial new proposals for Human Services programs, but major expansions authorized in recent years continue to drive costs higher by billions of dollars annually.

Federal Funding Freeze Litigation and Silence on Potential Fraud. Recent reports have documented widespread fraud in various health and human services programs in other states, including allegations of \$1 billion in fraudulent claims in Minnesota. Senate Republicans called for greater anti-fraud efforts in their recent priority letter, but the Governor's budget proposal is notably silent on potential fraud mitigation or investigations across human services programs.

Additionally, with the recent fraud findings in other states, the federal Department of Health and Human Services sent letters to five states freezing several funding sources related to child care, CalWORKs, child welfare, and foster care. California and several other states filed a lawsuit related to the funding freeze and obtained a temporary restraining order. According to the Department of Social Services, 3.2 million Californians and \$5 billion in funding could be impacted by the funding freeze. This is a developing issue, and updates will be provided by the department as the situation evolves.

Child Care and Early Education

Child Care Increases and Infrastructure. The Governor's budget includes \$6.8 billion (\$5.1 billion General Fund) for child care and development programs in 2026-27. This is an increase of \$209 million General Fund over the revised 2025-26 budget. The increase is partially attributed to an ongoing increase of \$89 million to provide a 2.41 percent cost-of-living (COLA) adjustment for DSS child care programs. The budget also includes an increase of \$12 million one-time Proposition 64 (marijuana taxes) for child care infrastructure and notes that the funding is specifically for fire-impacted communities.



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. Estimates put the projected caseload at 875,344 in 2026-27, representing a 10 percent increase over the 2025 Budget Act. The average individual provider hours per case are projected at 127 in 2026-27. For comparison, at the 2021-22 Governor’s budget, the average individual provider hours per case were 115 for 2020-21. This is a 9 percent increase in hours per case.

IHSS Budget “Solutions.” The Governor’s budget proposes several modest “solutions” in IHSS to create budget savings, some beginning in the 2026-27 fiscal year:

- Eliminate the IHSS Permanent Back-up Provider System, resulting in \$3.5 million in ongoing General Fund savings.
- Align eligibility timelines between the IHSS Residual Program and Medi-Cal coverage, creating \$86 million in savings beginning in 2026-27.
- An unspecified reduction of \$234 million by addressing the growth in IHSS hours per case. The Department of Finance has indicated that they are working with counties on this proposal and that more details will be available as those discussions continue, though implementation would not occur until 2027-28. Counties cover a share of the IHSS costs, so keeping an eye on this proposal will be essential to ensure the state does not simply pass costs to the counties.

Food and Nutrition Programs

CalFresh Cost Sharing and Eligibility Changes. The 2025 federal budget reconciliation bill, H.R. 1, shifted a portion of CalFresh administrative costs to California. The increased costs are estimated to be \$383 million General Fund, reflecting a federal cost sharing change from 50 percent to 25 percent. The state share will go from 35 percent to 52.5 percent and the county share from 15 percent to 22.5 percent. County cost increases are estimated at \$150 million. CalFresh “benefits” cost sharing will not begin until 2027, with states sharing the costs of incorrect payments. In 2028, states with error rates above 6 percent will also have to share overall food benefit costs. California’s most recent error rate was 11 percent as of 2024. The Newsom administration continues to monitor that potential fiscal impact, but early estimates place the impact at up to \$2 billion. The budget also includes a \$66 million decrease in General Fund costs in 2026-27 due to federal eligibility changes reducing the number of individuals eligible for CalFresh.

Housing and Homelessness

Key Points

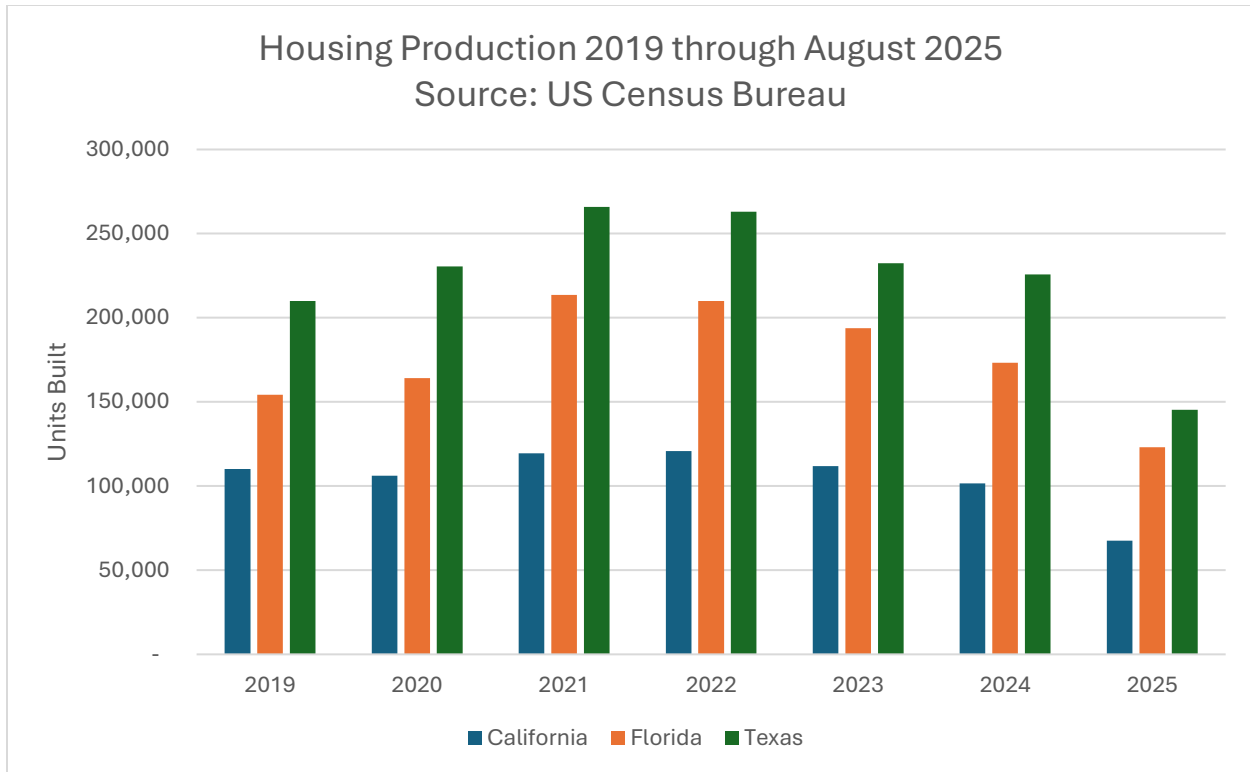
- **Rent Affordability Ignored.** Senate Republicans set out budget priorities in late 2025, including lowering costs for renters, yet Governor fails to propose rent credit expansion.
- **No Funding Increases for Housing or Homelessness Programs.** The budget does not include any new General Fund for the state's housing programs or local homelessness efforts.

Housing

Rent Crisis Will Continue Under Governor's Last Budget. Last month Senate Republicans issued a letter setting out budget priorities for the upcoming year, including lowering costs for renters through tax credits. Unfortunately, the Governor's budget fails to provide any funding to expand the renter's tax credit, even though a bipartisan 2025 bill, AB 130, authorized an expanded tax credit subject to funding. A renter's tax credit could provide some much-needed relief to Californians experiencing some of the highest rental costs in the nation.

Budget Fails to Provide New Funding for Key Housing Programs. The Governor's budget does not include any funding above base funding for the state's housing programs. Several of the state's housing programs have federal or bond funding provided in 2026-27, but these funds are minimal compared to the billions of General Fund dollars provided over the past few years. Broader housing policy reforms are still needed to truly fix California's overregulated housing market, but in the meantime, certain housing subsidy programs have been helpful. Senate Republicans called for \$500 million to support CalHome, which helps build homes that low-income Californians can buy, rather than just rent. However, the Governor's budget fails to fund this program.

Dismal Homebuilding Results Follow Newsom's Boasting. Unfortunately for Californians, the results on homebuilding during Governor Newsom's administration are dismal, despite the Governor's previous boast that he would build 3.5 million homes by 2025. The Governor's budget summary notes that "permit growth fell 9.2 percent year-over-year to just under 100,000 total units in 2024 and continued to decline in 2025." Additional data show that California is on pace to permit approximately 770,000 homes so far during the Newsom administration. Compared to Florida and Texas (see chart below), California builds less than half of what those two states build, with significantly higher population numbers.



Low-Income Housing Tax Credit. The budget includes the current statutory requirement of about \$125 million to the state Low-Income Housing Tax Credit (LIHTC) program. Previous budgets had included supplemental funding of \$500 million to the state LIHTC, though these appropriations were on a one-time basis.

Homelessness

Budget Fails to Provide New Flexible Funding for Local Governments' Homelessness Programs. The Governor's budget fails to include any new General Fund in 2026-27 for the Homeless Housing Assistance and Prevention program (HHAP), other than what was agreed to as part of the 2025 budget (\$500 million General Fund). The HHAP program provides flexible funding necessary to support local governments' homelessness efforts. The budget states that the Newsom administration will seek accountability efforts around further implementation of these flexible funds, but does not include specifics on accountability metrics, or how the measures would improve long-term outcomes. Governor Newsom has sought to blame local governments for California's woeful results on addressing homelessness³. However, accountability works best in tandem with targeted and continuous support, and the Governor again fails to provide this reassurance to the state's local governments.

Billions in Spending Failed to Move Homelessness Needle. Due to a lack of accountability and misguided state policies like "Housing First," Governor Newsom's record on homelessness is one of futility and waste. The Newsom administration noted in a May 12, 2025 press release

³ Walters, Dan, 1/15/2026, CalMatters. <https://calmatters.org/commentary/2026/01/homelessness-crisis-newsom-political-liabilities/>

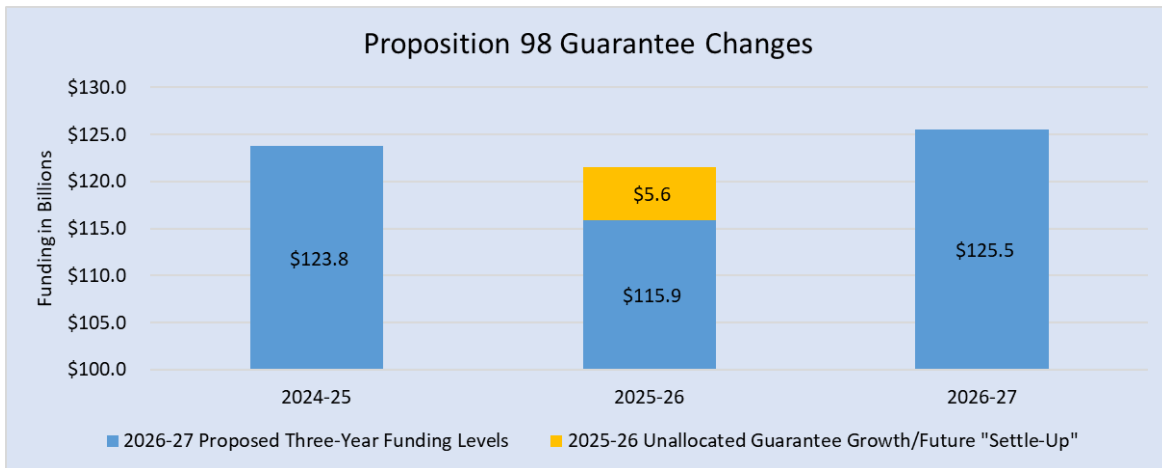
that the state had spent \$27 billion on homelessness programs through 2025-26, but the homeless counts continued to increase in some counties through the latest official statewide count in 2024. Governor Newsom claimed in his State of the State address on January 8, 2026, that homeless counts improved by 9 percent, but the “early data” he cited is voluntarily reported from a small share of counties that attempted counts in an off year. (Homeless counts are federally required every two years, with the next formal count happening this month, in January 2026). These counts have not been verified by the federal Department of Housing and Urban Development. It would not be the first time this Governor played fast and loose with the facts, but Californians deserve better, especially given the \$27 billion in tax dollars wasted on the Governor’s efforts.

TK-12 Education

Key Points

- **Record Spending but Worsening Test Scores.** Includes record-high spending for TK-12 for 2026-27, but student test scores have worsened overall during the Newsom administration.
- **Unknown Proposals for Charter Schools and Governance Changes to Come Later.** Indicates that the Governor will propose as-yet unspecified accountability measures for charter schools as well as broader reforms to overall school governance in the state.
- **Special Education Base Funding Increase.** Includes \$509 million ongoing Proposition 98 General Fund to increase the base rates for Special Education.
- **More Discretionary Block Grant Funding.** Proposes an additional \$2.8 billion one-time for the Student Support and Professional Development Discretionary Block Grant, plus \$757 million for restoration of the Learning Recovery Emergency Block Grant.

Revenues Drive Proposition 98 TK-14 Funding Higher. The Governor’s budget proposes a Proposition 98 funding level of \$126 billion in 2026-27 for TK-12 schools and community colleges. Proposition 98 funding levels are adjusted each fiscal year over a three-year budget window, based on updated revenue estimates. The revised 2025-26 Proposition 98 guarantee is calculated at \$121.4 billion, but the budget proposes to fund the guarantee at \$115.9 billion, creating a settle-up obligation of \$5.6 billion. Proposition 98 funding in 2024-25 is revised to \$124 billion. The chart below and the table on the next page summarizes these comparisons.



Record Spending, but Student Test Scores Decline. Proposition 98 spending per pupil would be \$20,512 in 2026-27 and \$27,418 from all funding sources, This is a Proposition 98 increase of \$8,723 per pupil, or 75 percent, compared to 2018-19. When accounting for all funds, it is an increase of \$10,242 per pupil, or 60 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 2025.⁴

⁴ California Dashboard. <https://www.caschooldashboard.org/reports/ca/2025>

Proposition 98 Funding by Segment and Source (Dollars in Millions Except Funding Per Student)					
	2024-25 Revised	2025-26 Revised	2026-27 Proposed	Change From 2025-26	
				Amount	Percent
K-12 Education					
General Fund ^a	\$77,558	\$72,807	\$80,913	\$8,106	11.1%
Local property tax	28,302	29,389	30,819	1,430	4.9%
Subtotals	\$105,859	\$102,197	\$111,732	\$9,535	9.3%
California Community Colleges					
General Fund	\$9,794	\$8,441	\$9,371	\$930	11.0%
Local property tax	4,335	4,558	4,785	227	5.0%
Subtotals	\$14,129	\$12,999	\$14,156	\$1,157	8.9%
Reserve Deposit/Withdrawal (+/-) ^b	\$3,845	\$664	-\$407	-\$1,071	-161.3%
Settle Up (Unallocated) ^c	-	\$5,560	-	-\$5,560	-100.0%
Totals	\$123,833	\$121,420	\$125,480	\$4,061	3.3%
Enrollment					
K-12 attendance	5,432,158	5,463,664	5,447,073	-16,591	-0.3%
Community college FTE students	1,096,150	1,090,231	1,094,809	4,578	0.4%
Funding Per Student					
K-12 Education	\$19,488	\$18,705	\$20,512	\$1,807	9.7%
California Community Colleges	12,889	11,923	12,930	1,007	8.4%
^a Includes funding for instruction provided directly by state agencies and the portion of State Preschool funded through Proposition 98. ^b Proposition 98 Reserve established by Proposition 2 (2014). Amounts consist entirely of General Fund. ^c The state would be required to provide this funding in the future, assuming no changes to the estimate of the Proposition 98 guarantee.					
FTE = full-time equivalent.					

Source: Data from Legislative Analyst's Office. Table prepared by Senate Republican Fiscal Office.

Unknown Charter School Accountability Measures to Come Later. The Governor's budget notes that new requirements for charter schools will be proposed. Additional details on these requirements were not available at the time this summary was written and will likely be provided in trailer bill language at a later time. The trailer bill process would be an inappropriate place to debate complex policies like charter school measures.

Unknown State Education Governance Reforms to Come Later. The Governor's budget notes that the Legislature has raised concerns regarding the governance of the TK-12 education system. To address this, the budget proposes implementing the 2002 Master Plan recommendations around moving oversight authority of the Department of Education "under the State Board of Education". The Governor also mentions potentially revising powers of the State Superintendent of Public Instruction. Additional details on this proposal are forthcoming in trailer bill language, although trailer bills would be inappropriate vehicles to debate complex policies like broader governance reforms.

Proposition 98 Rainy Day Fund to Trigger Local Reserve Caps. The Governor's budget estimates a \$4.1 billion balance in the Public School System Stabilization Account (school reserve) at the end of 2026-27. This reflects mandatory revised deposits of \$3.8 billion and \$424 million in 2024-25 and 2025-26 respectively, and a mandatory withdrawal of \$407 million in 2026-27. The budget also proposes to include a discretionary deposit in 2025-26 of \$240 million. 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 of the Proposition 98 guarantee. The balance over the three-year budget window triggers the cap on local school district reserves in 2025-26 and 2026-27.

Local Control Funding Formula (LCFF). The Governor's budget includes a 2.41 percent cost-of-living adjustment (COLA) for the LCFF, that when combined with population growth adjustments, will result in a \$2 billion increase in discretionary funds for schools. The budget also provides COLA adjustments for the LCFF Equity Multiplier and other categorical programs. The budget also includes a 20 percent increase in LCFF funding for Necessary Small Schools, for an ongoing increase of \$31 million Proposition 98 General Fund.

Special Education Growth and Funding Increase. The Governor's budget includes \$509 million ongoing Proposition 98 General Fund to increase special education base rates. The Department of Finance notes that this increase is in response to the growing number of students in special education over the years. Since 2018-19, special education enrollment grew by 9 percent. According to the department, nearly 15 percent of all students in 2024-25 were enrolled in special education.

Community Schools Expansion. The Governor's budget proposes \$1 billion ongoing Proposition 98 General Fund to expand the community schools model. Community schools are public schools that seek to provide community partnerships that integrate education with whole family and child development. This includes, but is not limited to, integrated supportive services like mental health, social services, home visits, professional development, and extended learning time and opportunities. This proposal expands on \$2.8 billion provided in the 2022 Budget Act.

Student Support and Professional Development Discretionary Block Grant. The Governor's budget proposes an additional \$2.8 billion 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 schools with more flexibility to cover costs that are specific to their individual priorities without creating ongoing funding pressure. The 2025 Budget Act established the block grant and provided \$1.7 billion one-time Proposition 98 General Fund.

Expanded Learning Opportunities Program (ELOP). The Governor's budget includes an additional \$62 million ongoing Proposition 98 General Fund to guarantee \$1,800 per pupil for schools in Tier 2 for ELOP. Tier 2 schools have an unduplicated pupil population (English learners, foster youth, and free and reduced-price meal recipients) under 55 percent, and are required to provide ELOP services to those students. Tier 1 schools have unduplicated pupil populations over 55 percent and are required to provide ELOP services to all students. This would bring the total ongoing funding for the program to \$4.7 billion.

Learning Recovery Emergency Block Full Grant Restoration. The Governor's budget proposes \$757 million one-time Proposition 98 General Fund for the Learning Recovery Emergency Block Grant (LRG). The block grant was cut by \$1.6 billion in the 2023-24 budget, with intent language to restore \$1.1 billion of the cut in future years. The proposed \$757 million is in addition to \$379 million provided in the 2025 Budget Act and would fully restore the \$1.1 billion.

Higher Education

Key Points

- **Cuts to Universities Partially Restored.** Restoration of base cuts for UC and CSU would be delayed, while compact funding increases would be partially funded.
- **Middle Class Scholarships Cut in Half.** Scholarship stability undercut by proposal to slash Middle Class Scholarships by 50 percent, creating budget savings in 2027-28.
- **Community Colleges Benefit from Revenue Surge.** State's tax revenue surge drives funding for community colleges higher through Proposition 98 formula.

University Compact Increases Partially Restored. In 2022 the Governor's administration entered into five-year agreements known as "compacts" with the University of California (UC) and the California State University (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 Governor's budget now proposes to provide the 5 percent increase for the Year 5 component of the compacts. This amounts to \$519 million for the two systems in 2026-27. Additionally, the budget would provide a portion of the previously delayed Year 4 increase, amounting to \$197 million combined. However, the budget would continue to delay the remainder of the Year 4 increase, totaling \$493 million for the systems in 2026-27.

Nonresident Tuition Funds Still Delayed. The state previously committed to provide UC with \$31 million intended to replace nonresident undergraduate tuition and thus encourage more California resident enrollment at the Berkeley, Los Angeles, and San Diego campuses. The 2025-26 budget delayed those funds, and the new Governor's budget continues that delay, which slows any increase in resident enrollment at those campuses.

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 Governor's budget now proposes to delay 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.

Middle Class Scholarships Cut in Half. 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. The budget package also established the goal that MCS would pay 35 percent of students' unmet expenses, after considering other resources.

The Governor's budget updates the program estimate for 2025-26 from \$918 million to nearly \$1.1 billion, which counts as a loan in 2025-26 and a budget expenditure in 2026-27. The budget also proposes to cut the program funding by about half and to lower its goal to meet only 17.5 percent of students' unmet college expenses. Since the MCS program is now budgeted one year in arrears, the proposed savings of \$541 million would appear in the 2027-28 budget.

This proposal would potentially cut students' MCS scholarships in half partway through their college careers, creating significant challenges for students who believed their scholarships would remain at the same level throughout college. Roughly 350,000 students are expected to receive MCS grants averaging about \$3,000 each in 2025-26. The Governor's proposal would result in average grants of just under \$1,400 per year in 2026-27.

Republicans Prioritize Higher Education. In their December 2025 budget letter, Senate Republicans called for restoring the cuts made to Higher Education in recent budgets, and the Governor's budget partially meets this goal. However, California revenues clearly allow for full restoration of the cuts to UC and CSU and funding the MCS program 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 \$8.4 billion in 2025-26, which is less than what the state now pays for undocumented immigrants 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.

Community Colleges Cost and Enrollment Increases. Proposition 98 determines overall state funding for community colleges. The overall community college budget would increase by \$1.3 billion (9 percent) in 2026-27 to a total of \$15.4 billion when including both General Fund and local property taxes.

Student-Centered Funding Formula. The Governor's budget includes the following Proposition 98 General Fund adjustments for the Student-Centered Funding Formula (SCFF) with the intent to support overall enrollment growth of 1.5 percent.

- \$241 million ongoing to provide a 2.41 percent cost-of-living adjustment.
- \$55 million ongoing for 1 percent enrollment growth in 2026-27.
- \$408 million one-time to pay off previously authorized deferrals.

The budget also proposes the following Proposition 98 adjustments for community colleges:

- \$121 million to address deferred maintenance needs.
- \$100 million one-time for a flexible block grant. The purpose of this is unspecified.
- \$38 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 support the Credit for Prior Learning Initiative (only \$2 million ongoing).
- \$31 million to provide the 2.41 percent COLA to certain categorical programs.
- \$14 million to support the Health School Food Pathways Program, which assists food service workers through apprenticeship and training programs.

Bond Funds for Community College Facilities. Proposition 2 (2024) authorized a total of \$10 billion in general obligation bonds to pay for education facilities, including \$1.5 billion specifically for community colleges. The Governor's 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

- **Governor Rebuffs Voter-Enacted Crime Initiative.** Governor again refuses to fully fund Proposition 36, the popular public safety initiative to reduce property and drug crime.
- **Decades of Subpar Prison Mental Health Care Lead to Receivership.** Federal *Coleman* court fines Department of Corrections and Rehabilitation, appoints Receiver over mental health services, and directs fine revenues to address deficiencies.
- **Double Down on Lawfare.** Governor and Attorney General want to spend more California taxpayer dollars antagonizing federal administration.
- **Court Construction Projects Move Forward, Though Funding Uncertain.** Budget advances nine needed court construction projects, although fund source for future phases and debt repayment is unclear.

Proposition 36

No New Funding for Key Public Safety Measure. After initially proposing no funding in January 2025 to implement Proposition 36 (2024), the Governor succumbed to pressure from Senate Republicans, the press, and others to include a minimal amount in the 2025-26 Budget Act. Despite a stakeholder-identified need of about \$350 million annually, the Governor and legislative Democrats only managed to scrape together \$80 million to be allocated over three years. On December 17, 2025, Senate Republicans issued a [letter](#) setting out budget priorities for the upcoming year. Among those priorities was providing sufficient funding for Proposition 36.⁵ Unfortunately, the Governor's budget fails to provide any new funding in 2026-27 for this key public safety initiative that 68 percent of California voters supported in 2024. Moreover, as of January 16, 2026, more than halfway through the 2025-26 fiscal year, the \$50 million that was budgeted in 2025-26 for county behavioral health departments to provide treatment services had not been made available to counties.⁶ Notably, there is still no funding proposed for county probation departments that play a critical role in ensuring offenders' adherence to court-ordered treatment under the measure, nor is there any funding for front-line law enforcement to shepherd repeat drug offenders into the new Proposition 36 treatment model. For the second time in as many budgets, it seems the Governor is intent on torpedoing this important public safety initiative.

Combatting Fentanyl Trafficking

Two-Year Extension for Fentanyl Interdiction Funding. The Governor's 2026-27 budget proposal would continue funding for the California Military Department's support of law enforcement efforts to combat illicit fentanyl trafficking that is set to expire at the end of 2025-26. The budget includes \$30 million (\$15 million in 2026-27 and \$15 million in 2027-28) to continue this effort for another two years. In a budget short on meaningful investment in public safety, this proposal is a rare bright spot.

⁵ <https://sr06.senate.ca.gov/sites/sr06.senate.ca.gov/files/Caucus%20Budget%20Letter%20-%20Senate%20Republican%20Caucus%20Budget%20Priorities.pdf>

⁶ <https://www.counties.org/wp-content/uploads/2026/01/2026-27-GB-Letter-to-Senate.pdf>

Department of Corrections and Rehabilitation (CDCR)

California Rehabilitation Center Closure. As part of the 2025-26 May Revision, the Governor announced his intent to close an unnamed fourth prison by October 2026, which was later identified as the California Rehabilitation Center in Norco. The Newsom administration anticipates annual General Fund savings will reach approximately \$150 million as a result of the closure. While current prison population trends suggest this could be done without further jeopardizing public safety, Senate Republicans have long argued these closures would not be possible absent several past misguided criminal justice “reforms,” including Proposition 47’s easing of criminal sanctions in 2014 and Proposition 57’s virtually unlimited expansion of sentence credits in 2016. Passage of Proposition 36 by more than two-thirds of California voters in 2024 signals that Californians are fed up with pandering to criminals. If more tough-on-crime initiatives like this follow, CDCR could quickly find itself in a position of needing more prison capacity.

Prison Mental Health Receivership. For more than three decades, CDCR has been scrutinized by the federal courts, via the *Coleman* class action, for failing to provide adequate mental health treatment to inmates. Though the state has made some efforts to satisfy the court’s mandates, those efforts have typically been too little, too late. In April 2023, after CDCR repeatedly failed to comply with mental health staffing requirements, the court began imposing fines for each month of noncompliance, ordering the money to be deposited into a special deposit fund.

In August 2025, the *Coleman* court placed CDCR in receivership, stayed further accumulation of staffing fines, and granted the newly-appointed Receiver all powers vested by law in the Secretary of CDCR with respect to the administration, control, management, operation, and financing of the Department’s Mental Health Services Delivery System and the provision of mental health services to class members. The court further directed the Receiver to expend the balance of the special fund to implement a plan to correct CDCR’s longstanding mental health delivery deficiencies. As of November 2025, the balance in the special fund was \$122 million. The budget anticipates expenditure of \$34 million from the fund in 2026-27 to support the Receiver’s staffing costs and to continue clinical staff bonuses ordered by the court.

Department of Justice (DOJ)

Increased Funding to Sue Federal Administration. The 2024-25 Budget included \$25 million one time, available through June 30, 2026, for the state (led by the Attorney General) to sue the federal administration to slow or stop the President’s agenda. The 2025-26 budget provided nearly \$17 million annually for the same purpose. In keeping with this Governor’s history of using taxpayer funds to antagonize this President, which started during the first Trump administration, the proposed 2026-27 budget adds \$10 million to the ongoing \$17 million (for a total of \$27 million annually) for the Attorney General to litigate against the current federal administration. As of January 8, 2026, the Attorney General had filed 53 legal actions against the current administration in just under a year.

Judicial Branch

Court Construction Projects. The Governor's budget proposes a total of \$374 million (\$54 million General Fund, \$320 million lease-revenue bond funds) for various phases of nine court construction projects. These projects will either provide space within existing facilities to accommodate new judgeships (Kings, San Joaquin, and Sutter Counties), replace facilities that have critical deficiencies (Fresno, Nevada, Plumas, San Luis Obispo, and Solano Counties), or provide space to relocate courtrooms from a federally-owned facility scheduled for divestment (Los Angeles County). Total estimated costs for these nine projects are approximately \$1.8 billion. It is unclear whether subsequent phases of these projects will be funded from the General Fund or lease-revenue bonds. If lease-revenue bonds are to be used, the Newsom administration needs to specify the fund source for retiring the debt.

Additional Judgeships Still Needed. In their December 2025 budget priorities letter, Senate Republicans identified as one of their priorities increasing access to justice by speeding up court decisions, an important part of which is addressing a longstanding shortfall in the number of judgeships needed to meet caseload demands. The most recent court workload study indicates a need for 98 new judgeships (beyond the 23 that were funded in the 2022-23 Budget Act). The construction projects included in the Governor's budget generally improve the safety and efficiency of some court facilities, and a number of them directly support the judgeships established in 2022 by providing courtrooms for those judges. While these projects do nothing to address the ongoing need for 98 additional judgeships, they are supportable because they further the cause of reducing bottlenecks within the court system, which will ultimately speed up court decisions. However, the state still needs to reprioritize funding overall to ensure enough judges are available to facilitate timely access to justice.

Transportation

Key Points

- **Gasoline Taxes Increase Again.** The automatic annual gas tax increase will raise the price of gas by 2.2 cents per gallon, effective July 1, 2026.
- **High-Speed Rail.** Proposes \$1.5 billion in 2026-27 for continued construction and reflects increased current year spending of \$4.7 billion, mostly using carryover funds from the prior year.

Gasoline and Diesel Taxes Rise Again. Despite claims to prioritize affordability for Californians, the Governor proposes no changes to the existing law that automatically raises gasoline and diesel taxes every year. The Department of Finance indicates that on July 1 the tax on gasoline will increase by 2.2 cents per gallon, and the diesel excise tax will increase 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	\$287	\$8,262
Diesel	\$0.466	\$0.016	\$0.482	\$44	\$1,532
Total				\$331	\$9,794

(Compiled with data from Department of Finance)

California's Gasoline Prices and Taxes Among Nation's Highest. California leads the way in many categories, including the nation's highest gas prices and highest gas taxes. The average price for a gallon of gasoline in California is currently \$4.22, second only to Hawaii, and 51 percent higher than the national average. As noted above, California's current gas tax of 61.2 cents per gallon, the highest in the country, is set to increase on July 1st. The gas and diesel tax increases are estimated to generate an additional \$331 million in state tax revenues.

California High-Speed Rail

High-Speed Rail Authority. The proposed budget includes \$1.5 billion for the Authority to continue construction of a high-speed train. Past and current year budgets are updated to reflect spending of \$384 million and \$4.7 billion, respectively. Expenditures are summarized in the chart on the next page.

The project updates issued last year estimated costs for limited system segments, rather than for the entire project. For instance, the Merced to Bakersfield segment, including various unspecified scope changes, is now projected to cost nearly \$37 billion, reflecting an increase of \$1.4 billion over 2024 projections, and would begin operations by January 1, 2032. A segment from Gilroy to Palmdale (including the already planned extension to Merced), the longest segment for which a cost estimate was provided, is estimated to cost \$89 billion, and would

begin operations by mid-2037. The Authority continues to assume that money will miraculously materialize to fill the remaining funding gap, with high hopes of significant private investment, which so far has been nonexistent. The next business plan, generally published in the spring of even numbered years, may provide more complete revised cost and project timeline estimates.

High-Speed Rail Expenditures			
(Dollars in Millions)			
Fund Type	2024-25	2025-26	2026-27
Cap and Invest Funds	\$350	\$4,643	\$1,000
Bond Funds (Proposition 1A)	\$33	\$39	\$463
High-Speed Rail Property Fund	\$1	\$8	\$2
Reimbursements	-	\$3	\$3
Total	\$384	\$4,693	\$1,468

(Compiled with data from Department of Finance)

Federal Review Terminated Funds; California Withdraws Litigation. The Federal Railroad Administration (FRA) conducted a compliance review of California’s high-speed rail project, as it relates to previous federal grant awards, and found the project to be out of compliance. As a result, the federal government has terminated existing agreements totaling \$4 billion. Upon FRA’s final determination to terminate the funding agreements, California Attorney General Rob Bonta filed a lawsuit in July 2025, asserting “the termination violates the Administrative Procedures Act because it was arbitrary and capricious, and the asserted reasons were pretextual, reflecting the Trump Administration’s hostility to California and the high-speed rail program.” However, in late December the Attorney General filed a motion to dismiss the complaint and the Authority released a statement claiming, “This action reflects the state’s assessment that the federal government is not a reliable, constructive, or trustworthy partner in advancing high-speed rail in California.” The Authority has instead shifted its focus to obtaining private investment, which, as previously mentioned, has been nonexistent thus far.

Legislature Commits \$1 Billion Annually from Cap-and-Invest. The proposed budget includes \$1 billion for high-speed rail from Cap-and-Invest revenues, consistent with SB 840 (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 has stated intentions 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. However, the viability of selling bonds remains uncertain, and the Authority has yet to provide a financing plan. Historically, Cap-and-Trade revenues were highly volatile, and this revenue stream may not be strong enough to bond against without a General Fund backstop, which is not currently authorized in law. Furthermore, while this plan may close the funding gap for the Merced to Bakersfield segment, the system-wide project would continue to have a funding gap of about \$89 billion.

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.

Wildfire and Climate Issues

Key Points

- **CAL FIRE Budget Grows with Year-Round Resources.** The Governor's budget funds CAL FIRE at \$5.3 billion and over 14,000 positions in 2026-27, including \$1.25 billion from Cap-and-Invest funds.
- **California Conservation Corps (CCC) Shifted to a Permanent Wildfire Workforce.** Transitions the CCC from a flexible workforce model to a standing wildfire staffing program.
- **Cap-and-Invest Plan Rolls Out.** Budget rolls out the next phase of the revised Cap-and-Invest spending plan, as authorized by SB 840 in 2025.
- **Proposition 4 Climate Bond Spending Plan.** Allocates \$2.1 billion from the voter-approved Proposition 4 climate bond in 2026–27 for water, wildfire prevention, and environmental programs.
- **New Zero-Emission Vehicle (ZEV) Incentives.** Proposes \$200 million in one-time special funds for a new light-duty ZEV incentive program.
- **New Electrical Transmission Financing Program.** Provides \$323 million (Proposition 4) to the Infrastructure and Economic Development Bank for low-interest transmission financing to address decades of deferred maintenance and reduce ratepayer costs.

CAL FIRE Budget Grows with Year-Round Resources. Following the addition of more year-round staff, CAL FIRE is now one of the largest standing departments in state government, with more than 14,000 permanent positions and a \$5.3 billion budget. The state continues to rely on Cap-and-Invest revenue—totaling \$1.25 billion for CAL FIRE in the budget year—as a significant funding source. While use of Cap-and-Invest revenues for fire prevention and suppression is appropriate, greater reliance on this more volatile source for permanent positions raises a risk that the staffing will be difficult to sustain. Additionally, it is important that CAL FIRE engages in more prevention moving forward, not only suppression.

California Conservation Corps (CCC) Shifted to a Permanent Wildfire Workforce. The budget proposes \$12 million General Fund in 2026-27 to fund 47 full-time equivalent Corpsmember and Special Corpsmember positions to implement a year-round, seven-day-per-week schedule that provides adequate relief and support positions to align with CAL FIRE's Hand Crew Program. This restructuring increases baseline staffing levels and reduces the program's ability to scale in response to the seasonal demand. These changes lock in ongoing payroll, overtime, and pension obligations that grow annually regardless of fire activity.

Prevention Grants and Home Hardening Efforts. The budget includes \$58 million for local fire prevention grants and \$20 million for homeowner hardening and defensible space programs. Although the Department of Finance indicates that a funding source for these allocations has not yet been identified, these programs have the potential to provide much-needed support for on-the-ground mitigation and shared responsibility, particularly in high-risk communities.

Cap-and-Invest Spending Plan. The Governor's budget rolls out the next year of the revised Cap-and-Invest plans, as authorized by SB 840 (Limón) in 2025. Details on the tiered Cap-and-Invest program structure, the Greenhouse Gas Reduction Fund expenditure plan, and recent statutory changes are illustrated in the chart on the next page. For additional information on the

new framework, please refer to the Resources and Environmental Protection section beginning on page 66 of our 2025 [End of Session Update](#).

2026-27 Cap-and-Invest Expenditure Plan

(Dollars in Millions)

Tier	Program	2026-27	2027-28	2028-29	2029-30
Tier 1 Appropriations	Manufacturing Tax Credit	\$159	\$163	\$168	\$174
	State Operations	\$120	\$124	\$127	\$131
	State Responsibility Area Fee Backfill	\$88	\$88	\$88	\$88
	Legislative Counsel Climate Bureau	\$3	\$3	\$3	\$3
Tier 2 Appropriations	High Speed Rail Authority	\$1,000	\$1,000	\$1,000	\$1,000
	\$1 billion reserved for discretionary appropriations:				
	- CAL FIRE General Fund Shift ^{1/}	\$750	\$500	\$500	\$0
	- SB 840 Commitments	\$250	\$0	\$0	\$0
	- Remaining Amount Available for Tier 2 Discretionary Funding	\$0	\$500	\$500	\$1,000
Tier 3 Appropriations^{2/}	Affordable Housing	\$396	\$435	\$475	\$516
	Transit and Intercity Rail Capital Program	\$283	\$311	\$339	\$369
	Community Air Protection	\$177	\$194	\$212	\$231
	Sustainable Communities and Agricultural Land Conservation	\$170	\$186	\$204	\$221
	Low Carbon Transit Operations Program	\$141	\$155	\$170	\$184
	Healthy and Resilient Forests	\$141	\$155	\$170	\$184
	Safe & Affordable Drinking Water Program	\$92	\$101	\$110	\$120

^{1/} Remaining \$500 million for the CAL FIRE General Fund shift in 2026-27 is funded with additional discretionary funding from interest earnings.

^{2/} Tier 3 funding is based on auction proceeds estimates which are based on recent auction results. This scenario is presented as an example only and should not be considered as a market price forecast.

Source: Department of Finance

Proposition 4 Funds Wildfire and Water Programs, with Different Fiscal Implications.

Voters approved Proposition 4 to finance climate resilience, wildfire prevention, water infrastructure, and environmental protection through long-term bond funding. The Governor’s budget proposes allocating approximately \$2.1 billion in Proposition 4 climate bond funds in 2026–27 for these programs.

For wildfire and forest health activities, these bond funds replace prior General Fund support for routine prevention work, shifting recurring operational costs onto long-term debt. Financing vegetation management, staffing support, and grant programs with borrowed funds obscures the annual cost of wildfire prevention and commits the state to decades of debt service long after the funded activities conclude. Once bond funds are exhausted, the state will face pressure to either scale back prevention efforts or absorb those costs into the General Fund while continuing to carry the debt.

The fiscal rationale differs for water resilience investments. Many Proposition 4 water allocations support capital-intensive infrastructure, flood protection, conveyance improvements, and ecosystem restoration, which are more appropriately financed through long-term bonds. When Proposition 4 funds are directed toward clearly defined, one-time water infrastructure projects that expand capacity or reduce long-term risk, this use of bond funding is more fiscally supportable than its application to recurring wildfire prevention operations. The details of the Governor’s proposed allocations can be found in the chart on the next page.

Climate Bond Expenditure Plan
(Dollars in Millions)

Investment Category	Bond Allocation	2025-26 Appropriated	2026-27 Proposed	Out-Years
Safe Drinking Water, Drought, Flood & Water Resilience	\$3,800	\$1,199	\$792	\$1,809
Wildfire & Forest Resilience	\$1,500	\$417	\$314	\$769
Coastal Resilience	\$1,200	\$279	\$107	\$814
Extreme Heat Mitigation	\$450	\$110	\$241	\$99
Biodiversity & Nature-Based Solutions	\$1,200	\$390	\$199	\$611
Climate Smart Agriculture	\$300	\$154	\$89	\$57
Outdoor Access	\$700	\$466	\$35	\$199
Clean Air & Energy	\$850	\$275	\$326	\$249
Total	\$10,000	\$3,290	\$2,104	\$4,606

Source: Department of Finance

New Zero-Emission Vehicle Incentives. The budget proposes \$200 million in one-time special fund support for a new light-duty, zero-emission vehicle incentive program. These incentives primarily benefit households able to purchase new vehicles and do not address broader affordability pressures tied to energy and climate policy. Because the program relies on temporary funding, it also creates pressure for future backfills or extensions.

New Electrical Transmission Financing Program. The Governor’s budget allocates \$323 million (Proposition 4) to the California Infrastructure and Economic Development Bank to support low-interest financing for electrical transmission projects. This investment responds to decades of deferred maintenance and underinvestment that have allowed critical infrastructure to deteriorate, increasing the cost of needed upgrades and shifting a growing share of those costs onto electric ratepayers.

Labor and Workforce Development

Key Points

- **California Unemployment Debt Continues to Challenge Employers.** Despite larger principal payments via increased federal employer taxes, California continues to carry a balance of \$22 billion for unemployment insurance (UI) loans from the federal government.
- **UI Debt Interest Payment.** The January budget proposes \$662 million to pay the annual interest payment on the federal UI loans.
- **Subsequent Injuries Benefits Trust Fund Program Growth.** The Governor's budget proposes an increase of \$13 million from an employer-funded account to handle claims backlog and support growth of the Subsequent Injuries Benefits Trust Fund program.
- **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 UI Debt Continues to Challenge Employers. California is the only deadbeat state 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 November, California's unemployment rate was 5.5 percent, the highest of any state in the nation. California's debt balance of \$22 billion remains relatively flat despite increased payments from these employer taxes, reflective of continued borrowing to pay benefits.

This year employers are paying \$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.⁷ 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 chose to let 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 \$662 million General Fund to pay the annual interest payment. 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: using past state surplus funds or federal pandemic funds to pay off the federal loan.

Subsequent Injuries Benefits Trust Fund Program Growth. The Governor's budget proposes an increase of \$13 million (Workers' Compensation Administration Revolving Fund) and 57 new positions to handle claims backlog and support growth of the Subsequent Injuries Benefits Trust Fund (SIBTF) program. To encourage employment of disabled persons, the program was designed to relieve employers of liability for additional permanent disability when an already-disabled worker suffers a subsequent industrial injury. Under the program employers are only responsible for any disability from the subsequent injury, and the SIBTF program pays

⁷ 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.

additional disability benefits if the new injury and the previous disability or impairment result in a permanent disability of 70 percent or more.

However, the program has expanded beyond the original intent because of court decisions interpreting existing law broadly, administrative rule changes, 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, and it is yet another skyrocketing cost for California businesses. For context, total employer assessments for this program have grown from \$18 million in 2014-15 to \$860 million in 2025-26. Program reforms to rein in this program are expected in a future budget trailer bill.

Continues Funding to Modernize the EDD. The January budget proposes \$146 million (\$61 million General Fund) for EDDNext, a five-year plan to modernize the EDD. This proposal 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. This work 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 set the stage for EDD's horrendous performance and tens of billions of dollars in fraudulent claims paid during the pandemic.

General Government

Key Points

- **Governor Continues Bureaucratic Expansions.** Governor Newsom continues his efforts to increase government bureaucracy with millions more in spending proposed.
- **Missed Opportunity to Reduce Non-Mission-Critical Spending.** Budget misses an opportunity to reduce spending and improve affordability for Californians facing nearly the highest cost of living in the country.
- **Governor's \$33,000 Portrait.** Budget includes \$1.3 million General Fund for transition costs and \$33,000 for Governor Newsom's portrait.

Facing Multiyear Deficits, Governor Continues to Expand Bureaucracy. Despite facing years of multibillion dollar deficits, the Governor continues to propose yet more bureaucracy that would cost Californians millions of dollars annually. The budget includes a new Office of Civil Rights within the Government Operations Agency (to provide educational resources and training to local education agencies) and the reinstatement of the California Education Learning Lab (see below for additional information) with \$4 million in General Fund, to name a few.

These examples are merely the cherry on the sundae for a Governor whose tenure has included the explosion of the previously tiny policy group within the Governor's office, known as the Office of Policy and Research, into a billion-dollar fiefdom overseeing various grant programs that are duplicative of state departments. Governor Newsom renamed this redundant bureaucracy the Governor's Office of Land Use and Climate Innovation. The persistence of massive deficits warrant reversing such administrative excess, but Governor Newsom's budget shows no fiscal remorse for building in this waste.

Missed Opportunity to Reduce Non-Mission-Critical Spending. The Governor's budget misses an opportunity to reduce frivolous spending in the budget that does not support Californians facing an affordability crisis in this high-cost state. Egregious spending from the 2025-26 budget package that could have been amended include \$5 million for the "Belonging Campaign," intended to determine the level of happiness amongst Californians, \$20 million for an outside "efficiency" contractor, and \$10 million for the state to establish its own media program, an obvious conflict of interest that could threaten honest reporting on government oversight and accountability.

Governor's \$33,000 Portrait Part of Legacy and Transition Costs. A picture is worth a thousand words, but in Governor Newsom's case it is apparently worth \$33,000. The budget would provide \$33,000 for the portrait of Governor Newsom as part of \$1.3 million General Fund for the transition of the Governor-elect and the outgoing Governor. The transition funding would be used for staff salaries and benefits, office space, printing, and information technology costs. It is unclear why the \$25 million General Fund proposed for the Governor's office and staff in 2026-27 would not be sufficient to cover the transition and portrait expenses. In 2018-19 the budget included \$1 million for these expenses.

Government Operations Agency - California Education Learning Lab. The Governor's budget proposes to reinstate the California Education Learning Lab within the Government Operations Agency, proposing \$4 million General Fund and one permanent ongoing position. The LAO has advised the Legislature for years that the Lab was duplicative and unnecessary,

and the 2025 Budget Act finally eliminated the program and funding, but the Governor has now proposed to revive its funding.

Department of General Services - Infrastructure Improvements. The Governor's budget includes \$203 million (\$52 million General Fund) over the next five years for projects in the Sacramento Region, including the reconfiguration of the 10th & O building upon completion of the Capitol Annex in 2027, and the renovation of the Warren-Alquist Energy building.

Military Department. The Governor's budget includes the following within the California Military Department:

- **Infrastructure Improvements.** The Governor's budget includes \$69 million (\$16 million General Fund) over the next five years for armories, aviation facilities, and training facilities.
- **Drug Interdiction Continuation.** The Governor's budget includes \$30 million General Fund (\$15 million in 2026-27 and \$15 million in 2027-28) to further expand existing drug interdiction efforts to prevent drug trafficking by transnational criminal organizations throughout the state, with a particular focus on assisting federal, state, local, and tribal law enforcement agencies in combating fentanyl. Each of the last four budgets have included \$15 million for the program, bringing the total investment to \$90 million for drug interdiction efforts since 2022-23.

Civil Rights Department - Bureau of Descendants of American Slavery. The Governor's budget includes \$1 million for each of the next three years, then \$2 million annually thereafter to maintain operations of the Bureau of Descendants of American Slavery.

Commission on the State of Hate Extension. The Governor's budget proposes to extend the Commission on the State of Hate through the end of 2030, and would provide \$900,00 in 2026-27, \$1.8 million from 2027-28 through 2029-30, and \$900,000 in 2030-31.

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