

BUDGET REPORT

California State Budget 2026-27

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Introduction and Summary

Gov. Gavin Newsom's 2026–27 and final January budget proposal acknowledges that California faces a state deficit in the current fiscal year. However, the proposal is characteristically optimistic regarding the size of the deficit and remains equally ambitious in outlining how the state will deploy resources across key priorities, including agency consolidation, long-term debt repayment and legacy projects during the governor's final year in office.

The budget reports a \$2.9 billion deficit, described as a "modest shortfall" by Department of Finance staff. This estimate differs markedly from the Legislative Analyst's Office (LAO) [projection](#) of a \$17.6 billion deficit—a gap of \$14.7 billion. According to department staff, the governor's proposal incorporates \$31.5 billion in additional revenues not included in the LAO forecast and excludes the risk of a stock market downturn that the LAO elected to factor into its analysis. Overall, the state budget totals \$348.9 billion, including \$248.3 billion in General Fund expenditures and \$23 billion in total reserves.

2026-27 Governor's Budget
General Fund Budget Summary
(Dollars in Millions)

	2025-26	2026-27
Prior Year Balance	\$55,951	\$53,451
Revenues and Transfers	\$235,162	\$227,385
Total Resources Available	\$291,113	\$280,836
Non-Proposition 98 Expenditures	\$155,749	\$158,453
Proposition 98 Expenditures	\$81,913	\$89,877
Total Expenditures	\$237,662	\$248,330
Fund Balance	\$53,451	\$32,506
Reserve for Liquidation of Encumbrances	\$27,998	\$27,998
Special Fund for Economic Uncertainties	\$25,453	\$4,508
Public School System Stabilization Account	\$4,509	\$4,102
Safety Net Reserve	-	-
Budget Stabilization Account/Rainy Day Fund	\$11,327	\$14,350

Note: Numbers may not add due to rounding.

Copy of the full budget summary [here](#)

Although the budget is balanced for the 2026–27 fiscal year, the state faces a projected \$22 billion deficit in the following fiscal year, with additional shortfalls anticipated in subsequent years. To offset the expected deficit, the governor does not propose significant new investments beyond those that are constitutionally mandated (i.e. Proposition 98 funding) or required to accommodate capacity increases in essential programs. In addressing this outlook, the budget proposal states that California is facing "a benefit, a cost, and a challenge," noting that the state benefits from a

surge in 2025 revenues, incurs near-term costs associated with federal tax legislation and uncertain future impacts from high tariffs and restrictive immigration policy, and confronts the challenge of balancing the budget in 2026 and beyond.

In anticipation of the costs and risks, California is expected to face as a result of federal policy changes and projected stock market and asset price declines in the artificial intelligence sector, the governor reports a Budget Stabilization Account (also known as the Rainy Day Fund) totaling \$14.4 billion for the 2026–27 fiscal year, an increase of approximately \$3 billion compared to the prior fiscal year. In addition, the governor signals a clear intent to reduce long-term debt, allocating \$3 billion in 2026–27 and \$11.8 billion over the subsequent four years. Finally, the governor has elected to set the Special Fund for Economic Uncertainties (SFEU), California’s discretionary General Fund reserve, at a lower level of \$4.5 billion.

Gov. Newsom concludes his introduction by underscoring major accomplishments and progress achieved during his tenure. Many of these investments, including expanded funding for TK–12 education and child care, higher education affordability, climate and clean energy initiatives, workforce and apprenticeship development, and behavioral health and homelessness, represent legacy policies of the Newsom administration. While, as previously noted, no new significant investments are proposed, the governor maintains existing funding for many of these programs and leverages his authority to reorganize agency responsibilities to streamline program implementation. The ongoing Business, Consumer Services, and Housing Agency reorganization and the newly proposed shift in oversight authority for the management of the California Department of Education serve as examples.

As California recovers from a year marked by devastating natural disasters and continues to navigate an unprecedented political landscape with midterm and gubernatorial elections on the horizon, Gov. Newsom emphasizes that this year’s January proposal is “not the final word,” but rather a starting point for policymakers and stakeholders to collaborate on a final budget that will ensure California’s fiscal stability for years to come.

TK-12 Education

The governor's 2026-27 budget proposal includes a total funding of \$149.1 billion (\$88.7 billion General Fund and \$60.4 billion other funds) for primary and secondary education. It maintains many of its investments providing instruction and support services to TK-12 students and highlights existing key accomplishments including universal school meals, before and after school as well as summer school, school-based behavioral health services, and improving literacy and disability services for students.

ANALYSIS

State Education Governance

Perhaps the most significant element of this year's TK-12 budget proposal is the governor's effort to address longstanding concerns regarding governance of California's K-12 education system. The proposal seeks to implement a 2002 Master Plan recommendation by amending the Education Code to place oversight of the California Department of Education and support for local educational agencies under the authority of the State Board of Education. In addition, the proposal would grant the state superintendent enhanced authority to strengthen coordination and alignment among policymaking bodies across the education continuum, from early childhood through postsecondary education.

Proposition 98

Proposition 98 is one of the few components of the 2026-27 budget projected to receive increased funding, as it is a voter-approved constitutional requirement. Revised General Fund estimates adjust the Proposition 98 minimum guarantee to \$125.5 billion for 2026-27, with a maintenance factor balance of \$584.6 million projected at the end of the fiscal year. No additional mandatory payments are anticipated for 2025-26 or 2026-27 beyond the \$7.8 billion maintenance factor payment which was revised from the 2025 Budget Act.

The budget proposal also reviews anticipated settle-up costs entering 2026-27, which reflect the difference between amounts funded and the final calculated Proposition 98 obligation in a given fiscal year. It states the administration's intent to mitigate the risk of appropriating more resources to the guarantee than ultimately become available. The proposal further acknowledges that adjustments may occur as part of the May Revision and emphasizes that final figures will not be determined until certification of the 2025-26 Proposition 98 guarantee in spring 2027. Finally, the proposal reports a projected balance of \$4.1 billion in the Proposition 98 Rainy Day Fund, attributable in part to a discretionary deposit in 2025-26 and a lower-than-anticipated withdrawal in 2026-27.

Notable Proposition 98 adjustments include:

- \$1 billion ongoing Proposition 98 General Fund to expand community school models to more school sites with large concentrations of students from low-income families, English learners and youth in foster care.
- \$509 million ongoing Proposition 98 General Fund to increase special education base rates, allowing local education agencies to receive the same rate-per-pupil for state special education funding.
- \$2.8 billion one-time Proposition 98 General Fund for a discretionary block grant.
- \$100 million one-time Proposition 98 General Fund to increase access to college and career pathways for high school students, including prioritizing dual enrollment and pathways programs expansion with funds allocated through the \$2.8 billion Student Support and Discretionary Block Grant.
- \$62.4 million ongoing Proposition 98 General Fund to stabilize the per-pupil Tier 2 rate for Expanded Learning Opportunities Programs.
- \$250 million one-time Proposition 98 General Fund to continue educator resident programs through 2029-30.
- A continued allocation of \$1.5 billion in Proposition 2 (2024) bond funds to support school construction projects.
- \$228.2 million ongoing Proposition 98 General Fund to reflect a 2.41 percent cost-of-living adjustment for specified categorical programs around the Local Control Funding Formula Equity Multiplier.
- \$22.9 million one-time Proposition 98 General Fund to support Los Angeles County school wildfire recovery.
- \$13.3 million additional ongoing Proposition 98 General Fund for county offices of education to provide universal and targeted support to school districts and charter schools.
- A decrease of \$15.6 million ongoing Proposition 98 General Fund to reflect both ADA changes applicable to the county offices of education Local Control Funding Formula and the 2.41 percent cost-of-living adjustment.
- A decrease of \$1.4 billion ongoing Proposition 98 General Fund for school districts and county offices of education in 2026-27 resulting from increased offsetting property taxes.

Higher Education

This year's budget proposes total funding of \$50.4 billion (\$31.4 billion General Fund and local property tax, and \$19 billion other funds) for the three higher education segments: University of California (UC), California State University (CSU) and California Community Colleges (CCC) and the California Student Aid Commission. In addition to funding, this budget proposes several deferrals in alignment with the 2025 Budget Act.

It is worth noting that the 2025 Budget Act included investments to begin implementation of the Master Plan for Career Education including \$100 million one-time Proposition 98 General Fund to increase access to college and career pathways for high school students, including expanding access to dual enrollment and \$37 million Proposition 98 General Fund (of which \$2 million is ongoing) to further support and expand the Credit for Prior Learning Initiative. Finally the budget reflects \$4.4 billion in total financial aid expenditure, \$3.2 billion of which will directly support Cal Grant and \$1.1 billion General Fund for the Middle Class Scholarship.

ANALYSIS

University of California

The budget proposes \$5.3 billion General Fund for the UC system, which includes an increase of \$254.3 million ongoing General Fund, a 5% base increase for the UC. This reflects the fifth and final payment of the multi-year compact, meeting the state's obligation for 2026-27.

The UC system maintains several of the planned funding deferrals outlined in the 2025 Budget Act. Those deferrals include a one-time deferral of the 2025-26 fourth-year compact payment of \$240.8 million to 2027-28, \$31 million to offset revenue reduction associated with the replacement of 902 nonresident undergraduate students enrolled at three campuses with an equivalent number of California resident undergraduate students, from 2025-26 to 2027-28, and a one-time 3% base decrease of \$129.7 million shifting the repayment from 2026-27 to 2027-28. The budget provides the UC with authority for a cash flow loan in 2026-27 to allow the UC to repay and retire its existing 2025-26 cash flow loan which will help alleviate the impacts of the delay.

California State Universities

The CSU system will receive a \$5.6 billion General Fund which includes an increase of \$264.8 million ongoing General Fund, a 5% base increase for the CSU. This reflects the fifth and final payment of the multiyear compact meeting the state's obligation for 2026-27. Additionally, the budget includes a base funding increase of \$100.9 million ongoing General Fund, representing partial funding of the fourth-year compact payment as scheduled in the 2025 Budget Act.

California Community Colleges

The budget proposes \$15.4 billion in General Fund and property taxes for the CCC system, which is an increase of almost 50% since 2018-19 and illustrates a continued focus on the CCC multi-year roadmap. The allocations include an increase of \$55.3 million Proposition 98 General Fund to fund additional enrollment growth, an increase of \$38.1 million Proposition 98 General Fund to support and provide stable funding for Calbright College in its base operations as it transitions out of its startup capacity, and a one-time increase of \$100 million Proposition 98 General Fund for a flexible block grant for the community colleges system.

Climate Change Natural Resources, and Environment

The governor's proposed budget continues to build on investments for a clean and resilient future, supporting efforts for deployment of zero emission vehicles and addressing climate concerns regarding extreme heat, droughts, flooding and wildfires. Below is a breakdown of investments from recent bonds and spending adjustments to various agencies, departments and boards.

ANALYSIS

Advance Clean Fleets (ACF) and Zero Emission Vehicles (ZEV)

The proposed budget maintains the governor's commitment to advancing clean transportation. It provides targeted funding to incentivize ZEV adoption and includes additional actions to accelerate deployment of the required infrastructure. The incentive includes \$200 million in one-time special funds and statutory language to establish a new light-duty ZEV incentive program.

It also includes \$1.7 million ongoing funding to fund 10 positions to implement the state and local government elements of ACF.

Proposition 4 Climate Bond Spending Plan

This second year of climate bond spending, the governor proposes to allocate \$2.1 billion in the following categories:

- \$792 million for Safe Drinking Water, Drought, Flood and Water Resilience
 - \$232 million for flood control projects to evaluate, repair, rehabilitate, reconstruct, expand or replace levees, weirs, bypasses and facilities of the State Plan of Flood Control, projects in the Sacramento-San Joaquin Delta and projects funded through the Flood Control Subventions Program
 - \$173 million for drinking water projects serving small or disadvantaged communities or tribes
 - \$68.8 million to support repairs to existing or new water conveyance projects
- \$314 million for Wildfire and Forest Resilience
 - \$58 million in local fire prevention grants to fund wildfire prevention and hazardous fuels reduction projects and activities in and near wildfire threatened communities.
 - \$19.6 million fire resilience funding for technical and financial assistance to help homeowners in wildfire-vulnerable areas to implement defensible space mitigations, including creation of an ember-resistant (Zone 0) within five feet of a physical property
 - \$15.2 million for wildfire risk reduction grants related to electrical transmission, in coordination with the Office of Energy Infrastructure Safety, to support cooperation in advancing fuel reduction around wildfire-vulnerable communities to reduce wildfire ignitions

- \$107 million for Coastal Resilience
- \$241 million for Extreme Heat Mitigation
- \$199 million for Biodiversity and Nature-Based Solutions
- \$89 million for Climate Smart Agriculture
- \$35 million for Outdoor Access
- \$326 million for Clean Air Energy

Cap and Investment

The budget proposes the following Greenhouse Gas Reduction Fund (GGRF) expenditure plan, reflecting last year's changes to the Cap-and-Invest (formerly known as Cap-and-Change) Program, which created three tiers of expenditures, with Tier 1 fully funded first, followed by Tiers 2 and 3:

- Tier 1—Manufacturing Tax Credit, State Operations, State Responsibility Area Backfill and the Legislative Counsel Climate Bureau.
- Tier 2—\$1 billion for high-speed rail and \$1 billion for discretionary funding.
- Tier 3—Previously percentage-based continuous appropriations are now capped dollar amounts, with proportionally related allocations that adjust downwards as necessary to ensure Tiers 1 and 2 are fully funded.

The proposed budget maintains the 2025 Budget Act agreement to support CAL FIRE operation costs with \$1.25 billion GGRF in 2026-27, \$500 million in 2027-28 and \$500 million in 2028-29. It also includes statutory adjustments to clarify existing law and modernize the Affordable Housing and Sustainable Communities program by separating the affordable housing components from the sustainable communities and agricultural land conservation components:

- **Affordable Housing:** Up to \$560 million annually from Cap-and-Invest auction proceeds for affordable housing administered by the Housing Development and Finance Committee as part of the administration's modernization of the Affordable Housing and Sustainable Communities Program. See the Housing and Homelessness Chapter for more information.
- **Sustainable Communities and Agricultural Land Conservation:** Up to \$240 million annually from Cap-and-Invest auction proceeds for the sustainable communities and agricultural land conservation components of the Affordable Housing and Sustainable Communities Program will continue to be administered by the Strategic Growth Council and updated to support more flexible, catalytic infrastructure investments aligned with regional priorities. These updates are intended to maximize the impact of limited ongoing resources in advancing climate-aligned housing, land-use and transportation outcomes.
- **Cap-and-Invest Implementation (AB 1207/SB 840):** A total of \$5.7 million special funds and 17 positions to support new workload at CARB and the California Public Utilities Commission (CPUC) to update and implement statutory changes related to compliance carbon offset protocols and the California Climate Credit.

Spending Adjustments

The governor proposed \$6.2 million General Fund for permanent resources for enhanced defensible space inspection through 31 Cal FIRE positions to meet the 250,000 annual parcel inspections goal within the State Responsibility Area.

In response to the U.S. Supreme Court's *Sackett* decision, the proposed budget includes \$2.6 million ongoing special funds and 12 positions for the State Water Resources Control Board to expand essential water quality permitting and enforcement for the protection of water quality in surface waters and wetlands.

Energy

Data Centers: Data center development and expansion is growing and anticipated to expand even more in the coming years with increased computing demand, especially with recent advancements in artificial intelligence. California is well positioned to develop resource-efficient and clean energy-powered data centers throughout the state that house highly advanced, next-generation computing technologies and enhance the competitive advantage of the state's computer technology sector and the state's overall economy for the benefit of Californians. Supplying adequate clean power to these facilities, while fairly and equitably allocating the costs of providing electric service, is top of mind and a core focus of the CPUC.

The budget proposes \$668,000 ongoing PUCURA and 3 positions for implementation of Chapter 647, Statutes of 2025 (SB 57). The CPUC will assess and report on the ratepayer impacts of large new electricity loads, including data centers. The budget also proposes ongoing staffing capacity to support continued electric rate design and cost allocation rules, data analysis, and other efforts to avoid potential cost impacts to existing customers.

Other Energy Related Investments:

- **Ongoing Petroleum Market Oversight and Analysis Workload—\$1.9 million** ongoing Energy Resources Programs Account and 7 positions for CEC's Energy Assessments Division and 1 position for the Division of Petroleum Market Oversight to support the state's transition away from petroleum-based fuels while protecting California consumers from gasoline price spikes, consistent with Chapter 1, Statutes of 2024 (AB X2-1).
- **Energy Modernization and Affordability (SB 254)**—In addition to the Climate Bond appropriation to IBank noted above, the Budget includes an additional \$5.7 million and 18 positions from various special funds for the Office of Energy Infrastructure Safety, CPUC, Public Advocate's Office, and CEC to support new workload related to utility wildfire mitigation plan review, oversight of transmission development and financing mechanisms, and various environmental regulation and reporting activities.

- **Supporting Affordability through Expanded Power Markets (AB 825)**—\$1.9 million ongoing Public Utilities Commission Utilities Reimbursement Account (PUCURA) and 8 positions to support oversight of voluntary participation in expanded regional power markets to ensure compliance with statutory requirements and ensure these markets lower energy costs for California customers, support grid reliability and resiliency during extreme events, and optimize the use of renewable and zero-carbon energy resources.
- **California Ratepayer Protection Act (AB 1167)**—\$952,000 ongoing PUCURA and 4 positions to strengthen CPUC enforcement and oversight of political and promotional advertising to protect ratepayers from unreasonable utility costs and ensure accountability in utility practices.

Health and Human Services

The governor's budget includes \$343.6 billion (\$94.4 billion General Fund) for all health and human services programs in 2026-27. Specifically, the state budget projects Medi-Cal expenditures of \$48.8 billion General Fund in 2026-27, which is an increase of \$2.4 billion General Fund compared to the 2025-26 expenditures. This increase is driven primarily by the Medical Provider Interim Payment Loan ending in 2025-26 and a decrease in Managed Care Organization (MCO) Tax revenue available for Medi-Cal support.

Additionally, the state has taken action to address the implementation requirements of H.R. 1, the federal One Big Beautiful Bill Act of 2025. Effective Oct. 1, 2026, the federal policy will exclude individuals with unlawful immigration statuses from federal eligibility for full-scope Medi-Cal, saving California an estimated \$786 million in the General Fund in 2026-27 and \$1.1 billion General Fund ongoing. H.R. 1 and Proposition 35 requirements significantly limit the potential size of a future MCO Tax, resulting in a substantial reduction in ongoing funding to support the Medi-Cal program.

ANALYSIS

The Department of Health Care Services (DHCS), which administers Medi-Cal, the state's Medicaid program, is reported to allocate \$196.7 billion (\$46.4 billion General Fund) in 2025-26 and \$222.4 billion (\$48.8 billion General Fund) in 2026-27. Medi-Cal is projected to cover approximately 14.5 million members in 2025-26 and 14 million members in 2026-27—more than one-third of the state's population. Additionally, for 2026-27, under Prop 1 the Behavioral Health Services Act, budget allocations will dedicate \$4 billion for Behavioral Health Services Funds for behavioral health treatment and support to counties.

The Department of Social Services (DSS) oversees programs such as the California Work Opportunity and Responsibility to Kids (CalWorks), CalFresh and Nutrition Programs, which is California's version of the federal Supplemental Nutrition Assistance Program (SNAP), In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment, Child Welfare and Adult Protective Services, Community Care Licensing, Disability Determination Services, and Child Care. The budget includes \$58.6 billion (\$25.8 billion General Fund) for DSS programs in 2026-27.

The Department of Developmental Services (DDS), which provides services and support to people with intellectual and developmental disabilities, includes a total allocated budget of \$21.1 billion (\$13.5 billion General Fund) and estimates that over 527,000 individuals will receive services in 2026-27. At the next May Revision, a new proposal is anticipated for the Behavioral Health Services fund. Currently, a placeholder of \$150 million is allocated for workforce and prevention programming within the Department of Health Care Access and Information (HCAI) and the California Department of Public Health (CDPH).

Housing and Homelessness

On the heels of a historic year for housing, the proposed budget focuses on touting the administration's accomplishments, process improvements to existing policies, and implementation of the newly created Housing and Homelessness Agency. On homelessness, the Governor highlights investments in Homekey and the Homeless Housing, Assistance, and Prevention (HHAP) program, encampment resolution efforts, and the work of the California Interagency Council on Homelessness (CalICH).

ANALYSIS

Key initiatives in the housing and Homelessness space include:

- **California Housing and Homelessness Agency Implementation:** Following the passage of the governor's reorganization plan last year, the administration is working toward implementation of the California Housing and Homeless Agency and the Housing Development Finance Committee. The goal of this implementation is to reduce fragmentation of the state's diverse financing systems and provide developers with certainty and efficiency. Whether this will result in a true "one-stop-shop" will be determined through negotiation with the legislature over the next several months.
- **Rebuilding After the Los Angeles Fires:** The administration is prioritizing recovery efforts for victims of the Eaton and Palisades fires by expediting permits and suspending regulations that hinder rebuilding. Additionally, the governor is investigating insurance gaps in disaster areas, as many residents have discovered their current policies are insufficient to cover total reconstruction costs.
- **Significant Budget Adjustment to Affordable Housing and Sustainable Communities:** In order to accelerate the production of climate-aligned affordable housing that integrates energy efficiency with sustainable community planning, the governor proposes to redirect up to \$560 million in annual Cap-and-Invest proceeds to the Housing Development Finance Corporation (HDFC) to administer affordable housing programs as part of the Affordable Housing and Sustainable Communities Program. This modernization centralizes funding under a new unified framework to reduce bureaucracy and more effectively combine various housing subsidies.
- **Deployment of Significant Homelessness Resources:** The administration proposes a significant investment of \$1.5 billion total over the sixth and seventh rounds of the Homeless Housing, Assistance and Prevention (HHAP) grants. In July 2026, the Behavioral Health Services Act will begin mandating that counties dedicate 30% of their funding specifically to housing interventions for those with behavioral health needs. This will be combined with over \$2.2 billion from Proposition 1 allocated to supportive housing units to create a more durable "continuum of care." These investments are increasingly tied to strict accountability and performance requirements, ensuring that local governments produce measurable results to maintain funding.

Criminal Justice and Judicial Branch

The governor's budget includes total funding of \$14.2 billion dollars for the California Department of Corrections and Rehabilitation (CDCR), which includes \$4.1 billion for health care programs, such as mental health, medical, nursing and dental care services for incarcerated individuals. The governor highlights savings due to the decreased prison population and the closing of three state owned adult prisons since 2021. The budget also touts the governor's plan to close a fourth (Correctional Rehabilitation Center Norco) by October 2026. Together these closures will result in general fund savings of \$594 million annually by 2027-2028.

The governor highlights the transformation of San Quentin State Prison to the San Quentin Rehabilitation Center as one of his major accomplishments. The focus on rehabilitation programs to improve outcomes upon reentering the communities is a continuation of the governor's previous investments in prisoner rehabilitation.

The budget also includes \$130 million to address juvenile justice realignment with budget adjustments related to ADA facility improvements, fire alarm replacement projects, Board of Parole Hearings information technology (IT) systems and CDCR leave balances.

ANALYSIS

The governor's continued focus on rehabilitation and decreasing the CDCR population is central to his budget proposal for criminal justice.

The budget proposal cites the funding of two new pre-release community correctional reentry centers and plans for six more in the next few years as additional investments in successful community reentry. The budget provides \$192 million for Post-Release Community Reentry programs serving nearly 15,000 individuals each year and \$34 million for community-based organizations to assist the formerly incarcerated.

Public safety investments include \$636.8 million for community public safety and \$398 million for organized retail theft, \$445 million to combat gun violence, \$547 million for victims' services and \$110 million to combat illicit drugs.

The budget notes that adult prison population has declined over recent years and is projected to continue to decline. However, the passage of Proposition 36 in November 2024 has resulted in an increase in the state prison population, resulting in decreased savings from the previously passed Proposition 47, which had relaxed penalties, mainly for theft.

The budget includes funding of approximately \$1.3 billion for the attorney general and Department of Justice (DOJ). The budget notes that previous funding was allocated to defend the state against enforcement and legal actions taken by the federal government. Since January 2025, the DOJ has filed 52 cases against the federal government, so the budget proposes an additional \$10 million to the DOJ for its increased workload.

The budget provides \$149.3 million for the California Office of Emergency Services, which reflects the increased frequency of disasters in the state.

Finally, the budget includes \$17.4 million for CARE Court to assist individuals suffering from untreated schizophrenia and other psychotic disorders.

Transportation

The 2026–27 budget proposal highlights major accomplishments and investments across programs administered by the California State Transportation Agency. These include the Transit and Intercity Rail Capital Program, the Port and Freight Infrastructure Program, the Active Transportation Program, climate adaptation initiatives and safety grade separation projects. The proposal also recognizes achievements by departments under the agency’s jurisdiction, including the Clean California program administered by the Department of Transportation and the recruitment retail theft prevention initiatives led by the California Highway Patrol. In addition, the governor’s proposal underscores ongoing Department of Motor Vehicles modernization efforts, including funding allocations to sustain the Motor Vehicle Account.

ANALYSIS

Notable transportation budget adjustments include:

- \$3.1 billion to CHP and \$1.5 billion to DMV for the Motor Vehicle Account, which is expected to be insolvent as soon as 2028-29.
- \$6.9 million one-time augmentation from the Motor Vehicle Account to continue providing security at the State Capitol Swing Space building.
- \$94.1 million from the Motor Vehicle Account to continue work on the Digital Experience Platform (DXP) Project.
- \$56 million from the Motor Vehicle Account to continue compliance with the federal Real ID Act.
- A proposed cancellation of the \$166 million transfer authorized by the 2025 Budget Act to support the Motor Vehicle Account on the grounds that the account is expected to be solvent in 2025-26 and 2026-27.
- A proposed statutory change to authorize the Metropolitan Transportation Commission (MTC) to provide short-term loans to transit agencies facing cash flow challenges, preserving essential services for Bay Area riders.

Labor and Workforce Development

Federal UI Debt Repayment & EDDNext Modernization

The governor's budget includes targeted one-time investments to stabilize the state's Unemployment Insurance (UI) system and continue the modernization of the Employment Development Department (EDD). To address ongoing liabilities tied to the UI Trust Fund, the budget proposes \$662.2 million in one-time General Fund to cover the state's annual interest payment on its outstanding federal loan balance.

In addition, the budget proposes \$145.5 million (\$60.9 million General Fund) one-time to continue the implementation of EDDNext, the department's multi-year modernization initiative. These funds support further enhancements to EDD's benefits delivery system, including improvements to call center operations, simplification of forms and notices, and expanded data analytics tools intended to strengthen program integrity and reduce fraudulent benefit claims.

California Jobs First

The budget continues funding for California Jobs First, a \$450 million General Fund initiative allocated across the 2021-22 through 2026-27 fiscal years and jointly administered by the Governor's Office of Business and Economic Development and the Labor and Workforce Development Agency. The program represents the state's first comprehensive statewide economic development strategy in more than 20 years and has supported the development of 13 regional economic development strategies.

To date, California Jobs First has supported 260 early-stage projects and funded 11 implementation-ready projects that are expected to generate more than 23,000 well-paying jobs statewide.

Apprenticeship and Youth Workforce Programs

The budget proposes a multiyear Apprenticeship Training Grant Augmentation totaling \$18.2 million one-time from the Apprenticeship Training Contribution Fund in 2026-27, \$18.1 million one-time in 2027-28, and \$17.8 million one-time in both 2028-29 and 2029-30 for the Department of Industrial Relations to award grants to approved apprenticeship programs in construction and related trades.

The proposal also includes a \$13.4 million one-time Proposition 98 General Fund backfill to cover apprenticeship-related and supplemental instruction (RSI) costs incurred in 2024-25 and 2025-26.

In addition, the budget reflects \$65 million General Fund over three years for the California Opportunity Youth Apprenticeship Grants, including \$20 million in both 2022-23 and 2023-24 and \$25 million in 2024-25. These grants support the development and testing of innovative practices to increase participation of opportunity youth in pre-apprenticeship and apprenticeship programs

and to assess the impact of apprenticeship on employment and earnings outcomes. The funding is expected to support approximately 3,300 participants.

The budget further includes \$45 million in federal funds for Workforce Pathways for Youth grants administered by the EDD. These grants support projects that help young adults from underserved communities access high-quality jobs and opportunities for advancement through certification programs, on-the-job training, work-based learning, career planning and mentorship. The program is expected to serve approximately 4,600 participants, with more than 1,400 participants enrolled to date.

The budget also includes a \$14.3 million Proposition 98 General Fund increase for community colleges to support the California Healthy School Food Pathways Program, which strengthens the school food service workforce through apprenticeship and training programs.

Farmworker and Agricultural Worker Programs

The budget allocates \$20 million in Workforce Innovation and Opportunity Act (WIOA) funds for the Farmworker Advancement Program to support California-based organizations in developing training programs for farm workers. These programs are intended to help more than 1,700 workers adapt to changing demands in the agricultural sector by providing essential skills and upskilling opportunities to advance within agriculture or transition to employment outside the sector. To date, the program has served 1,316 workers.

The budget also provides ongoing resources for the Extreme Heat and Agricultural Enforcement Task Force and related outreach efforts. This includes \$7.7 million from the Occupational Safety and Health Fund in 2026-27, \$7.1 million in 2027-28 and ongoing as well as 34 permanent positions for the Department of Industrial Relations (DIR) to continue targeted employer and worker outreach, education and strategic enforcement to protect workers from heat-related illness and wildfire smoke hazards.

Health Care Workforce

The budget reflects approximately \$1.9 billion (\$1.7 billion General Fund and \$174.2 million other funds) invested across initiatives administered by the Department of Health Care Access and Information, the Department of Public Health and the Department of Health Care Services to support health care workforce development, with a focus on nursing, primary care, public health and behavioral health. In addition, the state has invested \$1.9 billion in the BH-CONNECT Behavioral Health Workforce Initiative administered by the Department of Health Care Access and Information.

The budget also includes \$233.6 million in federal funds in FY 2026 for the Federal Rural Health Transformation Program to expand access to care, strengthen the workforce and enhance health infrastructure in rural and frontier communities. Additionally, the proposal includes a \$150 million placeholder from the Behavioral Health Services Fund, in lieu of the General Fund, to support

workforce and prevention programming at the Department of Health Care Access and Information and the California Department of Public Health, with details to be updated at the May Revision.

Cal/OSHA Enforcement & Intake Modernization

The budget provides \$5.9 million from the Occupational Safety and Health Fund in 2026-27, \$5.3 million in 2027-28 and ongoing as well as 35 permanent positions for the DIR to establish a centralized complaint and report intake unit within Cal/OSHA. The unit is intended to improve the efficiency and consistency of Cal/OSHA's response to workplace complaints, accident reports, referrals and inquiries.

Subsequent Injuries Benefits Trust Fund

The budget includes \$12.7 million from the Workers' Compensation Administration Revolving Fund and 57 positions in 2026-27 for the DIR to address a growing backlog of cases within the Subsequent Injuries Benefits Trust Fund (SIBTF), increasing to \$36.5 million and 177 positions by 2030-31 and ongoing.

The SIBTF program has expanded significantly beyond its original statutory purpose, driven in part by recent court decisions that broadly interpret undefined terms in the more than 60-year-old statute. As a result, SIBTF claims and benefit costs have increased sharply, creating substantial financial and operational pressures.

Absent programmatic changes, annual claim payments are projected to grow from \$87 million in 2019-20 to \$1.3 billion by 2029-30, while the employer assessment that funds the program is expected to increase from \$112 million to \$1.5 billion over the same period. Since 2015, annual claim submissions have risen from approximately 1,000 to more than 5,400 cases. Without reform, continued growth in claims is expected to exacerbate staffing constraints and significantly delay benefit determinations for injured workers.

Public Employment Relations Board

The budget includes funding and positions to support implementation of recently chaptered labor relations legislation affecting the Public Employment Relations Board. The proposal provides \$8.5 million General Fund and 30 positions in 2026-27, \$9.3 million General Fund and 39 positions in 2027-28, and \$2.3 million General Fund and 39 positions in 2028-29 and ongoing.

These resources will support PERB's expanded workload in labor relations oversight, including adjudicating unfair labor practice charges and making determinations involving union elections and certifications under specified circumstances.

Master Plan for Career Education

Building on the release of California's first Master Plan for Career Education in April 2025 and the initial implementation investments included in the 2025 Budget Act, the budget proposes additional

targeted investments to advance key elements of the plan, with further phases of implementation to be considered in future fiscal years.

These proposed investments include \$100 million one-time Proposition 98 General Fund to expand access to college and career pathways for high school students, including increased access to dual enrollment opportunities, and \$37 million Proposition 98 General Fund, including \$2 million ongoing, to further support and expand the Credit for Prior Learning Initiative. The additional Credit for Prior Learning funding is intended to provide fiscal incentives that enable more community college campuses to participate, thereby increasing student access to credit for prior learning statewide.

General Government and Statewide Issues

The governor's proposed budget advances enforcement, regulatory integration and consumer protection across cannabis and hemp markets, financial services and data privacy. The proposal emphasizes implementation of recent legislation, continued oversight capacity and targeted reinvestment of cannabis tax revenues.

ANALYSIS

Cannabis and Hemp

Hemp Integration and Enforcement (AB 8, Chapter 248, Statutes of 2025)

- Funds the integration of hemp into California's cannabis regulatory framework
- Provides resources to the Department of Cannabis Control (DCC) and the Department of Tax and Fee Administration (CDTFA)
- Supports regulatory oversight, tax compliance and enforcement activities related to hemp-derived products

Cannabis Enforcement and Legal Capacity

- Expands enforcement against the illegal cannabis market, including a dedicated sworn officer presence in Northern California
- Increases legal staffing to address growing workload related to licensing, compliance, legislation and public records
- Aims to strengthen market integrity and regulatory compliance

Cannabis System Integration

- Initiates consolidation of two existing cannabis regulatory systems into a single platform
- Improves data collection, regulatory efficiency and service delivery for licensees and consumers

Cannabis Tax Revenue Allocation (Allocation 3)

- 2026–27 Estimated Funding: \$403.9 Million
 - 60% for youth education, prevention, early intervention, treatment of substance use disorders and school retention (242.3 million)
 - 20% for environmental cleanup, remediation, and enforcement related to illegal cannabis cultivation (80.8 million)
 - 20% for public safety-related activities (80.8 million)

One-Time Funding Shift

- Redirects \$11.5 million in 2026–27 to the Department of Social Services
- Funds child care infrastructure in communities impacted by recent fires
- Temporarily repurposes cannabis-funded youth grant dollars

Department of Financial Protection and Innovation (DFPI)

California Consumer Financial Protection Law (AB 1864)

- Continues funding through 2029–30 to sustain expanded oversight of financial products and services
- Supports enforcement, legal activities, fintech oversight and consumer assistance

Debt Collection Licensing Act (SB 908)

- Maintains funding through 2029–30 for licensing, regulation and examination of debt collectors
- Supports enforcement actions and consumer protections in the debt collection market

California Privacy Protection Agency (CPPA)

Privacy Enforcement and California Delete Act

- Provides additional resources to address increased consumer complaints and investigations under the CCPA
- Supports initial enforcement of the California Delete Act, expanding the agency’s regulatory and enforcement workload

Infrastructure

The governor presented the 2026 Five-Year Infrastructure Plan fulfilling a requirement of the 1999 California Infrastructure Planning Act. The plan includes \$58.5 billion in state infrastructure investments over the next five years. Recognizing the current deficit climate, this plan focuses on the most critical investments, zeroing in on fire and life and safety projects, and court-ordered investments.

ANALYSIS

Funding in the current budget makes by far the largest investment in transportation but also contains recommended funding for general government, the Judicial Branch, the Natural Resources Agency and the departments of Health and Human Services, Education and Corrections. The infrastructure budget highlights include the following:

Transportation

The budget for 2026 contains a proposed \$14.6 billion spending plan. Highlights include:

- \$7.6 billion for “high priority” transit and rail infrastructure.
- \$4.2 billion in Proposition 1A funds for the High-Speed Rail Authority to continue building the 119-mile Central Valley Segment from Madera to just north of Bakersfield, reinforcing the governor’s commitment to continue California’ high-speed rail project in spite of the federal administration’s elimination of supporting funds.
 - The governor noted that high-speed rail is progressing well with the five-year plan, including \$5 billion from the Greenhouse Gas Reduction Fund over the next five years for the project, and highlighted that with the 2025 passage of SB 840 the project will be provided with \$1 billion annually through 2045.
- \$1.2 billion for projects that improve goods movement on rail and roadways at port terminals, including railyard expansions, new bridges and zero-emission modernization projects.

Judicial Branch: The five-year plan designates \$2.7 billion for 14 Judicial Branch projects, which in 2026 includes \$350.9 million for new courthouses for San Luis Obispo, Nevada and Plumas counties.

Forestry and Fire Protection: The administration continues to prioritize prevention efforts with the recovery efforts for the Eaton and Palisades fires very much ongoing.

There is \$1.7 billion designated in the five-year plan for projects that emphasize enhancement of operational capabilities. The 2026 budget includes \$294.6 million for replacement of various fire stations, unit headquarters, helitack bases and air attack basis.

Natural Resources: The Central Valley Flood Protection Act of 2008 requires the Department of Water Resources (DWR) to prepare the Central Valley Flood Protection Plan, which is California's strategic

blueprint to improve flood risk reduction in the Central Valley. The five-year plan supports DWR flood risk reduction projects and the 2026 budget proposal includes \$133.2 million Proposition 4 dollars for various flood management system projects in the Central Valley, including \$24.1 million for systemwide flood risk reduction projects and \$109.1 million for the Urban Flood Risk Reduction Program.