

BUDGET ACT OF 2026



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OVERVIEW

In April, the Senate released the Foundation for the Future budget plan that set the framework for the 2026-27 state budget:

- **Responsible budgeting** with a balanced budget through 2027-28, no new major ongoing commitments, and reforms to the Rainy Day Fund.
- **Maintaining vital programs** that Californians and the economy depend upon.
- Taking a **balanced approach** of ongoing solutions that include over \$5 billion in new revenues and additional program reductions to improve the state's long-term fiscal health.

The Budget Act of 2026 meets the Foundation for the Future framework and provides a solid, responsible budget for the people of California. The budget builds **record reserves**, **protects core programs** and delays certain program cuts, makes targeted new investments, and includes difficult spending and revenue decisions to balance the budget through 2027-28 and cut the long-term structural deficit in half.

The Budget Act of 2026 provides \$351.7 billion in total expenditures in 2026-27, including \$251.5 billion from the General Fund, and contains record total reserves of \$35.2 billion, including:

- \$4.5 billion in the Regular Reserve (Special Fund for Economic Uncertainties).
- \$15.1 billion in the Rainy Day Fund.
- \$9.2 billion in the Prop 98 Rainy Day Fund.
- \$6.4 billion in the Surplus Set-aside for 2027-28.

KEY FEATURES

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

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

New Revenues. Approves the Governor's proposal for over \$5 billion in ongoing new revenues – consistent with the Senate's goals of a balanced approach, these items have been passed by the Legislature in SB 122 and SB 125. The items include:

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

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

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

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

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

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

KEY FEATURES

Dental Reductions Delay. **Maintains** dental programs that would otherwise be eliminated starting July 1, 2026 to July 1, 2027, including dental benefits for adults 19 and over, regardless of immigration status, and Prop 56 Dental Supplemental Payments.

Clinic Reductions Delay. **Delays** implementation of planned reduction to Clinics from July 1, 2026 to July 1, 2027, resulting in a cost of \$1 billion in 2026-27.

Medi-Cal Premiums Delay and Trigger. Continues the **delay of Medi-Cal premiums** for the UIS population until July 1, 2027, but requires the Governor to set and announce a premium level between \$30 and \$50 in the 2027 May Revision.

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

County Administration. Provides funding to **support increased county workload** for health and human services program due to the requirements of HR 1, including \$197 million for Medi-Cal and \$223 million for CalFresh.

Immigration Legal Aid. Provides a total of **\$175 million for Legal Aid programs**, \$80 million more than provided in the May Revision, to build broader reach throughout the state, including rural areas.

Access to Justice. **Maintains access to justice** through key investments, including new judgeships, courthouse maintenance, and courthouse construction.

Public Safety Rehabilitation Programs. Provides over \$40 million in new funding for **in-prison rehabilitation** programming and other supports.

Proposition 36 Funding. Provides **\$50 million to fund Proposition 36 activities.**

Victims of Crime Act. Continues providing **\$50 million for the Victims of Crime Act** (VOCA) program to maintain support for crime victims; this amount includes \$25 million proposed in the May Revision. Available federal funds will also support the VOCA program.

KEY FEATURES

Rainy Day Fund Reform. Updates the Rainy Day Fund through ACA 20 with reforms that will be before the voters in November of 2026. The Reforms include:

- **Increasing the size of the Rainy Day Fund** and increasing deposits into the Rainy Day Fund during “boom” years.
- Exempting deposits into reserves from the State Appropriations Limit (Gann Limit) while making withdrawals from reserves subject to the limit.
- Extending the Budget Debt Repayment period through 2040 and updating the eligible budget debts.

ADDITIONAL HIGHLIGHTS

EDUCATION: TK -12

- The Proposition 98 Minimum Guarantee is \$124.9 billion, \$125.5 billion, and \$128 billion in 2024-25, 2025-26, and 2026-27, respectively. The budget makes a mandatory deposit of \$8.7 billion into the Public School System Stabilization Account (PSSSA), with an additional discretionary deposit of \$500 million, for a total balance of \$9.2 billion after 2026-27.
- The budget provides that 33% of any higher non-Proposition 98 and non-Proposition 2 General Fund tax revenues added to Department of Finance projections through the 2027 May Revision are hereby appropriated to pay all or part of any unpaid Proposition 98 obligations for the 2025-26 fiscal year (currently projected to be \$3.9 billion). Any such funds would be transferred to the Public School System Stabilization Account as a discretionary deposit for appropriation to Proposition 98 programs in future legislation.
- Shifts non-Local Educational Agency State Preschool into Proposition 98, and re-benchmarks the Proposition 98 Minimum Guarantee in 2026-27 to account for these additional costs.
- Beginning in 2026-27, adjusts the Proposition 98 split funding between TK-12 and the California Community Colleges. This will address a structural deficit that was inadvertently created for the California Community Colleges when the 2025 Budget shifted TK costs outside of the split. See the bullet in the Higher Education section for additional details.
- Approves a 4.31 percent cost-of-living adjustment, above the statutorily required adjustment of 2.87 percent, for the Local Control Funding Formula.

EDUCATION: TK -12 CONT.

- Approves \$2.4 billion ongoing Proposition 98 General Fund for special education base rate increases. Additionally, the budget includes an augmentation of \$40 million for services related to low-incidence disabilities and \$40 million for the extraordinary costs pool for special education.
- Increases the Expanded Learning Opportunities Program (ELOP) by \$64 million ongoing, with a new stable \$1,800 per unduplicated pupil rate for local education agencies with less than 55% total unduplicated pupils.
- Approves \$1 billion ongoing Proposition 98 General Fund for community schools and ensures that schools plan and implement community schools with fidelity.
- Increases the Student Support and Professional Development Discretionary Block Grant to \$5 billion one-time Proposition 98 General Fund, allocating funds based on average daily attendance, and includes support for dual enrollment, career pathways approaches, and professional development for educators in UTK, English Language Arts and Development, and mathematics, induction, mentorship, community schools, and deferred maintenance.
- Increases the Kitchen Infrastructure and Training Grant Funds to \$500 million one-time Proposition 98 General Fund and includes family food pantries on school sites and hands-on food education, including activities with school gardens, as eligible expenditures.
- Increases support for students experiencing homelessness to \$146 million, one-time Proposition 98 General Fund.
- Supports California's diverse student population and appropriates \$100 million in one-time Proposition 98 General Fund for the new California New Americans in Schools (CalNAS) program, and \$75 million in one-time Proposition 98 General Fund for the Dream Resource Center Grant Program.

EDUCATION: TK -12 CONT.

Provides \$428 million one-time Proposition 98 General Fund for teacher pipeline programs, which includes:

- \$408 million to extend the Student Teacher Stipend program, and expands the program for high-need fields and priority schools.
- \$10 million to create the Bilingual Teacher Pathway Program.
- \$10 million to extend the Classified Employees Teacher Credentialing Program through 2032.
- Provides \$10 million in one-time Proposition 98 General Fund for the Holocaust and Genocide Education Program.

EDUCATION: HIGHER EDUCATION

- Beginning in 2026-27, adjusts the Proposition 98 split funding between TK-12 and the California Community Colleges (CCC) to 88.9% for TK-12 and 11.1% for CCC. This includes an additional \$217.7 million from the Proposition 98 General Fund to CCC in 2026-27 through the adjusted split percentages. This will address a structural deficit that was inadvertently created for CCC when the 2025 Budget shifted TK costs outside of the split.
- Includes an additional \$166.9 million General Fund for the Middle Class Scholarship Program for 2026-27 academic year awards. This additional funding translates into 23.1% award levels.
- Beginning in 2026-27, includes \$47.7 million ongoing Proposition 98 General Fund to allow credit Full-Time Equivalent Student (FTES) to be calculated using the higher of the three-year average or the amount in the current year.
- Includes an additional \$63.8 million ongoing Proposition 98 General Fund to support a total of 2.5 percent enrollment growth at the California Community Colleges.
- Includes a total of \$147.2 million one-time Proposition 98 General Fund to support the Student Support Block Grant at the California Community Colleges.
- Includes a total of \$70 million one-time Proposition 98 General Fund to support Dream Resource Centers at the California Community Colleges.

EDUCATION: HIGHER EDUCATION CONT.

- Includes \$30 million one-time Proposition 98 General Fund to support LGBTQ+ Resource Centers.
- Includes \$30.1 million ongoing Proposition 98 General Fund to provide a 5.74 percent COLA to the Student Equity and Achievement Program at the California Community Colleges.
- Includes \$42.6 million one-time Proposition 98 General Fund to support the California Indian Nations College.

RESOURCES, ENVIRONMENTAL PROTECTION, & ENERGY

- Defers action on the Greenhouse Gas Reduction Fund, including the trailer bill proposals revising SB 840 and AB 1207, \$250 million of the legislative discretionary pot, as well as budget change proposals to implement Cap-and-Invest at CPUC and CARB.
- Includes the following to support the deployment of zero-emission vehicles (ZEVs) at the California Air Resources Board: (1) \$135.5 million one-time for medium- and heavy-duty ZEV incentives through the Clean Truck and Bus Voucher Incentive Project (HVIP); (2) \$135.5 million one-time for light-duty ZEV incentives; and (3) \$17 million annually for five years for the Clean Cars 4 All program.
- Includes \$150 million from the General Fund for the Community Air Protection Program at the California Air Resources Board.
- Approves \$25 million General Fund for Healthy Rivers & Landscapes Program (aka Voluntary Agreements) and makes the encumbrance of funds contingent upon the State Water Resources Control Board's adoption of the Bay-Delta Water Quality Control Plan.
- Rejects the elimination of 356.2 positions (\$39.8 million Special Fund) at various departments, including 60.1 FTEs at the Department of Fish & Wildlife, which includes game warden positions. Pursuant to Control Section 4.12, the Department of Finance will allocate the necessary adjustments to each item of appropriation and position authority to reflect the Legislature's rejection of the position eliminations.

HEALTH

- Delays or maintains until July 1, 2027, many of the Medi-Cal cuts adopted in last year's budget, including:
 - UIS – Monthly Premiums (previously scheduled for July 1, 2027; the next Governor will determine whether premiums increase to \$50 by the May Revision)
 - UIS – Dental Benefit Elimination (previously scheduled for July 1, 2026)
 - UIS – Reduce Clinic Payments (previously scheduled for July 1, 2026)
 - Eliminate Prop 56 Dental (previously scheduled for July 1, 2026)
- Delays until July 1, 2027, many of the Governor's new Medi-Cal cuts, including:
 - Elimination of full-scope Medi-Cal for asylees, human trafficking victims, domestic violence victims, etc.
 - Restoration of the \$2,000 Medi-Cal asset test (set at \$21,000 in July 1, 2027, with agreement to work on a higher level next year)
- Rejects the following Medi-Cal cuts proposed by the Governor:
 - Cap Rates for Programs for All-Inclusive Care for the Elderly (PACE)
 - Elimination of the acupuncture benefit in Medi-Cal
- Begins the process to adopt the Fair Share from Big Corporations Act by requiring the Administration to present one or more options to the Legislature for holding the state's largest corporations accountable for the taxpayer costs of their employees enrolled in Medi-Cal, including data from EDD, DHCS, and elsewhere on how many workers at these corporations are enrolled in Medi-Cal.
- Adopt the transition of the UIS population from managed care to fee-for-service in Medi-Cal, and allocates \$39 million to support care coordination resources as well as clinic and community-based organization navigators to assist members with the transition.
- Allocates \$197 million for Medi-Cal county eligibility workers to address workload related to HR 1.
- Implements a four-year expenditure plan for projects to end the epidemics of HIV/AIDS and other STIs, using nearly \$500 million of ADAP Rebate Fund resources being repaid from previous General Fund loans.

HEALTH CONT.

- Maintains Mobile Crisis Benefit in Medi-Cal until July 1, 2027, with continued work with the Administration to address long-term funding sustainability for the 988 system and mobile crisis response services.
- Allocates \$90 million to support distressed hospitals through grants and allocates \$250 million to support designated public hospitals.
- Maintains \$113.3 million of funding to continue operation of the state's critical public health information technology systems.
- Approves the Governor's \$30 million proposal over five years for Sickle Cell Centers for Excellence.
- Approves \$26 million to support and maintain access to gender affirming care.
- Restores funding to the Commission for Behavioral Health for the Innovation Partnership Fund and for behavioral health advocacy contracts.
- Approves the allocation of \$300 million to support increased subsidies for health care consumers purchasing coverage in the Covered California health benefit exchange.

HUMAN SERVICES

- Funds the next step to meet the existing commitment of reaching 206,800 additional child care spaces above 2020 levels by preserving approximately 2,470 of the 6,800 spaces proposed to be eliminated by the Governor and adding 22,770 new child care spaces in 2026-27. Costs for this expansion will be significantly absorbed by updating preschool costs.
- Provides \$100 million for the CalFood program to support demand for emergency food as Californians lose access to CalFresh due to H.R. 1.
- Provides a \$223 million augmentation for county CalFresh eligibility workers and \$14 million for the CalFresh Outreach Program to help Californians maintain access to CalFresh benefits in the wake of H.R. 1.

HUMAN SERVICES CONT.

- Rejects the Governor's proposals to shift the costs of growth in In-Home Supportive Services (IHSS) to counties, eliminate the IHSS Back-up Provider system, and align IHSS termination with Medi-Cal termination, resulting in additional costs of \$500 million by 2027-28.
- Provides \$80 million above the May Revision for legal aid to support Californians impacted by federal immigration actions. Funds will be allocated throughout the state to support removal defense, unaccompanied children, legal capacity building, and emerging due process needs to support all immigrant groups.
- Rejects the Governor's proposal to reverse the expansion of Adult Protective Services.
- Provides \$100 million for CDSS Housing Programs for vulnerable seniors, CalWORKs families, and children involved in foster care.
- Provides \$20 million for Child Protective Services emergency response, \$30 million for the Stop the Hate program, \$16.5 million for diaper banks, and \$12 million each year for three years for the Holocaust Survivor Assistance Program.
- Provides \$20 million for the CalFresh Fruit and Vegetable Pilot Program.

REVENUES

- Approves the May Revision proposal to apply sales tax to sales of electronically delivered pre-written software, increasing General Fund revenues by \$450 million in 2026-27 and by \$900 million in 2027-28 and ongoing.
- Approves the Governor's proposal to extend the current temporary business tax credit cap for three years through tax year 2029, including refundability provisions. Commencing with the 2030 tax year, establishes a permanent cap on business tax credits at \$5 million or 70 percent of tax liability, whichever is higher, to generate \$1 billion in 2026-27, \$3.3 billion in 2027-28, and growing to over \$4.5 billion through 2029.

REVENUES CONT.

- Approves the May Revision proposal to reduce the \$800 annual tax paid by limited liability companies and similar companies in their first year of existence to \$400. This reduction applies to tax years 2027, 2028, and 2029 and results in a General Fund revenue loss of \$100 million for each of those tax years.

HOUSING & HOMELESSNESS

- Invests in reducing the cost of housing statewide:
 - Provides significant new resources for the production and preservation of affordable rental housing:
 - \$500 million in enhanced state Low Income Housing Tax Credits.
 - \$200 million for the Multifamily Housing Program.
 - Establishes a \$100 million Disaster Rebuilding Fund and program to expand the availability and affordability of construction loans for homeowners rebuilding after a disaster.
- Invests in sustaining state progress on reducing homelessness:
 - Provides \$900 million for Round 7 of the HHAP program.
 - Enacts placeholder budget trailer bill language to govern administration of HHAP 7 that:
 - Ensures swift distribution of funding to jurisdictions that are ready.
 - Sets forth clear and consistent system performance measures.
 - Incentivizes local funding contributions and pro-housing designation.
 - Offers reporting cadence flexibility to reduce administrative workload.
 - Establishes a reallocation mechanism to ensure efficient use of funds.

ECONOMIC DEVELOPMENT

- Approves a five-year extension of the CalCompetes Tax Credit program at \$180 million per year to attract and retain high-quality companies that agree to hire and invest in California.
- Approves \$10 million in 2026-27 and another \$10 million in 2027-28 for two additional years of the California Civic Media program, the public/private partnership initiative to build and sustain local journalism statewide, to be matched by private contributions.

CIVIL RIGHTS

- Approves investments in enhanced investigation and mediation of housing and employment discrimination claims including:
 - Over \$3 million in staffing and resources to enforce new state family medical leave, bereavement leave, and cannabis testing laws.
 - Almost \$1 million to address an increasing volume of housing and employment discrimination allegations generally.

GENERAL GOVERNMENT

- Approves the January Governor's Budget proposal for \$96.5 million (\$76 million General Fund and \$20.5 million Exposition Park Improvement Fund) for utility replacement and site improvements at Exposition Park.
- Approves the January Governor's Budget proposal of \$24.6 million in General Fund for the Farm to School Program in 2026-27 and ongoing.
- Approves the Governor's January and May Revise budget proposals for funding associated with various Senate Bills, including SB 48 – Gonzalez, SB 638 – Padilla, SB 851 – Cervantes, SB 919 – Umberg, and SB 822 – Becker.
- Includes \$15 million General Fund for the Local Food Purchase Assistance Cooperative Agreement Program.
- Includes \$15 million General Fund for the California Nutrition Incentive Program.
- Includes, for the Department of Veteran's Affairs, \$9 million general fund for cemetery operations in Orange County, \$7 million general fund for grants related to the Support to Self Reliance program, and \$2 million general fund for grants related to support the Veterans Military Discharge upgrade program.
- Includes funding at Cal-OES and the Department of Technology related to the creation of a California Cybersecurity Integration Center and the development of a Cybersecurity playbook.

GENERAL GOVERNMENT CONT.

- Includes, for the Secretary of State, \$29 million general fund for vote counting processes, \$5 million general fund for voter outreach and education by a schedule set by the Department of Finance, \$5 million general fund in voter outreach and education support without such schedule, and \$250 thousand general fund for supporting and strengthening the administration of the November 3, 2026, statewide election.
- Includes trailer bill language increasing efficiency for procurement processes within the Department of General Services.
- Includes \$80 million in one-time General Fund to backfill revenues in San Mateo, Alpine, and Mono counties due to insufficient Education Revenue Augmentation Fund.

TRANSPORTATION

- Includes \$56 million from the Motor Vehicle Account for the design and development of the State-to-State (S2S) Verification System at the Department of Motor Vehicles (DMV) as well as trailer bill language that authorizes the DMV to participate in the S2S Verification System to enable compliance with federal REAL ID Act requirements.
- Includes \$40 million General Fund for Clean California program at the California Department of Transportation.
- Includes control section language that specifies state funds allocated to various transportation and infrastructure programs shall not be allocated for the purchase of fully automated cargo handling equipment or for automation supporting improvements or replacements that are used to support fully automated cargo handling equipment.

PUBLIC SAFETY AND THE JUDICIARY

- Includes the following new funding to support access to justice and the court system:
 - \$1.7 billion Lease Revenue Bond authority and \$62.1 million General Fund for courthouse construction.
 - \$100 million one-time and \$44 million ongoing General Fund for new judgeships and associated facility costs.
 - \$150 million one-time General Fund for deferred maintenance.

PUBLIC SAFETY AND THE JUDICIARY CONT.

- Includes \$50 million one-time General Fund to continue implementation of Proposition 36 (2024).
- Approves funding to stabilize the Next Generation 9-1-1 system.
- Approves funding for public safety grant programs, including:
 - \$80 million ongoing for the Nonprofit Security Grant.
 - \$15 million ongoing for the Missing and Murdered Indigenous People Grant.
 - \$10 million for a vertical prosecution grant to combat human trafficking.
 - \$10 million for services for victims of human trafficking, bringing the total for this to \$20 million.
- Increases Victims of Crime Act funding to \$50 million.
- Provides \$40.3 million for in-prison programs and supports, including Rehabilitative Investment Grants for Healing and Transformation (RIGHT) 4.0, the Hope and Redemption Team, Home After Harm, and others.

LABOR AND PUBLIC EMPLOYMENT

- Includes \$9 million in ongoing funding for the Labor and Workforce Development Fund to support the Workers' Rights Enforcement Grant program at the Department of Industrial Relations.
- Includes \$5 million one-time Labor and Workforce Development Fund to support a Jails 2 Jobs pilot program.
- Includes \$30 million Labor and Workforce Development Fund annually for 3 years beginning in 2026-27 through 2028-29 to support the California Workplace Outreach Project program at the Department of Industrial Relations.