

MAY REVISION

2026-27

Gavin Newsom, Governor
STATE OF CALIFORNIA



175 YEARS OF STATEHOOD
(1850-2025)

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INTRODUCTION

In January, the Governor's Budget provided a plan to close a shortfall estimated at \$2.9 billion in fiscal year 2026-27, ending with a discretionary reserve of \$4.5 billion. At the same time, after balancing in the budget year, the state faced a projected deficit in the following fiscal year. The Administration set forth its intent to return in May with a revised plan—reflecting updated revenue and spending—that balanced the Budget in both the 2026-27 and 2027-28 fiscal years, with adequate budget reserves.

The May Revision follows through on this commitment—providing for a spending plan that ends with positive year-end balances over the next two fiscal years, while maintaining substantial reserves for both years. Furthermore, the May Revision reduces operating deficits that were projected in future years at the Governor's Budget by more than half.

Moreover, the May Revision does not propose any significant new ongoing expenditures. Instead of committing to higher spending in the budget year, the May Revision puts funds into the Projected Surplus Temporary Holding Account (Surplus Holding Account)—the first time it has received a deposit—to set aside funds in 2026-27 to support 2027-28.

WHAT'S CHANGED SINCE THE GOVERNOR'S BUDGET

IN REVENUES

Estimated General Fund revenues from the Big Three sources (Personal Income, Corporate, and Sales and Use Taxes) are \$16.5 billion higher than projected in January over the three-year budget window. This upgrade to the forecast is driven by personal income tax—accounting for \$13.6 billion of this total—boosted by a 2025 spike in capital gains realizations that has been reflected in \$11.9 billion of higher cash receipts through April. The new revenue forecast reflects a slightly upgraded stock market outlook, combined with a relatively unchanged economic outlook.

IN EXPENDITURES

After accounting for solutions, General Fund spending at the May Revision is estimated at \$246.6 billion in 2026-27. This is approximately \$1.8 billion lower than estimated at the Governor's Budget.

BALANCING FOR TWO BUDGET YEARS

While higher revenues in the May Revision allow for the budget to be balanced for 2026-27, difficult decisions are still necessary to achieve a balanced budget over the next two fiscal years, while making significant progress in reducing projected operating imbalances in the following years.

To achieve this, the May Revision incorporates an approach to responsibly address the state's ongoing position through both new revenue and spending solutions. Combined, these actions result in an operating reserve of \$4.5 billion in 2026-27 and \$2.1 billion in 2027-28.

To assist in providing for a positive operating balance in 2027-28, the May Revision provides for a transfer of \$9.7 billion into the Surplus Holding Account. Additionally, as required by law, the May Revision allocates the Surplus Holding Account amount in the following fiscal year, 2027-28.

Established in 2024, the Surplus Holding Account allows the state to set aside a portion of anticipated surplus funds and allocate them in a subsequent fiscal year. The account was created to provide fiscal protection against overcommitting projected resources

until revenues are realized and expenditures are finalized. This allows the state to take immediate, significant steps to close the projected difference between ongoing revenues and expenditures in the longer term—otherwise known as the structural deficit.

BUDGET SOLUTIONS THAT PROVIDE MULTI-YEAR BALANCE WHILE REDUCING FUTURE SHORTFALLS

Building on the Governor's Budget, the May Revision takes a balanced approach to significantly address projected structural deficits in the 2027-28 fiscal year and beyond. This includes incorporating revenue and spending solutions in the following categories:

- **Revenue**—\$3.6 billion in total solutions in 2026-27—growing to \$5.1 billion in 2027-28 and decreasing slightly to \$4.4 billion in 2029-30. Notable items in this category include:
 - **Permanently Limit Business Credit Use to \$5 million or 50 Percent of Tax Liability, Whichever is Greater**—\$850 million in 2026-27, growing to \$1.8 billion in 2029-30.
 - **Taxation of Digital Prewritten Software and Software as a Service**—\$450 million in 2026-27, growing to \$900 million in 2029-30. In addition, local sales tax revenue is projected to increase by \$560 million in 2026-27 and by approximately \$1.1 billion annually thereafter.
 - **2027 Managed Care Organization Tax**—\$575 million in 2026-27, \$2.3 billion in 2027-28 and 2028-29, and \$1.7 billion in 2029-30.
- **Spending Reductions and Reforms**—\$411 million in total solutions in 2026-27—growing to \$711.9 million by 2029-30. Notable items in this category include:
 - **Medi-Cal Asset Test Limits**—\$278.3 million in 2026-27, growing to \$495.6 million in 2029-30.
 - **Increase Monthly Premium for Adults with Unsatisfactory Immigration Status, Aged 19-59, to \$50**—\$427.3 million in 2027-28, decreasing to \$314.3 million in 2029-30.
- **General Fund Offsets**—\$390.7 million in total solutions in 2026-27 decreasing slightly to \$256.5 million by 2029-30, including:
 - **Behavioral Health Services Fund (BHSF)**—\$211.9 million in 2026-27, growing to \$226.4 million in 2029-30 from utilizing BHSF in lieu of General Fund.

MAINTAINING BALANCE WHILE SUSTAINING PRIORITIES

While providing balance over the next two fiscal years, the May Revision continues to support transformative investments made by the Governor and the Legislature. This includes unprecedented advancements in pre-K to 12 education, including universal preschool and school meals, and historic investments in teacher education and preparedness, special education, before, after, and summer school programs, and community schools. Additionally, the May Revision continues support for higher education, Medi-Cal, child care, and safety net programs, alongside significant state investments to combat the impacts of climate change, mitigate and respond to wildfires, and address public safety.

A BALANCED BUDGET THAT MAINTAINS RESERVES

Since the 2014 approval of Proposition 2, the Budget Stabilization Account (BSA) has been a key component of budget resiliency, a buffer against revenue volatility, and an insurance policy that has protected core state programs. Also known as the Rainy Day Fund, it annually receives a deposit of 1.5 percent of General Fund tax revenue, as well as a portion of General Fund revenue from capital gains.

Over the last two fiscal years, the state has withdrawn approximately \$12.2 billion from the BSA and suspended deposits into the BSA for the 2024-25 and 2025-26 fiscal years. These actions have allowed the state to take a balanced approach by using a portion of these reserves as one component in closing prior budget shortfalls. Consistent with these actions, the May Revision continues the suspension of the 2025-26 “true-up.”

As a result of the increase in May Revision revenues, the proposed suspension increases by \$2.6 billion for a total suspension of \$5.4 billion in 2025-26. However, the Budget reflects a BSA deposit in 2026-27 of approximately \$3.6 billion and a minor “true-up” for fiscal year 2024-25. After accounting for these actions, the BSA balance in 2026-27 is \$15.1 billion—an increase of \$3.9 billion compared to the 2025 Budget Act level of \$11.2 billion. In addition to the BSA, the Budget includes \$4.5 billion in the Special Fund for Economic Uncertainties and \$10.3 billion in the Public School System Stabilization Account—bringing the combined reserves in 2026-27 to roughly \$29.9 billion.

Lastly, the Administration intends to continue discussions with the Legislature on Proposition 2 reform to allow the state to build more reserves during times of significant revenue growth in order to better position the state to mitigate revenue volatility going forward and the risk of significant reductions to core programs.

SUMMARY CHARTS

This section provides various statewide budget charts and tables.

2026-27 May Revision
General Fund Budget Summary
(Dollars in Millions)

	2025-26	2026-27
Prior Year Balance	\$56,576	\$56,190
Revenues and Transfers	\$245,442	\$222,874
Total Resources Available	\$302,018	\$279,064
Non-Proposition 98 Expenditures	\$158,227	\$154,569
Proposition 98 Expenditures	\$87,601	\$91,997
Total Expenditures	\$245,828	\$246,566
Fund Balance	\$56,190	\$32,498
Reserve for Liquidation of Encumbrances	\$27,998	\$27,998
Special Fund for Economic Uncertainties	\$28,192	\$4,500
Public School System Stabilization Account	\$10,325	\$10,325
Safety Net Reserve	-	-
Budget Stabilization Account/Rainy Day Fund	\$11,496	\$15,075

Note: Numbers may not add due to rounding.

General Fund Expenditures by Agency

(Dollars in Millions)

	2025-26	2026-27	Dollar Change from 2025-26
Legislative, Judicial, Executive	\$10,519	\$7,556	-\$2,963
Business and Consumer Services	226	10	-216
Housing and Homelessness	2,392	1,080	-1,312
Transportation	816	552	-264
Natural Resources	6,711	4,870	-1,841
Environmental Protection	277	117	-160
Health and Human Services	91,371	90,187	-1,184
Corrections and Rehabilitation	14,483	14,413	-70
K-12 Education	82,384	91,069	8,685
Higher Education	22,551	26,254	3,703
Labor and Workforce Development	1,127	991	-136
Government Operations	3,303	5,102	1,799
General Government:			
Non-Agency Departments	1,672	1,321	-351
Tax Relief/Local Government	757	483	-274
Statewide Expenditures	7,239	2,561	-4,678
Total	\$245,828	\$246,566	\$738

Note: Numbers may not add due to rounding.

2026-27 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$7,556	\$4,014	\$949	\$12,519
Business and Consumer Services	10	1,315	-	1,325
Housing and Homelessness	1,080	341	401	1,822
Transportation	552	17,068	490	18,110
Natural Resources	4,870	3,192	1,703	9,765
Environmental Protection	117	4,580	329	5,026
Health and Human Services	90,187	51,187	460	141,834
Corrections and Rehabilitation	14,413	4,139	-	18,551
K-12 Education	91,069	134	1,591	92,794
Higher Education	26,254	164	1,280	27,698
Labor and Workforce Development	991	1,234	-	2,225
Government Operations	5,102	280	11	5,393
General Government:				
Non-Agency Departments	1,321	2,294	77	3,692
Tax Relief/Local Government	483	3,866	-	4,349
Statewide Expenditures	2,561	1,745	1	4,306
Total	\$246,566	\$95,554	\$7,291	\$349,411

Note: Numbers may not add due to rounding.

General Fund Revenue Sources
(Dollars in Millions)

	2025-26	2026-27	Change from 2025-26	
			Dollar Change	Percent Change
Personal Income Tax	\$146,847	\$145,609	-\$1,238	-0.8%
Sales and Use Tax	34,588	35,629	1,041	3.0%
Corporation Tax	43,287	45,017	1,730	4.0%
Insurance Tax	4,510	4,728	218	4.8%
Alcoholic Beverage Taxes and Fees	413	415	2	0.5%
Cigarette Tax	35	34	-1	-2.9%
Motor Vehicle Fees	46	46	0	0.0%
Other	8,616	-5,025	-13,641	-158.3%
Subtotal	\$238,342	\$226,453	-\$11,889	-5.0%
Transfer from/to the Budget Stabilization Account/Rainy Day Fund	7,100	-3,579	-10,679	-150.4%
Total	\$245,442	\$222,874	-\$22,568	-9.2%

Note: Numbers may not add due to rounding.

2026-27 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2025-26
Personal Income Tax	\$145,609	\$4,371	\$149,980	-\$1,310
Sales and Use Tax	35,629	16,240	51,869	1,724
Corporation Tax	45,017	-	45,017	1,730
Highway Users Taxes	-	9,688	9,688	223
Insurance Tax	4,728	-	4,728	217
Alcoholic Beverage Taxes and Fees	415	-	415	2
Cigarette Tax	34	1,066	1,100	-46
Motor Vehicle Fees	46	13,132	13,178	408
Other	-5,025	57,537	52,512	2,316
Subtotal	\$226,453	\$102,034	\$328,487	\$5,264
Transfer to the Budget Stabilization Account/Rainy Day Fund	-3,579	3,579	-	-
Total	\$222,874	\$105,613	\$328,487	\$5,264

Note: Numbers may not add due to rounding.

TK-12 EDUCATION

California provides instruction and support services to roughly 5.7 million students in grades transitional kindergarten (TK) through twelve in almost 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,200 charter schools provide instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation to either enter the workforce or pursue postsecondary education.

The May Revision includes total funding of \$151.6 billion (\$91.3 billion General Fund and \$60.3 billion other funds) for all TK-12 education programs. The May Revision reflects significant increases in Proposition 98 funding that provide ongoing fiscal stability for local educational agencies and enable increased support for core programs such as the Local Control Funding Formula (LCFF) and special education.

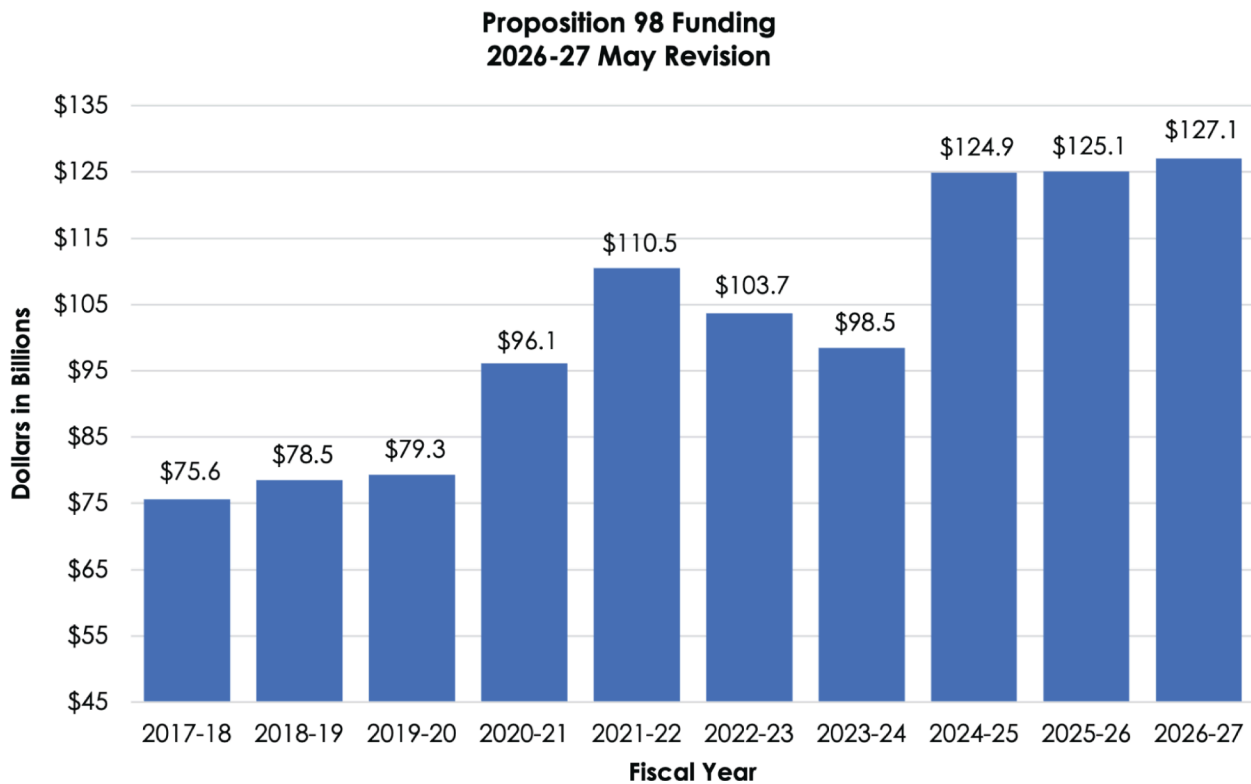
PROPOSITION 98

Proposition 98 is a voter-approved constitutional amendment that guarantees minimum funding levels for TK-12 schools and community colleges (collectively referred to as TK-14 schools). The Proposition 98 minimum guarantee (Guarantee), which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline. The LCFF is the primary mechanism

for distributing these funds to support students attending TK-12 public schools in California.

At May Revision, the revised estimates of General Fund revenues result in notable adjustments to the Proposition 98 Guarantee. The revised Guarantee for TK-14 schools is calculated to be \$124.9 billion in 2024-25, \$125.1 billion in 2025-26, and \$127.1 billion in 2026-27. These revised Proposition 98 levels represent an increase of approximately \$28 billion over the three-year period relative to the 2025 Budget Act, and an increase of approximately \$6.4 billion from Governor's Budget. As discussed below, much of the funding increase between Governor's Budget and May Revision is required to be deposited in the Proposition 98 Rainy Day Fund and will not immediately be available to TK-12 schools and community colleges.

The Guarantee is in a Test 1 for all years 2024-25 through 2026-27. This means that the funding level of the Guarantee in these years is equal to roughly 40 percent of General Fund revenues, plus local property tax revenues. Pursuant to the Proposition 98 formula, this percentage of General Fund revenues is not reduced to reflect enrollment adjustments, which further increases per pupil funding.



In addition, the Proposition 98 formula requires an \$8.3 billion maintenance factor payment in 2024-25, which will be paid in addition to the Guarantee level and accounts for much of the increase in the Guarantee in that fiscal year. This payment will fully retire the Proposition 98 maintenance factor balance.

To mitigate against potential future reductions in revenues and manage General Fund resources, the May Revision maintains a \$3.9 billion settle-up amount in the 2025-26 fiscal year. If in spring 2027, revenues remain at the same or higher levels for the 2025-26 fiscal year, the Legislature is statutorily required to pay this amount back to TK-14 schools and will need to schedule its payment in the 2027 Budget Act, either from funds available in that budget or scheduled across multiple budget years.

The May Revision also maintains a settle-up payment of \$1.9 billion in 2024-25, completely paying off the settle-up owed to the Guarantee in that fiscal year. With this settle-up payment and the creation of settle-up in 2025-26, additional funding for Proposition 98 compared to the 2025 Budget Act is \$24.3 billion, of which \$12.5 billion is ongoing.

PROPOSITION 98 RAINY DAY FUND

The 2026-27 Governor's Budget projected a total balance of roughly \$4.1 billion in the Proposition 98 Rainy Day Fund, reflecting total mandatory deposits of \$4.3 billion across both 2024-25 and 2025-26, a \$240 million discretionary deposit in 2025-26, and a \$407.1 million mandatory withdrawal in 2026-27. Adjustments in capital gains revenues at May Revision are projected to eliminate the mandatory withdrawal in 2026-27 and require mandatory deposits across the three-year budget window totaling \$8.7 billion. To provide additional long-term budget stability, the May Revision proposes to increase the discretionary \$240 million deposit to \$1.6 billion, leaving the final balance in the Fund at \$10.3 billion.

Notably, of the \$6.4 billion that the overall Proposition 98 Guarantee increases across the three-year window from Governor's Budget to May Revision, \$4.6 billion is required to be allocated to the Proposition 98 Rainy Day Fund.

LOCAL CONTROL FUNDING FORMULA

The May Revision includes a statutory LCFF cost-of-living adjustment (COLA) of 2.87 percent, up from 2.41 percent at Governor's Budget. When combined with population growth adjustments, this will result in an increase of approximately \$1.3 billion

in discretionary funds for local educational agencies as compared to the 2025 Budget Act.

Additionally, the May Revision includes \$906.7 million to further increase funding for LCFF. This discretionary investment, commonly referred to as a "super COLA," results in a total (statutory plus discretionary) COLA of 4.31-percent. These additional funds will help local educational agencies manage rising costs and help offset funding reductions related to declining enrollment, as well as fund a new requirement to provide paid pregnancy disability leave (see below).

SPECIAL EDUCATION

The number of students with disabilities in California's public schools is growing, and with it, the cost of providing special education services. The May Revision reflects the state's ongoing commitment to invest in and improve instruction and services for students with disabilities, maintaining the \$509 million discretionary increase for special education included at Governor's Budget, and adding an additional ongoing special education base rate investment of \$1.8 billion. In total, this represents a nearly \$2.4 billion increase in special education funding, or 43 percent over the 2025 Budget Act.

These new funds will allow all local educational agencies in the state to receive special education funding at the same rate and will increase the per student rate from \$999 at Governor's Budget to \$1,340 at May Revision. Since 2018-19, funding for special education has increased by \$4.5 billion, or 237 percent, and has included investments in more intervention-focused special education programs, including for early intervention for pre-K and kindergarten students, to improve student outcomes.

Additionally, the May Revision includes a one-time increase of \$25 million for the Inclusive College Technical Assistance Center. The Center facilitates collaboration between local educational agencies and institutions of higher education to expand inclusive college opportunities for students with intellectual and developmental disabilities, help those students develop life skills, and model inclusive postsecondary education communities.

STUDENT SUPPORT AND PROFESSIONAL DEVELOPMENT DISCRETIONARY BLOCK GRANT

The May Revision updates the amount of one-time Proposition 98 General Fund available for the Student Support and Professional Development Discretionary Block Grant to \$5 billion (from \$2.8 billion at Governor's Budget). These funds will provide local educational agencies with additional fiscal support to address rising costs, as well as fund statewide priorities including: (1) professional development for teachers on the English Language Arts/English Language Development (ELA/ELD) Framework and the Literacy Roadmap, with a focus on strategies to support literacy for English learners; (2) professional development for teachers on the Mathematics Framework; (3) professional development for TK-3 teachers and elementary school site administrators on the principles and guidelines of developmentally appropriate instruction; (4) teacher recruitment and retention strategies; and (5) career pathways and dual enrollment expansion efforts consistent with the Master Plan for Career Education.

PAID PREGNANCY LEAVE

Comprehensive benefits can improve recruitment and retention of employees. To this end, the May Revision requires all TK-12 local educational agencies, and community colleges, to provide all employees with up to 14 weeks of paid pregnancy disability leave beginning in 2026-27. This new benefit will support educators that want to start or expand their families and provide protections when pregnancy results in temporary disability. Costs of the benefit are absorbable within the 1.4-percent discretionary LCFF COLA.

COMMUNITY SCHOOLS

Community schools partner with education, county, and nonprofit entities to provide integrated health, trauma-informed mental health, social services, and academic supports alongside high-quality, supportive instruction. In addition to these integrated student supports, community schools offer expanded learning time, active family and community engagement, and collaborative leadership practices.

The Governor's Budget included \$1 billion ongoing Proposition 98 General Fund to expand the community school model to more school sites that have large

concentrations of students from low-income families, English learners, and youth in foster care. The May Revision builds on this investment by reappropriating \$485 million from the existing California Community Schools Partnership Program, previously set aside for extension grants, for all of the following purposes:

- \$401 million in one-time grants for eligible schools to support planning and implementation of the community schools model, including providing professional development, implementing social emotional learning and restorative practices, strengthening behavioral health care supports (including implementation of the Children and Youth Behavioral Health Initiative Fee Schedule), leveraging partnerships to provide integrated supports for students and staff, and supporting secondary community schools in redesigning their instructional programming to better meet the needs of students.
- \$50 million to expand on the state's recent work to redesign middle and high schools, in the context of community schools, to better serve the needs of all students, improve student outcomes, and better integrate postsecondary college and career opportunities.
- \$15 million to the State Transformational Assistance Center to support the statewide transformation of new community schools.
- \$13 million to the State Transformational Assistance Center to develop and implement: (1) the ongoing process to certify that community schools are implemented with fidelity and, (2) the long-term accountability structure.
- \$6 million for the continued implementation of Transforming Together, an initiative supported by the Children and Youth Behavioral Health Initiative and California Community Schools Partnership Program that aims to strengthen collaboration between county offices of education and community partners to better meet the behavioral health needs of students and families.

Additionally, the May Revision includes a one-time increase of \$50 million to continue support for the state's Multi-Tiered Systems of Support (MTSS) framework, which is a key foundational support to the state's community schools initiative. MTSS focuses on aligning initiatives and resources within an educational organization to address the needs of all students.

LITERACY AND MATH INSTRUCTION

Over the past seven years, the state has made many high-leverage investments in evidence-based literacy and professional learning to support the implementation of the ELA/ELD Framework. Of these investments, \$715 million has been invested in the Literacy Coaches and Reading Specialists Grant Program. Using evidence-based practices, this program funds high-poverty schools to train and hire literacy and reading specialists and coaches, to support educators in developing their practices and to design interventions for students with the greatest need, including one-on-one and small group tutoring.

Depending on when participating local educational agencies first received a grant, funding for this program expires on either June 30, 2027, June 30, 2028, or June 30, 2029. To continue this critical support for literacy instruction in the state's neediest communities, the May Revision includes a one-time increase of \$428.8 million to extend funding for Literacy Coaches and Reading Specialists Grant Program for all grantees until June 30, 2031. The May Revision also includes \$11.2 million for the Literacy Coaches and Reading Specialists Educator Training Competitive Grant, which provides training and support to new and existing literacy coaches.

The state has also made several important investments in mathematics instructional supports in recent years to support the implementation of the new Mathematics Framework. For example, the 2025 Budget Act included \$30 million for the Mathematics Professional Learning Partnership. This initiative, administered by the Kern County Superintendent of Schools, supports educator training and mathematics coaching across the state, with a prioritization for rural and high-need schools.

The May Revision builds on this investment by providing an additional \$60 million one-time Proposition 98 General Fund to allow the work of the Mathematics Professional Learning Partnership to expand its reach to more local educational agencies and extend its impact beyond its current expiration date of June 30, 2029.

TEACHER PREPARATION AND PROFESSIONAL DEVELOPMENT

Staffing shortages in TK-12 education have persisted for many years in California. However, promising gains to offset those shortages have been made in recent years due to billions of dollars of investments in educator recruitment and training. In order to continue making progress, it is imperative that barriers to teaching are removed for

qualified teacher candidates, and that existing teachers are provided with the training they need to be successful.

The May Revision includes the following investments to accelerate the state's progress in addressing teacher shortages:

- \$30 million one-time Proposition 98 General Fund for the statewide teacher residency technical assistance center, extending its ability to support local educational agencies in implementing, expanding, and sustaining teacher residency programs, National Board for Professional Teaching Standards Certification Incentive Program, and other grow-your-own educator preparation programs through 2034.
- \$16.2 million ongoing federal special education (IDEA) funds and \$1.6 million one-time federal Title II funds to continue the Golden State Teacher Grant Program (GSTG). See the Higher Education Chapter for more information. Currently, family empowerment centers and work related to supporting inclusive practices are supported with the IDEA funds, however these programs are being shifted to ongoing Proposition 98 General Fund to allow the IDEA funds to be used for GSTG.
- \$15 million one-time Proposition 98 General Fund to expand and enhance offerings through the 21st Century California School Leadership Academy (21CSLA) program for school leaders. 21CSLA provides no-cost, high-quality professional learning to support California's education leaders and administrators in improving student outcomes and implementing initiatives like universal transitional kindergarten.

The May Revision also proposes to reduce barriers into the teaching profession by expanding access to college transcript review for teacher candidates. Currently, teacher candidates must prove their competency in the subject matter (e.g., mathematics, English language arts, etc.) of the credential they apply for. They may do this in multiple ways, but for many, the only practical option is a costly and time-consuming examination process.

The May Revision includes \$5 million one-time Proposition 98 General Fund to build and validate a system for statewide college transcript review by the California Commission on Teacher Credentialing. Transcript review allows teacher candidates to use their college coursework to prove their subject matter competency. By creating a free, statewide system for reviewing the college transcripts of teacher candidates, the May Revision creates a viable alternative to examination, saving teacher candidates hundreds of dollars in examination fees.

Additionally, to support the expansion in transcript review, the May Revision includes a modest increase of \$25 in the fee that teachers pay to renew their clear teaching credential. Currently, California teachers pay \$100 every 5 years to renew their clear credential, so this change represents an increase of \$5 per year. Revenues from this fee increase will backfill lost testing revenues from the subject matter competency exam exemption and will support costs to the Commission on Teacher Credentialing related to establishing and maintaining the statewide transcript review process.

OTHER TK-12 EDUCATION ISSUES

Below are additional adjustments in the May Revision that add to, reduce, or amend proposals from the Governor's Budget.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Local Property Tax Adjustments**—\$265.6 million in additional General Fund for school districts and county offices of education in 2025-26, and an increase of \$344.4 million ongoing General Fund for school districts and county offices of education in 2026-27, resulting from decreased offsetting property taxes.
- **Cost-of-Living Adjustments**—\$261 million in additional ongoing Proposition 98 General Fund (up from \$230.1 million at Governor's Budget) to reflect growth adjustments and a 2.87-percent cost-of-living adjustment for the LCFF Equity Multiplier and specified categorical programs, including Special Education, Child Nutrition, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- **County Offices of Education**—\$48.3 million in additional ongoing Proposition 98 General Fund over the amount provided in the Governor's Budget to reflect average daily attendance changes applicable to the county office of education LCFF and a 4.31-percent cost-of-living adjustment.
- **Supplemental Funding for Students Experiencing Homelessness**—\$30 million one-time Proposition 98 General Fund for grants to local educational agencies to increase identification of and improve outcomes for students experiencing homelessness. These funds will supplement existing federal McKinney-Vento Children and Youth grant program funds to expand access to the program.
- **Quality Rating and Improvement System (QRIS)**—\$20 million in additional ongoing Proposition 98 General Fund for the state's QRIS, which provides assessment,

technical assistance, and fiscal support for improving the quality of early care and education programs.

- **California State Preschool Program**—The May Revision reduces the cost-of-living adjustment for the California State Preschool Program from 2.41-percent at Governor's Budget to 2.01-percent, in alignment with other childcare and development programs.
- **Holocaust and Genocide Education**—\$10 million one-time Proposition 98 General Fund for the Holocaust and Genocide Education Grant Program to support professional development and provide resources on Holocaust and genocide education.
- **Multitudes Literacy Screener**—\$5 million ongoing Proposition 98 General Fund to the Sacramento County Office of Education to partner with the University of California, San Francisco Dyslexia Center to support the ongoing use of the Multitudes screener statewide at no cost to local educational agencies and expand the number of languages supported by Multitudes.
- **Nutrition**—\$2.8 million in additional ongoing Proposition 98 General Fund to fully fund the universal school meals program in 2026-27.
- **Menstrual Products Mandate**—\$1.7 million in additional ongoing Proposition 98 General Fund for the Public School Restrooms: Menstrual Products mandated program.
- **Office of the Superintendent of Public Instruction**—An ongoing shift of \$1.5 million non-Proposition 98 General Fund in 2026-27, growing to \$3 million beginning in 2027-28, from the Department of Education to the new Office of the Superintendent of Public Instruction. This fiscally neutral funding shift is related to the education governance proposal included in the Governor's Budget.

HIGHER EDUCATION

The May Revision proposes total funding of \$50 billion (\$31.2 billion General Fund and local property tax and \$18.8 billion other funds) for the higher education segments and the California Student Aid Commission.

UNIVERSITY OF CALIFORNIA

The University of California (UC) offers formal undergraduate and graduate education. The UC is authorized to independently award doctoral degrees and is designated as the state's primary academic agency for research. Its 10 campuses enroll approximately 300,000 students and the UC extension centers additionally register more than 332,000 participants in continuing education programs. In 2024-25, the UC awarded more than 89,000 degrees, including nearly 66,000 undergraduate degrees.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Base Funding Augmentation**—The May Revision maintains the proposed increase of \$254.3 million ongoing General Fund, representing a 5-percent base increase for the fifth and final year payment of the Compact. The May Revision also maintains the proposed increase of \$96.3 million ongoing General Fund to provide partial funding of the fourth year Compact payment as scheduled in the 2025 Budget Act.
- **Compact Funding Deferral**—The May Revision maintains the planned one-time deferral of the 2025-26 Compact investment of \$240.8 million, representing a

5-percent base increase in the fourth year of the Compact, to 2027-28. The May Revision also maintains the planned one-time 2025-26 deferral of \$31 million to offset revenue reductions 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.

- **One-Time Base Deferral**—The May Revision maintains the proposed delay of a one-time repayment of \$129.7 million, representing a deferral of a one-time 3-percent base increase from 2025-26, from 2026-27 to 2027-28.
- **Foster Youth Support Services**—An increase of \$1.5 million one-time General Fund to support First Star Academy Youth Cohorts at UC campuses.

CALIFORNIA STATE UNIVERSITY

The California State University (CSU) provides undergraduate and graduate instruction generally up to the master's degree. Its 22 campuses enroll more than 471,000 undergraduate and graduate students. In 2024-25, the CSU awarded approximately 123,000 degrees. The CSU also provides opportunities for residents to enroll in professional and continuing education programs.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Base Funding Augmentation**—The May Revision maintains the proposed increase of \$264.8 million ongoing General Fund, representing a 5-percent base increase for the fifth and final year payment of the Compact. The May Revision also maintains the proposed increase of \$100.9 million ongoing General Fund to provide partial funding of the fourth year Compact payment as scheduled in the 2025 Budget Act.
- **Compact Funding Deferral**—The May Revision maintains the planned one-time deferral of the 2025-26 Compact investment of \$252.3 million, representing a 5-percent base increase in the fourth year of the Compact, to 2027-28.
- **One-Time Base Deferral**—The May Revision maintains the proposed delay of a one-time repayment of \$143.8 million, representing a deferral of a one-time 3-percent base increase from 2025-26, from 2026-27 to 2027-28.

CALIFORNIA COMMUNITY COLLEGES

The California Community Colleges (CCCs) are the largest system of higher education in the country, serving roughly one out of every four of the nation's community college students, or approximately 2.2 million students. The CCCs provide basic skills, vocational, and undergraduate-transfer education with 73 districts, 116 campuses, and 83 educational centers. In 2024-25, the CCCs awarded over 154,000 certificates and 209,000 degrees.

Below are additional adjustments in the May Revision that add to, reduce, or amend proposals from the Governor's Budget.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Student Centered Funding Formula (SCFF) Cost-of-Living Adjustment (COLA)**—An ongoing increase of \$197.7 million Proposition 98 General Fund to reflect a change in the cost-of-living adjustment from 2.41 percent to 4.31 percent, of which 1.4 percent is discretionary (the statutory COLA at May Revision is 2.87 percent). This increases the total proposed cost-of-living SCFF adjustment in 2026-27 to \$438.3 million.
- **Paid Pregnancy Leave**—The May Revision requires all community colleges, as well as TK-12 public schools, to provide all employees with up to 14 weeks of paid pregnancy disability leave beginning in 2026-27. Costs of this benefit are absorbable within the 1.4 percent discretionary SCFF COLA.
- **Local Property Tax Adjustments**—An ongoing increase of \$122.8 million Proposition 98 General Fund as a result of decreased offsetting local property tax revenues.
- **Adult Learner Demonstration Project**—A one-time increase of \$9.7 million Proposition 98 General Fund, available for use over three years, to support the Adult Learner Demonstration Project. This program provides comprehensive services to assist low-income adult workers move into stable and higher-paying jobs.
- **Categorical Programs Cost-of-Living Adjustment**—To reflect a change in the cost-of-living adjustment from 2.41 percent to 2.87 percent, the May Revision includes an ongoing increase of \$6.1 million Proposition 98 General Fund for select categorical programs and the Adult Education Program.

- **SCFF Growth Adjustment**—An ongoing increase of \$2 million Proposition 98 General Fund to maintain the Governor’s Budget proposal to fund 0.5 percent enrollment growth. The May Revision also maintains the addition of 1 percent ongoing growth beginning in 2025-26.
- **Student Support Block Grant**—A one-time increase of \$607,000 Proposition 98 General Fund for a flexible block grant for the community colleges. This increases the total amount proposed for 2026-27 to \$100.6 million.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers California’s postsecondary financial aid programs, primarily the Cal Grant program. The Cal Grant program is estimated to provide nearly 548,000 new and renewed financial aid awards to students who meet specified eligibility criteria in fiscal year 2026-27.

Below are additional adjustments in the May Revision that add to, reduce, or amend proposals from the Governor’s budget.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Cal Grant Program Caseload Adjustments**—Estimated Cal Grant expenditures of approximately \$2.5 billion in 2024-25, \$2.9 billion in 2025-26, and \$3.2 billion in 2026-27 based on the latest estimates of enrollment of Cal Grant-eligible students. These estimates reflect an increase of \$4.8 million one-time General Fund in 2025-26 and \$31.5 million ongoing General Fund in 2026-27.
- **Middle Class Scholarship Program**—A one-time net decrease of \$90.5 million General Fund to reflect the revised estimate for Middle Class Scholarship Program awards issued in the 2025-26 academic year as costs are paid in arrears in accordance with the 2025 Budget Act.
- **Golden State Teacher Grant Program (GSTG)**—The May Revision withdraws the Governor’s Budget proposal to reappropriate \$14.4 million General Fund to support the GSTG. Revised program estimates reflect the full expenditure of these funds in 2025-26. Alternatively, as referenced in the TK-12 Education Chapter, the May Revision includes an ongoing increase of \$16.2 million in federal special education (IDEA) funds to support the GSTG, with grant awards for prospective special education teachers of up to \$20,000. Additionally, the May Revision includes

\$1.6 million one-time federal Title II funds for 2026-27, with grant awards for prospective teachers in other subject matter areas of up to \$10,000.

- **Workforce Pell Implementation**—A one-time increase of \$664,000 General Fund to support Commission implementation activities to enable California to participate in the new federal Workforce Pell Grant program as authorized under the House of Representatives (H.R.) 1 of 2025.

COLLEGE OF THE LAW, SAN FRANCISCO

College of the Law, San Francisco is affiliated with the UC system but is governed by its own Board of Directors. Located in San Francisco, it primarily serves students seeking a Juris Doctor degree but also offers programs leading to Master of Laws; Master of Studies in Law; and Master of Science, Health Policy and Law degrees. In 2025-26, College of the Law, San Francisco enrolled 1,138 full-time equivalent students. Of these, 1,064 were Juris Doctor students.

SIGNIFICANT BUDGET ADJUSTMENT

- **Campus Safety and Security Resources**—An ongoing increase of \$1 million General Fund to support campus public safety and security programs.

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NATURAL RESOURCES AND ENVIRONMENT

The Natural Resources Agency consists of 29 departments, boards, commissions, and conservancies responsible for administering programs to conserve, restore, and enhance the natural, historical, and cultural resources of California. The May Revision includes total funding of \$10.5 billion (\$4.9 billion General Fund, \$3.2 billion special funds, \$1.9 billion bond funds, and \$530 million federal funds) for the programs included in this Agency.

The California Environmental Protection Agency consists of six departments and boards responsible for implementing the state's climate priorities, reducing greenhouse gas emissions, enhancing air and water quality, achieving the state's waste reduction goals, and protecting public health. The Secretary coordinates the state's regulatory programs and provides fair and consistent enforcement of environmental law. The May Revision includes \$5.8 billion (\$117 million General Fund, \$4.7 billion special funds, \$634 million federal funds, and \$329 million bond funds) for programs included in this Agency.

OUTDOORS FOR ALL

California remains committed to expanding opportunities for every resident to enjoy the outdoors. Through the Outdoors for All initiative, the state continues to prioritize equitable outdoor access, recognizing its importance for all Californians.

Every Californian should have an opportunity to swim in a lake or ocean, marvel at nature, or simply spend time in a nearby park. These experiences should be available to everyone, regardless of background, location, or income. The May Revision includes strategic investments to continue the state's progress in expanding outdoor access.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Fort Ord Dunes**—An increase of \$3.6 million General Fund (\$3.3 million ongoing from General Fund and the State Parks Recreation Fund) to support operations at the new Fort Ord Dunes State Park campground. The new campground will provide accessible, low-cost, coastal overnight accommodations along the Monterey coast where camping opportunities have historically been limited. The campground will also provide new beach access, aquatic recreation opportunities, and important natural and cultural resource stewardship along a relatively remote stretch of coastline.
- **Golden Gate Fields**—An increase of up to \$125 million one-time from the Climate Bond (Proposition 4) to support the acquisition of the 161-acre Golden Gate Fields property. This acquisition is a once-in-a-century opportunity to repurpose a former horse racing track into an iconic shoreline park and recreational hub, which will restore nature and expand open space and Bayshore access for millions of Bay Area residents. This acquisition enables community-planned recreational amenities, improvements to the San Francisco Bay Trail, new access for historically underserved East Bay communities, and nature-based solutions to protect communities from climate change and sea-level rise.

STATE PARKS FORWARD

Building on progress of key state priorities including the Outdoors for All and 30x30 initiatives, the Department of Parks and Recreation announced State Parks Forward, representing the largest expansion of the state park system in decades. This initiative includes starting the planning and acquisition process for three new state parks near underserved communities in the Central Valley and the expansion of existing parks by tens of thousands of acres. As a result of engagement efforts with public agency partners, State Parks Forward will focus on low-cost acquisitions to expand the state parks system, increasing the number of state parks from 280 to 283 and preserving and protecting an additional 30,000 acres by the end of the decade.

Proposition 4 funding is available for future improvements to these new parks after the Department completes its public engagement process by the end of 2026. Public outreach will begin this summer to directly engage surrounding communities and stakeholders in shaping these new parks.

Simultaneously, the Department of Parks and Recreation will expand the size of existing state parks through strategic low-cost acquisitions enabled by partnerships with local land trusts and conservation organizations. In many cases, these acquisitions will save money and improve operational efficiency.

HEALTHY RIVERS AND LANDSCAPES PROGRAM

Building on prior investments for the Healthy Rivers and Landscapes Program, the May Revision includes an additional \$25 million one-time General Fund to deliver environmental flows, habitat restoration, science, and monitoring to support the requirements of the soon to be updated Bay-Delta Water Quality Control Plan. The State Water Board is expected to adopt an updated Bay Delta Plan by the end of 2026 with the Healthy Rivers and Landscapes Program as a compliance pathway for participating water agencies. This funding supports both flow commitments and the habitat and scientific investments necessary to achieve measurable ecosystem improvements in the Bay Delta.

COEXISTENCE WITH WILDLIFE

The May Revision includes \$1 million one-time special funds to support the Coexisting with Wildlife initiative to proactively mitigate human-wildlife conflict. In recent years, the Department of Fish and Wildlife has responded to an increasing number of dangerous human-wildlife interactions that have garnered national attention. This proposal will enhance the Department's capability to proactively track, respond to, and address wildlife incidents, which will foster safe coexistence with native wildlife in California.

PROTECTING CALIFORNIANS FROM CANCER-CAUSING AIR TOXICS

The May Revision includes \$2.5 million one-time special funds to complete critical, foundational scientific research needed to support additional actions to reduce cancer risk from acrolein and ethylene oxide. This effort represents a coordinated

partnership between the California Air Resources Board and the Office of Environmental Health Hazard Assessment (OEHHA), which jointly lead California's science-based approach to assessing and addressing toxic air contaminants.

California's efforts to evaluate and reduce cancer risk from air toxics rely on a rigorous process, and recent draft updates to OEHHA's cancer potency factors for ethylene oxide and acrolein highlight the urgency of strengthening the state's understanding of these pollutants and their impacts on communities. While ongoing initiatives—such as the transition to cleaner vehicles—help reduce these air toxics and the associated health risks, further targeted actions to reduce these toxics depend on a clearer, science-based understanding of their sources and contributions. This funding will enable the state to advance that knowledge and inform future strategies to better protect public health.

BEVERAGE CONTAINER RECYCLING

California's Beverage Container Recycling Program faces growing challenges from global market dynamics and rising costs, along with underlying market structure issues affecting in-state manufacturing and overall program performance. The May Revision includes over \$200 million in investments to advance a targeted strategy to stabilize markets, improve material quality, and expand redemption access—strengthening program reliability, supporting jobs, and improving affordability for consumers—while positioning California to sustain a resilient, competitive circular economy.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Enhancing Market Conditions for In-State Remanufacturing**—An increase of \$75 million Beverage Container Recycling Fund over three years to expand in-state manufacturing for recycling products. This proposal includes \$60 million over three years for the Plastic Market Development Payment Program to extend and strengthen market development incentives and support investments in recycling capacity to sustain recycling infrastructure and well-paying manufacturing jobs. Additionally, this proposal includes \$5 million annually for three years for the Plastic Reclaimers and Manufacturers Grant program to invest in new or improved plastic processing infrastructure and equipment.
- **Improving Material Quality and Program Efficiency**—A one-time increase of \$100 million Beverage Container Recycling Fund for the Beverage Container Quality

Infrastructure Grant Program to upgrade sorting and processing infrastructure and produce cleaner, higher-quality material streams.

- **Expanding Redemption Access in Underserved Areas**—A one-time increase of \$50 million Beverage Container Recycling Fund for the Rural Recycling Incentive Payments Program to support locally driven solutions that increase participation and promote equitable access to California Redemption Value refunds.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision includes a General Fund solution to achieve a balanced budget.

- **Ongoing Shift of General Fund Expenditures to Special Funds**—A shift of \$9.6 million of various ongoing General Fund appropriations for boards, departments, and offices within the California Environmental Protection Agency to alternative fund sources. These shifts will include emergency response for the Department of Toxic Substances Control, various operational costs for the Office of the Secretary for Environmental Protection, and various administrative activities at the California Air Resources Board.

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HEALTH AND HUMAN SERVICES

The Health and Human Services Agency includes departments and state entities that provide health and social services to the most vulnerable and at-risk Californians while providing public health services to Californians.

Like all states, California is challenged by House of Representatives (H.R.) 1, federal legislation passed last summer, which has reduced our federal revenue, increased state costs, and required program changes. The May Revision proposes General Fund solutions to help align program expenditures with available revenue to maintain a balanced budget and responsibly support California's core programs. The May Revision includes \$334.2 billion (\$90.4 billion General Fund) for health and human services programs in 2026-27.

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost for low-income individuals. The Department also administers programs for special populations and several other non-Medi-Cal programs, as well as county-operated community mental health and substance use disorder programs. The Medi-Cal budget includes \$194.4 billion (\$48.6 billion General Fund) in 2025-26 and \$216.7 billion (\$44.9 billion General Fund) in 2026-27. Medi-Cal is projected to cover approximately 14.4 million

Californians in 2025-26 and 13.9 million in 2026-27—more than one-third of the state's population.

MANAGED CARE ORGANIZATION TAX

The May Revision reflects Managed Care Organization (MCO) Tax revenue of \$4.5 billion in 2025-26 and \$2.5 billion in 2026-27 to support the Medi-Cal program. The May Revision also includes \$1.3 billion in 2025-26, \$2.4 billion in 2026-27, and \$150 million in 2027-28 to support increases in managed care and other payments relative to calendar year 2024, for hospital, community clinic, behavioral health, and other services for provider payments. This includes an increase of \$1.9 billion from excess MCO Tax revenues from calendar years 2025 and 2026, after fulfilling the provider payment increases as required in Proposition 35. The existing MCO Tax expires on December 31, 2026.

Proposition 35, approved by the voters in November 2024, requires that the state seek federal approval to continue an MCO Tax that complies with the structure of the existing MCO Tax and limits non-Medicaid tax liability of future taxes to \$36 million annually. Recent federal changes pursuant to H.R. 1 prohibit taxes that assess higher tax rates on Medi-Cal plans than commercial plans, or otherwise place a disproportionately high tax burden on Medi-Cal plans. In order to align to the applicable law, the May Revision proposes to seek renewal of an MCO Tax effective January 1, 2027. The May Revision includes \$575 million in 2026-27, \$2.3 billion each in 2027-28 and 2028-29, and \$1.7 billion in 2029-30 from this new tax to support the Medi-Cal program and maintain targeted rate increases for primary, maternal, and non-specialty mental health care implemented on January 1, 2024.

SIGNIFICANT BUDGET ADJUSTMENTS

- **2025-26 Budget Update**—The May Revision reflects a \$2.2 billion General Fund increase for Medi-Cal expenditures in 2025-26 compared to the Governor's Budget. This increase is driven primarily by a delay in federal approval for the 2025 Hospital Quality Assurance Fee program, federal funds repayment and deferrals for state-only populations, and increased health care costs for managed care, fee-for-service, and Medicare. The Medi-Cal shortfall in 2025-26 at the May Revision is estimated to be \$4.2 billion General Fund.
- **Year-Over-Year Comparison**—The May Revision projects Medi-Cal General Fund expenditures of \$44.9 billion in 2026-27, a decrease of \$3.7 billion compared with the

revised 2025-26 expenditures. The decrease is primarily driven by reduced costs resulting from budgetary solutions, lower managed care base costs associated with the projected decline in caseload, and revised timing assumptions for the Hospital Quality Assurance Fee and federal repayments.

- **Transition of Individuals with Unsatisfactory Immigration Status to Fee-for-Service**—The May Revision reflects a reduction of \$583.8 million (\$471.6 million General Fund) in 2026-27 and \$1.5 billion (\$1.2 billion General Fund) ongoing due to the new federal policy that prohibits states from covering federally-eligible emergency Medicaid services for individuals with unsatisfactory immigration status in risk-based managed care delivery systems. To comply with this new federal requirement, Medi-Cal members with unsatisfactory immigration status will receive all covered Medi-Cal services through the fee-for-service delivery system effective January 1, 2027.
- **H.R. 1 of 2025**—The May Revision reflects costs of approximately \$1.5 billion General Fund in 2026-27, an increase of \$363.1 million General Fund in 2026-27 compared to the Governor's Budget. The May Revision projects total H.R. 1 disenrollment of 44,000 in 2026-27 and 1.3 million by 2029-30, a decrease of 478,000 in 2026-27 and 446,000 by 2029-30 compared to the Governor's Budget.
 - **Work and Community Engagement Requirement**—An estimated reduction of \$357.6 million (\$90.3 million General Fund) in 2026-27 and \$9.6 billion (\$2.4 billion General Fund) by 2029-30, resulting from the new work and community engagement requirements for the Affordable Care Act adult expansion population, effective January 1, 2027. This is a General Fund increase of \$12 million in 2026-27 and \$1.2 billion in 2029-30. Projected disenrollments are 43,000 in 2026-27 and 1.1 million by 2029-30, a decrease of 190,000 in 2026-27 and 337,000 by 2029-30 compared to the Governor's Budget. The May Revision reflects an increase in the number of individuals projected to retain Medi-Cal coverage by meeting specified exemption criteria, primarily for medical frailty and the CalFresh Able-bodied Adults Without Dependents requirements, which exempts these adults from Medi-Cal work requirements.
 - **Medical Assistance Percentage for Emergency Services**—A General Fund cost of approximately \$669 million General Fund in 2026-27 and \$718 million due to the federal match reduction from 90 percent to 50 percent for emergency services for Affordable Care Act adult expansion population members with unsatisfactory immigration status effective October 1, 2026.

- **Restrictions on Immigrant Eligibility**—A General Fund cost of \$668.1 million in 2026-27 and savings of \$294 million in 2029-30 and ongoing for a July 1, 2027 transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens. The July 1, 2027 transition is a nine-month delay compared to Governor's Budget. This population will be transitioning to the fee-for-service delivery system effective January 1, 2027. Effective October 1, 2026, federal policy will exclude individuals with certain immigration statuses from being federally funded for full-scope Medi-Cal, which significantly reduces federal funding for this population. If the state were to otherwise continue to provide full-scope fee-for-service Medi-Cal to this population, the annual cost is estimated to be an additional \$1.3 billion General Fund.
- **Affordable Care Act Adult Expansion Six-Month Redeterminations**—Based on updated federal guidance, the May Revision assumes the impacts of the required federal eligibility redetermination frequency changing from once per year to every six months for this population beginning in 2027-28. The May Revision includes a reduction of \$747.3 million (\$186.4 million General Fund) in 2027-28 and \$2.5 billion (\$633 million General Fund) by 2029-30. Compared to the Governor's Budget, projected disenrollments have decreased to zero in 2026-27 and are estimated to be approximately 278,600 in 2029-30.
- **Reduced Retroactive Medi-Cal Timeframes**—A reduction of \$34.6 million (\$14.7 million General Fund) in 2026-27 and \$75.5 million (\$32.1 million General Fund) in 2029-30 and ongoing from the reduction of retroactive Medi-Cal coverage changes from three months before an individual's application date to one month for the Affordable Care Act adult expansion population and two months for all other members, effective no sooner than January 1, 2027.
- **Hospital Quality Assurance Fee**—The May Revision assumes \$84.7 million in 2025-26 and \$1.7 billion in 2026-27 to support children's coverage, which results in General Fund costs of \$1.2 billion in 2025-26 and General Fund savings of \$286.8 million in 2026-27 compared to the Governor's Budget. Based on the federal government's notification that California's tax waiver request would not be approved as submitted, the Administration submitted a modified waiver request to the federal government in March 2026 that is currently pending approval. The 2025 Hospital Quality Assurance Fee program is estimated to provide hospital net-benefit payments of \$5.5 billion.

- **County Medi-Cal Administration**—The May Revision reflects a one-time augmentation of \$262 million (\$74 million General Fund) in 2026-27, \$33 million (\$16.7 million General Fund) in each of 2027-28 and 2028-29 to support county workload for the implementation of Medi-Cal eligibility changes pursuant to H.R. 1. This augmentation for county administration includes optional surge staffing capacity to provide additional support to counties with workload such as application, renewal, call center, and work requirements. The May Revision includes a total of \$2.8 billion (\$705.3 million General Fund) for Medi-Cal county administration in 2026-27.
- **Medi-Cal Efficiencies**—The May Revision includes a General Fund reduction of \$68 million in 2026-27 increasing to \$552 million in 2029-30 to establish utilization management for applied behavioral analysis and transportation and eliminating the quality withhold incentive component of the quality withhold and incentive program for Medi-Cal managed care. The Administration is continuing to identify efficiencies in select areas of Medi-Cal.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision includes General Fund solutions to achieve a balanced budget. These include:

- **Increase Monthly Premium for Adults with Unsatisfactory Immigration Status (Aged 19–59) from \$30 to \$50**—A General Fund reduction of approximately \$427.3 million in 2027-28, decreasing to approximately \$314.3 million annually in 2029-30 to increase monthly premiums for adults with unsatisfactory immigration status to \$50, effective July 1, 2027. The 2025 Budget Act included \$30 premiums for this group of adults effective July 1, 2027.
- **Medi-Cal Asset Test Limits**—A General Fund reduction of \$278.3 million in 2026-27 and \$495.6 million ongoing, inclusive of IHSS impacts, to reinstate the Medi-Cal asset limit for seniors and disabled adults to \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2027. The 2025 Budget Act included a partial reinstatement of the Medi-Cal asset limit that went into effect January 1, 2026.
- **Enhanced Care Management**—A General Fund reduction of \$41.4 million in 2026-27, and \$99.2 million ongoing to refine eligibility criteria, service definitions, utilization management criteria, and payment adjustments for the Medi-Cal enhanced care management benefit, effective January 1, 2027.

- **Community Supports**—A General Fund reduction of \$26.9 million in 2026-27, \$58.8 million in 2027-28, and \$51 million ongoing to refine referral pathways, eligibility criteria, service definitions, and utilization management criteria for select Medi-Cal community supports services, effective January 1, 2027.
- **Program of All-Inclusive Care for the Elderly Rate Cap**—A General Fund reduction of \$33.7 million in 2026-27 and \$80.9 million ongoing to implement a rate cap for Program of All-Inclusive Care for the Elderly (PACE) organizations, except for new entrants in their first two years, at the lower bound rate, effective January 1, 2027. The 2025 Budget Act included a rate cap at the mid-point effective January 1, 2027.
- **Medical Loss Ratio Remittances**—A General Fund reduction of \$25 million ongoing beginning in 2027-28 to redirect medical loss ratio remittances to the General Fund.
- **Eliminate Optional Adult Acupuncture Benefit**—A General Fund reduction of approximately \$5.4 million in 2026-27 and \$13.1 million ongoing, effective January 1, 2027.

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) serves, protects, and supports the people of California experiencing need in ways that empower well-being. The Department's major programs include the California Work Opportunity and Responsibility to Kids (CalWORKs), CalFresh and Nutrition Programs, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare and Adult Protective Services, Community Care Licensing, Disability Determination Services, and Child Care. The May Revision includes \$59.1 billion (\$26 billion General Fund) for DSS programs in 2026-27.

CHILD CARE AND DEVELOPMENT

DSS administers child care and development programs including CalWORKs Stages One, Two, and Three; the Emergency Child Care Bridge Program; Alternative Payment Programs; Migrant Child Care; General Child Care; Child Care for Children with Severe Disabilities; and a variety of local supports for these programs, such as Resource and Referral and Local Child Care Planning Councils, in addition to quality improvement projects. Families can access child care subsidies through centers that contract directly with DSS, local educational agencies, or vouchers from county welfare departments

and Alternative Payment Programs. The May Revision includes \$7.5 billion (\$5 billion General Fund) for DSS administered child care and development programs.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Child Care Administrative and Support Cost Structure**—A total of \$65.1 million General Fund in 2026-27 to increase allowable in-contract administration costs for alternative payment program agencies by 1.5 percent of their total contract amount.
- **Child Care Infrastructure**—A one-time increase of \$28 million federal funds for child care facilities affected by the 2023 and 2024 natural disasters.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision includes a General Fund solution to achieve a balanced budget.

- **Child Care Cost-of-Living Adjustment**—A 30-percent reduction to the revised 2026-27 child care cost-of-living adjustment (COLA), resulting in a 2.01 percent COLA for DSS administered child care programs. This maintains \$112 million General Fund for a COLA.

CALIFORNIA WORK OPPORTUNITY AND RESPONSIBILITY TO KIDS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services to support economic mobility. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

The May Revision assumes \$9.4 billion in total TANF and Maintenance of Effort expenditures (state, local, and federal funds) in 2026-27. This amount includes \$6.9 billion for CalWORKs program expenditures and \$2.4 billion for other programs such as Child Welfare Services, Foster Care, the Department of Developmental Services (DDS) programs, the California Statewide Automated Welfare System, California Community Colleges Child Care and Education Services, Cal Grants, and the Department of Child Support Services. The average monthly CalWORKs caseload is projected to be 344,310 families in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENT

- **CalWORKs Grant Increase**—The May Revision reflects a 1.8-percent increase to CalWORKs Maximum Aid Payment levels, effective October 1, 2026, which is estimated to cost \$59.5 million in 2026-27. These increased grant costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund.

FOOD AND NUTRITION

The CalFresh program, California's version of the federal Supplemental Nutrition Assistance Program (SNAP), provides federally funded benefits for eligible families to purchase food needed to maintain adequate nutrition. The May Revision includes \$3.7 billion (\$1.6 billion General Fund) in total CalFresh and nutrition expenditures. In addition, \$11.6 billion in food benefits is provided directly to recipients by the federal government. The total CalFresh caseload is projected to be 3 million households in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Able-bodied Adults Without Dependents County Administration Augmentation**—Due to changes made by the H.R. 1, CalFresh Able-bodied Adults Without Dependents recipients are limited to three countable months of benefits if they are not meeting the work requirements or do not qualify for an exemption. The May Revision includes an additional \$30 million one-time General Fund to support county administration workload in 2026-27. The planned triennial CalFresh reassessment in 2026-27 will inform county administrative needs for the 2027-28 Governor's Budget.
- **CalFresh State Administrative Expense Target**—The U.S. Department of Agriculture (USDA) Food and Nutrition Service sets the State Administrative Expense planning target each federal fiscal year. The state has exceeded and requested an increase to this target to claim additional federal funds, which is currently under review by the USDA. The May Revision includes an increase of \$37 million General Fund in 2025-26 and \$30.6 million General Fund in 2026-27 for costs that exceed the federal target.
- **CalFood**—An increase of \$30 million one-time General Fund for food banks in 2026-27. The one-time appropriation augments \$8 million ongoing General Fund for this purpose.

IN-HOME SUPPORTIVE SERVICES

The IHSS program provides domestic and related services such as housework and meal preparation, as well as personal care services, paramedical services, and protective supervision to eligible low-income individuals with disabilities, including children and adults, as well as low-income individuals who are ages 65 and over. These services are provided to assist individuals to remain safely in their homes and prevent more costly institutionalization. The May Revision includes \$33.7 billion (\$12.7 billion General Fund) for the IHSS program in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENT

- **Conforming IHSS with Medi-Cal Immigrant Eligibility**—An increase of \$30.8 million General Fund in 2026-27 to conform IHSS to the delayed transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens to July 1, 2027.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision includes a General Fund solution to achieve a balanced budget.

- **Medi-Cal Asset Test Limits**—A reduction of \$62.6 million General Fund in 2026-27 to conform IHSS with the reinstatement of the Medi-Cal asset limit for seniors and disabled adults to \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2027.

CHILDREN'S PROGRAMS

Child Welfare Services include family support and maltreatment prevention services, child protective services, foster care services, and adoptions. California's child welfare system provides a continuum of services to children who are either at risk of or have suffered abuse and neglect. Program success is measured in terms of improving the safety, permanence, and well-being of children and families served. The May Revision includes \$1.1 billion General Fund in 2026-27 for services to children and families in these programs. When federal and 1991 and 2011 Realignment funds are included, total funding for children's programs is in excess of \$10.5 billion in 2026-27.

SIGNIFICANT BUDGET ADJUSTMENT

- **Title IV-E Stipend Project One-Time Augmentation**—An increase of \$18.4 million one-time General Fund to provide continuity for those currently enrolled in Bachelor of Social Work/Master of Social Work programs. This funding will provide a bridge to adjustments of sharing ratios in the Title IV-E Stipend Project contract, so the training plans reflect the allowable reimbursement percentage for Title IV-E eligible foster youth.

OTHER SOCIAL SERVICES PROGRAM ADJUSTMENTS

- **Immigration Legal Services**—An increase of \$20 million one-time General Fund to support legal strategies that increase legal capacity to help Californians who are facing immigration court proceedings, particularly for individuals in civil immigration detention. This will be subject to the existing statute which prohibits state funded legal representation for Californians with certain criminal histories.
- **Adult Protective Services Expansion**—A reduction of \$70 million General Fund in 2026-27 and ongoing to revert the expansion of Adult Protective Services adopted in 2021-22, including changing the age of eligibility from 60 back to 65.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) provides individuals with intellectual and developmental disabilities a variety of services that allow them to achieve their goals. The state's developmental services are designed to meet the needs and choices of individuals at each stage of their lives, and support them in their home communities, providing choices that are reflective of lifestyle, cultural and linguistic preferences.

The May Revision includes \$18.7 billion (\$11.9 billion General Fund) and estimates that 487,000 individuals will receive services in 2025-26. For 2026-27, the May Revision includes \$21.6 billion (\$13.5 billion General Fund) and estimates that over 527,000 individuals will receive services.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Center-Based Early Intervention Services**—An increase of \$15 million (\$12.4 million General Fund) to update the current rate model methodology for certain early intervention services delivered outside the home.
- **Equitable and Consistent Needs Assessment**—An increase of \$11.4 million (\$9.1 million General Fund) in 2026-27, \$9.4 million (\$7.1 million General Fund) in 2027-28, and \$2.8 million (\$2.4 million General Fund) ongoing to support the standardized intake process and develop a clinical needs assessment tool for use by regional centers statewide, with a focus on promoting consistency and improving equity within the system regardless of where an individual lives. The May Revision also proposes statutory changes authorizing this standardization.
- **Home and Community-Based Services Federal Access Rule: Resources for Regional Centers**—An increase of \$1.1 million (\$779,000 General Fund) to address increased workload at regional centers associated with the implementation of the Federal Access Rule new grievance process, which will be implemented in February 2027.

OTHER HEALTH AND HUMAN SERVICES

SIGNIFICANT BUDGET ADJUSTMENTS

- **Covered California State Subsidy Program**—\$300 million ongoing Health Care Affordability Reserve Fund, an increase of \$110 million Health Care Affordability Reserve Fund compared to the Governor's Budget, for Covered California to expand the state premium subsidy program to enrollees up to 200 percent of the Federal Poverty Level.
- **Proposition 1 Behavioral Health State Investments**—\$174.8 million Behavioral Health Services Fund for the Department of Public Health, \$131.1 million Behavioral Health Services Fund for the Department of Health Care Access and Information, and \$10 million Behavioral Health Services Fund for the Commission for Behavioral Health in 2026-27 for the allocations for these purposes as required in Proposition 1. Of these amounts, \$119.8 million is for the Department of Public Health and \$94.3 million for the Department of Health Care Access and Information to implement new behavioral health population-based prevention and workforce programs in 2026-27 and continue the BH-CONNECT Workforce Initiative. The May Revision includes \$211.9 million Behavioral Health Services Fund in lieu of General Fund in 2026-27 and \$229.1 million in 2027-28 decreasing to \$226.4 million in 2029-30.

- **AIDS Drug Assistance Program Investments**—\$60 million one-time AIDS Drug Assistance Program Rebate Fund in 2026-27, including \$50 million AIDS Drug Assistance Program Rebate Fund for the Department of Public Health to support services for those living with and at risk of HIV, especially services impacted by loss of federal funds, and \$10 million AIDS Drug Assistance Program Rebate Fund for LGBTQ+ community centers experiencing a loss of federal funds.
- **Statewide Menopause Campaign**—\$3 million one-time General Fund at the Department of Public Health for a statewide public awareness campaign to support greater understanding of perimenopause and menopause.
- **Hospitals in Immediate Financial Distress**—The May Revision allows for an augmentation of up to \$50 million General Fund in 2026-27 for the Department of Health Care Access and Information to provide short-term support for hospitals in immediate and significant financial distress. The Administration will continue to work with the Legislature on this issue.
- **Sickle Cell Centers of Excellence**—\$30 million General Fund, over five years, for the Department of Public Health to support Sickle Cell Centers of Excellence to provide treatment and health care for individuals with sickle cell disease.

HOUSING AND HOMELESSNESS

California has implemented a comprehensive set of housing and homelessness reforms that have accelerated housing production, reduced development timelines and costs, and strengthened accountability. Through streamlined approvals, modernized review processes, and targeted enforcement of state housing laws, the state is supporting faster housing delivery while supporting efforts to address homelessness and encampments. Collectively, these efforts have resulted in increased planning, permitting, and production across the state, helping more Californians access stable, affordable homes.

Building on this progress, the Governor's Budget and May Revision propose policies that reduce development costs and accelerate construction over the long term—an approach that is critical to maximizing the use of both existing and future resources for affordable housing.

Housing is paramount to the lives of all Californians. Through the Governor's Reorganization Plan (2025), the state has been building a structure for a more streamlined, responsive housing finance system in an effort to move toward a more efficient and effective use of state dollars. The Administration looks forward to working with the Legislature in the coming weeks to continue to prioritize the state's investments in addressing the housing and homelessness crisis.

CALIFORNIA HOUSING AND HOMELESSNESS AGENCY IMPLEMENTATION

In connection with the Governor's Reorganization Plan, the Administration is streamlining and aligning state housing finance programs through a "one-stop shop" for affordable housing production. Streamlining access to state financing will support the state's efforts to reduce costs and accelerate construction. Building on these efforts, the May Revision includes a proposal to reduce development costs by addressing fees imposed by local jurisdictions that add to the cost of state-funded affordable housing projects.

ALIGNING LOCAL POLICIES TO LOWER COSTS FOR STATE-FUNDED HOUSING PROGRAMS

To better leverage state dollars and promote the production of affordable housing, the May Revision proposes statutory language to advance targeted policies that align local actions with efforts to reduce development costs. The proposal encourages local governments to provide development fee waivers by recognizing those waivers as a form of local contribution in state affordable housing programs. In addition, as a condition of receiving state funding, the proposal prohibits local governments—when serving as a lead- or co-applicant—from imposing development impact fees on projects receiving state funding.

This proposal does not require local jurisdictions to change their underlying fee structures and establishes clear expectations for the use of state funds. The proposal helps direct state investments toward building affordable housing rather than offsetting locally imposed costs, while reducing overall development costs for state-funded affordable housing.

RESOURCES IN SUPPORT OF THE GOVERNOR'S REORGANIZATION PLAN

The establishment of the California Housing and Homelessness Agency (CHHA) under the Governor's Reorganization Plan requires strategic alignment across multiple departments to maintain continuity of operations and strengthen statewide coordination. The May Revision proposes transferring additional necessary positions and associated resources to support that realignment, including communications capacity for CHHA, information technology and administrative support for the Department of

Housing and Community Development, and leadership for the Housing Development and Finance Committee.

DISASTER REBUILDING FUND

The Administration remains focused on supporting residential rebuilding across California, especially in communities impacted by the 2025 Los Angeles wildfires. Consistent with actions taken over the past year to clear debris at a record pace, expedite permitting, and support the development of affordable housing, the state continues to prioritize helping homeowners affected by these wildfires to recover and rebuild as quickly as possible.

To further help stabilize finances for impacted homeowners, the state has provided mortgage payment assistance through the CalAssist program, which has already delivered relief to more than 1,000 homeowners. Despite these efforts, many survivors continue to face a significant gap between insurance proceeds and the cost to rebuild, compounded by limited access to affordable financing.

To help address this challenge, the May Revision proposes the creation of a Disaster Rebuilding Fund to expand access to construction and renovation financing for disaster-impacted homeowners. The proposal includes a \$100 million investment, including \$56 million General Fund and \$44 million in existing National Mortgage Settlement funds. This investment will be used to reduce borrowing costs and facilitate access to private financing through a combination of a loan loss guarantee program, an interest rate buydown program, and additional tools. Together, these tools will lower monthly construction and mortgage loan costs, expand loan eligibility, and enable more homeowners to secure the financing needed to rebuild.

The Administration is working with philanthropy, non-profits, and lenders and has secured a philanthropic commitment to enhance the impact of the fund, as well as commitments from several lenders to participate in the fund.

HOMELESS HOUSING, ASSISTANCE AND PREVENTION ACCOUNTABILITY

The state continues to deploy significant resources to prevent and reduce homelessness. This includes a sixth round of Homeless Housing, Assistance and

Prevention (HHAP) funding totaling \$1 billion that can be utilized by eligible grantees over multiple years, with a final expenditure deadline of June 30, 2029.

In addition, there is a seventh round of HHAP funding totaling \$500 million planned, contingent on enhanced accountability and performance requirements. The May Revision proposes detailed statutory changes, such as maintaining a compliant general plan housing element, aligning with state guidance to address encampments, advancing pro-housing policies, and leveraging local resources to scale HHAP investments. Because local housing policies directly shape the availability and affordability of housing, aligning these policies with state investments is critical to preventing homelessness, supporting exits from homelessness, and increasing placements in permanent housing. These enhanced conditions of HHAP funding are designed to reinforce the connection between local funding and housing policies, as well as regional homelessness outcomes, with the overall goal of maximizing the impact of state resources and outcomes.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Resources for Enforcement Investigation and Conciliation Workload**—The May Revision includes permanent position authority for six positions and \$838,000 in 2026-27, 2027-28, and 2028-29 for the Civil Rights Department to reduce complainant wait time and increase settlements of employment and housing complaints.
- **Reappropriation of Infill Infrastructure Grant Program Funds**—The May Revision reflects a reappropriation that is estimated to make approximately \$7 million of previously awarded and currently uncommitted funds available for the Department of Housing and Community Development to assist the construction of additional infill infrastructure and housing projects.

CRIMINAL JUSTICE AND JUDICIAL BRANCH

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates people convicted of the most serious and violent felonies, supervises those released to parole, and provides rehabilitation programs to help people reintegrate into the community. The Department strives to facilitate the successful reentry of the individuals in its care back to their communities, equipped with the tools to be drug-free, healthy, and employable members of society by providing education, treatment, and rehabilitative and restorative justice programs. The May Revision includes total funding of approximately \$14.6 billion (\$14.2 billion General Fund and \$400 million other funds) for CDCR. Of this amount, approximately \$4.2 billion General Fund is for health care programs, which provide incarcerated individuals access to mental health, medical, nursing, and dental care services.

The adult incarcerated population is projected to continue its overall long-term downward trend over the next few years. Spring projections estimate the average daily adult incarcerated population for 2025-26 to be 90,126, an increase of 1.1 percent from the fall 2025 projections, and 87,611 in 2026-27, a decrease of less than 0.01 percent from the fall projections. Over the longer term, the population is projected to decline to 85,210 incarcerated individuals by June 30, 2030. As stated in CDCR's recent *Alternatives to Incarceration* report, while the overall population is projected to

continue its decline, the number of adult incarcerated individuals age 55 and older has grown from 7 percent of the incarcerated population in 2010 to 21 percent—currently more than 19,000 incarcerated individuals. Older incarcerated individuals tend to have complex needs that drive higher costs. In 2024, individuals 60 and older represented 14 percent of the prison population but accounted for approximately 27 percent of health system expenses.

Based on spring projections, Proposition 36, passed in November 2024, is expected to increase CDCR's population by 592 in 2025-26 and 1,547 upon full implementation. The active parolee average daily population is projected to be 33,785 in 2025-26, declining to 33,125 in 2026-27. The parole population is projected to decline further to 31,028 by June 30, 2030.

PRISON CAPACITY

The adult prison population has steadily declined in recent years, which has allowed CDCR to eliminate its reliance on contract prison capacity and terminate the lease of the California City Correctional Facility (California City). CDCR has also closed three adult institutions, including the Deuel Vocational Institution (Tracy), California Correctional Center (Susanville), and Chuckawalla Valley State Prison (Blythe), and will close a fourth institution, the Correctional Rehabilitation Center (Norco) by October 2026. These four closures will save approximately \$594 million General Fund annually by 2027-28.

Apart from the four full prison closures, since 2021-22, CDCR has closed facilities in six other male institutions and the Folsom Women's Facility within Folsom State Prison. Since 2024-25, CDCR has also deactivated several housing units and facilities. This approach has allowed CDCR to maintain the use of its programming space, allowing the continuation of rehabilitative programming while simultaneously reducing the number of available beds and achieving additional savings. The cumulative savings from all these measures will reach approximately \$4.9 billion by 2027-28.

In assessing capacity, CDCR takes into consideration a variety of factors for the safety and security of its population, specialized bed needs, and available medical and mental health care, educational, and rehabilitation programming space, while also assessing the amount and type of space needed to provide services and a more normalized living environment to support the incarcerated population.

The Administration remains committed to meeting the needs of staff and the incarcerated population, while right-sizing California's prison system to address space

needs as the state transforms the carceral system to one more focused on rehabilitation in preparation for reentry into communities. While the prison population continues to decline, the aging population represents a larger percentage of the overall population and continues to drive medical costs. The Administration's transformational efforts take these factors into consideration.

CORCORAN STATE PRISON HONOR HOUSING

Traditional correctional environments are highly regimented, with rigid routines and little expectation of personal responsibility. These environments can erode the very skills individuals need to succeed after release. Two pillars of the California Model directly address this. Normalization restructures the prison environment to more closely mirror life in the community, including the expectations and responsibilities of daily living. Dynamic security promotes a staff-resident professional relationship built on engagement and mutual respect. Together, they create conditions that better prepare individuals for successful reentry; this leads to notably safer communities.

While CDCR has promoted normalization and dynamic security within all institutions, CDCR will begin the implementation of an honor housing unit within Corcoran's 3C facility in September 2026 with a second following in February 2027. This honor housing will have an enhanced focus on normalization and dynamic security, which helps create a physically and socially safe space where the incarcerated population can focus on programming, education, and rebuilding family connections without the fear of violence, bullying, or other negative pressures. This effort is the first-of-its-kind behavioral-based housing for a Level III security population within CDCR. Participation will be voluntary; those who apply and are accepted must agree to specific conditions, including active participation in programming and remaining discipline-free. The facility will operate somewhat independently from the rest of the institution to allow staff and incarcerated persons to develop and acclimate to the concept of normalization within a correctional environment. Corcoran 3C will utilize a single-cell setting and provide access to dedicated reentry support.

The May Revision includes \$9.7 million General Fund and 49 positions in 2026-27, and \$12.6 million and 65 positions in 2027-28 and ongoing for this effort. The reactivation of 3C as an honor housing unit will be done in conjunction with the deactivation of facilities at California State Prison, Solano and Avenal State Prison, while also reactivating different housing units at Avenal State Prison and a facility at the California Institution for Men. Combined, this results in a systemwide reduction of 75 beds. The net

effect of these reactivations and deactivations is a decrease of \$2.4 million General Fund in 2026-27 and an increase of \$0.6 million General Fund in 2027-28 and ongoing.

The creation of the honor housing unit at Corcoran is consistent with the California Model's emphasis on normalizing CDCR's prison environment and promoting rehabilitation and reentry for the incarcerated population. The 2025 Budget Act included resources to staff and support the recently completed Learning Center at the San Quentin Rehabilitation Center (SQRC). Increasing single-celled housing is intended to improve the safety and security of the incarcerated population and staff by decreasing the density housed within prisons and increasing access to programming opportunities.

OPERATIONAL IMPROVEMENTS

In September 2025, the Department of Finance and the Boston Consulting Group (BCG) entered into a contract to identify and develop process improvements within CDCR and the Department of Health Care Services to achieve ongoing savings. BCG worked with CDCR and Finance throughout the fall and early spring to explore viable savings opportunities, focusing on the following: (1) optimizing certain sectors of CDCR's workforce, making sure the right positions are in the most effective places; (2) improving CDCR's workers' compensation process to reduce cost pressures created by growing caseloads; and (3) finding efficiencies in contracts for goods and services, particularly in existing contracts with the California Correctional Training and Rehabilitation Authority (CALCTRA, formerly CalPIA).

Overall savings for these areas are expected to achieve a total of about \$360 million General Fund through 2029-30. Notably, CDCR will eliminate 136.8 positions to optimize their workforce, regionalize and augment Return-to-Work Coordinators, and streamline the CALCTRA health care facility cleaning contract. Specifically, the May Revision reflects General Fund savings of about \$20 million in 2025-26, \$42 million in 2026-27, \$82 million in 2027-28, \$100 million in 2028-29, and \$116 million ongoing beginning in 2029-30. In addition, CDCR and Finance will continue to evaluate other areas identified by BCG that could present future savings opportunities. As such, the May Revision also assumes ongoing annual savings of \$100 million General Fund beginning in 2027-28.

SIGNIFICANT BUDGET ADJUSTMENTS

The May Revision proposes additional resources to address essential CDCR workload and baseline costs:

- **Incarcerated Firefighter Pay (AB 247, 2025)**—\$15.8 million (\$5.2 million General Fund and \$10.6 million in reimbursement authority) in 2026-27, and \$13.3 million (\$2.6 million General Fund and \$10.6 million in reimbursement authority) in 2027-28 and ongoing to implement Chapter 681, Statutes of 2025 (AB 247). The General Fund portion is to develop a payroll system capable of tracking and paying an increased wage to incarcerated firefighting hand crews, and the reimbursement authority will enable CDCR to pay incarcerated firefighters the federal minimum wage of \$7.25 per hour, while on an active fire incident, through CALFIRE's E-Fund.
- **Food Funding Adjustment**—\$10.9 million ongoing General Fund to address projected increases in food costs for the incarcerated population resulting from recent statutory changes that require CDCR to procure 60 percent of food from within California, and a change to the methodology of future food cost adjustments that incorporates the cost of statutory requirements and actual food costs.
- **Industrial Workers' Compensation – Institution Claims and Regional Staffing**—\$7.2 million General Fund and 34 positions in 2026-27, decreasing to \$5.6 million in 2030-31 and ongoing, to regionalize and augment CDCR's Return-to-Work Coordinator staffing, which will reduce industrial workers' compensation caseloads and costs over time.

HEALTH CARE SERVICES FOR INCARCERATED INDIVIDUALS

The May Revision continues the state's commitment to delivering quality health care services to incarcerated individuals. This includes approximately \$4.2 billion General Fund in 2026-27 for CDCR health care programs, which provide incarcerated individuals access to medical, nursing, mental health, and dental care services that are consistent with the standards and scope of care appropriate within a custodial environment.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Subsistence and Personal Care Medical Funding**—\$14.6 million General Fund in 2026-27, and \$12.2 million in 2027-28 and ongoing, to fund one-time purchases of

medical supplies and adjust the Subsistence and Personal Care budget to reflect actual costs.

- **Medical Classification Model Adjustment**—\$8.9 million General Fund and 60.6 positions in 2026-27 and ongoing to address increased medical appointments and medication administration.
- **CalAIM Reimbursement Augmentation**—A net-zero shift of \$11.8 million in 2026-27, and \$7.2 million in 2027-28 and ongoing, from General Fund to reimbursement authority to allow the department to collect additional pharmaceutical reimbursements tied to the California Advancing and Innovating Medi-Cal Justice Involved Initiative.
- **Electronic Health Record System Enhancement**—\$2.2 million General Fund in 2026-27, \$2.2 million in 2027-28, and \$4.5 million in 2028-29 and ongoing to provide resources to add artificial intelligence notetaking functionality within CDCR's electronic health record system.
- **Incarcerated Menopause Program**—\$1.1 million General Fund in 2026-27 to improve access to menopause education and clinical care for aging incarcerated women.

MENTAL HEALTH RECEIVERSHIP

In August 2025, the *Coleman* Court appointed a Receiver over CDCR's Mental Health Program and granted the Mental Health Receiver all powers vested by law in the Secretary of CDCR, as related to the administration, control, management, operation, and financing of CDCR's Mental Health Services Delivery System and provision of mental health services to class members. The Governor's Budget included \$33.9 million from the Mental Health Services Deposit Fund (SDF) to support staffing costs of the Receiver's office and to continue clinical staff bonuses ordered by the court. The SDF was established by the *Coleman* Court for the accumulation of fines imposed on CDCR for staffing vacancies above ten percent for specified clinical staff. In total, the state deposited \$155.2 million into the SDF; however, the appeals court later adjusted accrued fines to approximately \$113 million.

The May Revision proposes additional resources to support the Mental Health Program and relies on the SDF for certain expenses relating to human resources, risk management, and centralizing and expanding the use of internships for clinical classifications. Based on the proposals included in the May Revision, the balance of the SDF will be exhausted by 2027-28. Specifically, the May Revision includes:

- **Mental Health Receiver Staffing**—\$6.4 million from the SDF, \$5.2 million General Fund, \$1 million Behavioral Health Services Act Funding, and 26 positions in 2026-27; \$39.1 million SDF, \$5.1 million General Fund, \$2.6 million Behavioral Health Services Act Funding, and 26 positions in 2027-28; \$9.9 million SDF, \$26.8 million General Fund, \$2.6 million Behavioral Health Services Act Funding, and 26 positions in 2028-29; and \$40.2 million General Fund in 2029-30 and ongoing to expand the use of internships and other training programs for mental health clinicians, and augment various mental health and administrative positions to promote the hiring and retention of mental health clinicians.
- **Resource Teams**—\$3.6 million General Fund, \$1.2 million Behavioral Health Services Act Funding, and 18.9 positions in 2026-27, and \$7.3 million General Fund, \$1.2 million Behavioral Health Services Act Funding, and 37.8 positions in 2027-28 and ongoing, to expand the use of Resource Teams. This is a joint proposal between CDCR and the Mental Health Receiver's Office. The goal of a Resource Team is to help Psychiatric Inpatient Program and other high-risk, high-needs mental health patients develop pro-social skills, avoid stagnation, and optimize their ability to advance under psychiatric care. CDCR currently has three Resource Teams at California State Prison, Sacramento, Salinas Valley State Prison, and SQRC. This proposal will expand Resource Teams to three institutions in 2026-27 and three additional institutions in 2027-28, for a total of nine Resource Teams statewide.
- **Crisis Intervention Teams**—\$7.4 million General Fund and 36 positions in 2026-27 and ongoing to pilot the use of Crisis Intervention Teams (CITs) at three institutions, including two male and one female. This is a joint proposal between CDCR and the Mental Health Receiver's Office. The use of CITs is intended to allow assessment of an emergency physically closer to the source of the stressor to allow staff to address concerns that could otherwise lead or have led to self-harm or suicidal behavior.

PUBLIC SAFETY

PROPOSITION 47 SAVINGS

Proposition 47, passed in 2014, requires misdemeanor rather than felony sentencing for certain property and drug crimes. Proposition 47 invests savings from reduced prison utilization in prevention and supporting community programs; funds are allocated according to the formula specified in the ballot measure, which requires 65 percent be allocated for grants to public agencies to support various recidivism reduction

programs (such as mental health and substance use treatment services), 25 percent for grants to support truancy and dropout prevention programs, and 10 percent for grants for victim services. The May Revision estimates net General Fund savings of \$89.1 million in 2026-27.

Proposition 36, passed in 2024, established a treatment-mandated felony for drug possession that can be charged under specified circumstances. Proposition 36 is projected to increase the state prison population and therefore decrease savings associated with Proposition 47 in future years. Remaining Proposition 47 monies may be used to fund court-ordered treatment programs to address the new treatment-mandated felony offense. Allowable uses may include expanding or enhancing court-ordered substance use disorder and/or mental health treatment or providing case management and wraparound services that facilitate successful reintegration, including housing, employment support, and job training.

COMMUNITY CORRECTIONS PERFORMANCE INCENTIVE GRANT

The California Community Corrections Performance Incentive Act, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. Since its inception, the program has allocated more than \$1.5 billion to counties for their role in reducing prison admissions. In recent years, annual funding was held constant due to the COVID-19 Pandemic's effect on probation populations, law enforcement practices, and court processes. The 2025 Budget Act included statutory changes to modify the formula to specify a fixed statewide annual allocation of \$103.7 million General Fund. This amount can be reduced if counties exceed their baseline return-to-prison rates, and increased if counties exceed performance expectations, compared to performance in calendar years 2022 and 2023. The May Revision estimates \$132.2 million General Fund in 2026-27 for the program.

BOARD OF STATE AND COMMUNITY CORRECTIONS

The Board of State and Community Corrections (BSCC), in addition to responsibilities such as oversight of local detention facilities and review of in-custody death incidents, administers up to 20 state and federal grant programs, totaling approximately \$400 million annually for over 400 individual grant agreements. Some of these grants include Proposition 47, the Adult Reentry Grant, and the California Violence Intervention and Prevention Program.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Vertical Prosecution Grant Program to Combat Human Trafficking**—\$10 million one-time General Fund for BSCC to administer a competitive Vertical Prosecution grant program aimed at preventing human trafficking. Vertical prosecution, where a single prosecutor handles the case from beginning to end, is often favored for cases involving particularly sensitive crimes, like human trafficking, because that prosecutor can become more knowledgeable about the details of the case, develop a comprehensive legal strategy for the matter, and establish rapport with the victims.
- **Missing and Murdered Indigenous People Grant Program**—\$10 million one-time General Fund for BSCC to administer a competitive grant program for federally recognized Indian tribes supporting efforts to identify, collect case-level data, publicize, and investigate and solve cases involving missing and murdered indigenous people (MMIP). To date, BSCC has been allocated \$37.3 million for MMIP grants—\$4 million in 2022-23, \$16 million in 2023-24, and \$17.3 million in 2024-25.

OFFICE OF EMERGENCY SERVICES

The Office of Emergency Services (Cal OES) serves as the state's leadership hub during all major emergencies and disasters. This includes responding, directing, and coordinating local, state, and federal resources, and mutual aid assets across all regions to support the diverse communities across the state. Cal OES also builds disaster resilience by supporting local jurisdictions and communities through planning and preparedness activities, training, and facilitating the immediate response to an emergency through the longer-term recovery phase. During this process, Cal OES serves as the state's overall coordinator and agent to secure federal government resources through the Federal Emergency Management Agency. The May Revision includes \$3.2 billion (\$567.8 million General Fund) and 1,927.8 positions for Cal OES.

SIGNIFICANT BUDGET ADJUSTMENTS

The May Revision proposes the following resources:

- **Next Generation 9-1-1 (NG 9-1-1) Transition**—\$141.9 million one-time State Emergency Telephone Number Account to continue the NG 9-1-1 deployment and transition the architecture from a regional model to a unified statewide system model. The new statewide architecture resolves existing interoperability challenges,

creates one cohesive network with public-safety-grade resiliency, and significantly reduces operational complexity for Public Safety Answering Points (PSAPs). The one-time funding requested will: (1) begin the transition to a unified model, (2) maintain the services of the current regional providers as the transition takes place, (3) update the call handling equipment used by the PSAPs that are beyond their expected lifespan as well as systems that are not NG 9-1-1 compliant, and (4) implement a modern, reliable system for the greater Los Angeles region prior to the 2028 Olympic and Paralympic Games and a safer future for large-scale events and beyond.

- **Southern Emergency Operations Facility**—\$12.5 million ongoing General Fund to hire and onboard staff and bring the Southern Emergency Operations facility online to full functionality to absorb Southern Region staff and operations once the facility is complete.
- **Nonprofit Security Grant Program**—\$40 million one-time General Fund to support physical security enhancements to nonprofit organizations that have historically been targets of hate-motivated violence.
- **Victims of Crime Act Supplemental Funding**—\$25 million one-time General Fund to supplement decreasing federal funding supporting a variety of services for victims of crime. This one-time augmentation will significantly alleviate the service level reductions that would otherwise be necessary.

DEPARTMENT OF JUSTICE

As the chief law officer of the state, the Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ). The DOJ provides litigation services on behalf of the people of California; serves as legal counsel to state agencies; provides oversight, enforcement, education, and regulation of California's firearms laws; provides evaluation and analysis of physical evidence; and supports the data needs of California's criminal justice community. The Budget includes total funding of approximately \$1.4 billion (\$514.2 million General Fund) to support the DOJ.

ANTITRUST LITIGATION FUNDING

In response to the federal government's recent retreat from enforcing antitrust laws, the May Revision includes \$14.3 million Special Funds in 2026-27, declining to \$10.5 million in

2029-30, to address an anticipated increase in antitrust workload. The lack of federal oversight in this area leaves California individuals and businesses vulnerable to predatory business practices that threaten affordability and consumer rights.

California has been a leader in this area, most recently dedicating \$8 million annually since the 2023 Budget Act, specifically to prosecute antitrust violations in the gas and oil, technology, and agricultural sectors. These resources allow DOJ to conduct independent investigations and litigation and to enforce California's antitrust laws in these sectors of the economy.

OTHER SIGNIFICANT BUDGET ADJUSTMENTS

- **Medi-Cal Fraud and Elder Abuse: Federal Grant Authority**—\$16.2 million ongoing (\$4.1 million False Claims Act Fund and \$12.1 million Federal Trust Fund) to accept a federal grant award from the Office of Inspector General to support expanded investigations, enforcement activities, and prosecutions related to Medi-Cal fraud and elder abuse.
- **Legal Services Revolving Fund Ongoing Workload**—\$10.8 million ongoing Legal Services Revolving Fund to maintain current service levels and address increased demand for legal services from client agencies.
- **Completing Organized Retail Criminal Enterprise Investigations**—\$2.2 million one-time General Fund to provide DOJ with resources to resolve 27 existing cases stemming from the original funding provided in 2022-23.
- **Fingerprint System Modernization**—\$4.3 million Fingerprint Fees Account in 2026-27, \$5.5 million in 2027-28, and \$1.1 million in 2028-29 and ongoing to upgrade biometric identification systems to cloud-based infrastructure.
- **Registry of Charities and Fundraisers New Online System IT Support**—\$260,000 Registry of Charities and Fundraisers Fund in 2026-27 and \$251,000 in 2027-28 and ongoing to manage the Registry's upgraded infrastructure, provide technical support to end users, and assist with hardware, software, data management, and reporting.

JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, the Habeas Corpus Resource Center, and the Judicial Council. The Judicial Council is responsible for managing the resources of the Judicial Branch. The trial courts are

funded with a combination of General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The May Revision includes total funding of \$5.3 billion (\$3.3 billion General Fund) in 2026-27 for the Judicial Branch, of which \$3 billion is provided to support trial court operations.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Language Access in the California Courts**—\$20 million Trial Court Trust Fund (TCTF) annually in 2026-27 and 2027-28 to address rising court interpreter costs and support language access and interpreter services in all case types in the trial courts. These resources will draw down the accumulated balance in the TCTF resulting from previous allocations to the Judicial Branch and provide increased flexibility for trial court operation costs.
- **Appellate Court Security**—\$1.6 million Appellate Court Trust Fund annually in 2026-27 through 2029-30 to continue resources for appellate court security previously funded on a limited-term basis.
- **State Court Facilities Construction Fund (SCFCF) Backfill**—A reduction of \$10 million General Fund annually in 2026-27 and 2027-28 to reflect the updated General Fund backfill need of the SCFCF based on current revenue estimates.

TRANSPORTATION

The California State Transportation Agency (CalSTA) remains committed to enhancing the mobility, safety, equity, and environmental sustainability of the state's transportation system. The May Revision proposes key investments for the Department of Transportation (Caltrans), the California Highway Patrol (CHP), and the Department of Motor Vehicles (DMV) that will improve safety and continue the Administration's efforts to modernize California's transportation system.

DEPARTMENT OF TRANSPORTATION

Caltrans manages a significant portion of the state's transportation infrastructure, including more than 50,000 lane-miles of roadway and over 13,000 state-owned bridges and other structures. Over the next five years, Caltrans will continue to deliver \$18 billion in planned state highway repair and rehabilitation projects in the State Highway Operations and Protection Program (SHOPP), and Caltrans and local partners will invest \$2.5 billion in projects through the State Transportation and Improvement Program (STIP). Caltrans and local agencies also continue to maximize the use of available federal funding and engage in discussions at the federal level to advocate for funding that aligns with the state's transportation and environmental policy needs.

The May Revision proposes investments that will enhance California's transportation system, including additional funding to continue the Administration's work in homeless encampment and litter abatement as well as investments in Generative Artificial Intelligence (GenAI) that will result in a safer and smarter transportation network. The

May Revision also proposes statutory changes to support planning and preparation for the 2028 Olympic and Paralympic Games in Los Angeles.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Clean California**—A one-time increase of \$40 million General Fund to continue investment in the Clean California program that was launched in July 2021 with one-time funding. Since launch, the program has delivered marked improvements along California's highways and roadways through targeted litter abatement, proper waste disposal, and encampment resolution.
- **Advancing GenAI for Safer and Smarter Roads**—A one-time increase of \$16.4 million State Highway Account to fund engagement, governance, and implementation of innovative GenAI solutions to enhance safety for vulnerable roadway users and to gain traffic mobility insights on the state highway system. As the pace of technological advancement accelerates, artificial intelligence and data tools are transforming how public agencies deliver services. This investment provides a unique opportunity to analyze the growing complexity of transportation data to address safety and mobility challenges across the state.
- **Homeless Encampment Liaisons**—A two-year limited-term investment of \$6.2 million General Fund annually to sustain efforts addressing homelessness and encampments on the state highway right-of-way. With this funding, Caltrans will be able to build on the progress made in addressing encampments on the state right-of-way through collaborative efforts with local governments, social service providers, and state agency partners to link people to appropriate health and human services and safe housing options off of the highway system.
- **LA 28 Games Route Network (GRN)**—The May Revision proposes statutory changes to establish and administer an automated enforcement program on the State Highway System portion of the GRN in advance of the 2028 Olympic and Paralympic games that will be held in the Los Angeles region. The GRN is a planned network of dedicated lanes to efficiently transport athletes, coaches, and Games stakeholders across the dozens of Olympic venues through the greater Los Angeles Region. The automated enforcement program is intended to deter unauthorized use of the GRN through the issuance of fines to vehicles that do not have authorization to use the GRN while also enabling CHP to prioritize its limited resources effectively across the Games' security needs.

Caltrans is also continuing its efforts to build out the GRN in advance of the 2028 Games. Additional funding is required for this effort, either from the state budget or state transportation funding to complement future federal support. The Administration looks forward to collaborating with the Legislature on how best to fund this work and deliver a successful Olympic and Paralympic Games for California.

MOTOR VEHICLE ACCOUNT

The Motor Vehicle Account (MVA) is the main operating fund for the CHP and the DMV. It also funds the California Air Resources Board's Mobile Source Program and provides smaller amounts of funding for myriad other departments. Similar to the Governor's Budget, the May Revision projects that the MVA will be insolvent as soon as 2028-29. Given the ongoing fiscal constraints in the MVA, the May Revision limits new spending to necessary augmentations for the CHP and the DMV that will enhance safety, continue modernization efforts, and resource the departments for operational cost increases.

SIGNIFICANT BUDGET ADJUSTMENTS

- **CHP Operational Cost Increases**—A one-time increase of \$40.4 million MVA for equipment and increased operating costs. This augmentation builds on the resources proposed in the Governor's Budget.
- **CHP Body-Worn Cameras and Wireless Recording System 5G Upgrade**—A one-time increase of \$3.1 million MVA for upgrades to CHP's wireless mobile video/audio recording system and body-worn cameras. These upgrades are necessary so CHP equipment is fully operational on modern networks. This investment enhances public safety by maintaining officer accountability, public transparency, and evidence integrity statewide.
- **DMV Operational Cost Increases**—A one-time increase of \$24.5 million MVA for increased operating costs across DMV's facilities. The funding will support new and existing leases, security services, scheduled and deferred maintenance projects, and other operating expenses.
- **DMV Mobile Driver License (mDL)**—A one-time increase of \$5 million MVA for information technology and consulting resources to continue the mDL pilot program. The May Revision also proposes statutory changes to remove the participation cap in the mDL pilot program.

- **DMV San Clemente Field Office**—A one-time increase of \$4.1 million MVA to relocate the San Clemente Field Office, as the current location is no longer viable. Relocating this field office will allow DMV to continue serving San Clemente and surrounding areas.

SOLIDIFYING STRUCTURAL BALANCE

The May Revision projects a modest MVA fund balance of \$196 million in 2026-27. To address the impact of the fund's ongoing imbalance on department operations, the May Revision proposes statutory changes to support operational improvements that also create budgetary efficiencies at the DMV. Given the fund's ongoing structural constraints, it is critical to prioritize operational efficiencies while maintaining fiscal discipline around new workload and costs.

GENERAL GOVERNMENT AND STATEWIDE ISSUES

This chapter describes items in the Governor's Budget that are statewide issues or related to various departments.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's Office of Business and Economic Development (GO-Biz) serves as the state's lead entity for economic strategy on issues relating to business development, private sector investment, economic growth, export promotion, small business assistance, permitting support, innovation, and entrepreneurship.

GO-Biz administers multiple programs promoting inclusive economic growth in California. Through its leadership role in the California Jobs First initiative and associated Jobs First Council, GO-Biz continues to advance sustainable economic growth across California, awarding grants to businesses and regional economic development coalitions, providing capital access and financing to small businesses while investing in underserved communities up and down the state.

SIGNIFICANT BUDGET ADJUSTMENT

- **California Civic Media Program**—\$10 million General Fund annually in 2026-27 and 2027-28 for the California Civic Media Program, a public-private partnership, to support the work of California's newsrooms, increase access to information, and strengthen community engagement statewide. This funding is in addition to the \$10 million General Fund provided in the 2025 Budget Act, increasing the total investments in this program to \$30 million General Fund.

OFFICE OF LAND USE AND CLIMATE INNOVATION—STATE CLEARINGHOUSE

The May Revision proposes statutory changes to authorize the Governor's Office of Land Use and Climate Innovation to assess a fee on documents submitted to the State Clearinghouse to support the costs of the State Clearinghouse system. The State Clearinghouse is responsible for facilitating the submittal and public hosting of all California Environmental Quality Act (CEQA) documents submitted to the state. This fee authority will support the modernization of the Clearinghouse's CEQAnet and CEQA Submit functions, and allow for faster, more efficient submittal of documentation as well as improved access to information that will streamline the environmental review process for all public agencies.

CANNABIS

The Department of Cannabis Control licenses and regulates commercial cannabis activity and facilitates a legal cannabis market that protects public health, safety, the environment, and local communities in California.

UPDATED ALLOCATION OF CANNABIS TAX FUND

Proposition 64 specifies the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer, and enforce the Cannabis Act, which is considered Allocation 1. Following this, resources are allocated to research and activities related to the legalization of cannabis and the past effects of its criminalization, which is Allocation 2. Once these priorities have been met, the remaining funds are directed to what are referred to as Allocation 3

programs—youth education, prevention, early intervention, and treatment; environmental protection; and public safety-related activities.

The May Revision estimates \$414.1 million will be available for Allocation 3 programs in 2026-27 as follows:

- **Education, prevention, and treatment of youth substance use disorders and school retention**—60 percent (\$248.5 million)
- **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation**—20 percent (\$82.8 million)
- **Public safety-related activities**—20 percent (\$82.8 million)

Consistent with the Governor's Budget, the May Revision maintains a one-time shift within the youth, education, prevention, early intervention, and treatment account, from the California Natural Resources Agency to the Department of Social Services, of \$11.8 million in 2026-27 (an increase of \$308,000 from the Governor's Budget). This one-time shift will be invested in child care infrastructure, specifically targeted toward communities impacted by recent fires.

BUSINESS AND CONSUMER SERVICES

DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by serving as a guardian and advocate for their health, safety, and economic well-being and by promoting legal and ethical standards of professional conduct. DCA helps promote good business practices to ensure California's consumers receive quality services by establishing minimal competency standards for approximately 250 professions and occupations involving more than three million professionals.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Bureau of Private Postsecondary Education: Legal Costs**—\$10 million one-time General Fund in 2026-27 to fully repay a loan from the High Polluter Repair or Removal Account to the Bureau's Private Postsecondary Education Administration Fund. The loan, executed in December 2025, was needed to cover legal expenses

and settlement costs incurred by the Bureau resulting from a recent judgment. Absent this General Fund backfill, future adjustments to educational institution fees will need to account for costs associated with the litigation, resulting in higher fee levels than would otherwise be necessary.

- **California State Board of Pharmacy: Business Modernization**—\$1.7 million one-time Pharmacy Board Contingent Fund, Professions and Vocations Fund in 2026-27 to support the Board of Pharmacy's initial business modernization activities, including updating outdated information technology systems. These resources will allow the Board to begin maintaining a more substantial online presence where applicants and licensees can pay fees via credit card, submit application documents online, and allow for self-management of licensing information.

DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

The Department of Financial Protection and Innovation (DFPI) serves Californians by effectively overseeing financial service providers; enforcing laws and regulations; promoting innovation and fair and honest business practices; enhancing consumer awareness; and protecting consumers by preventing potential marketplace risks, fraud, and abuse.

SIGNIFICANT BUDGET ADJUSTMENT

- **Franchise Brokers Registration System Enhancements**—\$125,000 one-time Financial Protection Fund in 2026-27 for costs associated with modifying the Franchise Registration and Securities Electronic Submissions System. Pursuant to Chapter 518, Statutes of 2024 (SB 919), third-party franchise brokers are required to register with DFPI prior to affecting the sale of the franchise. System modifications will allow DFPI to collect applications for registration and point of contact information, registration documents for franchisees, and fee payments, beginning July 1, 2027.

DEPARTMENT OF FOOD AND AGRICULTURE

California leads the nation in agricultural production with nearly 63,000 farms and ranches generating approximately \$61.2 billion in annual sales. Farmers and ranchers play a key role in food security for Californians, the nation, and the world. The state leads national production both in variety and abundance, with over 400 different crops, some exclusive to California, making up nearly half of the vegetables and over

three quarters of the fruits and nuts grown in the United States. The California Department of Food and Agriculture (CDFA) works diligently to safeguard this critical resource and support a resilient food system that is globally recognized for innovation, quality, and sustainability.

SIGNIFICANT BUDGET ADJUSTMENTS

- **Plant Health and Pest Prevention Programs**—An increase of \$10.5 million General Fund to maintain critical pest detection activities. Invasive fruit flies are a threat to California's natural and working lands. CDFA runs a statewide program in partnership with the U.S. Department of Agriculture (USDA) and County Agricultural Commissioners to rapidly detect, identify, and eradicate these invasive pests before they can irreparably harm valuable state resources. Although the needs of the program continue to increase, the USDA has notified CDFA that the federal contribution to this program is being reduced annually by \$10.5 million.
- **Industrial Hemp Program Transition**—An increase of \$8.4 million General Fund one-time to offset lower than expected fee revenues in recent years for the implementation of the Industrial Hemp Program. The program was originally intended to be funded through fees. However, the industry is not large enough to support a state-managed program that is compliant with federal requirements. The May Revision proposes statutory changes to shift industrial hemp from a state-managed program to the federal hemp program established by the USDA.
- **Animal Care Program (Proposition 12)**—An increase of \$7.9 million General Fund, including \$2.8 million ongoing, to implement the Animal Care Program and comply with Proposition 12. Passed by the voters in 2018, Proposition 12 established the Animal Care Program, and a portion of this program was intended to be supported by fees. However, in consideration of multiple, ongoing legal challenges to this law, including from the federal government, CDFA has held off from setting these fees.

MUSEUM OF TOLERANCE

SIGNIFICANT BUDGET ADJUSTMENT

The May Revision includes \$12 million one-time General Fund to support the Museum of Tolerance, which supports educational programs that challenge visitors to confront bigotry, antisemitism, and hate, and encourages a deeper understanding of the Holocaust within both historical and contemporary contexts. This funding will enable the Museum to complete critical infrastructure improvements as well as create a second

Mobile Museum of Tolerance, focused on serving schools and communities in Central and Northern California. It will also support the full modernization and integration of advanced, AI-enhanced learning across the Museum's three core permanent exhibits, incorporating multilingual access, cutting-edge educational programming, and ongoing impacts measurement tools.

EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING

The May Revision includes \$307.2 million (\$138.1 million General Fund), an increase of \$40.4 million (\$15.2 million General Fund) in 2026-27 as compared to the Governor's Budget to reflect updated employee compensation and projected health care and dental premiums for active state employees for the 2027 plan year.

Collective bargaining negotiations are ongoing with nine bargaining units represented by the Service Employees International Union, whose contracts will expire in summer 2026.

PAYING DOWN UNFUNDED RETIREMENT LIABILITIES

The Administration remains committed to the security of state retiree benefits and the long-term sustainability of state pension systems. Over the last decade, the state implemented significant measures to address its retirement liabilities through public pension law reform, implementation of funding strategies to pay down unfunded pension and retiree health benefits, and the allocation of billions of dollars in supplemental funding beyond the required annual contributions to the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS).

Between fiscal years 2019-20 and 2025-26, the state contributed a total of \$15.4 billion towards the state's unfunded retirement liabilities, and an additional \$13.1 billion in Proposition 2 (2014) debt repayment funding is estimated to be available for the next four fiscal years. The May Revision reflects \$3.6 billion in available Proposition 2 funding, including a \$3 billion supplemental pension payment to help reduce the state plans' unfunded liabilities.

STATE RETIREMENT CONTRIBUTIONS

- **CalPERS Contributions**—The May Revision includes \$9.6 billion (\$5.2 billion General Fund) for the state's contribution to CalPERS. This is a decrease of \$107.2 million (\$66.8 million General Fund) from the Governor's Budget. Included in the total contributions is \$737.4 million one-time General Fund for the California State University retirement costs.
- **CalSTRS Contributions**—The May Revision includes \$4.8 billion General Fund for state contributions to CalSTRS. This is roughly \$6.5 million more than the contributions included in the Governor's Budget, due to revised creditable compensation increases to the Defined Benefits Program and Supplemental Benefits Maintenance Account.

The State Retirement and Health Care Contributions figure below provides a historical overview of pension and health care benefit contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS).

State Retirement and Health Care Contributions ^{1/ 2/ 3/}
(Dollars in Millions)

	CalPERS	CSU CalPERS	CalSTRS	JRS	JRS II	LRS ^{5/}	Active Health & Dental ^{6/}	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding ^{7/}
2017-18	\$ 5,188	\$ 661	\$ 2,790	\$ 199	\$ 80	\$ 1	\$ 3,192	\$ 1,695	\$ 285	\$ 189
2018-19	5,506	683	3,082	194	84	1	3,255	1,759	313	394
2019-20	5,946	716	3,323	242	91	1	3,371	1,844	326	562
2020-21	4,925	680	3,428 ^{4/}	225	84	1	3,398	1,938	339	600
2021-22	5,363	677	3,862	194	91	1	3,501	2,019	356	1,292 ^{8/}
2022-23	7,475	744	3,712	208	86	1	3,731	2,208	392	735
2023-24	7,728	744	3,939	211	89	0	4,139	2,417	428	711
2024-25	6,325	609	4,257	217	92	0	4,574	2,577	454	663
2025-26	8,700	731	4,632	181	95	0	4,986	2,861	539	32
2026-27 ^{9/}	8,908	737	4,782	214	109	1	5,433	3,205	605	0

^{1/} The chart does not include contributions for the University of California pension or retiree health care costs.

^{2/} The chart does not reflect the following pension payments: \$6 billion supplemental payment to CalPERS in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84), additional payments to CalPERS and CalSTRS authorized in Chapter 33, Statutes of 2019 (SB 90), Chapter 859, Statutes of 2019 (AB 118), Chapter 78, Statutes of 2021 (AB 138), Chapter 67, Statutes of 2022 (SB 191), Chapter 39, Statutes of 2023 (AB 130), Chapter 52, Statutes of 2024 (AB 171), and Proposition 2 payments to CalPERS proposed in the 2026-27 May Revision.

^{3/} In addition to the Executive Branch, this chart includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS. Amounts displayed in the CalPERS column include statewide contributions to the five CalPERS state plans, including contributions from employers that are not displayed in the annual Budget Act.

^{4/} As part of the 2020 Budget Act, the Teachers' Retirement Board's statutory authority to adjust the state contribution rate for fiscal year 2020-21 was suspended. The amount shown excludes the additional \$297 million in supplemental pension payment from Proposition 2 debt payment funding authorized in the 2021 Budget Act.

^{5/} In certain years, no state employer contributions to the Legislators' Retirement System are included as the fund was in a surplus position due to the termination of all active members. The May Revision includes \$1.1 million in required contributions for 2024-25, 2025-26, and 2026-27 due to the negative impacts of investment losses and cost of living adjustments experienced by the fund in more recent years.

^{6/} These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and the California State University (CSU).

^{7/} Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability. The 2025-26 and 2026-27 employer contributions reflects suspension in OPEB contribution pursuant to labor agreements reached in 2025.

^{8/} Amount includes \$616 million to help ensure full funding by 2046, which is provided by the employer on behalf of the employees, based on the actuarial liability for each bargaining unit, as employee prefunding contributions were suspended in 2020-21 due to the Personal Leave Program 2020.

^{9/} Estimated as of the 2026-27 May Revision, contributions sourced from the General Fund are estimated to be \$4.5 billion for CalPERS, \$737 million for CSU CalPERS, and \$2.7 billion for Active Health and Dental. Fiscal year 2026-27 contributions to CalSTRS, LRS, JRS, JRS II, and Retiree Health & Dental (including CSU) are funded entirely by the General Fund.

VARIOUS DEPARTMENTS

SIGNIFICANT BUDGET ADJUSTMENTS

- **Franchise Tax Board: CalFile Resources Realignment**—General Fund reductions of \$921,000 in 2026-27, \$2.3 million in 2027-28, and \$2.7 million in 2028-29 and ongoing to reflect savings associated with ceasing efforts to link the Board's CalFile system to the recently discontinued federal Internal Revenue Service's Direct File system. Instead, the Board will retain a reduced level of resources to complete a modified

upgrade of CalFile by implementing the ability to upload federal information, modernize the user experience, and allow first-time and CalEITC filers to utilize this service.

- **Department of Tax and Fee Administration: Operational Savings**—An ongoing reduction of \$10 million General Fund beginning in 2026-27 to reflect anticipated operational savings. The department can absorb this reduction without impacts to its operations or ability to meet statutory requirements.
- **Department of General Services: 10th and O Street State Office Building Reconfiguration**—\$14.3 million one-time Public Buildings Construction Fund in 2026-27 for the preconstruction phase of the reconfiguration of the State Office Building located at 10th and O Streets in Sacramento. This funding will allow the construction phase for this project to commence shortly after the Legislature relocates to the new Capitol Annex in 2027.

STATE APPROPRIATIONS LIMIT CALCULATION

Pursuant to Article XIII B of the California Constitution, the 2026-27 limit is estimated to be \$182 billion. The revised limit is the result of applying the growth factor of 4.73 percent to the prior year limit. The revised 2026-27 limit is \$1.4 billion above the \$180.6 billion estimated in January. A substantial portion of the increase is attributable to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 4.36%
 - May Revision Percentage Growth: 4.95%
- State Civilian Population
 - January Percentage Growth: 0.03%
 - May Revision Percentage Growth: -0.14%
- K-14 Average Daily Attendance
 - January Percentage Growth: -0.18%
 - May Revision Percentage Growth: -0.34%

PROTECTING AND STRENGTHENING ELECTION INTEGRITY

As part of the budget process, the Administration, working collaboratively with the Legislature, will identify ways to continue to protect democracy in the state of California.

ECONOMIC OUTLOOK

In 2025, both the U.S. and California economies continued to expand at a moderate pace, with their respective Gross Domestic Products (GDP) growing by 2.1 percent and 2.5 percent, a 0.7-percentage point deceleration from 2024 for both economies. For the nation, growth in 2025 was slightly higher than the 2-percent growth projected in the Governor's Budget, reflecting larger contributions from consumption, fixed investment (particularly in computer equipment), and exports. California's 2025 growth was supported in part by stronger-than-expected personal income growth of 5.5 percent compared to 5.3 percent projected at the Governor's Budget due mainly to stronger wage growth in high-paying sectors, particularly information and professional and business services, as well as upward revisions to historical data. Together, these factors indicate stronger underlying economic momentum and a more limited near-term impact of tariffs on labor market conditions than previously assumed.

Despite the stronger-than-projected economic performance in 2025, the outlook has weakened in the near term reflecting broader global and national pressures, including higher global energy prices associated with geopolitical developments, most notably the Iran war, and the delayed impacts of tariffs. The Iran war started in late February, and as of mid-April 2026 when the forecast was finalized, the price of West Texas Intermediate (WTI) crude oil futures was above \$90 per barrel, up from around \$60 at the start of 2026. California is not immune to these global pressures: they are projected to suppress economic activity in 2026, which is expected to be the slowest year for California personal income growth (4.1 percent) before improving through the rest of the forecast period to average 4.7 percent from 2028 through 2030 as productivity is

projected to improve, particularly from broader adoption and more effective use of artificial intelligence.

Higher global energy prices are projected to lead to higher broad-based inflation and reduce real purchasing power, while tariffs are still expected to continue to raise costs for businesses and consumers. The May Revision forecast projects oil prices to remain elevated in the near term, with WTI crude at nearly \$100 per barrel in the second quarter of 2026 and remaining higher than pre-Iran war levels through the end of the forecast period in 2030. This is projected to cause inflation to accelerate before gradually slowing as global oil prices fall after the war is assumed to end in the second quarter of 2026. U.S. Consumer Price Index (CPI) inflation is projected to accelerate from 2.7 percent in 2025 to 3.5 percent in 2026 before decelerating to 2.2 percent in 2027, compared to 2.9 percent in 2026 and 2.6 percent in 2027 as projected in the Governor's Budget. Similarly, California CPI inflation is projected to accelerate from 3.1 percent in 2025 to 4.1 percent in 2026 and 3.1 percent in 2027, compared to 3.3 percent in 2026 and 3.2 percent in 2027 projected in the Governor's Budget. The decline in purchasing power that results from higher inflation is projected to weaken consumer demand and overall economic activity.

In addition, the May Revision forecast incorporates tariff assumptions based on current law as of mid-April, including the Supreme Court ruling in February 2026 that struck down the International Emergency Economic Powers Act (IEEPA) tariffs and tariff rates as of mid-April. The May Revision forecast assumed the IEEPA tariffs would be partially replicated by Section 122 tariffs, which were initially set to expire on July 24, 2026. However, the Section 122 tariffs were deemed unlawful by a federal court on May 7, 2026, and that ruling, in turn, was temporarily paused by an appeals court on May 12, 2026. While lower than assumed in the Governor's Budget, tariffs are expected to remain historically higher than at any period since the 1940s, except for 2025. Trade policy unpredictability remains high, creating significant uncertainty for businesses as they make pricing and investment choices. Therefore, tariffs are expected to continue affecting prices, trade flows, and business decisions through 2026 and into early 2027. This is a more drawn-out timeline than in the Governor's Budget, which assumed that consumer prices would be essentially fully adjusted to tariffs by the first quarter of 2026.

These pressures are occurring alongside a labor market where job growth remains modest and concentrated in a limited number of sectors for both the U.S. and California. California nonfarm payroll employment grew by 55,400 jobs or 0.3 percent from 2024 to 2025; however, this was driven entirely by a gain of 176,200 jobs in private education and health services while all other sectors combined lost a total of 120,900 jobs. California nonfarm payroll employment is projected to slightly contract

in 2026 (-0.02 percent compared to +0.03 percent in the Governor's Budget) and grow slightly in 2027 (0.1 percent compared to 0.2 percent in the Governor's Budget). Projected growth has particularly weakened for low-wage sectors, contributing to a softer outlook for both employment and personal income growth.

Monetary policy is also expected to remain restrictive. Due to inflationary pressures from the Iran war, the Federal Reserve is now assumed to hold interest rates steady until March 2027, maintaining tight financial conditions that limit growth in interest-sensitive sectors such as housing and business investment. By comparison, the Governor's Budget assumed interest rate cuts in June 2026 and September 2026.

Overall, the May Revision forecast projects a period of weaker growth in the near term for both the United States and California, due to a shift in the timing and composition of economic shocks followed by gradual improvement as external pressures are projected to ease and productivity gains related to artificial intelligence expand.

Risks have increased as the Iran war adds to the ongoing uncertainty around federal trade and immigration policies. As in the Governor's Budget, the outlook continues to be shaped by federal administration policy uncertainty and risks, particularly in the near term, including geopolitical pressures affecting energy prices, the timing and magnitude of tariff impacts, and the path of monetary policy.

Economic Indicators

Annual Percentage Change unless Otherwise Indicated

	2024	2025	Forecast				
			2026	2027	2028	2029	2030
United States							
Real GDP							
May Revision, April 2026	2.8	2.1	2.1	2.0	2.1	2.0	1.9
<i>Percentage Point Change from Governor's Budget</i>			(0.2)	0.2	0.5	0.2	0.2
Unemployment Rate (percent)							
May Revision, April 2026	4.0	4.3	4.6	4.8	4.6	4.4	4.3
<i>Percentage Point Change from Governor's Budget</i>			0.0	0.3	0.2	0.1	0.1
Nonfarm Employment							
May Revision, April 2026	1.2	0.5	0.0	0.1	0.5	0.6	0.5
<i>Percentage Point Change from Governor's Budget</i>			(0.5)	(0.4)	0.3	0.2	0.1
Personal Income							
May Revision, April 2026	5.6	4.9	4.7	5.9	5.4	5.0	4.7
<i>Percentage Point Change from Governor's Budget</i>			(0.7)	0.4	0.8	0.5	0.1
CPI Inflation Rate (percent)							
May Revision, April 2026	2.9	2.7	3.5	2.2	2.3	2.3	2.3
<i>Percentage Point Change from Governor's Budget</i>			0.5	(0.5)	(0.2)	0.0	(0.0)
California							
Unemployment Rate (percent)							
May Revision, April 2026	5.3	5.5	5.6	5.5	5.3	5.2	5.1
<i>Percentage Point Change from Governor's Budget</i>			0.0	0.0	0.0	0.0	(0.0)
Civilian Labor Force							
May Revision, April 2026	0.9	0.7	(0.1)	0.2	0.3	0.2	0.2
<i>Percentage Point Change from Governor's Budget</i>			(0.4)	0.1	0.1	(0.0)	(0.0)
Nonfarm Employment							
May Revision, April 2026	0.9	0.3	(0.0)	0.1	0.5	0.4	0.6
<i>Percentage Point Change from Governor's Budget</i>			(0.1)	(0.2)	0.1	(0.1)	0.0
Residential Permits (thousands of units)							
May Revision, April 2026	100	103	101	106	111	114	115
<i>Percentage Point Change from Governor's Budget</i>			1.3	2.0	3.0	2.5	0.3
Average Wages							
May Revision, April 2026	5.3	5.6	4.2	4.4	4.5	4.4	4.3
<i>Percentage Point Change from Governor's Budget</i>			0.1	0.0	0.2	0.1	0.1
Personal Income							
May Revision, April 2026	6.8	5.5	4.1	4.4	4.7	4.7	4.7
<i>Percentage Point Change from Governor's Budget</i>			0.0	(0.3)	0.0	0.0	0.1
CPI Inflation Rate (percent)							
May Revision, April 2026	3.1	3.1	4.1	3.1	3.2	3.2	3.2
<i>Percentage Point Change from Governor's Budget</i>			0.8	(0.1)	0.0	0.1	0.0

2026-27 May Revision Forecast based on data available as of April 2026.

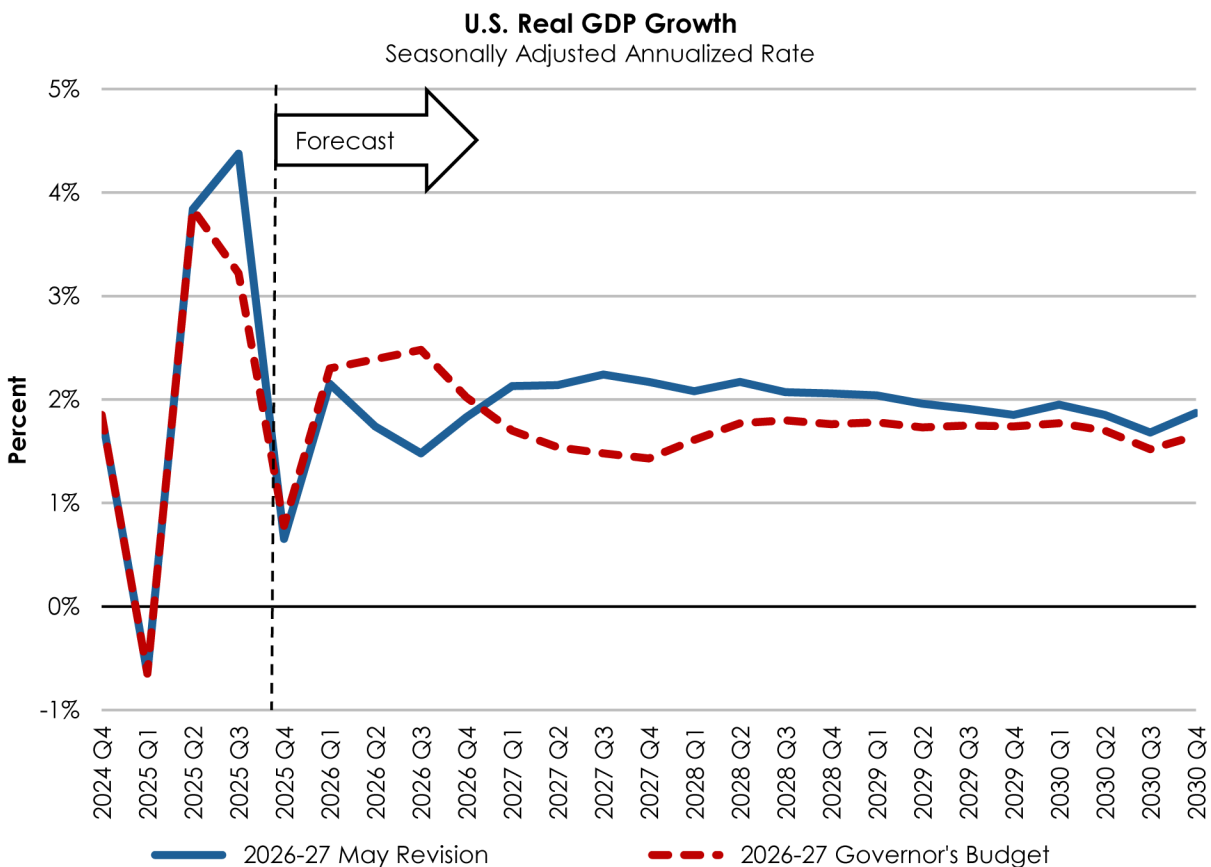
2026-27 Governor's Budget Forecast based on data available as of November 2025.

Source: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; U.S. Census Bureau; California Employment Development Department, Labor Market Information Division; California Department of Finance, 2026-27 Governor's Budget and May Revision Forecasts.

U.S. AND CALIFORNIA FORECASTS

GROWTH GENERALLY REVISED HIGHER AFTER DOWNGRADE IN 2026

As shown in the “U.S. Real GDP Growth” figure, the nation experienced stronger economic growth than projected in the Governor’s Budget in 2025. However, U.S. real GDP growth is downgraded in 2026 due to the projected negative impacts of the Iran war. Starting in the first quarter of 2027 and through the end of 2030, the May Revision forecast projects higher growth compared to the Governor’s Budget due to expected stronger productivity gains from artificial intelligence investment (averaging 2 percent from 2027 through 2030, a 0.3-percentage point increase from the Governor’s Budget). Overall, the May Revision forecast projects moderate but stable growth over the forecast period with no sustained contraction in economic activity.



Source: U.S. Bureau of Economic Analysis (BEA); California Department of Finance, 2026-27 May Revision Forecast.

U.S. real GDP grew by 2.1 percent in 2025 and is projected to grow at the same rate in 2026, representing a slight downgrade from the 2.2-percent growth projected in the Governor’s Budget. Growth is projected to slow to a low of 1.5 percent (seasonally

adjusted annualized rate) in the third quarter of 2026, significantly lower than the 2.5-percent growth projected in the Governor's Budget for that quarter. This slower pace reflects the effects of higher energy prices—which are projected to reduce real household income and increase costs for businesses—as well as the lingering impacts of tariffs.

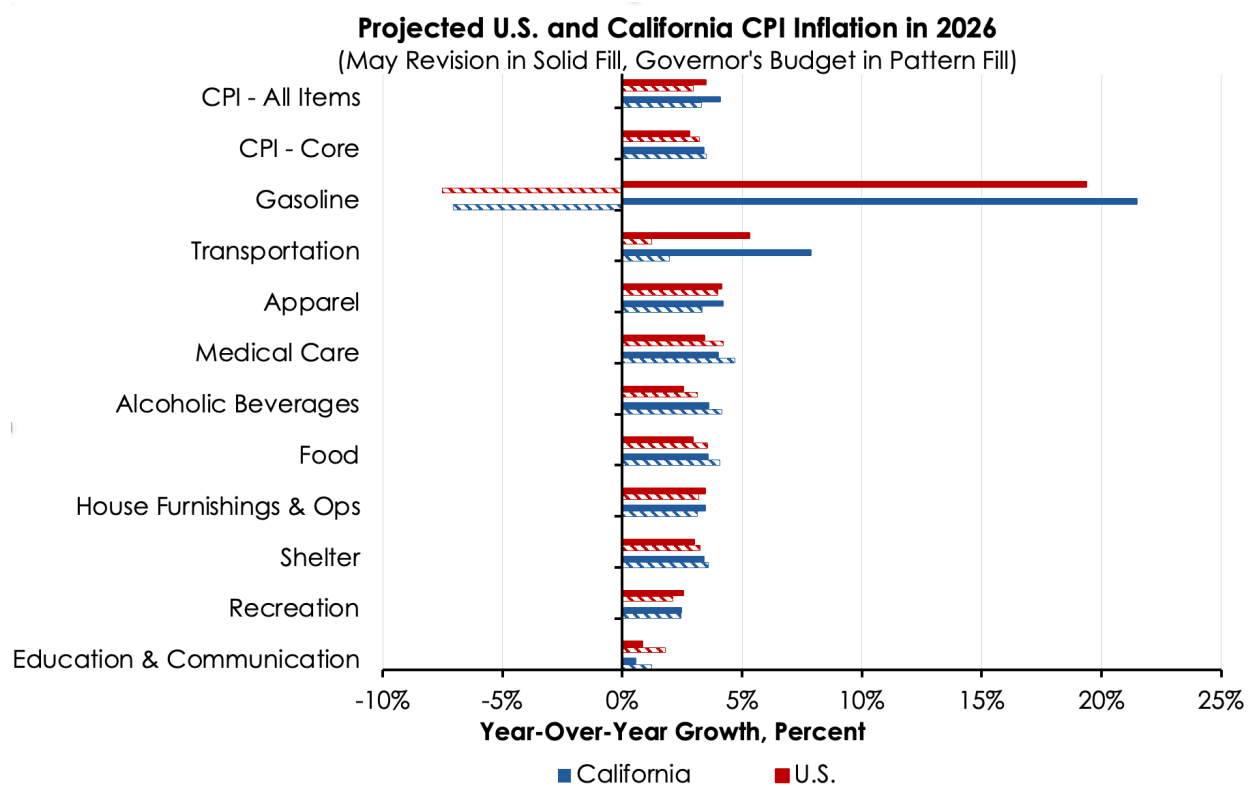
Despite the initial weakness, the broader trajectory for economic growth is expected to remain stable. As energy markets are projected to stabilize by early 2027 and the effects of tariffs are assumed to gradually diminish and be almost fully passed through to consumer prices by the middle of 2027, growth is expected to remain around 2 percent annually from 2027 through 2030. This represents an upgrade from the 1.7-percent average growth projected in the Governor's Budget, driven primarily by stronger productivity assumptions. Improved utilization of artificial intelligence technologies is assumed to enhance efficiency and support growth in the forecast period.

INFLATION PROJECTED TO ACCELERATE SUBSTANTIALLY IN 2026 BEFORE EASING

Inflation is projected to accelerate considerably in 2026 due to higher energy prices and tariff-related cost pressures. U.S. headline CPI inflation averaged 2.7 percent in 2025 and is projected to accelerate to 3.5 percent in 2026, revised higher from the Governor's Budget projection of 2.9 percent. This acceleration is driven primarily by the sharp rise in global oil prices due to the Iran war, which is expected to affect a broad range of goods and services, as well as the delayed impact of tariffs on consumer prices. Higher energy prices have both direct and indirect effects on inflation. Directly, they raise the cost of gasoline and other energy-related goods. As shown in the "Projected U.S. and California CPI Inflation in 2026" figure, U.S. gasoline inflation is projected to accelerate to 19.4 percent in 2026, compared to the projected deflation of -7.5 percent in the Governor's Budget. Indirectly, higher energy prices increase production and transportation costs for businesses across various sectors, which are often passed on to consumers in the form of higher prices. At the same time, tariffs increase the cost of imported goods, further contributing to upward pressure on prices. Tariff impacts were more muted in 2025 than assumed in the Governor's Budget as businesses were generally able to absorb them.

The May Revision forecast projects pass-through costs to impact consumer prices in 2026 before easing into 2027, reflecting a longer and more delayed impact of tariffs than assumed in the Governor's Budget. Tariffs are projected to add 0.1 percentage

point to U.S. annual average inflation in both 2026 and 2027. Most CPI components are projected to be impacted by tariffs as most businesses rely on imported inputs, with the largest impacts concentrated in categories such as new vehicles and apparel. However, the lower effective tariff rate in the May Revision forecast reduces upward pressure on inflation relative to the Governor's Budget. As these pressures begin to ease, U.S. CPI inflation is expected to decelerate to 2.2 percent by 2027, reflecting stabilizing energy prices and lower pass-through impacts of tariffs. This moderation is consistent with the assumption that the most significant inflationary impacts of recent shocks are temporary rather than persistent.



Source: U.S. Bureau of Labor Statistics (BLS); California Department of Finance, 2026-27 May Revision Forecast.

California's inflation profile is generally expected to mirror the nation; however, the state's inflation is projected to rise more sharply than at the national level. After averaging 3.1 percent in 2025, California headline CPI inflation is expected to accelerate to 4.1 percent in 2026, significantly above the 3.3 percent projected in the Governor's Budget.

As in the nation, inflation in California is expected to moderate the following year, decelerating to 3.1 percent in 2027 as energy prices stabilize. Projected U.S. and California inflation from 2028 to 2030 were generally unchanged from the Governor's

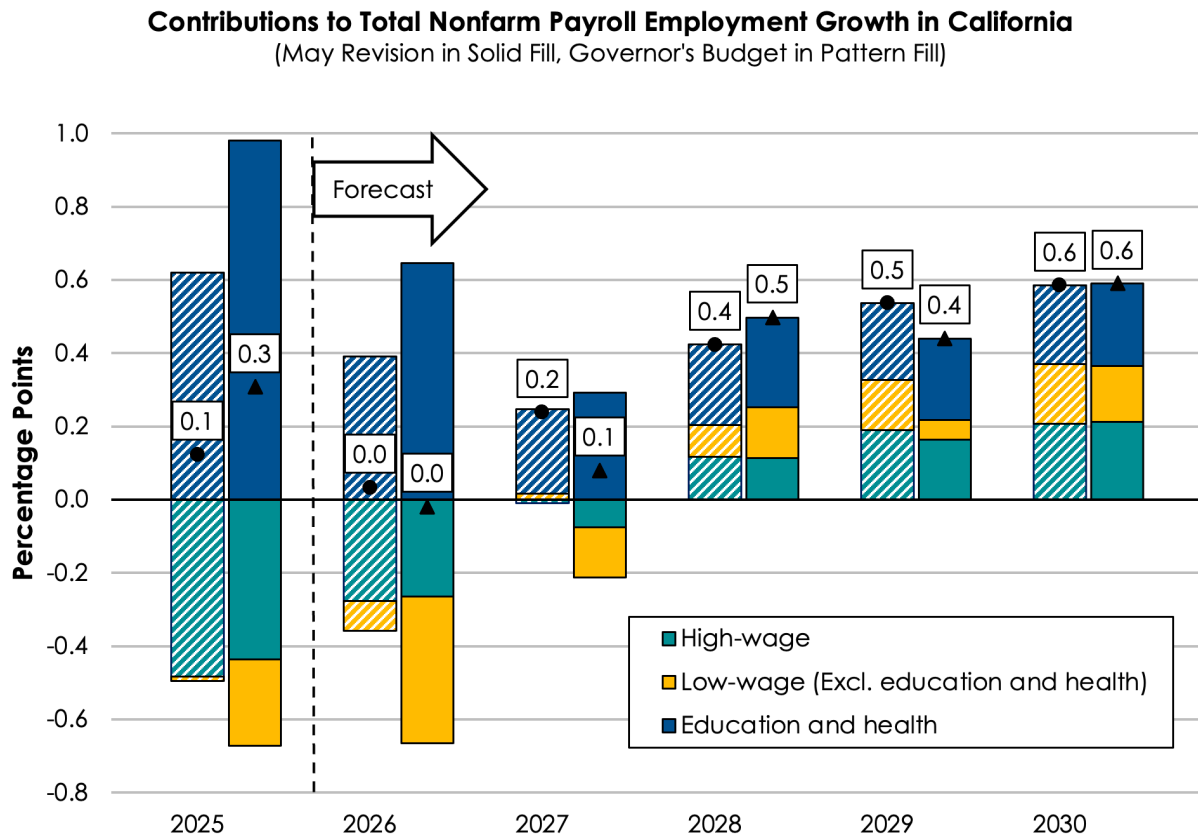
Budget, averaging 2.3 percent and 3.2 percent, respectively. Overall, the May Revision forecast assumes that inflation will spike temporarily in 2026 before gradually returning to more stable rates, although risks remain that inflation could be higher or more persistent than projected depending on the duration of the Iran war which affects the trajectory of global oil prices and tariffs.

CALIFORNIA LABOR MARKET GROWTH REDUCED DESPITE STRONGER GAINS IN 2025

Since the Governor's Budget was finalized in mid-November 2025, California added nearly 22,000 jobs per month between October 2025 and March 2026, well above the projected average monthly job loss of 1,900 jobs per month over the same period in the Governor's Budget. The stronger job growth was driven largely by upward revisions to historical data which indicated nonfarm payroll employment levels in 2025 were higher than projected by 78,400 jobs and annual average growth was 0.3 percent, 0.2 percentage point higher than projected. However, this stronger job growth was concentrated primarily in private education and health services and does not fully offset the weaker outlook for future growth. As such, although projected payroll employment levels are higher than in the Governor's Budget by about 48,000 jobs per year from 2026 to 2030, job growth is projected to be flat in 2026 before slowly rebounding thereafter. Job growth is projected to average approximately 0.3 percent annually over the forecast period, downgraded from the 0.4-percent rate projected in the Governor's Budget.

Despite the upward revisions to nonfarm payroll employment, projected job growth in the near term is reduced relative to the Governor's Budget due mainly to substantially weaker job growth in low-wage sectors (see figure on Contributions to Total Nonfarm Payroll Employment Growth in California). "Low-wage sectors" are defined as sectors with an average wage that is lower than the state's average wage—around \$100,500 in 2025—while "high-wage sectors" have average wages above the state average. According to this definition, low-wage sectors are comprised of construction, trade, transportation, and utilities, private education and health services, leisure and hospitality, other services, and government while high-wage sectors are comprised of mining and logging, manufacturing, information, financial activities, and professional and business services. Job growth in the near term is projected to remain subdued due to ongoing impacts from tariffs and the Iran war. While the Iran war is projected to have broad-based adverse impacts across most sectors, oil-intensive sectors such as trade, transportation, and utilities, manufacturing, and construction are projected to be disproportionately impacted while leisure and hospitality and other service-providing

sectors are also expected to be negatively affected due to less discretionary spending from higher prices.



Note: Data labels represent total nonfarm payroll employment growth.
Source: California Department of Finance, 2026-27 May Revision Forecast.

California labor force growth is projected to remain limited over the forecast period, slowing from 0.7 percent in 2025 to -0.1 percent in 2026, compared to 0.8 percent and 0.3 percent, respectively, projected in the Governor's Budget. This reflects underlying demographic pressures as restrictive policies on legal immigration are likely constraining labor supply while elevated domestic and international economic uncertainty may be contributing to individuals stepping out of the labor force. Over the remainder of the forecast period, California labor force growth is expected to average approximately 0.2 percent annually, unchanged from the Governor's Budget.

CALIFORNIA WAGE GROWTH UPGRADED

California wage growth has also been stronger than projected in the Governor's Budget, particularly in high-wage sectors including information and professional and

business services. Total wages and salaries increased by 5.8 percent in 2025, compared to 5.3 percent projected in the Governor's Budget. The robust growth in total wages and salaries was due mainly to strong growth in average wages which increased 5.6 percent in 2025, compared to 5.1 percent projected in the Governor's Budget. Robust average wage growth was primarily buoyed by the technology-related and artificial intelligence-driven growth in information and professional, scientific, and technical services sectors, where average wages increased 14.9 percent and 8.5 percent, respectively, in 2025, compared to projected growth of 13.8 percent and 6.3 percent, respectively, in the Governor's Budget. This strength reflects continued demand for skilled labor as well as the effects of technological investment, particularly in areas related to artificial intelligence.

Total wages and salaries growth is expected to slow to 4.3 percent in 2026, and 4.5 percent in 2027, compared to 4.2 percent and 4.7 percent, respectively, in the Governor's Budget, reflecting weaker labor market and overall economic conditions. Then, total wages and salaries are projected to average 4.9 percent in 2028 through 2030, slightly upgraded from the 4.8-percent rate projected in the Governor's Budget, primarily reflecting projected productivity gains from the ongoing investment in artificial intelligence. Overall, the outlook suggests continued strength in wage growth that is driven largely by high-wage sectors.

CALIFORNIA PERSONAL INCOME GROWTH REDUCED FOR 2027, OTHERWISE UNCHANGED

California personal income increased by 5.5 percent in 2025, 0.2 percentage point above the Governor's Budget projection, reflecting stronger total wage growth than projected and upward revisions to historical data. Growth is projected to slow to 4.1 percent in 2026—unchanged from the Governor's Budget—before slightly rebounding to 4.4 percent in 2027, a 0.3-percentage point reduction from the Governor's Budget. The projected slowing from 2025 to 2026 is driven largely by wages and salaries (5.8 percent in 2025 to 4.3 percent in 2026) and proprietors' income (4 percent to 2.8 percent), which are both impacted by the Iran war. Interest income growth is projected at 4.7 percent in 2026, upgraded from the Governor's Budget projection of 3.4 percent due mainly to a higher interest rate forecast. The 2027 forecast reduction relative to the Governor's Budget is driven largely by proprietors' income (2.6 percent in the May Revision compared to 3.7 percent in the Governor's Budget), partly due to delayed impacts of higher global oil prices. Starting in 2028, as inflation is expected to moderate and economic growth is assumed to stabilize, personal income

growth is projected to return to a more typical pace of 4.7 percent, unchanged from the Governor's Budget.

CALIFORNIA HOUSING PERMITS SLIGHTLY UPGRADED

Recent housing permitting activity has exceeded expectations, reflecting stronger-than-anticipated construction activity from September 2025 to January 2026, the latest month of data available at the time the May Revision forecast was finalized. During this period, California permitted an average of 112,700 units on a seasonally-adjusted annualized rate basis—14,100 units (14.3 percent) higher than projected in the Governor's Budget.

Looking ahead, housing permits are projected to average approximately 109,400 units annually through 2030, representing a modest upward revision of 1,800 units per year (1.7 percent) compared to the Governor's Budget. Because of stronger performance in 2025, the May Revision permits forecast was slightly upgraded relative to the Governor's Budget despite higher interest rates increasing financing costs for both builders and buyers, the Iran war raising energy costs, and tariffs raising material expenses. The boost in permitting activity was driven primarily by stronger multi-family permitting. Projected multi-family permitting has been revised upward by 2,200 units per year (4.3 percent) on average due to a faster rebound than projected in the Governor's Budget, while single-family permitting was slightly downgraded by 400 units per year (-0.7 percent) on average over the forecast period from 2026 to 2030.

However, even with the slight upgrade in the outlook for permitting, housing construction continues to face significant constraints in California and remains below housing demand in the state.

RISKS TO THE BASELINE FORECAST

The May Revision forecast assumes a modest and relatively short-lived impact of the Iran war on the economy, reflected largely in short-term price hikes and disruptions that are resolved by the end of 2026. The outlook then assumes gradual and steady improvement after 2026; however, risks remain elevated and are skewed to the downside, particularly in the near term. A key source of uncertainty is the geopolitical environment, especially the potential for a prolonged or escalating Iran war. Such a development could keep global oil prices elevated for longer or push them even higher, leading to greater inflationary pressures and weaker economic growth than currently projected.

Inflation risks remain significant. If energy prices remain high for longer or if tariff-related costs are passed through more quickly or to a greater extent than projected, inflation could exceed current projections. This, in turn, could prompt a more restrictive monetary policy response from the Federal Reserve, further slowing economic activity.

Monetary policy itself represents an additional source of uncertainty. Interest rates could remain elevated for longer than expected, placing further constraints on growth, or policy could shift in ways that exacerbate inflation pressures. Additionally, the current Federal Reserve Chair's term is set to end in mid-May 2026, which introduces uncertainty around the continuity of monetary policy and the independence of the Federal Reserve in pursuing its dual mandate of maximum employment and price stability. Achieving this mandate is inherently challenging, and current conditions make it particularly difficult, as the economy faces a softening labor market alongside inflation that remains above the Federal Reserve's target rate of 2 percent. Setting the appropriate policy stance is therefore complex, and these challenges could be amplified if there are constraints on the Federal Reserve's independence. If the dual mandate is not met, there is potential for 'stagflation'—a period of high inflation, stagnant economic growth, and increasing unemployment.

Uncertainty surrounding federal policy continues to pose risks to the outlook. Changes in trade policy, including the scope and duration of tariffs, could affect business costs, supply chains, and investment decisions. While the May Revision assumes a lower effective tariff rate than the Governor's Budget, the timing and extent of tariff pass-through to consumer prices remains uncertain and could lead to higher inflation or weaker economic activity than projected. Immigration policy is another key source of uncertainty. Changes in enforcement or policy direction could affect labor supply, particularly in sectors that rely more heavily on immigrant workers. Reduced labor force growth could constrain economic output, while shifts in labor availability could also influence wage growth and inflation. Fiscal policy at the federal level also remains uncertain. Potential changes to spending programs or tax policy could affect household income, business activity, and overall economic conditions. Depending on the direction and magnitude of these changes, federal policy could either support or constrain economic growth relative to the baseline forecast.

Labor market risks are also notable, particularly in California, where employment is expected to weaken in the near term and labor force growth remains subdued. Job growth is already projected to slow in the near term, making the labor market vulnerable to further weakening. Slower economic activity is expected to reduce demand for workers, particularly in low-wage sectors, raising the risk that modest job gains could turn into job losses if conditions deteriorate. At the same time, labor force

growth remains limited due to slower population growth and an aging workforce that constrains the supply of available workers. There is also uncertainty around how advances in technology, including artificial intelligence, may affect hiring needs and the mix of jobs over time. Together, these factors raise the risk of both slower job creation and potential job losses, contributing to a more uncertain labor market outlook.

Financial market conditions present an additional source of uncertainty. While equity markets have performed strongly, driven in part by elevated valuations of firms associated with artificial intelligence, price-to-earnings ratios suggest the market may be vulnerable to a correction; however, the timing or magnitude of such a correction cannot be predicted. Renewed market volatility or a significant downturn would negatively affect household wealth, consumer confidence, and state revenues.

Any of these risks could, if substantially more severe than assumed or occurring simultaneously, tip the economy into a recession. A prolonged period of elevated energy prices, more persistent inflation, tighter financial conditions, or a sharper slowdown in hiring and investment could lead to a broader contraction in economic activity. For California, a recession would likely result in weaker job and wage growth, reduced consumer spending, lower business investment, and softer capital gains and corporate profits. These effects would, in turn, reduce state revenue collections and place additional pressure on the state's fiscal outlook.

Longer-term structural challenges remain, including demographic pressures, declining domestic and international migration, high housing and living costs, and ongoing exposure to financial market volatility. These factors continue to pose downside risks to the state's economic performance and fiscal outlook over the forecast window.

Overall, however, the economic outlook reflects a period of slower growth in the near term for both the United States and California, followed by gradual improvement as external pressures are projected to ease, although the pace and extent of that improvement will depend on the evolution of geopolitical conditions, federal policy, and the trajectory of inflation.

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REVENUE ESTIMATES

Before accounting for transfers and tax policy proposals, the General Fund revenue forecast for 2024-25 through 2026-27—the budget window—is upgraded by \$16.8 billion, or 2.5 percent, relative to the Governor's Budget forecast. This is due mainly to the personal income tax, which, excluding the impact of the Pass-Through Entity Elective Tax (PTET), accounts for \$15.7 billion of the upgrade, driven largely by a spike in 2025 capital gains realizations that provided a significant boost to 2025-26 revenues. In addition, corporation tax, excluding the impact of the PTET, is down by \$1.6 billion, sales tax is up by \$244 million, and the PTET itself contributes \$2.1 billion to the upgrade. Overall, the May Revision revenue upgrade reflects higher cash results, with General Fund cash receipts being \$11.9 billion higher through April, combined with a modestly upgraded stock market outlook and a relatively unchanged economic forecast.

As a result of strong non-withholding personal income tax payments through April, which exceeded the Governor's Budget forecast by \$6.4 billion, the May Revision forecast estimates capital gains realizations increased to \$287 billion in 2025—\$64 billion higher than projected in the Governor's Budget and the second-highest level of capital gains realizations ever, following the peak of \$349 billion reached in 2021. The 2025 level of capital gains realizations represents 8 percent of total personal income, an elevated share of the economy seen only during three periods in the past 30 years: the Dot Com Boom, the real estate bubble in the mid-2000s, and the COVID-19 Pandemic surge. Unlike after those prior periods when financial markets declined at least 20 percent from their highs and capital gains dropped substantially, the May Revision forecast assumes a moderation in stock market growth rather than a significant stock market correction.

This results in capital gains realizations declining below 2025 levels but remaining above Governor's Budget projections through the end of the multi-year period—2027-28 through 2029-30.

The economy has generally remained resilient in the face of multiple shocks, including the Iran war, frequently shifting tariff policy, and more restrictive immigration policy, all of which have increased uncertainty, raised costs, or constrained labor supply. As a result, while the economic forecast reflects some near-term weakness due to the Iran war, it continues to project modest economic growth largely in line with the Governor's Budget forecast, and its overall impact on the revenue forecast throughout the entire budget window is roughly neutral.

The significant \$16.8 billion upgrade relative to the Governor's Budget, when excluding transfers, is almost entirely tied to higher stock market prices, which drive revenue gains through the personal income tax with higher capital gains revenue (contributes \$13.5 billion to the \$15.7 billion upgrade in personal income tax) and higher stock-based compensation (contributes \$2.2 billion). Revenues are upgraded every year through the end of the multi-year window in 2029-30; however, because recent revenue strength is tied to significant stock market gains that are assumed to moderate moving forward, a substantial portion of the upgrade in 2025-26 does not persist in 2026-27 and subsequent years.

BUDGET WINDOW

Before accounting for tax policy proposals, General Fund revenues, excluding transfers and loans, are projected to be \$16.8 billion higher than assumed in the Governor's Budget over the budget window. While there are various changes as summarized in the May Revision General Fund Revenue Forecast Reconciliation with the Governor's Budget figure, this upgrade is driven largely by the personal income tax, and, to a lesser extent, the corporation tax due to higher-than-expected PTET payments. Including tax policy proposals but excluding transfers, General Fund revenues are upgraded by \$18.1 billion in the budget window. After accounting for tax policy proposals and transfers, General Fund revenues are upgraded by \$7.1 billion.

- **Revenues from the Big Three**—Before accounting for tax policy proposals, the Big Three revenues—personal income, corporation, and sales taxes—are projected to be higher by \$16.5 billion, due largely to strong cash results related to tax year 2025 that reflect a significant increase in capital gains realizations under the personal income tax. The forecast for personal income tax is revised up by \$13.6 billion,

corporation tax revenues are higher by \$2.7 billion, and the sales tax forecast is upgraded by \$244 million.

- **PTET**—Higher PTET payments related to tax year 2025 contribute a net revenue gain of \$2.1 billion to the Big Three revenue upgrade, due to credit use against the personal income tax lagging payments under the corporation tax. The net gain reflects higher corporation tax revenue of \$4.3 billion and lower personal income tax revenue of \$2.2 billion due to the PTET.
- **Minor Revenues**—Insurance taxes, alcoholic beverage taxes, cigarette taxes, and interest earned on pooled money, are higher by \$227 million in the budget window due mainly to an upgrade of \$256 million in the insurance tax forecast.
- **Other Minor Not Otherwise Classified Revenues**—Unclassified revenues are \$138 million higher in the budget window.
- **Transfers and Loans**—Excluding transfers to the Budget Stabilization Account (BSA) and transfers to the Projected Surplus Temporary Holding Account, transfers and loans are projected to increase General Fund revenues by \$10.2 billion, a \$570 million downgrade relative to what was assumed in the Governor's Budget.
 - The May Revision includes a new \$9.7 billion transfer from the General Fund to the Projected Surplus Temporary Holding Account in 2026-27.
- **BSA Transfers**—BSA transfers are projected to increase General Fund revenues by \$8.1 billion in the budget window, a downgrade of \$725 million relative to the Governor's Budget due primarily to a larger deposit in 2026-27. The May Revision maintains the \$7.1 billion withdrawal from the BSA in 2025-26, which was assumed in the Governor's Budget.
- **Tax Policy Proposals**—Tax policy proposals are projected to increase General Fund revenues by \$1.3 billion relative to the Governor's Budget.

**2026-27 May Revision
General Fund Revenue Forecast
Reconciliation with the 2026-27 Governor's Budget**
(Dollars in Millions)

Source	Governor's Budget	May Revision	Change From Governor's Budget Forecast	
Fiscal 2024-25				
Personal Income Tax	\$130,178	\$131,328	\$1,150	0.9%
Corporation Tax	41,338	41,757	419	1.0%
Sales & Use Tax	33,602	33,596	-6	0.0%
Insurance Tax	4,298	4,298	0	0.0%
Alcoholic Beverage	414	414	0	0.0%
Pooled Money Interest	3,081	3,081	0	0.0%
Cigarette	37	37	0	0.0%
Other Revenue	5,557	5,538	-19	-0.3%
Subtotal	\$218,506	\$220,049	\$1,543	0.7%
Transfer To/From BSA	4,767	4,598	-169	-3.5%
Other Transfers	9,036	8,992	-44	-0.5%
Total	\$232,309	\$233,639	\$1,330	0.6%
Fiscal 2025-26				
Personal Income Tax	\$137,840	\$146,847	\$9,007	6.5%
Corporation Tax	41,702	43,287	1,585	3.8%
Sales & Use Tax	34,401	34,588	188	0.5%
Insurance Tax	4,370	4,510	141	3.2%
Alcoholic Beverage	417	413	-4	-0.9%
Pooled Money Interest	3,018	2,801	-217	-7.2%
Cigarette	35	35	0.4	1.0%
Other Revenue	3,924	4,024	100	2.5%
Subtotal	\$225,706	\$236,506	\$10,800	4.8%
Transfer To/From BSA	7,100	7,100	0	0.0%
Other Transfers	2,356	1,836	-521	-22.1%
Total	\$235,162	\$245,442	\$10,279	4.4%
Fiscal 2026-27				
Personal Income Tax	\$142,202	\$145,610	\$3,408	2.4%
Corporation Tax	43,528	44,192	664	1.5%
Sales & Use Tax	35,085	35,148	63	0.2%
Insurance Tax	4,612	4,728	115	2.5%
Alcoholic Beverage	419	415	-4	-0.9%
Pooled Money Interest	2,165	2,360	195	9.0%
Cigarette	34	34	0.1	0.4%
Other Revenue	2,992	3,049	57	1.9%
Tax Policy Proposal	10	1,304	1,294	12943.5%
Subtotal	\$231,047	\$236,839	\$5,793	2.5%
Transfer To/From BSA	-3,023	-3,579	-556	18.4%
Other Transfers	-638	-10,386	-9,747	1526.8%
Total	\$227,385	\$222,875	-\$4,511	-2.0%
Three-Year Total Excluding Transfers			\$18,136	
Three-Year Total including Transfers			\$7,099	

PERSONAL INCOME TAX

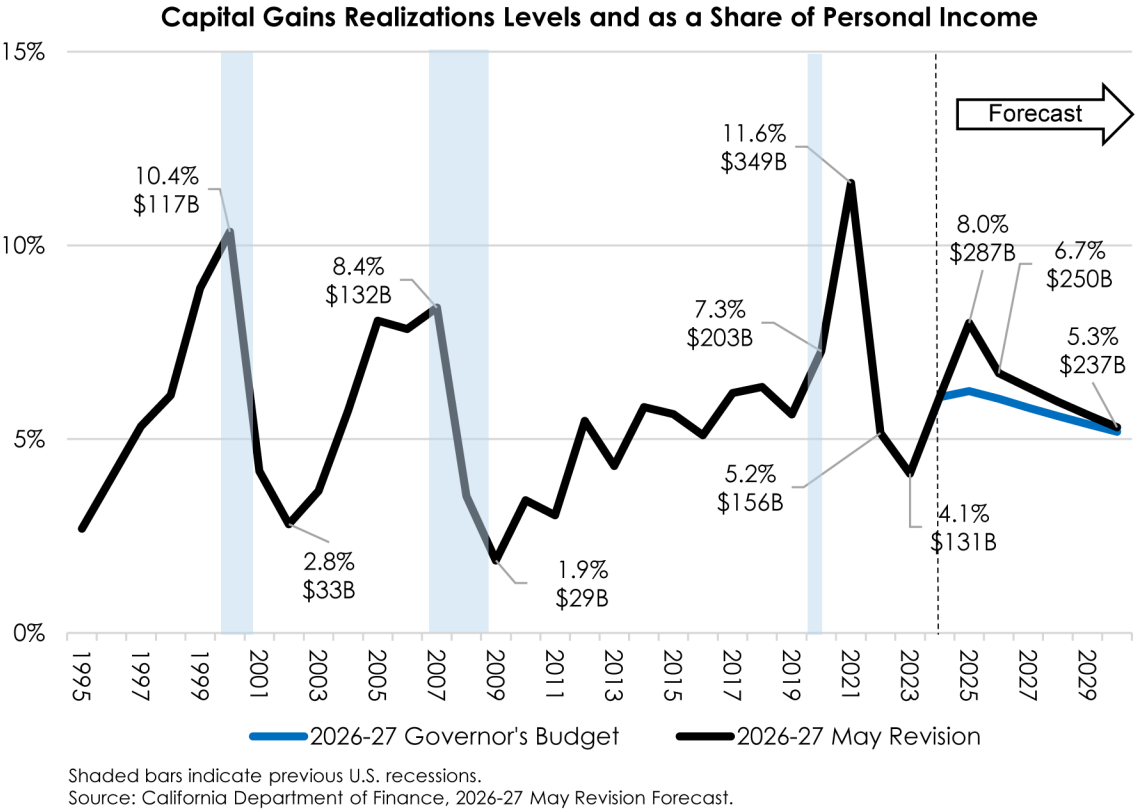
Before accounting for tax policy proposals, the personal income tax forecast is higher by \$1.1 billion in 2024-25 and \$9 billion in 2025-26, reflecting strong cash results through April 2026 that are largely related to tax year 2025 and indicate that capital gains realizations for tax year 2025 were significantly above the Governor's Budget forecast. The personal income tax forecast is higher by \$3.4 billion in 2026-27, a smaller upgrade compared to 2025-26 as capital gains realizations are projected to decline 13 percent in 2026 from unsustainably high levels in 2025.

The upgraded PTET forecast results in higher credit use under the personal income tax, negatively impacting the personal income tax forecast by \$2.2 billion in the budget window. Therefore, when excluding PTET, the personal income tax is upgraded by \$15.7 billion over the budget window, which comprises nearly all the total \$16.8 billion upgrade for all taxes.

Capital gains and capital gains-related income, including nonresident and fiduciary income, explain approximately \$13.5 billion of the upgrade, while withholding contributes an additional \$2.2 billion. Changes to other income items, such as business income, pension income, and dividend income, largely offset each other.

Personal income tax cash receipts were approximately \$8.1 billion over the Governor's Budget forecast through April, due primarily to a \$6.4 billion overage in non-withholding payments that are mostly related to tax year 2025. In addition, personal income tax withholding receipts exceeded the Governor's Budget forecast by \$1.5 billion, with roughly \$400 million of this gain due to earlier collection of receipts projected for May. Personal income tax refunds were \$299 million lower than projected in the Governor's Budget forecast.

Informed by cash results through late April, capital gains realizations are projected to increase from \$223 billion in 2024 to \$287 billion in 2025—a \$64 billion upgrade compared to the Governor's Budget's projection. This is a projected 39-percent year-over-year increase in 2025 and follows a 58-percent year-over-year increase in 2024. Therefore, 2025 capital gains are projected to reach more than double the \$131 billion level of capital gains in 2023. In 2025, capital gains realizations' share of personal income is estimated to increase to 8 percent, as illustrated in the Capital Gains Realizations Levels and Share of Personal Income figure.



Reflecting continued gains in equity markets since the Governor's Budget, the S&P 500 forecast is upgraded from 6,625 to 7,013, or by 5.9 percent, in the second quarter of 2026. As a result, capital gains realizations' share of personal income is projected at 6.7 percent in 2026, upgraded from the 6-percent share projected in the Governor's Budget. However, given the unsustainably high level of capital gains estimated for 2025, that upgraded share still results in a projected year-over-year decline of approximately 13 percent. Still, capital gains realizations are upgraded from \$225 billion to \$250 billion in 2026 and from \$227 billion to \$247 billion in 2027. Capital gains realizations are then assumed to decline slightly from 2028 on and reach 5 percent of personal income by 2031. Overall, relative to the Governor's Budget forecast, capital gains levels are upgraded throughout the multi-year forecast.

Withholding growth decelerated slightly from 9.5 percent in 2024 to 8.1 percent in 2025. The strength in withholding is largely attributable to equity markets' growth in 2024 and 2025, which resulted in higher levels of stock-based compensation for employees of large California-based technology companies. Withholding growth is projected to moderate to 5.3 percent in 2026 but is still upgraded from the 4-percent growth

projected in the Governor's Budget, due mainly to higher equity prices boosting stock-based compensation.

CORPORATION TAX

Before accounting for tax policy proposals, the corporation tax forecast is higher by \$2.7 billion in the budget window due to an upgrade to the Pass-Through Entity Elective Tax (PTET) forecast. The PTET forecast accounts for \$4.3 billion of the corporation tax forecast upgrade and is partially offset by lower personal income tax revenue due to higher PTET credit use.

Corporation tax cash receipts exceeded the Governor's Budget forecast by nearly \$2.8 billion through April, due entirely to higher PTET payments. Excluding PTET payments, corporation tax receipts were \$53 million below the Governor's Budget forecast, with lower estimated payments of \$732 million and lower miscellaneous payments of \$120 million, mostly offset by lower refunds of \$799 million.

Excluding the PTET, corporation tax revenues are downgraded by \$1.6 billion, due primarily to a lower forecast for corporate taxable profits (contributes -\$2.2 billion), consistent with actual tax data from 2024, which reflect a year-over-year decline of 2 percent, and lower non-PTET receipts. Additionally, revenues are projected to be lower from prior-year settlements (contributes -\$200 million). Partially offsetting the weakness in taxable profits and prior-year settlements, cash receipts from limited liability company (LLC) fees and taxes have been robust, suggesting strong business formation and leading to an upgrade for collections in 2025-26 and 2026-27 (contributes \$800 million).

SALES AND USE TAX

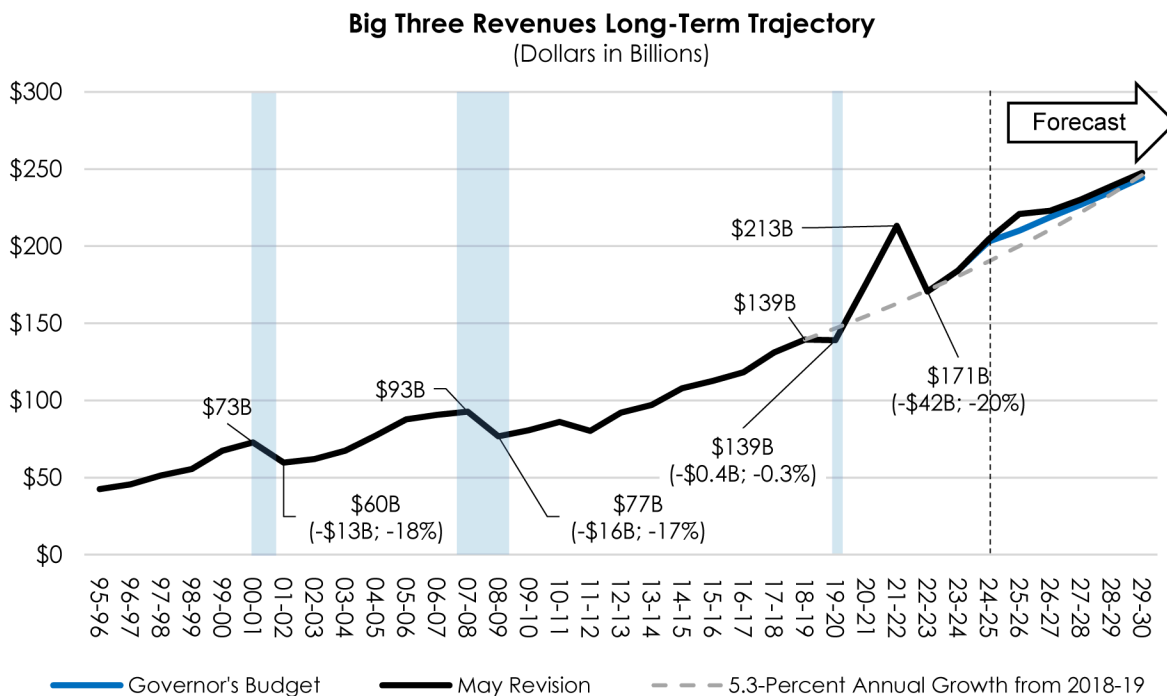
Before accounting for tax policy proposals, the sales tax forecast is \$6 million lower in 2024-25, \$188 million higher in 2025-26, and \$63 million higher in 2026-27.

Sales tax cash receipts were \$82 million, or 0.3 percent, above the Governor's Budget forecast through April 2026 as investment activity in capital equipment has been modestly above forecast and was upgraded throughout the budget window. There are offsetting inflationary impacts affecting the sales tax: higher fuel prices due to the Iran war raise inflation while the lower effective tariff rate results in lower inflation than previously assumed. Overall, consumer spending is largely unchanged from the Governor's Budget forecast, as fuel prices are projected to moderate and therefore not

crowd out taxable consumption. However, higher diesel fuel prices increase diesel sales tax transfers from the General Fund to the Public Transportation Account in 2026-27, contributing to slower sales tax growth and the narrowing revenue upgrade in net sales tax revenues in 2026-27.

LONG-TERM FORECAST

As shown in the Big Three Revenues Long-Term Trajectory figure, revenues are projected to remain above their long-term trend of 5.3-percent annual growth from pre-pandemic levels throughout the multi-year. Revenue upgrades peak in 2025-26 and narrow beginning in 2026-27 as stock market growth is projected to moderate and capital gains realizations are assumed to decline to a more normal share of the economy. However, General Fund revenues related to the Big Three revenue sources are cumulatively higher by \$9.9 billion from fiscal years 2027-28 through 2029-30. Despite the upgrade in revenues, expectations for long-term economic growth are largely unchanged. California personal income growth is unchanged from the Governor's Budget projection in 2026, lower by 0.3 percentage point in 2027, and within 0.1 percentage point of the Governor's Budget forecast on average between 2028 and 2030.



Projected revenue figures exclude the impact of the business credit limitation and suspension of net operating loss deductions and proposed May Revision tax policies.
 Shaded bars indicate previous U.S. recessions.

The Long-Term Revenue Forecast table below summarizes the projections for each of the Big Three from 2024-25 through 2029-30. Big Three revenue growth surged 12.4 percent in 2024-25, driven by strong personal income tax and corporation tax revenues, as a result of strong stock market gains and the temporary business credit limitation and net operating loss deduction suspension. The robust projected Big Three revenue growth of 8.7 percent in 2025-26 is driven by personal income tax revenues, which benefit from the surge in capital gains realizations in 2025. In 2026-27, growth is just 0.7 percent due to a modest decline in personal income tax revenues as capital gains in 2026 are projected to decline year-over-year from unsustainably high levels. Modest but below-average growth continues throughout the multi-year as personal income tax revenues are negatively impacted by slightly declining capital gains realizations and corporation tax revenues are negatively impacted by higher credit use following the expiration of the temporary credit limitation and net operating loss suspension at the end of 2026. Sales tax revenue growth is relatively stable beginning in 2025-26 but continues to grow at a much slower rate than the overall economy due to its narrow base consisting mainly of tangible goods.

Long-Term Revenue Forecast—Three Largest Sources

(General Fund Revenue—Dollars in Billions)

	2024-25	2025-26 ^{e/}	2026-27 ^{e/}	2027-28 ^{e/}	2028-29 ^{e/}	2029-30 ^{e/}
Personal Income Tax	\$131.3	\$146.8	\$145.6	\$150.3	\$155.9	\$161.5
(Year-over-Year Change)	14.0%	11.8%	-0.8%	3.2%	3.7%	3.6%
Corporation Tax	\$41.8	\$43.3	\$45.0	\$44.4	\$45.3	\$47.0
(Year-over-Year Change)	17.8%	3.7%	4.0%	-1.4%	2.0%	3.8%
Sales and Use Tax	\$33.6	\$34.6	\$35.6	\$37.0	\$38.1	\$39.2
(Year-over-Year Change)	0.8%	3.0%	3.0%	3.9%	3.0%	2.9%
Total	\$206.7	\$224.7	\$226.3	\$231.7	\$239.3	\$247.7
(Year-over-Year Change)	12.4%	8.7%	0.7%	2.4%	3.3%	3.5%

^{e/}Estimated

Source: California Department of Finance, 2026-27 May Revision Forecast.

RISKS AND UNCERTAINTY

Economic recession risks remain elevated due to unpredictable federal policy, geopolitical risks due to the Iran war that will continue to negatively impact consumers across the country if higher global oil and gas prices persist, and a softer job market. While the economy has remained resilient thus far, some of that strength is driven by higher stock prices and investment in artificial intelligence, which is more susceptible to a reversal due to a change in sentiment, rather than underlying strength of the consumer, which would be more durable. The May Revision assumes ongoing

REVENUE ESTIMATES

moderate economic growth as near-term inflationary impacts from the Iran war are projected to ease. However, if higher fuel prices and inflation persist, then recessionary risks increase as higher fuel prices would crowd out consumption.

California's revenue is impacted significantly by the stock market due to the state's progressive personal income tax structure and reliance on high-income earners. Stocks have risen substantially over the past three years, with the S&P 500 increasing 78 percent from the beginning of 2023 to the end of 2025, with the gains driven in large part by large technology companies benefiting from the artificial intelligence boom. Given the stock market's very large gains as well as the concentration of those gains in companies benefitting from the outsized investment in artificial intelligence, the stock market could be vulnerable to a significant downturn. If a significant market downturn were sustained, it would negatively impact state revenue through multiple channels, including reduced capital gains income, business income, nonresident income, fiduciary income, and stock-based compensation. If a market downturn of more than 20 percent—comparable to the decline in 2022—were to occur in 2026 and be sustained through the end of the year, revenue could be \$15 billion to \$20 billion below forecast within the budget window, even if there were no economic recession. If coupled with an economic recession, revenue would be even lower.

Even in the absence of a stock market correction, revenue forecasts are subject to greater uncertainty, both to the upside and the downside, when stock market prices drive a larger share of revenue. One upside risk is the potential revenue impact of large Initial Public Offerings (IPOs) that may occur with regard to SpaceX, Anthropic, and OpenAI, each of which has a large workforce in California. The May Revision does not make any explicit adjustments for the potential impact of these IPOs given the uncertainty as to their timing, actual IPO valuation, and whether the employees at these companies have stock-based compensation that will become taxable at the IPO. The IPOs themselves are also uncertain, as they can be pulled back if market conditions worsen or if the companies feel that they are not getting the valuation they deserve. In recent years, more private companies have allowed employees to sell their stock prior to an IPO, which means there is less of a backlog of stock-based compensation that would become taxable at the IPO. Once companies make public their financial documents at the Securities and Exchange Commission prior to the IPO, then estimates of potential one-time revenue gains from a backlog of stock-based compensation, if it exists, can be made and incorporated into the forecast.

TAX POLICY PROPOSALS

The May Revision includes the following new tax policy proposals:

- **Permanent Credit Limitation**—Effective beginning in tax year 2027 when the current temporary credit limitation and net operating loss suspension is lifted, the May Revision proposes a more modest permanent business tax credit limitation that protects small businesses while ensuring that larger corporations pay a minimum level of tax. The new proposed limit is the greater of \$5 million per company per year or 50 percent of a company's tax liability. The \$5 million threshold provides protection for smaller businesses while the 50-percent tax liability threshold allows larger firms to use a significant portion of their tax credits over the \$5 million threshold. Unlike the current temporary credit limitation and net operating loss suspension that is in effect from 2024 through 2026, net operating losses can be fully utilized and are not impacted. This proposal helps with restoring the state's structural balance and is projected to increase revenues by \$850 million in 2026-27, \$1.7 billion in 2027-28, and similar ongoing revenue gains in subsequent years.
- **Digital Prewritten Software Tax**—Effective January 1, 2027, the May Revision proposes to apply the sales tax to sales of digital prewritten software, regardless of how the product is delivered to the purchaser, whether on a disc or physical medium, electronic transmission and local hosting (download), or remote access through the internet, including Software-as-a-Service (SaaS), where the customer accesses the software hosted by the vendor but never takes possession of it. Of the 45 states with a statewide sales tax, 35 states tax digital prewritten software delivered electronically and 24 states tax SaaS. This proposal helps with restoring the state's structural balance and is projected to increase General Fund revenues by \$450 million in 2026-27 and \$900 million in 2027-28 and annually thereafter, and it additionally increases local sales tax revenues by \$560 million in 2026-27 and \$1.1 billion in 2027-28 and annually thereafter.
- **Reduce the \$800 Annual Tax for New Businesses by Half**—To encourage the formation of new small businesses, which are a major engine of economic growth in California, the May Revision proposes to reduce the \$800 annual tax paid by limited liability companies, limited partnerships, and limited liability partnerships in their first year to \$400 during the 2027, 2028, and 2029 tax years. This proposal will benefit approximately 250,000 new businesses each year and is expected to provide \$100 million in tax relief per year.

- **Conform to Federal Tax Treatment of Trump Accounts**—Consistent with the state's general practice of conforming to federal law for tax-advantaged savings and retirement accounts, effective beginning in tax year 2026, the May Revision proposes to conform to federal tax treatment of Trump Accounts. This proposal is projected to decrease General Fund revenues by \$1 million in 2026-27, increasing to \$3 million by 2029-30.

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