

VIRTUAL EVENT

Understanding the Governor's 2026-27
Budget Proposal

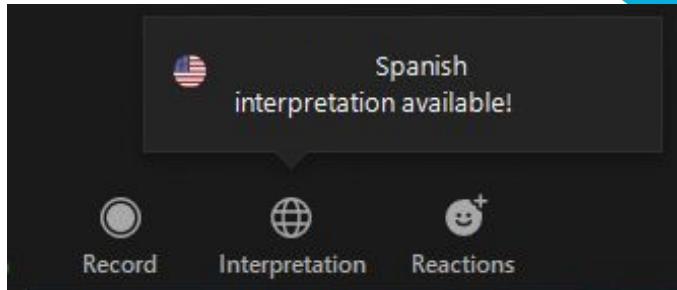


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Interpretation

Instructions

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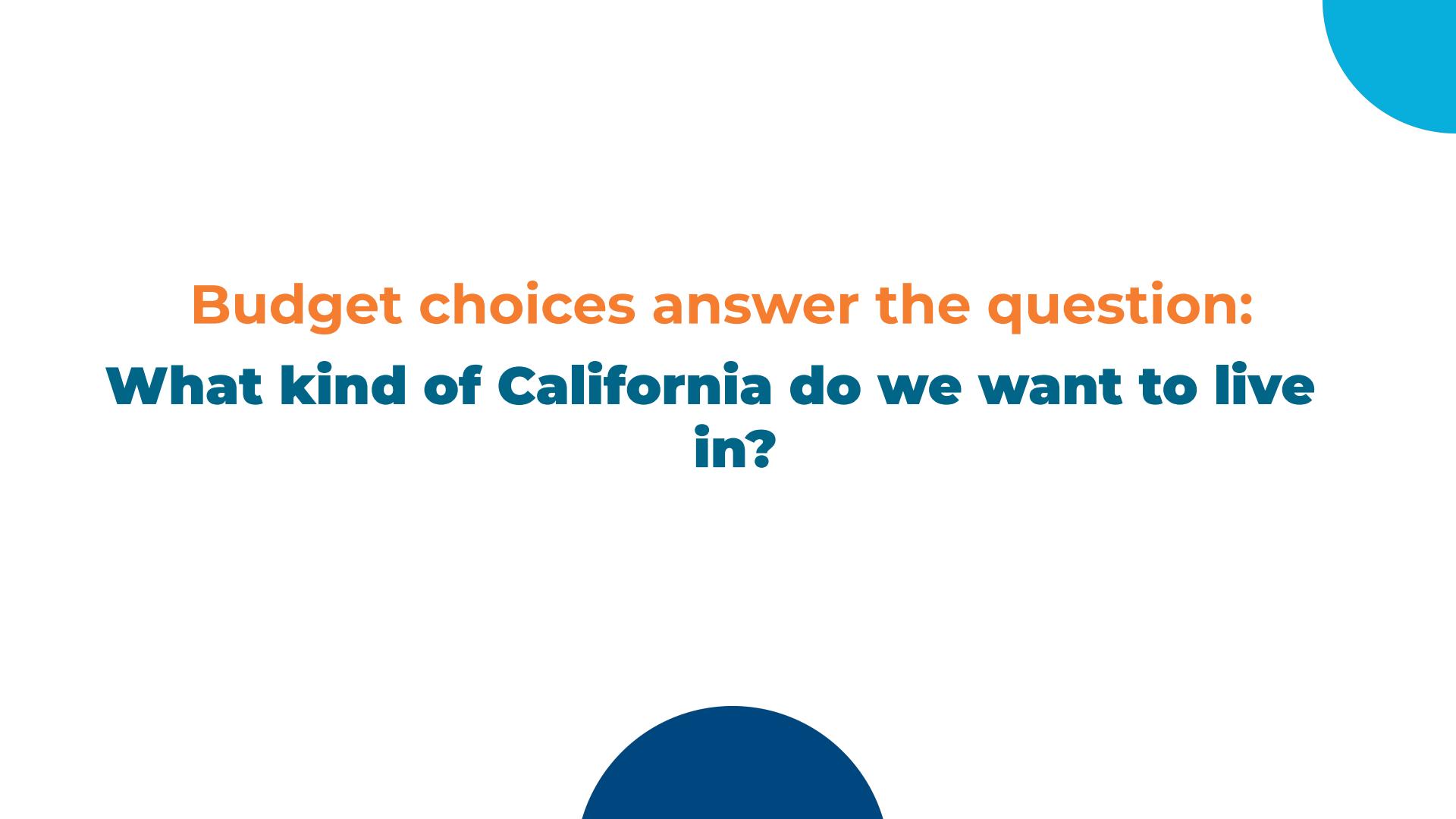
California Budget Expert

Understanding the Governor's 2026-27 State Budget Proposal

California State Budget: Key Context and the Governor's Approach

**Budgets are
statements
of our values
and priorities.**





**Budget choices answer the question:
What kind of California do we want to live
in?**

**The governor's
proposed 2026-27
budget fails to meet
the moment.**



Federal Cuts & Affordability Challenges

- H.R. 1 makes deep cuts to health care, food assistance, and other vital services to pay for tax cuts for the wealthy and profitable corporations
- H.R. 1's funding cuts will harm millions of Californians who rely on Medi-Cal and CalFresh food benefits
- At the same time, millions of Californians face affordability challenges, like rising rents and food costs



Governor's Proposed Budget Falls Short

While the governor's budget generally maintains existing state services, it also:

- Doubles down on cuts to health care for immigrants
- Breaks a promise to expand affordable child care
- Fails to provide new funding for homelessness
- Fails to protect Californians from the full impact of H.R. 1's deep cuts
- Avoids proposing bold revenue solutions and protects costly tax loopholes for corporations

**The governor's plan
assumes much
higher revenues and
a much smaller
deficit than the LAO
projects.**



Governor Projects Big Revenue Growth

- The governor assumes state revenue will continue to beat expectations
- The governor projects revenue will be \$42 billion higher than was assumed in June 2025
- This revenue surge is largely driven by the tech industry and enthusiasm over AI, and also reflects deep and widening inequality as corporate profits skyrocket

Governor Projects Small Budget Deficit

- Higher revenues allow the governor to project a budget deficit of just \$2.9 billion — much smaller than the \$18 billion deficit projected by the Legislative Analyst's Office (LAO)
- It's not unusual for the governor and LAO to have different forecasts — estimating revenue is challenging, they make different assumptions, and no one has a crystal ball
- Both will release updated revenue forecasts in the spring to inform budget debates in May and June

**California can — and
should — do more to
protect families and
address affordability
challenges, including
by raising revenue.**





New Revenue Is Essential to Protecting Californians from Harmful Federal Cuts

- The governor fails to call for new revenue — a key budget tool
- Instead, he protects billions of dollars in state tax loopholes that disproportionately benefit large, profitable corporations
- This is a missed opportunity:
 - Closing costly corporate tax loopholes would free up billions of dollars to help protect vital services and invest in the well-being of all Californians

**State leaders have
the opportunity and
the responsibility to
chart a bolder path
forward.**

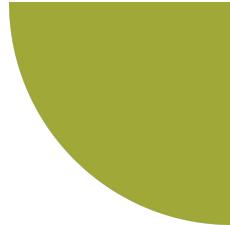




State Policymakers Must Act Boldly

- California's budget response shouldn't be dictated by federal cruelty or the governor's reluctance to act boldly
- State leaders should develop an alternative vision for California:
 - Protect Californians from the loss of health care and food assistance due to federal cuts (H.R. 1)
 - Invest in an affordable and equitable future
 - Advance the bold revenue solutions that can make all of this possible

Economic Security



Proposed Budget Fails to Address Federal Cuts to Food Assistance

H.R. 1 Cuts Could Cost California Nearly \$4 Billion Annually

The 2026-27 Budget Proposal:

- Only makes the required investment into CalFresh to support increased administrative expenses
- Fails to address hunger cliffs that hundreds of thousands of older adults, caretakers, veterans, former foster youth, and people experiencing homelessness may face due to time limits
- Maintains previous years' commitment to expand the California Food Assistance Program (CFAP), but does not plan for 74,000 newly excluded immigrants

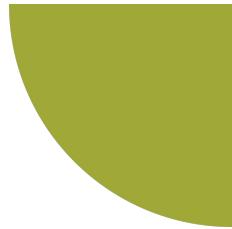
California Continues to Lead in High Poverty



No Meaningful Investments to Strengthen Cash Assistance Programs and Other Anti-Poverty Supports

- Budget proposal maintains funding, but does not provide increased support for:
 - Refundable income tax credits
 - California Work Opportunity and Responsibility to Kids (CalWORKs) grants
 - Supplemental Security Income (SSI) and State Supplementary Payment (SSP) program grants
- Sunsetting housing assistance programs, increased health care costs, and federal threats jeopardize Californians' ability to make ends meet

Governor Maintains Child Care Spaces and Temporary Provider Pay Boost



ECE System Remains Severely Under-Resourced

Proposed budget pauses subsidized child care slot expansion indefinitely:

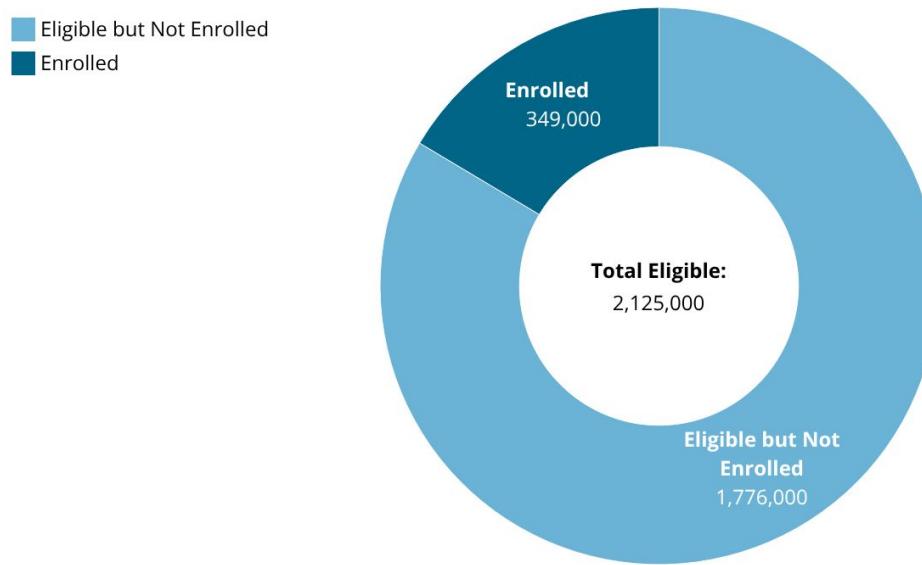
- **Promise Made:** 206,800 new spaces by 2025-26
- **Promise Paused:** Expansion paused with roughly 125,000 spaces funded and promise to add 44,000 spaces in 2026-27
- **Promise Broken:** No new spaces in proposed 2026-27 budget

Child Care Providers United contract maintained

- Updated cost-of-care plus rates
- 2.41% cost-of-living adjustment (parity with state preschool)
- Uncertainty around rate reform

Only 16% of California Children Eligible for Subsidized Child Care Are Actually Enrolled

Estimated Number of California Children Eligible for Subsidized Child Care = 2,125,103



Note: Enrollment is for children from birth through age 12 in October 2024, except for California Community College CalWORKs Stage Two, which reflects a California Community Colleges Chancellor's Office estimate for the fall 2024 school term. Excludes children enrolled in the California State Preschool Program or the Handicapped Child Care Program.

Source: California Department of Social Services, California Community Colleges Chancellor's Office, and Budget Center analysis of US Census Bureau, 2024 American Community Survey data.



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Health

Federal and State Health Care Context

Budget Proposal Includes No Action to Mitigate Harm From Federal and State Cuts to Health Care

- **Federal cuts:**
 - Elimination of Medi-Cal and CHIP coverage for many immigrants.
 - Burdensome work requirements.
 - More frequent eligibility checks.
- **State cuts:**
 - Medi-Cal enrollment freeze for undocumented adults.
 - Monthly Medi-Cal premiums for certain immigrants.
 - Elimination of full-scope dental coverage for certain immigrants.



Budget Proposal Imposes Additional Harm on Immigrants

The governor's administration proposes:

- Applying federal work requirements to undocumented Californians
- Providing certain groups of immigrants with only emergency Medi-Cal and pregnancy-related services

Governor Acknowledges, But Does Not Address, Loss of Revenue for Medi-Cal

California Could Lose Billions of Dollars in Tax Revenue For Medi-Cal Due to Federal Changes Impacting the MCO Tax

The governor's budget proposal:

- Recognizes the significant challenges posed by the changes to the MCO tax due to H.R.1
- Includes no plan for preserving revenues from the tax in the near term, threatening a significant source of revenue for Medi-Cal

Behavioral Health Programs Largely Sustained; No Major Investments

The governor proposes:

- \$95.5 million in 2026-27 in MCO tax revenue for community-based behavioral health services
- Moving community-based mobile crisis services from a required statewide benefit to an optional Medi-Cal benefit
- Maintaining funding for prior investments to support Prop. 1 implementation
- No major investments that would sufficiently meet behavioral health needs



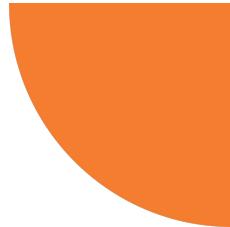
Budget Proposal Includes Cuts to IHSS, Grants for Reproductive Health

The 2026-2027 proposal includes:

- \$60 million one-time General Fund in 2025-26 for reproductive health care providers
- Cuts totaling \$323.1 million to IHSS that will limit access to services

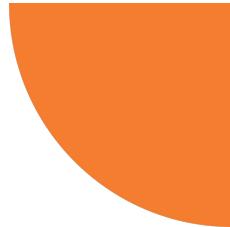
Housing Affordability & Homelessness

No New General Fund Investments for Affordable Housing

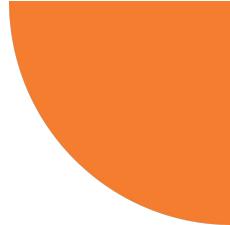


- Budget proposal prioritizes implementation of the California Housing and Homelessness Agency and the Housing Development and Finance Committee
- Affordable Housing and Sustainable Communities program set to receive up to \$560 million annually from Cap-and-Invest proceeds
- Key affordable housing programs remain defunded or face funding cliffs:
 - State Low Income Housing Tax Credit
 - Multifamily Housing Program
 - Portfolio Reinvestment Program
 - Farmworker Housing Grant Program

Proposed Budget Leaves Homelessness Funding Reduced



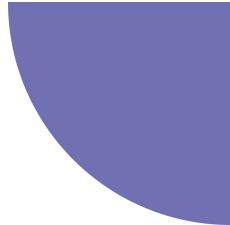
- State investments work: 9% reduction in unsheltered homelessness last year, with youth homelessness down 24% since 2019
- Homeless Housing, Assistance and Prevention (HHAP) Grant Program maintained at \$500 million one-time in 2026-27, a 50% cut from prior years
- Combined funding for key programs is reduced by \$221 million from the 2025 Budget Act: Bringing Families Home, Home Safe, and the Housing and Disability Advocacy Program



Federal Threats and Limited Funds Could Worsen Homelessness

- Proposed budget includes no state backfill for potential federal cuts to homelessness and housing assistance, including Continuums of Care and Emergency Housing Vouchers
- H.R. 1's SNAP changes will increase hunger for adults experiencing homelessness without dependents starting this year
- The administration points to Proposition 1 funding, but counties report it will not significantly expand capacity

K-12 & Preschool



Higher Revenue Estimates Make More Funding Available for Schools

Proposal Postpones Part of School Funding to Manage Revenue Uncertainty

- Higher revenue estimates increase education funding by nearly \$22 billion over the three-year budget window
- The budget also adjusts school reserve deposits and withdrawals, ending with about \$4.1 billion in reserves by 2026–27
- The governor proposes funding \$5.6 billion less than the 2025–26 requirement, creating an obligation pushed to 2027

Budget Sustains Universal Preschool Through TK and State Preschool

Proposal Maintains Access and Stability Despite Enrollment Challenges

- Proposal maintains full implementation of Transitional Kindergarten (TK), including universal access to all four-year-old children and reduced child-to-staff ratios
- California State Preschool Program (CSPP) funding levels are sustained, including the temporary expansion to serve eligible 2-year-olds through 2027
- Additional investments align provider pay for CSPP providers and strengthen early intervention.

Governor's Budget Strengthens K-12 Programs

Ongoing Program Expansions Are Paired with a Large Discretionary Grant

- Proposal increases ongoing funding through a 2.41% COLA, higher special education base rates, expanded afterschool programs, and community schools
- A \$2.8 billion one-time block grant provides districts with additional flexible funds without creating long-term funding commitments
- Other key one-time investments include \$250 million for educator residency programs and \$100 million for college and career pathways, including dual enrollment



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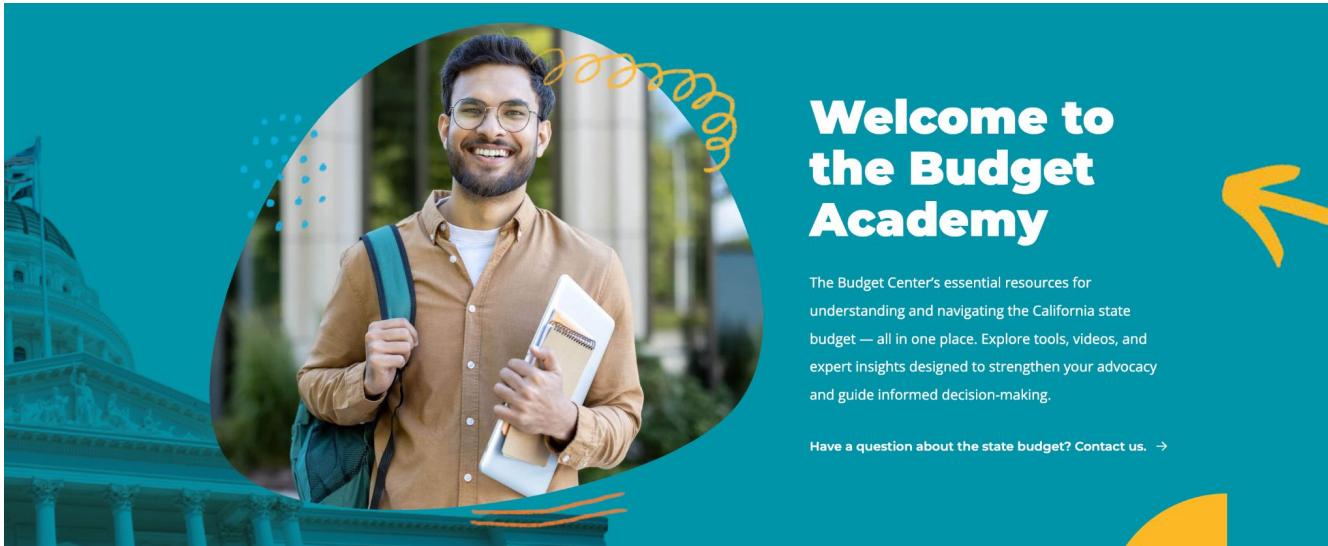
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