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California Teachers Association,
David B. Goldberg, Leslie Littman,
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IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF ALAMEDA

UNLIMITED JURISDICTION

CALIFORNIA TEACHERS ASSOCIATION, DAVID B. GOLDBERG, LESLIE LITTMAN, and ERIKA JONES,

Petitioners and Plaintiffs,

vs.

JOE STEPHENSHAW, in his official capacity as Director of Finance of the State of California; MALIA M. COHEN, in her official capacity as Controller of the State of California; and DOES ONE through FOUR,

Respondents and Defendants.

No.:

Action Filed:

VERIFIED PETITION FOR WRIT OF MANDATE AND COMPLAINT FOR DECLARATORY RELIEF

Petitioners and Plaintiffs California Teachers Association, David B. Goldberg, Leslie Littman, and Erika Jones (together, "Petitioners") seek a writ of mandate and declaratory relief requiring Respondents and Defendants Director of Finance Joe Stephenshaw and Controller Malia Cohen ("Respondents") to fully comply with Article XVI, section 8's requirement that California's schools and community colleges receive a minimum amount of guaranteed funding each fiscal year. In fiscal years 2024-25 and 2025-26, Respondents withheld $1.9 billion and $3.9 billion, respectively, below the minimum school funding guarantee. Although the funds for 2024-25 were eventually paid back, the amount due for 2025-26 has not been paid. Respondents violated the Constitution in both years, because Article XVI, section 8 requires that they satisfy the minimum guarantee *during* the fiscal year, not after it.

INTRODUCTION

1. For over 100 years, the California Constitution has required that "[f]rom all state revenues there shall first be set apart the moneys to be applied by the State for support of the public school system . . . ." Cal. Const. art. XVI, § 8(a). In 1988, the voters further amended their Constitution by approving Proposition 98 to stabilize school funding and to insulate the schools from the uncertainties of budget politics.

2. Because of Proposition 98, the Constitution defines the minimum amount of funding that our public schools are entitled to receive each year, commonly referred to as the "minimum guarantee." Both the Constitution and its implementing statutes make clear that Proposition 98's minimum guarantee sets the level of funding that must actually be appropriated and allocated to public schools and community colleges in that fiscal year. The only way for the Legislature to avoid these requirements is to suspend Proposition 98 for that fiscal year under the provisions of Article XVI, section 8(h).

3. For the last two fiscal years (2024-25 and 2025-26), the State has not fulfilled its obligation. *There is no dispute over the amount of the minimum guarantee for those two fiscal years*. Nevertheless, in 2024-25 the State deliberately underfunded the schools by $1.9 billion, and in 2025-26 it underfunded the schools by $3.9 billion. Both times, the State *admitted* that it was underfunding the Proposition 98 minimum guarantee by those amounts during the fiscal year, and the State deemed the

shortfalls to be amounts it would "settle-up" at some unspecified point in the future (but, critically, not in that fiscal year). The outstanding amount has been moved into an "IOU" bucket created out of whole cloth, allowing the State to appropriate that revenue to programs other than schools. *A full year after* failing to meet the minimum funding guarantee in 2024-25, the State repaid the 2024-25 $1.9 billion shortfall. The $3.9 billion withheld in 2025-26 remains unpaid. That translates to real-world harm: the $1.9 billion withheld in 2024-25 works out to $350 less spent per student that year, and the $3.9 billion withheld in 2025-26 works out to $638 less available per student in every California public school classroom.[1] The harm to those students in those years can never be remedied. If allowed to continue, there is no telling how much the State will withhold from the schools in future budgets using the same unlawful settle-up maneuver.

4. The act of budgeting for the State of California will always be a complex exercise. But Article XVI, section 8 unequivocally says that "[f]rom all state revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education." The voters approved Proposition 98 to remove the public schools from the inherent uncertainties of budget politics and enshrine in the Constitution an obligation that a minimum guaranteed amount of funding "shall *first* be set apart" for the schools. The decision to intentionally underfund the minimum guarantee corrodes Proposition 98's core promise, in direct violation of the state Constitution. An order from this Court is necessary to honor the constitutional obligation owed to schools and the children they serve.

PARTIES

5. Petitioner CALIFORNIA TEACHERS ASSOCIATION ("CTA") is a voluntary membership organization of California public school teachers and other public school employees. CTA was the proponent of Proposition 98, a school funding initiative passed by the voters of California in November 1988, to amend Article XVI, section 8 of the state Constitution. Petitioner and its members have public-interest standing to seek a writ of mandate against state officials because this action seeks

[1] Approximately 89% of Proposition 98 funding goes to TK-12 public schools, while 9% goes to community colleges. These estimates include only the amounts going to TK-12 students.

to enforce a public right and compel the performance of a public duty. *Save the Plastic Bag Coalition v. City of Manhattan Beach*, 52 Cal.4th 155, 166-170 (2011).

6. Petitioner DAVID B. GOLDBERG is the President of CTA and is a teacher in the California public schools. GOLDBERG has public-interest standing to seek a writ of mandate against state officials because this action seeks to enforce a public right and compel the performance of a public duty.

7. Petitioner LESLIE LITTMAN is the Vice President of CTA and is a teacher in the California public schools. LITTMAN has public-interest standing to seek a writ of mandate against state officials because this action seeks to enforce a public right and compel the performance of a public duty.

8. Petitioner ERIKA JONES is Secretary-Treasurer of CTA and is a teacher in the California public schools. JONES has public-interest standing to seek a writ of mandate against state officials because this action seeks to enforce a public right and compel the performance of a public duty.

9. Respondent JOE STEPHENSHAW ("STEPHENSHAW") is the Director of the Department of Finance for the State of California. The Director of Finance has general powers of supervision over all matters concerning the financial and business policies of the State. Gov't Code § 13070. As the chief fiscal advisor to the Governor, the Director of Finance directs the preparation of the Governor's Budget and the May Revision each year. Gov't Code § 13308. The Director of Finance is responsible for calculating the minimum amount of funding required each year by Proposition 98 and also certifies the Proposition 98 minimum guarantee. Educ. Code § 41206.01. STEPHENSHAW is therefore a proper named respondent and is sued in this action in his official capacity only. *Serrano v. Priest*, 18 Cal.3d 728, 752 (1976) (citing the "long-established rule that in actions for declaratory and injunctive relief challenging the constitutionality of state statutes, state officers with statewide administrative functions under the challenged statute are the proper parties defendant.").

10. Respondent MALIA COHEN is the Controller of the State of California and is sued in her official capacity only. Respondent COHEN is responsible for the administration of the

State's finances, including school funding, and is responsible for allocating money to meet deficiencies in Proposition 98 funding. Respondent COHEN is not required to independently calculate the amounts due schools under Proposition 98 or state statute. Respondent COHEN is a proper named respondent and is sued in this action for remedial purposes only. *Serrano v. Priest,* 18 Cal.3d at 752.

11. Respondents DOES ONE through FOUR are responsible for the finances of the public school system in the State of California and for the implementation of the minimum school funding guarantee of Article XVI, section 8 of the California Constitution.

JURISDICTION AND VENUE

12. This Court has jurisdiction over this matter pursuant to Code of Civil Procedure sections 1085, 1060, and 1062. Petitioners are entitled to a writ of mandate because they do not have "a plain, speedy, and adequate remedy, in the ordinary course of law." Code of Civ. Proc. § 1086. If this Court does not act, the State's public school system will continue to be denied $3.9 billion in funding that should have been provided during the 2025-26 fiscal year, causing irreparable harm to the public schools of the State of California, as well as public school students.

13. Petitioners are entitled to a declaration of their rights and Respondents' duties arising out of the actual controversy between the parties concerning the proper construction and implementation of Article XVI, section 8 of the California Constitution, and Education Code sections 41206 through 41206.03, on which Respondents relied in underfunding the minimum guarantee for the two most recent budget years.

14. Venue is proper in Alameda County under Code of Civil Procedure sections 393 and 401 because events and actions giving rise to the claims alleged herein have occurred throughout the State, including in Alameda County. The Attorney General has an office in Alameda County.

FACTUAL ALLEGATIONS

15. In this action, Petitioners are not contesting the amount of the minimum guarantee for the 2024-25 and 2025-26 fiscal years or its method of calculation. Petitioners' legal challenge focuses only on the intentional practice of not fully funding the minimum guarantee during each fiscal year by holding back $1.9 billion in 2024-25 and $3.9 billion in 2025-26.

I. Proposition 98's Minimum School Funding Guarantee

16. On November 8, 1988, California voters adopted Proposition 98, amending the state Constitution to require the State to provide a guaranteed minimum level of funding for public schools and community college districts each year. The purpose of Proposition 98 is to provide public schools and community college districts with a guaranteed, stable, and predictable stream of funding each year and ensure that education spending grows with the economy and General Fund revenues. True and correct copies of the ballot materials for Proposition 98 are attached as **Exhibit A** to this Verified Petition and incorporated by reference.

17. Accordingly, Article XVI, Section 8 of the California Constitution requires the State to "first . . . set apart the *moneys to be applied by the State* for support of the public school system and public institutions of higher education," which must be no less than the minimum calculated under section 8(b). Cal. Const. art. XVI, § 8(a) & (b) (emphasis added). During the annual budget cycle, the State must provide "appropriations from the General Fund that are made for allocation to school districts . . . or community college districts" that are sufficient to meet the minimum calculated under Proposition 98. Educ. Code § 41202(a). "An appropriation that is withheld, impounded, or made without provisions for its allocation to school districts or community college districts shall not be considered to be 'moneys to be applied by the State'" for purposes of satisfying Article XVI, Section 8(a). *Id.* In other words, money that is not appropriated to the schools does not count toward the State's satisfaction of its Proposition 98 school funding obligations.

18. Proposition 98's minimum guarantee for each fiscal year is calculated based on one of three alternative "tests" set forth in subdivision (b) of section 8 of Article XVI using the best data available at that time. Educ. Code § 41206.01(a). Test 1 requires that schools receive at least a set percentage of General Fund revenues — currently around 40 percent — in addition to their share of local property tax revenue. Cal. Const. art. XVI, § 8(b)(1). Test 2 requires that schools receive the same amount of total funding from General Fund appropriations and local property tax revenues as they received in the prior year, adjusted for changes in the cost of living and enrollment. *Id.* § 8(b)(2). Test 3 is similar to Test 2 but adjusts the total for changes in per capita General Fund revenues and can temporarily lower the amount of funding provided to schools in a recessionary year, while also

guaranteeing that the funding is restored to the Test 2 level when the economy recovers. *Id.* § 8(b)(3), (d) & (e). After determining whether Test 2 or 3 is applicable in that year, that calculated amount is compared with the amount due under Test 1, and the test that returns the highest funding number sets the minimum guarantee for that fiscal year. There is no dispute that Test 1 applies to the fiscal years at issue in this action.

19. The State is always free to provide funding above the minimum guarantee. But to provide less funding than the minimum guarantee in a given year, the State must "suspend" the guarantee in accordance with specific constitutional requirements. Cal. Const. art. XVI, § 8(h). Suspension is allowed only for one year at a time and can only be accomplished via separate legislation approved by a two-thirds vote in both legislative houses. *Id.*; *see also* Educ. Code § 41206. The State did not suspend the minimum guarantee in either the 2024-25 or 2025-26 fiscal year.

20. In 1989, shortly after Proposition 98's passage, the Legislature enacted a series of statutes to implement the school funding guarantee and define the terms used in Proposition 98. Ch. 82, 1989 Cal. Stat. (A.B. 98), Ch. 83, 1989 Cal. Stat. (A.B. 198). Recognizing that the inputs used to calculate the minimum guarantee, including General Fund revenue, may change over the budget cycle, the Legislature enacted Education Code section 41206 to require that "all determinations of percentages, amounts, revenues, appropriations, allocations, proceeds of taxes, increases in cost of living, or enrollments shall be based upon the best available estimate until actual data becomes available, and then upon actual data when it is available."[2]

II. <u>The California Budget Sets the Funding for the Minimum Guarantee Each Year</u>

21. Pursuant to Article IV, section 12 of the Constitution, the Legislature must pass the annual Budget Act by June 15 each year for the upcoming fiscal year beginning on July 1. Cal. Const. art. IV, § 12(c)(3). The process begins each January with the annual Governor's Budget, which by statute must specify the percentages and amounts of General Fund revenues "that must be set aside and applied for the support of school districts… and community college districts, as required by subdivision (b) of Section 8 of Article XVI [Proposition 98]." Gov't Code § 13337(b).

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[2] Section 41206 was recodified as subdivision (a) of section 41206.01 by AB 1825 (Stats. 2018, ch. 39.)

22. Every May, the budget is further refined to account for updated revenue projections and updated expenditures. Gov't Code § 13308(d). Again, this version, referred to as the May Revision, must include "[a]ll proposed adjustments to the Governor's Budget that are necessary to reflect updated estimates of state funding required pursuant to Section 8 of Article XVI of the California Constitution, [Proposition 98], or to reflect caseload enrollment or population changes." *Id.* § 13308(e)(3).

23. The budget process culminates in the adoption of the Budget Act, which reflects updated revenue and expenditure figures for the upcoming fiscal year. Critically, the Budget Act must include the appropriation of at least the minimum guarantee amount to fully fund the schools for the upcoming fiscal year.

24. In January of the following year, the Governor's Budget must also include a recalculation of the current year (from the budget passed in the prior June) and prior year's minimum guarantee. The Budget Act adopted in that year must then include appropriations sufficient to meet the recalculated minimum guarantee for the current year and to make up for any inadvertent prior year deficiencies. In this way, the budget process ensures that money that flows to the schools in any given fiscal year is sufficient to meet the minimum guarantee calculated for that specific fiscal year.

25. After the fiscal year ends, a statutory process begins to "certify" the prior year's minimum guarantee. Under certification statutes, if the Department of Finance's final calculation shows the minimum guarantee from a closed "prior" fiscal year exceeds the amount that was appropriated, the State must promptly appropriate the outstanding difference so that State funding for schools satisfies the Constitution's minimum guarantee. Educ. Code § 41206.03(c). However, if the minimum guarantee decreases after a fiscal year ends, the state cannot decrease funding it has already allocated to the schools. Instead, "the excess moneys shall be credited to the fiscal year being certified" and the minimum guarantee is certified at the higher amount. Educ. Code § 41206.03(b). Thus, the certification statutes do not affect estimates or funding before or during the fiscal year; they apply only after the fiscal year closes — *i.e.*, in a "prior fiscal year." Educ. Code §§ 41206.01(b)-(d), 41206.03. Most importantly, they do not permit intentional underfunding of the guarantee during a fiscal year. Indeed, when the certification statutes were amended in 2018, the Legislature recognized

that: "[t]he Legislature can exceed the minimum funding level required by Proposition 98 but it cannot provide less funding than the California Constitution requires, unless the Legislature suspends the minimum funding level pursuant to a separately enacted statute, adopted with a two-thirds vote of the Legislature." *Id.* § 41206(a).

III. <u>The State Underfunds the Minimum Guarantee by $1.9 Billion in 2024-25</u>

26. The 2025 Budget marked the third consecutive year in a row that the State faced a budget deficit. To close that deficit, the State decided not to fully fund the Proposition 98 minimum guarantee for the then-current fiscal year, 2024-25, and instead promised to meet its minimum funding requirement at some point in the future.[3] A true and correct copy of the Legislative Analyst's Office 2025-26 Budget: Overview of the Spending Plan is attached as **Exhibit B** to this Verified Petition and incorporated by reference.

27. The 2024 Budget Act initially calculated and funded the 2024-25 minimum guarantee at $115.3 billion.[4] In January 2025, the Governor's Budget determined that the "current year calculation" of the 2024-25 minimum guarantee was higher — $119.2 billion.[5] Nonetheless, the January budget proposed to provide only $117.6 billion to schools — $1.6 billion below the calculated minimum guarantee.[6]

28. Notwithstanding the fact that the best available data had been used to calculate the guarantee at $119.2 billion (Educ. Code § 41206.01(a)), the Governor's Budget proposed that the State not fund the schools at that level. The only justification offered was that "[d]ue to the inherent risk in revenue projections, the Budget proposes to appropriate the Guarantee at $117.6 billion, instead

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[3] *See* Legis. Analyst's Off., The 2025-26 Budget: Overview of the Spending Plan (Oct. 16, 2025), https://lao.ca.gov/Publications/Report/5079.

[4] Legis. Analyst's Off., The 2024-25 California Spending Plan: Proposition 98 and K-12 Education (Sept. 16, 2024), https://lao.ca.gov/Publications/Report/4929.

[5] Cal. Dep't of Fin., Governors Budget Summary 2025-26: TK-12 Education 14-15 (Jan. 2025), https://ebudget.ca.gov/2025-26/pdf/BudgetSummary/TK-12Education.pdf.

[6] *Id.* at 15.

of the currently calculated level of $119.2 billion in 2024-25."[7] In plain terms, the Governor's Budget proposed to intentionally underfund the minimum guarantee by $1.6 billion.

29. The 2025 May Revision similarly proposed underfunding the schools. Based on then-available data, the State revised the minimum guarantee downward to $118.9 billion but again proposed to appropriate only $117.6 billion — a difference of $1.3 billion.[8]

30. In the enacted 2025 Budget Act, the State recognized, based on updated revenues, that the 2024-25 minimum guarantee had *increased* by an additional $1 billion to $119.9 billion. Yet, in the end, the 2025 Budget Act allocated only $118 billion to the schools. In other words, the 2025 Budget Act deliberately underfunded the 2024-25 minimum guarantee by $1.9 billion. The Budget Act offered no explanation for choosing $1.9 billion as the underfunded amount. A true and correct copy of the Department of Finance's 2025-26 Enacted Budget TK-12 Education is attached as **Exhibit C** to this Verified Petition and incorporated by reference.

31. At the end of the 2024-25 fiscal year, $1.9 billion had been deliberately withheld from the schools and instead labeled "settle-up." But neither the state Constitution nor the Proposition 98 implementation statutes allowed the State to determine whether, and if so how much, Proposition 98 funding may be withheld during a fiscal year. Critically, under the certification statutes, a "settle-up" payment is permitted only *after* the prior year's minimum guarantee is certified and shown to exceed the funding already provided. Educ. Code §§ 41206.01, 41206.03(b). More than a year after the 2024-25 fiscal year ended, and long after the funding was constitutionally required to be paid, the schools finally received the $1.9 billion owed. A true and correct copy of the Department of Finance's 2026-27 Enacted Budget TK-12 Education is attached as **Exhibit D** to this Verified Petition and incorporated by reference.[9] In June 2026, CTA objected to the certification of the 2024-25 minimum guarantee because the fiscal year had ended without the State appropriating $1.9 billion when it was

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[7] *Id.*

[8] Cal. Dep't of Fin., May Revision 2025-26: TK-12 Education 12 (May 2025), https://ebudget.ca.gov/2025-26/pdf/Revised/BudgetSummary/TK-12Education.pdf.

[9] Cal. Dep't of Fin., Governor's Budget Summary 2026-27, at 16 (Jan. 2026), https://ebudget.ca.gov/2026-27/pdf/BudgetSummary/FullBudgetSummary.pdf.

actually due: during the 2024-25 fiscal year. A true and correct copy of CTA's 2024-25 Proposition 98 comment letter and the Department of Finance's response is attached as **Exhibit E** to this Verified Petition and incorporated by reference.

IV. The State Underfunds the Minimum Guarantee by $3.9 Billion in 2025-26

32. The following year, the State again faced fiscal pressure to close a budget deficit.[10] And again, the response to that pressure was primarily to underfund the Proposition 98 minimum guarantee for that current fiscal year, 2025-26 — this time, by $3.9 billion. A true and correct copy of the Legislative Analyst's Office 2026-27 Budget: Overview of the Spending Plan is attached as **Exhibit F** to this Verified Petition and incorporated by reference.

33. The 2025 Budget Act estimated the 2025-26 Proposition 98 minimum guarantee at $114.6 billion. Ex. B. Using revised revenue estimates, the 2026 Governor's Budget calculated the 2025-26 minimum guarantee at $121.4 billion.[11]

34. Nonetheless, the Governor's Budget again proposed to appropriate only $115.9 billion to the schools — approximately $5.6 billion below the minimum guarantee — citing "persistent uncertainty in revenue projections"[12] and asserting that underfunding of the minimum guarantee would "mitigate the risk of potentially appropriating more resources to the Guarantee than are ultimately available in the final calculation for 2025-26."[13] The Budget offered no explanation for choosing $5.6 billion as the underfunded amount.

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[10] Legis. Analyst's Off., The 2026-27 Budget: Overview of the Spending Plan (Aug. 26, 2026), https://lao.ca.gov/Publications/Report/5197.

[11] Cal. Dep't of Fin., Governor's Budget Summary 2026-27, at 16 (Jan. 2026), https://ebudget.ca.gov/2026-27/pdf/BudgetSummary/FullBudgetSummary.pdf.

[12] *Id.*

[13] *Id.*

35. The Legislative Analyst's Office explained that deliberately underfunding the schools allowed the State to balance the budget:

> "[T]he settle-up proposal is similar to other forms of borrowing and spending delays — it provides temporary savings in the current year but increases costs in the future. The Governor's budget allocates these savings for the non-Proposition 98 side of the budget. Without this proposal, the budget would require $5.6 billion in other solutions this year."[14]

36. The 2026 May Revision recalculated the 2025-26 minimum guarantee at $125.1 billion but proposed to underfund it by $3.9 billion.[15] The 2026 Budget Act raised the minimum guarantee to $125.3 billion, but adopted the same approach and allocated $121.3 billion to the schools, ensuring that the schools would be underfunded by $3.9 billion for fiscal year 2025-26. Ex. D.[16]

37. At the end of the 2025-26 fiscal year, $3.9 billion had been deliberately withheld from schools. The 2026 Budget promised that this IOU would eventually be paid off after the close of the fiscal year by including a provision that one-third of any future revenue be appropriated "for any unfunded General Fund obligation" due under Proposition 98 "for the 2025-26 fiscal year, up to the full amount" owed to schools. Stats. 2026, Ch. 65 § 152 (AB 126). But this promise does not remedy the constitutional violation. The $3.9 billion in funding was due in 2025-26, not at some later date. The promise may also prove empty. It is far from certain that enough revenue will come in to pay off what is owed schools, and the outyear projections show structural deficits in the tens of billions. It is therefore doubtful when, or whether, the $3.9 billion owed to schools will ever be paid.

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38. For two years in a row, the State has deliberately underfunded the Proposition 98 minimum guarantee during the fiscal year. The 2025 enacted budget withheld $1.9 billion during the 2024-25 fiscal year. The 2026 enacted budget withheld $3.9 billion during the 2025-26 fiscal year.

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[14] Legis. Analyst's Off., The 2026-27 Budget: Proposition 98 Guarantee and K-12 Spending Plan 8 (Feb. 2026), https://lao.ca.gov/reports/2026/5110/2026-27_Prop98_020426.pdf.

[15] Cal. Dep't of Fin., May Revision 2026-27: TK-12 Education 10-11 (May 2026), https://ebudget.ca.gov/2026-27/pdf/Revised/BudgetSummary/TK-12Education.pdf.

[16] Cal. Dep't of Fin., *California State Budget 2026-27: TK-12 Education* 70 (2026), https://ebudget.ca.gov/2026-27/pdf/Enacted/BudgetSummary/TK-12Education.pdf. The numbers shown here do not add up perfectly due to rounding.

39. The State's practice of deliberately under-appropriating Proposition 98's minimum guarantee has more than doubled in the last two years. This has real-world consequences for California's public school students. For two years of schooling, those students have been denied $988 worth of educational investment and resources to which they were constitutionally entitled. Those students will never have an opportunity to repeat those two years of school with the resources they should have received, so belated payments can never make them whole. School districts and community colleges rely on the minimum guarantee to make hiring and layoff decisions and to plan their budgets for the coming school year. Deliberately under-appropriating the guarantee contravenes the essential purpose of Proposition 98: to insulate schools — and the students they serve — from budget politics by first setting apart the minimum amount of funding required to be given to the schools in each fiscal year. If the State can simply refuse to appropriate the minimum guarantee by any amount of its choosing, Proposition 98's minimum guarantee will be rendered meaningless.

FIRST CAUSE OF ACTION

Writ of Mandate – Code of Civil Procedure Section 1085

(Failure to Provide Full Funding to Schools and Community Colleges in Violation of Article XVI, Section 8 of the California Constitution [Proposition 98] During Fiscal Year 2025-26)

40. Petitioners re-allege and incorporate by reference as if fully set forth herein the allegations of paragraphs 1 through 39 above.

41. Section 8 of Article XVI of the California Constitution prohibits the State from appropriating and allocating less funding to schools and community colleges than the minimum guaranteed under the formulas contained in section 8, unless the Legislature suspends the minimum guarantee by adopting a separately enacted statute with a two-thirds vote of each house.

42. At the end of fiscal year 2025-26, Respondent STEPHENSHAW calculated the minimum guaranteed funding due to schools and community colleges as $125.3 billion. However, schools will receive less than the minimum amount of funding they are constitutionally entitled to receive — only $121.3 billion rather than $125.3 billion — even though the minimum guarantee has

not been suspended.[17] "An appropriation that is withheld, impounded, or made without provisions for its allocation to school districts or community college districts shall not be considered to be 'moneys to be applied by the State.'" Educ. Code § 41202(a). The public schools were deliberately and unlawfully underfunded in the 2025-26 fiscal year in violation of Article XVI, section 8 of the California Constitution.

43. Petitioners have no plain, speedy, or adequate remedy at law to compel Respondents to comply with Article XVI, section 8 and to prohibit them from withholding school funding for fiscal year 2025-26 required by the calculated minimum guarantee.

44. Petitioners are beneficially interested in a peremptory writ of mandate compelling Respondents, and those public officers and employees acting by and through their authority, to comply with Article XVI, section 8 of the California Constitution and directing Respondents to take such steps as are necessary to ensure that the Proposition 98 minimum guarantee is fully funded for fiscal year 2025-26.

SECOND CAUSE OF ACTION

Writ of Mandate – Code of Civil Procedure Section 1085

(Violation of the Settle-Up Process for School Funding Established in Education Code Sections 41206-41206.03)

45. Petitioners re-allege and incorporate by reference as if fully set forth herein the allegations of paragraphs 1 through 44 above.

46. Education Code sections 41206 through 41206.03 establish a process for recalculating and certifying the minimum guaranteed funding due to schools and community colleges under section 8 of Article XVI of the California Constitution. This process takes place after the close of the fiscal year.

47. Respondent STEPHENSHAW unlawfully circumvented section 41206.03's requirement that settle-up be calculated and recognized only after a fiscal year ends by prospectively underfunding the 2024-25 fiscal year minimum guarantee by $1.9 billion and designating the

[17] The numbers shown here do not add up perfectly due to rounding, but there is no dispute that at least $3.9 billion was intentionally withheld from the 2025-26 minimum funding guarantee.

$1.9 billion as a "settle-up" debt owed to schools to be paid in the future as part of the statutory "settle-up" process.

48. The 2025-26 Budget unlawfully circumvents section 41206.01(a)'s requirement that "appropriations" and/or "allocations" of the minimum guarantee during fiscal year 2024-25 "be based upon the best available estimate until actual data becomes available" by underfunding the 2024-25 fiscal year minimum guarantee by $1.9 billion and designating the $1.9 billion as a "settle-up" debt owed to schools to be paid in the future as part of the statutory "settle-up" process.

49. Respondent STEPHENSHAW unlawfully circumvented section 41206.03's requirement that settle-up be calculated and recognized only after a fiscal year ends by underfunding the 2025-26 fiscal year minimum guarantee by $3.9 billion and designating the $3.9 billion as a "settle-up" debt owed to schools to be paid in the future as part of the statutory "settle-up" process.

50. The 2026-27 Budget unlawfully circumvents section 41206.01(a)'s requirement that "appropriations" and/or "allocations" of the minimum guarantee during fiscal year 2025-26 "be based upon the best available estimate until actual data becomes available" by prospectively underfunding the 2025-26 fiscal year minimum guarantee by $3.9 billion and designating the $3.9 billion as a "settle-up" debt owed to schools to be paid in the future as part of the statutory "settle-up" process.

51. Petitioners have no plain, speedy, or adequate remedy at law to compel Respondents to comply with Education Code sections 41206 through 41206.03 and to take such steps as are necessary to ensure that the Proposition 98 minimum guarantee is fully funded in the first instance in future fiscal years.

52. Petitioners are beneficially interested in a peremptory writ of mandate compelling Respondents, and those public officers and employees acting by and through their authority, to comply with Article XVI, section 8 of the California Constitution and directing Respondents to take such steps to comply with Education Code sections 41206 through 41206.03 and to ensure that the minimum guarantee is fully funded in the first instance in future fiscal years.

<u>THIRD CAUSE OF ACTION</u>

<u>Declaratory Relief – Code of Civil Procedure Section 1060</u>

(Failure to Provide Full Funding to Schools and Community Colleges in Violation of Article XVI, Section 8 of the California Constitution in Fiscal Year 2025-26 [Proposition 98])

53. Petitioners re-allege and incorporate by reference as if fully set forth herein the allegations of paragraphs 1 through 52 above.

54. Petitioners contend that section 8 of Article XVI of the California Constitution prohibits the State from appropriating and allocating less funding to schools and community colleges than the minimum guarantee unless the Legislature suspends the minimum guarantee in accordance with section 8(h) for the 2025-26 fiscal year.

55. The 2026-27 State Budget appropriated and allocated less than the minimum guarantee to schools for the 2025-26 fiscal year without enacting a statutory suspension of the minimum guarantee.

56. An actual controversy has arisen and now exists between the Petitioners and Respondents as to whether section 8 of Article XVI of the California Constitution requires the State to appropriate and allocate the minimum guarantee to schools and community colleges in any year in which the minimum guarantee is not suspended.

57. A judicial determination is necessary and proper at this time under the circumstances to determine whether the actions of Respondents are unlawful for the 2025-26 fiscal year.

<u>FOURTH CAUSE OF ACTION</u>

<u>Declaratory Relief – Code of Civil Procedure Section 1060</u>

(Failure to Provide Full Funding to Schools and Community Colleges in Violation of Article XVI, Section 8 of the California Constitution in Fiscal Year 2024-25 [Proposition 98])

58. Petitioners re-allege and incorporate by reference as if fully set forth herein the allegations of paragraphs 1 through 57 above.

59. Petitioners contend that section 8 of Article XVI of the California Constitution prohibits the State from appropriating and allocating less funding to schools and community colleges

than the minimum guarantee unless the Legislature suspends the minimum guarantee in accordance with section 8(h) for the 2024-25 fiscal year.

60. The 2025-26 State Budget appropriated and allocated less than the minimum guarantee to schools for the 2024-25 fiscal year without enacting a statutory suspension of the minimum guarantee.

61. An actual controversy has arisen and now exists between the Petitioners and Respondents as to whether section 8 of Article XVI of the California Constitution requires the State to appropriate and allocate the minimum guarantee to schools and community colleges in any year in which the minimum guarantee is not suspended.

62. A judicial determination is necessary and proper at this time under the circumstances to determine whether the actions of Respondents are unlawful for the 2024-25 fiscal year.

FIFTH CAUSE OF ACTION

Declaratory Relief – Code of Civil Procedure Section 1060

(Violation of the Settle-Up Process for School Funding Established in Education Code Sections 41206 through 41206.03)

63. Petitioners re-allege and incorporate by reference as if fully set forth herein the allegations of paragraphs 1 through 62 above.

64. Petitioners contend that Education Code sections 41206 through 41206.03, which establish a process for recalculating and certifying the minimum guaranteed funding due to schools and community colleges under section 8 of Article XVI of the California Constitution after the fiscal year ends, do not permit the State to deliberately underfund the schools during the fiscal year and call the shortfall a "settle-up" to be paid after the end of a fiscal year.

65. Respondent STEPHENSHAW unlawfully circumvented section 41206.03's requirement that settle-up be recognized only after a fiscal year ends by underfunding the 2024-25 fiscal year minimum guaranteed amount by $1.9 billion and then designating the $1.9 billion as a debt owed to schools that will be paid as part of the statutory "settle-up" process.

66. The 2025-26 State Budget unlawfully circumvented section 41206.01(a)'s requirement that "appropriations" and/or "allocations" of the minimum guarantee during fiscal year

2024-25 “be based upon the best available estimate until actual data becomes available” by underfunding the 2024-25 fiscal year minimum guarantee by $1.9 billion and designating the $1.9 billion as a “settle-up” debt owed to schools to be paid in the future as part of the statutory “settle-up” process.

67. Respondent STEPHENSHAW unlawfully circumvented section 41206.03’s requirement that settle-up be calculated and recognized only after a fiscal year ends by underfunding the 2025-26 fiscal year minimum guaranteed amount by $3.9 billion and designating the $3.9 billion as a “settle-up” debt owed to schools to be paid in the future as part of the statutory “settle-up” process.

68. The 2026-27 State Budget unlawfully circumvented section 41206.01(a)’s requirement that “appropriations” and/or “allocations” of the minimum guarantee during fiscal year 2025-26 “be based upon the best available estimate until actual data becomes available” by underfunding the 2025-26 fiscal year minimum guarantee by $3.9 billion and designating the $3.9 billion as a “settle-up” debt owed to schools to be paid in the future as part of the statutory “settle-up” process.

69. Accordingly, an actual controversy has arisen and now exists between the Petitioners and Respondents as to the proper construction of the settle-up process for school funding established in Education Code sections 41206 through 41206.03.

70. A judicial determination is necessary and proper at this time under the circumstances to determine whether the actions of Respondents are unlawful and to determine the additional amount of funding due to schools for the 2025-26 fiscal year.

WHEREFORE, Petitioners and Plaintiffs pray for relief as follows:

1. That this Court issue a writ of mandate that:

- Requires Respondents to comply with Article XVI, section 8 of the California Constitution to provide full funding to schools and community colleges for fiscal year 2025-26 at no less than the calculated minimum guarantee.
- Prohibits Respondents from withholding funding necessary to meet the minimum funding guarantee of Article XVI, section 8 of the California Constitution for fiscal year 2025-26 on the ground that Education Code

sections 41206 through 41206.03 allow them to withhold such funding as a statutory “settle-up” payment prior to the close of the fiscal year.

- Prohibits Respondents from withholding funding necessary to meet the minimum funding guarantee of Article XVI, section 8 of the California Constitution for future fiscal years on the ground that Education Code sections 41206 through 41206.03 allow them to withhold such funding as a statutory “settle-up” payment prior to the close of the fiscal year.

2. That this Court issue its declaratory judgment that:

- Respondents failed to comply with Article XVI, section 8 of the California Constitution and fully fund schools for fiscal year 2024-25 at no less than the calculated minimum guarantee.
- Respondents failed to comply with Article XVI, section 8 of the California Constitution and fully fund schools for fiscal year 2025-26 at no less than the calculated minimum guarantee.
- Education Code sections 41206 through 41206.03 do not allow Respondents to provide less funding to schools and community colleges during a fiscal year than the minimum guaranteed to schools pursuant to Article XVI, section 8 of the California Constitution.

4. That this Court award Petitioners and Plaintiffs their reasonable attorneys’ fees and costs; and

5. That this Court provide such other and further legal and/or equitable relief as it deems appropriate.

Dated: September 15, 2026

Respectfully submitted,

OLSON REMCHO LLP

By: ______________________
Benjamin Gevercer

Attorneys for Petitioners and Plaintiffs
California Teachers Association,
David B. Goldberg, Leslie Littman, and Erika Jones

(2,288,628)

VERIFICATION

I, David B. Goldberg, hereby declare as follows:

I am one of the Petitioners in the action. I am also the President of the California Teachers Association, a Petitioner in this action. I have read the foregoing Verified Petition for Writ of Mandate and know the contents thereof. I certify that the facts contained therein are true of my own knowledge except as to those facts which are stated on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct. Executed this day of September 14, 2026, at Los Angeles, California.

David B. Goldberg (Sep 14, 2026 16:31:26 PDT)

David B. Goldberg

EXHIBIT A

1988

School Funding

98 School Funding. Initiative Constitutional Amendment and Statute

Official Title and Summary Prepared by the Attorney General

SCHOOL FUNDING. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE. Amends State Constitution by establishing a minimum level of state funding for school and community college districts; transferring to such districts, within limits, state revenues in excess of State's appropriations limit; and exempting excess funds from appropriations limit. Adds provisions to Education Code requiring excess funds to be used solely for instructional improvement and accountability and requiring schools to report student achievement, drop-out rates, expenditures per student, progress toward reducing class size and teaching loads, classroom discipline, curriculum, quality of teaching, and other school matters. Contains other provisions. Summary of Legislative Analyst's estimate of net state and local government fiscal impact: Meeting the required minimum funding level for schools and community college districts will result in state General Fund costs of $215 million in 1988–89. No excess state revenues are expected in 1988–89 for transfer to schools and community colleges. Local administrative costs are estimated to be $2 million to $7 million a year for preparation and distribution of School Accountability Report Cards. No fiscal effect can be identified for the required prudent reserve fund.

Analysis by the Legislative Analyst

Background

The state provides funding for public schools and community colleges, adjusted each year to reflect changes in inflation and student enrollment.

Under the California Constitution, most government entities (including the state and local school districts) have a limit on the amount of tax revenues they can appropriate each year, adjusted annually to reflect changes in inflation and population. Whenever a government entity does not appropriate all of its tax revenues, these "excess revenues" must be returned to taxpayers.

Proposal

This measure makes changes in the way the state funds public schools and treats excess revenues. Specifically, the measure does the following:

- Establishes a minimum level of funding for public schools and community colleges.
- Requires the state to spend any excess revenues, up to a specified maximum, for public schools and community colleges. Other provisions of the measure would (a) increase the state's appropriations limit so that these funds may be spent and (b) raise the minimum level of funding for public schools and community colleges by the amount of excess revenues they receive.
- Requires the Legislature to establish a state reserve fund.
- Requires school districts to prepare and distribute "School Accountability Report Cards" each year.

Minimum Funding Level. Starting in 1988–89, this measure requires the state to provide a minimum level of funding for public schools and community colleges.

The measure specifies two methods for determining what the minimum funding level should be and requires the state to use the method that results in the *larger* amount.

- The first method would require the state to ensure that the percentage of State General Fund revenue that is allocated to public schools and community colleges is not less than the percentage that was allocated to them in 1986–87.
- The second method would require the state to ensure that public schools and community colleges receive from state and local tax revenues the same total amount of funds received from these sources in the prior year, adjusted for changes in inflation and increases in enrollment.

The measure permits the enactment of legislation by a two-thirds vote, to suspend the minimum fundi[ng re]quirement for one year.

Distribution of Excess Revenues. This measure requires any excess revenues to be distributed to public schools and community colleges rather than returned to taxpayers. The measure limits the amount the state may distribute each year to 4 percent of the minimum school funding level. In 1988–89, this limit would be about $500 million. Any remaining amount above this limit would be returned to taxpayers.

If excess revenues are distributed in any year, the measure requires that the state's appropriations limit be increased by this amount in the next year. Any excess revenues that public schools or community colleges receive would permanently increase their minimum funding levels.

The measure requires public schools and community colleges to use these additional funds for "instructional improvement and accountability." It also requires that these funds be in addition to—rather than a replacement for—other funding and be kept in a separate account.

The distribution of excess revenues to public schools would not be required in any year in which the Superintendent of Public Instruction and the Director of Finance determine that *both* of the following conditions have been met:

- The annual expenditure per student in Califor[nia] is equal to or greater than the average annual e[xpen]diture per student of the 10 states with the high[est] annual expenditures per student for elementary and high schools.

- The average class size in California is equal to or less than the average class size of the 10 states with the lowest class size for elementary and high schools.

Similarly, the distribution of excess revenues to com-·inity colleges would not be required in any year in ·ich the Chancellor of the California Community Col-·ges and the Director of Finance determine that the annual expenditure per student in California is equal to or greater than the annual expenditure per student of the 10 states with the highest annual expenditures per student for community colleges.

School Accountability Report Card. This measure requires the Superintendent of Public Instruction to appoint and consult with a task force to develop a model School Accountability Report Card by March 1, 1989. The model report card would contain information on a variety of school conditions, including student achievement, dropout rates, expenditures, class size, teacher assignment, textbook quality, student services, school safety, teacher evaluation and staff development, classroom discipline, and instructional quality.

This measure requires each public school district to issue an annual School Accountability Report Card for each of its schools, beginning in 1989–90. The measure does not require school districts to adopt the statewide model but, at a minimum, each report card must contain information on the conditions listed above.

State Reserve Fund. This measure requires the Legislature to establish a prudent state reserve fund each year. The measure does not specify the amount of the reserve.

Fiscal Effect

Minimum Funding Level. This measure would result in State General Fund costs of about $215 million in 1988–89. This would bring funding for public schools and community colleges to the same percentage level they had in 1986–87. There would be unknown increases in General Fund costs in the future to maintain school funding at the minimum funding level.

Excess Revenues. It is unclear at this time whether the state will have excess revenues in 1988–89. If there are such excess revenues in 1988–89 or in future years, they would be distributed to public schools and community colleges, up to the specified annual maximum—$500 million in 1988–89.

Report Cards. It would cost local schools from $2 million to $7 million each year to prepare and distribute the School Accountability Report Cards.

State Reserve Fund. The requirement to establish a state reserve fund would have no fiscal effect because the state already maintains a reserve fund and the measure does not specify an amount that must be allocated to it.

Text of Proposed Law

This initiative measure is submitted to the people in accordance with the provisions of Article II, Section 8 of the Constitution.

·is initiative measure expressly amends the Constitution by amend-· and adding sections thereto, and adds sections to the Education ·de; therefore, existing sections proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. This Act shall be known as "The Classroom Instructional Improvement and Accountability Act"

SECTION 2. Purpose and Intent. The People of the State of California find and declare that:

(a) California schools are the fastest growing in the nation. Our schools must make room for an additional 130,000 students every year.

(b) Classes in California's schools have become so seriously overcrowded that California now has the largest classes of any state in the nation.

(c) This act will enable Californians to once again have one of the best public school systems in the nation.

(d) This act will not raise taxes.

(e) It is the intent of the People of California to ensure that our schools spend money where it is most needed. Therefore, this Act will require every local school board to prepare a School Accountability Report Card to guarantee accountability for the dollars spent.

(f) This Act will require that excess state funds be used directly for classroom instructional improvement by providing for additional instructional materials and reducing class sizes.

(g) This Act will establish a prudent state reserve to enable California to set aside funds when the economy is strong and prevent cutbacks or tax increases in times of severe need or emergency.

SECTION 3. Section 5.5 is hereby added to Article XIIIB as follows:

SECTION 5.5. Prudent State Reserve. The Legislature shall establish a prudent state reserve fund in such amount as it shall deem reasonable and necessary. Contributions to, and withdrawals from, the ·shall be subject to the provisions of Section 5 of this Article.

·TION 4. Section 2 of Article XIIIB is hereby amended to read as ·ows:

SECTION 2. *Revenues in Excess of Limitation.*

(a) All revenues received by the state in excess of that amount which is appropriated by the state in compliance with this Article, and which would otherwise be required, pursuant to subdivision (b) of this Section, to be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years, shall be transferred and allocated pursuant to Section 8.5 of Article XVI up to the maximum amount permitted by that section.

(b) Except as provided in subdivision (a) of this Section, ~~Revenues~~ *revenues* received by any entity of government in excess of that amount which is appropriated by such entity in compliance with this Article during the fiscal year shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

SECTION 5. Section 8 of Article XVI is hereby amended to read as follows:

SECTION 8. *School Funding Priority*

(a) From all state revenues there shall first be set apart the monies to be applied by the state for support of the public school system and public institutions of higher education.

(b) Commencing with the 1988–89 fiscal year, the monies to be applied by the state for the support of school districts and community college districts shall be not less than the greater of:

(1) The amount which, as a percentage of the State General Fund revenues which may be appropriated pursuant to Article XIIIB, equals the percentage of such State General Fund revenues appropriated for school districts and community college districts, respectively, in fiscal year 1986–87; or

(2) The amount required to ensure that the total allocations to school districts and community college districts from the State General Fund proceeds of taxes appropriated pursuant to Article XIIIB and allocated local proceeds of taxes shall not be less than the total amount from these sources in the prior year, adjusted for increases in enrollment, and adjusted for changes in the cost of living pursuant to the provisions of Article XIIIB.

(c) The provisions of subdivision (b) of this Section may be suspended for one year by the enactment of an urgency statute pursuant to Section 8 of Article IV, provided that no urgency statute enacted under this subdivision may be made part of or included within any bill enacted pursuant to Section 12 of Article IV.

SECTION 6. Section 8.5 of Article XVI is hereby added as follows:

SECTION 8.5. Allocations to State School Fund

(a) In addition to the amount required to be applied for the support of school districts and community colleges pursuant to Section 8(b), the Controller shall during each fiscal year transfer and allocate all revenues available pursuant to subdivision (a) of Section 2 of Article

Continued on page 127

98 School Funding. Initiative Constitutional Amendment and Statute

Argument in Favor of Proposition 98

Proposition 98, the School Funding for Instructional Improvement and Accountability Initiative, is a well-thought-out plan for California's schools to once again be among the very best in the nation. Proposition 98 will not raise taxes; it just tells the politicians how to spend state funds to make our schools better.

- Today, classes are overcrowded. California packs more students into its schoolrooms than any other state. And 140,000 more young people are entering our schools each and every year.
- We can't give enough attention to essential subjects and we've had to eliminate some courses entirely.
- We have far too few counselors to help our youth plan their educational and job futures, and to work with those who show signs of delinquency and drug abuse.

In the last ten years the percentage of local property tax dollars used to support local schools has decreased from 43% to 32%. The percentage of our personal income spent on public education has declined from 4.6% to 3.3%, which means a loss of $1,000 a year per student.

Those are only a few of our schools' problems. But they're big ones. And unless we, the voters, do something about them, our state's economy and every Californian's well-being will suffer.

It wasn't always this way.

By 1910, a provision was added to the California Constitution which required that the Legislature first set aside funds for the "support of the public school system."

Beginning in the 1920s the State Constitution required a minimum amount of money be spent on each student. And over the years the specific dollar amount spent on each child was adjusted for inflation.

All that has changed.

Every year for the last ten years, our schools asked the politicians for help. Year after year they said, "We'd like to help, but we just can't agree among ourselves."

We are asking you to step in and reestablish public education as a first priority in our state.

We recognize that there'll never be enough money for everything.

But, since our elected leaders in Sacramento cannot seem to agree on how to spend existing tax dollars, the schoolteachers and the PTA have written a plan for school funding, instructional improvement, and accountability.

- Proposition 98 takes school financing out of politics by ensuring a minimum funding level for schools which the Legislature and Governor must honor except in fiscal emergencies.
- Proposition 98 requires that if there is a state budget surplus over and above the government spending limit, the money that goes for education can only be used for instructional improvements, paying teachers, or reducing class size.
- Proposition 98 makes schools accountable by requiring that each school make public a progress report on test scores, dropout rates, classroom discipline, class size, instructional materials, the quality of instruction and school leadership.

We're proud that over 1,000,000 Californians signed our initiative and put it on the ballot. Proposition 98 gives us a chance to make our schools number one again.

Please vote "YES" on Proposition 98, the School Fi[illegible]ing for Instructional Improvement and Accountab[illegible] Initiative.

ED FOGLIA
President, California Teachers Association

HELEN H. LINDSEY
President, California State PTA

Rebuttal to Argument in Favor of Proposition 98

Despite the claims of its supporters, Proposition 98 will do nothing to improve the quality of education in California. It will not improve student performance or make teachers and administrators more accountable. It will likely cause an increase in your taxes.

Proposition 98 is an attempt by the teachers' unions and the educational bureaucracy to guarantee a certain level of state funding for K–12th-grade schools and community colleges—regardless of any other vital state and local needs, and regardless of whether they are doing a good job in spending those funds and teaching our children.

This year, California will invest more than $20 billion in our K–12th-grade schools—an increase of nearly $8 billion in the past five years. Total school funding has increased 78 percent during this time period—far in excess of inflation. With this level of support, many people believe that California's schools should be doing better.

The proponents of Proposition 98 don't realize that bigger budgets don't necessarily buy better schools. Many of the most effective reforms taking place in our classrooms today—such as more homework, greater parental involvement, increased discipline and more rigorous courses—do not take additional money. They are the result of increased commitment by principals, teachers, students and parents.

If California hopes to retain its place as a leadership state, we need to provide our students with quality education—but Proposition 98 will do nothing to help us meet this goal.

VOTE NO ON PROPOSITION 98.

GEORGE DEUKMEJIAN
Governor

GEORGE CHRISTOPHER
Chairman, California Commission on Educational Quality

RICHARD P. SIMPSON
Executive Vice President, California Taxpayers' Association

School Funding. Initiative Constitutional Amendment and Statute 98

Argument Against Proposition 98

Education is already California's top budget priority. Over 50% of all the dollars that you pay into the state's General Fund are spent on schools. SINCE 1982, CALIFORNIA'S PUBLIC SCHOOLS HAVE RECEIVED A 78% INCREASE IN FUNDING, WHILE STUDENT ENROLLMENT HAS RISEN ONLY 14%. Average teacher salaries are now the fifth highest in the nation.

Since 1982, the Governor and the Legislature have provided schools with funding increases every year. Proposition 98 would place a provision in the Constitution which mandates a certain level of school funding *even if it means cutting other services, such as health care for senior citizens, funds to fight drug trafficking or programs to reduce traffic congestion.*

Proposition 98 would place all other important state services at risk. Proposition 98 would throw away the reasonable limit on state spending imposed by a vote of the people. In just a few years, Proposition 98 would surely require a major tax increase.

And for what? Proposition 98 will certainly increase the level of school bureaucracy, but does it guarantee that your children will receive better schooling? Absolutely not!

If you want to continue to increase funding and quality of education *without* raising taxes and *without* cutting other services such as health care, transportation and public safety, then vote "NO" on Proposition 98.

GEORGE DEUKMEJIAN
Governor

GEORGE CHRISTOPHER
Chairman, California Commission on Educational Quality

RICHARD P. SIMPSON
Executive Vice President, California Taxpayers' Association

Rebuttal to Argument Against Proposition 98

By including hundreds of millions of dollars spent on state universities and colleges, opponents of Proposition 98 attempt to make it seem that all is well in our public elementary and high schools.

But using "statistics" cannot hide the simple truth.

ay we spend just one real dollar more per student per day in our schools than 10 years ago.

That puts California 48th among the 50 states in percent of personal income spent on schools.

We rank dead last on average class size.

1. Vermont
2. Wyoming
3. Connecticut
4. Massachusetts
5. New York
6. Kansas
7. Rhode Island
8. New Jersey
9. New Hampshire
10. Nebraska
11. North Dakota
12. Montana
13. South Dakota
14. West Virginia
15. Iowa
16. Wisconsin
17. Delaware
18. Missouri
19. Maine
20. Oklahoma
21. Pennsylvania
22. Illinois
23. Virginia
24. Maryland
25. Florida
26. Minnesota
27. Oregon
28. South Carolina
29. Arizona
30. Texas
31. Louisiana
32. Arkansas
33. New Mexico
34. Mississippi
35. Colorado
36. Kentucky
37. Indiana
38. Georgia
39. Ohio
40. North Carolina
41. Hawaii
42. Alaska
43. Nevada
44. Alabama
45. Tennessee
46. Michigan
47. Washington
48. Idaho
49. Utah
50. *California*

Proposition 98 only guarantees schools as much money as they received in the last year adjusted to pay for new children and inflation. It does not raise taxes.

It reforms the system by requiring that extra money is only spent for instructional improvement.

And it sets up a comprehensive program which holds educators accountable for the job they do and the tax dollars they spend.

BILL HONIG
State Superintendent of Public Instruction

RAY TOLCACHER
President, Association of California School Administrators

assign a specific date and time as approved by the court for appearance by the person contesting the violation and shall then file a complaint and a copy of the notice of delinquent violation with the court pursuant to Section 31027 within 15 days. The processing agency shall notify the person contesting the violation of the [illegible] and the date and time for appearance. Thereafter, all proceedings including [illegible]ection of any penalties and fees shall be conducted by the court in the same [illegible]ner as infraction violations of the Vehicle Code.

(b) Neither the outcome of a processing agency's action pursuant to paragraph (1) of subdivision (a) of this section, nor the court's verdict upon a referral pursuant to paragraph (2) of subdivision (a) of this section, shall be admissible in any subsequent criminal proceeding.

31025. Circumstances Requiring Termination of Proceedings on Notice of Delinquent Violation. The processing agency shall terminate proceedings on the notice of delinquent violation in either of the following cases:

(a) Upon receipt of collected penalties and applicable fees for that notice of delinquent violation. The termination under this subdivision is by satisfaction of the penalty.

(b) Upon a verdict of not guilty from a court of competent jurisdiction.

31026. Deposit of Penalties.

Any penalties which are received by a processing agency or court under this chapter shall be deposited pursuant to chapter 3 of this division.

31027. Filing of Complaint; Notice of Delinquent Violation; Jurisdiction of Court

(a) When a processing agency files a complaint with the court pursuant to Section 31023 or Section 31024, a copy of the notice of delinquent violation issued for service under Section 31020 shall be filed with the court within 15 days and, if prepared in the form approved by the Judicial Council shall be treated as a written notice to appear.

(b) After filing of a complaint or a notice of delinquent violation under this section, the court shall exercise all further jurisdiction over the violation. Any fines or forfeitures collected by the court, after filing of a complaint, shall be collected, deposited, and disbursed pursuant to the provisions of chapter 3 of this division.

CHAPTER 3. DISPOSITION OF FUNDS

31040. Disposition of Funds. Notwithstanding any other provision of law, including but not limited to any provision relating to state funding of trial courts by block grant or other means, the total amount of penalties received by a processing agency or court under this division shall be allocated as follows:

(a) An amount equal to ten percent shall be retained in the county treasury or general fund, at the direction of the Board of Supervisors, for the purpose of paying administrative costs incurred by issuing agencies under this division;

(b) An amount equal to eighty percent shall be transferred each month to the California Emergency Housing and Nutrition Fund, pursuant to the provisions of Section 8699.40 of the Government Code;

(c) An amount equal to ten percent shall be transferred each month to the California Housing Fund, pursuant to the provisions of Section 8699.30 of the Government Code.

(d) All processing fees shall be deposited with the county for reimbursement to the processing agency or court.

(e) Pursuant to a finding by the board of directors of the Corporation for California that amounts retained in county treasuries and general funds under subdivision (a) of this section are insufficient to pay administrative costs incurred by issuing agencies under this division, the board may increase the allocation of funds under subdivision (a) of this section up to but not exceeding an amount equal to twenty-five percent (25%) of the total amount of penalties received by a processing agency or court under this division, and may make such other allocations of funds to the California Emergency Housing and Nutrition Fund and the California Housing Fund as may be required to achieve the purposes of this subdivision.

31041. State Funding of Courts. Except as provided in Section 31017 and 31040, nothing in this division is intended to affect, reduce, or otherwise alter the participation of any county in the Court Funding Trust Account or other programs providing state funding of trial courts pursuant to Chapter 13 (commencing with Section 77000) of Title 8 of the Government Code.

SECTION 9. To the extent that this Act is inconsistent with any other governmental statute or special act or parts thereof, this Act is controlling and shall be liberally construed to effect its purpose.

SECTION 10. If any provision of this Act, or the application of any provision of this Act to any person or circumstance, shall be held invalid, the remainder of this Act, to the extent that it can be given effect, shall not be affected thereby, and to this end the provisions of this Act are severable.

Proposition 96: Text of Proposed Law

Continued from page 71

should continue to monitor their own health and should consult a physician as approoriate."

[illegible] person subject to the test is a minor, copies of the test result shall also be [illegible]he minor's parents or guardian.

[illegible]) The court shall order all persons, other than the test subject, who receive test results pursuant to Sections 199.96 or 199.97, to maintain the confidentiality of personal identifying data relating to the test results except for disclosure which may be necessary to obtain medical or psychological care or advice.

(f) The specimens and the results of tests ordered pursuant to Sections 199.96 and 199.97 shall not be admissible evidence in any criminal or juvenile proceeding.

(g) Any person performing testing, transmitting test results, or disclosing information pursuant to the provisions of this chapter shall be immune from civil liability for any action undertaken in accordance with the provisions of this chapter.

199.99. Custodial Safety.

(a) Any medical personnel employed by, under contract to, or receiving payment from the State of California, any agency thereof, or any county, city, or city and county to provide service at any state prison, the Medical Facility, any Youth Authority institution, any county jail, city jail, hospital jail ward, juvenile hall, juvenile detention facility, or any other facility in which adults are held in custody or minors are detained, or any medical personnel employed, under contract, or receiving payment to provide services to persons in custody or detained at any of the foregoing facilities, who receives information as specified herein that an inmate or minor at such a facility has been exposed to or infected by the AIDS virus or has an AIDS-related condition or any communicable disease, shall communicate such information to the officer in charge of the facility in which such inmate or minor is in custody or detained.

(b) Information subject to disclosure under subsection (a) shall include the following: any laboratory test which indicates exposure to or infection by the AIDS virus, AIDS-related condition, or other communicable diseases; any statement by the inmate or minor to medical personnel that he or she has AIDS or an AIDS-related condition, has been exposed to the AIDS virus, or has any communicable disease: the results of any medical examination or test which indicates that the inmate or minor has tested positive for antibodies to the AIDS virus, has been exposed to the AIDS virus, has an AIDS-related condition, or is infected with AIDS or any communicable disease; provided, that information subject to disclosure shall not include information communicated to or obtained by a scientific research study pursuant to prior written approval expressly waiving disclosure under this section by the officer in charge of the facility.

(c) The officer in charge of the facility shall notify all employees, medical personnel, contract personnel, and volunteers providing services at such facility who have or may have direct contact with the inmate or minor in question, or with bodily fluids from such inmate or minor, of the substance of the information received under subsections (a) and (b) so that such persons can take appropriate action to provide for the care of such inmate or minor, the safety of other inmates or minors, and their own safety.

(d) The officer in charge and all persons to whom information is disclosed pursuant to this section shall maintain the confidentiality of personal identifying data regarding such information, except for disclosure authorized hereunder or as may be necessary to obtain medical or psychological care or advice.

(e) Any person who wilfully discloses personal identifying data regarding information obtained under this section to any person who is not a peace officer or an employee of a federal, state, or local public health agency, except as authorized hereunder, by court order, with the written consent of the patient or as otherwise authorized by law, is guilty of a misdemeanor.

SECTION 2. Effective Date; Retrospective Application.

This initiative and its statutory amendments shall take effect the day after the election and shall be construed to apply retrospectively to pending complaints and petitions, regardless of when the underlying actions took place, and to information subject to disclosure hereunder obtained prior to its effective date, to the maximum extent permitted by law.

Proposition 98: Text of Proposed Law

Continued from page 79

XIIIB, up to a maximum of four percent (4%) of the total amount required pursuant to Section 8(b) of this Article, to that portion of the State School Fund restricted for elementary and high school purposes, and to that portion of the State School Fund restricted for community college purposes, respectively, in proportion to the enrollment in school districts and community college districts respectively.

(1) With respect to funds allocated to that portion of the State School Fund restricted for elementary and high school purposes, no transfer or allocation of [illegible]suant to this section shall be required at any time that the Director of [illegible] and the Superintendent of Public Instruction mutually determine that [illegible]ent annual expenditures per student equal or exceed the average annual expenditure per student of the ten states with the highest annual expenditures per student for elementary and high schools, and that average clas size equals or is less than the average clas size of the ten states with the lowest class size for elementary and high schools.

(2) With respect to funds allocated to that portion of the State School Fund restricted for community college purposes, no transfer or allocation of funds pursuant to this section shall be required at any time that the Director of Finance and the Chancellor of Community Colleges mutually determine that current annual expenditures per student for community colleges in this state equal or exceed the average annual expenditure per student of the ten states with the highest annual expenditures per student for community colleges.

(b) Notwithstanding the provisions of Article XIIIB, funds allocated pursuant to this section shall not constitute appropriations subject to limitation, but appropriation limits established in Article XIIIB shall be annually increased for any such allocations made in the prior year.

(c) From any funds transferred to the State School Fund pursuant to paragraph (a) of this Section, the Controller shall each year allocate to each school district and community college district an equal amount per enrollment in school districts from the amount in that portion of the State School Fund restricted for elementary and high school purposes and an equal amount per enrollment in community college districts from that portion of the State School Fund restricted for community college purposes.

(d) All revenues allocated pursuant to subdivision (a) of this section, together *with an amount equal to the total amount of revenues allocated pursuant to subdivision (a) of this section in all prior years, as adjusted if required by Section 8(b)(2) of Article XVI, shall be expended solely for the purposes of instructional improvement and accountability as required by law.*

(e) Any school district maintaining an elementary or secondary school shall develop and cause to be prepared an annual audit accounting for such funds and shall adopt a School Accountability Report Card for each school.

SECTION 7. Section 33126 is hereby added to Article 2 of Chapter of 2 of Part 20 of Division 2 of Title 2 of the Education Code to read as follows:

33126. School Accountability Report Card

In order to promote a model statewide standard of instructional accountability and conditions for teaching and learning, the Superintendent of Public Instruction shall by March 1, 1989, develop and present to the Board of Education for adoption a statewide model School Accountability Report Card.

(a) The model School Accountability Report Card shall include, but is not limited to, assessment of the following school conditions:

(1) Student achievement in and progress toward meeting reading, writing, arithmetic and other academic goals.

(2) Progress toward reducing drop-out rates.

(3) Estimated expenditures per student, and types of services funded.

(4) Progress toward reducing class sizes and teaching loads.

(5) Any assignment of teachers outside their subject areas of competence.

(6) Quality and currency of textbooks and other instructional materials.

(7) The availability of qualified personnel to provide counseling and other student support services.

(8) Availability of qualified substitute teachers.

(9) Safety, cleanliness, and adequacy of school facilities.

(10) Adequacy of teacher evaluations and opportunities for professional improvement.

(11) Classroom discipline and climate for learning.

(12) Teacher and staff training, and curriculum improvement programs.

(13) Quality of school instruction and leadership.

(b) In developing the statewide model School Accountability Report, the Superintendent of Public Instruction shall consult with a Task Force on Instructional Improvement, to be appointed by the Superintendent, composed of practicing classroom teachers, school administrators, parents, school board members, classified employees, and educational research specialists, provided that the majority of the task force shall consist of practicing classroom teachers.

SECTION 8. Section 35256 is hereby added to Article 8 of Chapter 2 of Part 20 of Division 3 of Title 2 of the Education Code to read as follows:

35256. School Accountability Report Card

The governing board of each school district maintaining an elementary or secondary school shall by September 30, 1989, or the beginning of the school year develop and cause to be implemented for each school in the school district a School Accountability Report Card.

(a) The School Accountability Report Card shall include, but is not limited to, the conditions listed in Education Code Section 33126.

(b) Not less than triennially, the governing board of each school district shall compare the content of the school district's School Accountability Report Card to the model School Accountability Report Card adopted by the State Board of Education. Variances among school districts shall be permitted where necessary to account for local needs.

(c) The Governing Board of each school district shall annually issue a School Accountability Report Card for each school in the school district, publicize such reports, and notify parents or guardians of students that a copy will be provided upon request.

SECTION 9. Section 41300.1 is hereby added to Article 1 of Chapter 3 of Part 24 of Division 3 of Title 2 of the Education Code to read as follows:

41300.1 Instructional Improvement and Accountability.

The amount transferred to Section A of the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution shall to the maximum extent feasible be expended or encumbered during the fiscal year received and solely for the purpose of instructional improvement and accountability.

(a) For the purpose of this section, "instructional improvement and accountability" shall mean expenditures for instructional activities for school sites which directly benefit the instruction of students, and shall be limited to expenditures for the following:

(1) Lower pupil-teacher ratios until a ratio is attained of not more than 20 students per teacher providing direct instruction in any class, and until a goal is attained of total teacher loads of less than 100 total students per teacher in all secondary school classes in academic subjects as defined by the Superintendent of Public Instruction.

(2) Instructional supplies, instructional equipment, instructional materials and support services necessary to improve school conditions.

(3) Direct student services needed to ensure that each student makes progress necessary to be promoted to the next appropriate grade level.

(4) Staff development which improves services to students or increases the quality and effectiveness of instructional staff, designed and implemented by classroom teachers and other participating school district personnel, including the school principal, with the aid of outside personnel as necessary. Classroom teachers shall comprise the majority of any group designated to design such staff development programs for instructional personnel.

(5) Compensation of teachers.

(b) Funds transferred to each school district, pursuant to this section shall be deposited in a separate account and shall be maintained and appropriated separately from funds from all other sources. Funds appropriated pursuant to this section shall supplement other resources of each school district and shall not supplant any other funds.

SECTION 10. Section 14020.1 is hereby added to Article 1 Chapter 1 of Part 9 of Division 1 of Title 1 of the Education Code to read as follows:

14020.1. Instructional Improvement and Accountability.

The amount transferred to Section B of the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution shall to the maximum extent feasible be expended or encumbered during the year received solely for the purposes of instructional improvement and accountability.

(a) For the purposes of this section, "instructional improvement and accountability" shall mean expenditures for instructional activities for college sites which directly benefit the instruction of students and shall be limited to expenditures for the following:

(1) Programs which require individual assessment and counseling of students for the purpose of designing a curriculum for each student and establishing a period of time within which to achieve the goals of that curriculum and the support services needed to achieve these goals, provided that any such program shall first have been approved by the Board of Governors of Community Colleges.

(2) Instructional supplies, instructional equipment, and instructional materials and support services necessary to improve campus conditions.

(3) Faculty development which improves instruction and increases the quality and effectiveness of instructional staff, as mutually determined by faculty and the community college district governing board.

(4) Compensation of faculty.

(b) Funds transferred to each community college district pursuant to this section shall be deposited in a separate account and shall be maintained and appropriated separately from funds from all other sources. Funds appr[illegible] pursuant to this section shall supplement other resources of each co[illegible] college district and shall not supplant funds appropriated from any other source.

SECTION 11. Section 14022 is added to the Education Code to read as follows:

14022. (a) For the purposes of Section 8 and Section 8.5 of Article XVI of the California Constitution, 'enrollment' shall mean:

(1) In community college districts, full-time equivalent students receiving services, and

(2) In school districts, average daily attendance when students are counted as average daily attendance and average daily attendance equivalents for services not counted in average daily attendance.

(b) Determination of enrollment shall be based upon actual data from prior years and for the next succeeding year such enrollments shall be estimated enrollments adjusted for actual data as actual data becomes available.

SECTION 12. Section 41302.5 is added to the Education Code to read as follows:

41302.5. For the purposes of Section 8 and Section 8.5 of Article XVI of the California Constitution, 'school districts' shall include county boards of education, county superintendents of schools and direct elementary and secondary level instructional services provided by the State of California.

SECTION 13. No provision of this Act may be changed except to further its purposes by a bill passed by a vote of two-thirds of the membership of both houses of the Legislature and signed by the Governor.

SECTION 14. Severability

If any provision of this Act, or the application of any provision of this Act to any person or circumstance, shall be held invalid, the remainder of this Act, to the extent that it can be given effect, shall not be affected thereby, and to this end the provisions of this Act are severable.

Proposition 100: Analysis

Continued from page 86

- Creates an Office of Insurance Consumer Advocate in the State Department of Justice, and
- Establishes a Senior Bureau of Investigations in the Department of Insurance to assist senior citizens with health-care insurance.

Good Driver and Other Motor Vehicle Insurance Provisions

1. **Rate Reductions.** This measure requires insurance companies to reduce motor vehicle insurance rates for good drivers on January 2, 1989. The reductions would:

- Lower rates 20 percent below those charged on January 1, 1988;
- Apply to private passenger vehicles, trucks with a load capacity of 1,500 pounds or less, and motorcycles; and
- Apply to the liability, medical payment and collision portions of the insurance rates.

This measure generally defines a good driver as a person who during the last three years (1) held a valid driver's license, (2) had no more than one moving violation, and (3) had no accident in which he or she was

EXHIBIT B

The 2025-26 Budget:

Overview of the Spending Plan

LAO

GABRIEL PETEK | LEGISLATIVE ANALYST

OCTOBER 2025

INTRODUCTION

Each year, our office publishes the *California Spending Plan* to summarize the annual state budget. In this publication we: provide an overview of the 2025-26 budget package, give a brief description of how the budget process unfolded, and then highlight the major features of the budget approved by the Legislature and signed by the Governor. All figures in this publication reflect the administration's estimates of actions taken through early July 2025, however, we have updated the text to reflect actions taken later in the legislative session. In addition to this report, we will release a series of issue-specific, online posts that give more detail on the major actions in the budget package.

THE BUDGET PROBLEM

For the third year in a row, the state faced a budget problem, or deficit. Although the budget problem this year was smaller than in recent years ($15 billion this year compared to $55 billion in 2024-25 and $27 billion in 2023-24), addressing this year's budget problem required the state to adopt more ongoing solutions. In this section, we first present our estimates of the budget problem the Legislature addressed in the 2025-26 budget package, focusing on the three-year budget window under consideration: 2023-24 through 2025-26. Second, we briefly summarize the key actions taken to address projected out-year deficits, and describe the administration's June 2025 estimates of the state's multiyear budget condition under the enacted spending plan.

What Is a Budget Problem? A budget problem—also called a deficit—arises when resources for the upcoming budget are insufficient to cover the costs of currently authorized services. A budget problem is inherently a point-in-time estimate that reflects information available at the time of development, forecasts of future revenues and spending, and assumptions about which cost changes reflect current law and policy (referred to as "baseline changes"). When cost changes do not occur automatically under current policy, we classify them as either budget solutions or discretionary augmentations.

Budget Package Addressed a Nearly $15 Billion Budget Problem. We estimate the Legislature addressed a nearly $15 billion budget problem in the 2025-26 budget package. This budget problem is slightly higher than the one addressed by the Governor in the May Revision (around $14 billion), and results from two somewhat offsetting differences. First, compared to the May Revision, the final budget package assumed higher revenues in major taxes by $1.1 billion, reflecting cash receipts to date, which have come in slightly higher than the administration's May estimates. (This improves the budget condition.) Second, these higher revenues are more than offset by more discretionary spending, which totals $4 billion in the final package, compared to $1.6 billion in the May Revision. (The difference between these two—over $2 billion—increases the budget problem.)

Actions Taken Last Year Reduce the Budget Problem. In June 2024, the Legislature not only addressed the budget problem for 2024-25 but also proactively adopted solutions intended to reduce the anticipated shortfall in 2025-26. At the time, the June 2024 budget package included $28 billion in budget solutions for 2025-26, although savings from some of these actions have since diminished. Importantly, these budget solutions also included a planned withdrawal from the state's rainy-day fund, the Budget Stabilization Account (BSA), of $7.1 billion. The June 2025 spending plan maintains these actions, including the reserve withdrawal. We provided further detail and updated estimates of these solutions in our January report, *The 2025-26 Budget: Overview of the Governor's Budget* (see Appendix 1). These early decisions substantially reduced the size of the budget problem the Legislature faced this year.

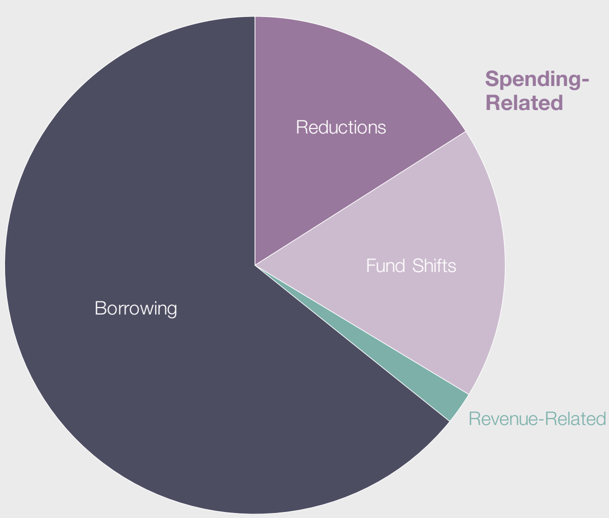
New Discretionary Spending Increases the Size of the Budget Problem. Most of the reason that the state faces a budget problem is that the underlying costs of state services continue to outpace the state's revenue collections. However, about $4 billion of the budget problem results from new, discretionary General Fund spending in the budget package, as well as some budget actions adopted in a special session, which we describe in the box on page 16. (We define discretionary spending as new spending or revenue reductions that were not previously authorized under current law or legislative policy.) Total discretionary General Fund spending (excluding Proposition 98) in the 2025-26 budget package are listed in Appendix 1.

HOW THE SPENDING PLAN ADDRESSES THE BUDGET PROBLEM

The state has several types of solutions—or options—for addressing a budget problem, but the most important include: reserve withdrawals, spending reductions, revenue increases, and borrowing (for example, loaning money from other funds to the General Fund). **Figure 1** summarizes the solutions that the budget package used to address the $15 billion budget problem.

Figure 1

How the Spending Plan Addresses the $15 Billion Budget Problem



As the figure shows, the budget primarily relies on borrowing to close the gap, representing about two-thirds of the total solutions. (We describe our use of this term in more detail below.) After borrowing, spending-related solutions, including both reductions and fund shifts, total $5 billion and represent nearly all of the remaining one-third of the total solutions. (Revenue-related solutions, totaling about $300 million, represent the small remainder.) Note that while the state is also making a $7.1 billion withdrawal from the BSA in 2025-26, this withdrawal is not reflected in Figure 1 because it was authorized in the 2024-25 budget package. The remainder of this section provides additional detail on each category of solution. Appendix 2 lists all the budget solutions.

Borrowing ($10 Billion)

The budget package primarily addresses the budget problem using borrowing—these solutions represent $10 billion or roughly two-thirds of the total solutions. We define "borrowing" as budget actions that achieve savings in the present, but result in an obligation or higher cost for the state in a future year. (Until recently, we had used the term "cost shift" [instead of borrowing] to describe these types of actions because they are not always explicitly structured as loans or similar instruments. However, we have found the term cost shift is unclear for many readers and, as a result, can obscure the fiscal implications of these actions. Accordingly, we have adopted terminology that more transparently reflects the underlying nature of these budget solutions, if not always their precise mechanics.)

Major categories of borrowing in the budget include:

- ***Medi-Cal Maneuver ($4.4 Billion).*** Under state law, the administration can transfer funds to the Medical Provider Interim Payment (MPIP) Fund to help cover an appropriation deficiency in Medi-Cal. These transfers are capped as a percent of Medi-Cal's appropriation. On March 12, the administration notified the Joint Legislative Budget Committee it had transferred $3.4 billion General Fund (around the maximum allowed) to the MPIP Fund to cover unanticipated cost increases in Medi-Cal. While this payment has been made on a cash basis, the May Revision proposes that the state not recognize it in the budget this year (instead, it would be recognized over multiple years and fully reflected by 2034). This maneuver essentially creates a loan from the state's cash resources, and a future obligation that is repaid when the state recognizes the payment that was already made. The final budget reflects a Medi-Cal maneuver of $4.4 billion.

- ***Special Fund Loans ($2.1 Billion).*** The spending plan includes loans from special funds, which compared to other actions in this section, are a more traditional form of borrowing used to help balance the budget. These loans are made on a budgetary basis from borrowable special funds with unspent balances. The spending plan includes two types of these loans: $550 million in loans allocated to specific funds ($150 million from the Unfair Competition Law Fund and $400 million from the Labor and Workforce Development Fund) and $1.5 billion in unallocated special fund loans, authorized through Control Section 13.40. Through that control section language, the Department of Finance (DOF) is authorized to collectively transfer $1.5 billion from various special funds to the General Fund during the 2025-26 year. As of this writing, DOF is still working on identifying the list of those funds to borrow from to achieve this target.
- ***Proposition 98 "Settle Up" ($1.9 Billion).*** Proposition 98 (1988) sets a minimum funding requirement for schools and community colleges based on formulas in the State Constitution. The state makes an initial estimate of this requirement when it enacts the budget, then revises this estimate over the following two years to reflect updated data. The estimate of the requirement for 2024-25 is up nearly $4.7 billion (4 percent) from the June 2024 level, but the budget appropriates just over $2.7 billion in additional funding for that year. Funding schools and community colleges at this level—$1.9 billion below the estimate of minimum requirement—provides temporary savings but requires the state to settle up using future revenues. The state will finalize its calculation of this obligation in May 2026. (In January and May, we had categorized settle up as a spending delay, but upon further deliberation, we view this action as borrowing.)
- ***Middle Class Scholarships (MCS) Arrears Budgeting ($1 Billion).*** The budget package reflects $1 billion in savings by deferring recognition of MCS program costs from 2025-26 to 2026-27 on a budgetary basis. However, on a cash basis, these costs would still be paid in 2025-26 as they are incurred. Like other budget maneuvers, this creates a misalignment between the state's cash position and its budgetary costs. Notably, this cost shift is intended to continue on an ongoing basis—meaning costs incurred in 2026-27 would be recognized in 2027-28, and so on. Undoing this maneuver in the future will require the state to pay for two years' worth of program costs in a single fiscal year.
- ***University Payment Deferrals ($274 Million).*** The budget defers University of California (UC) and California State University (CSU) payments that otherwise would have been made in May to June or July. By shifting payments to the next fiscal year, these deferrals create one-time savings in 2025-26. Similar to other forms of borrowing, undoing these deferrals in the future (and reverting payments to their typical schedule) will require the state to provide one-time back payments to the universities.

Balance of the State's Outstanding Budgetary Borrowing Has Increased. The actions described in this section increase the amount of outstanding borrowing the state has used to address its budget problems. (This borrowing is similar to the measures used during the Great Recession—collectively previously referred to as the state's "wall of debt"—and create obligations that should be repaid or reversed in the future.) While the state has various financial and accounting reports that allow policy makers and observers to track a variety of the state's outstanding liabilities, the administration does not produce an easily accessible, public list of the state's outstanding *budgetary borrowing* incurred to address recent deficits.

We have provided this list in Figure 2. As shown in Figure 2, the 2025-26 spending plan includes nearly $10 billion in new borrowing, increasing total outstanding budgetary borrowing from $12 billion to $22 billion.

Spending-Related Solutions ($5 Billion)

Reductions ($2.5 Billion). Under our definition, a spending reduction occurs when the state reduces spending relative to what was established under current law or policy. More colloquially, these are spending cuts. We estimate the budget package includes about $2.5 billion in spending-related reductions. Many spending reductions enacted as part of this year's budget will increase over time, such that spending reductions grow to $10.5 billion ongoing by 2028-29. For example, the budget package freezes enrollment in Medi-Cal for the adult population with unsatisfactory immigration status (UIS)—an action that saves less than $100 million in the budget window, but increases to over $3 billion over time. The budget also includes unallocated operational improvements at the Department of Health Care Services, Department of Social Services, and Department of Corrections and Rehabilitation, which the administration assumes will eventually yield over $1 billion in ongoing savings. The budget package also reduces payments to clinics for services rendered to individuals with UIS by changing the payment methodology for this population—resulting in about $1 billion in savings ongoing.

Figure 2

The State's New Wall of Debt

(In Billions)

Borrowing type	Amount
Existing	
Payroll deferral	$1.6
Proposition 98 maneuver (cash borrowing)	6.4
Special fund loans	4.0
Total	**$12.0**
Adopted in 2025-26 Budget Package	
Medi-Cal maneuver (cash borrowing)	$4.4
Settle up	1.9
Special fund loans (unallocated)	1.5
Middle Class Scholarships arrears budgeting	0.9
Special fund loans (allocated)	0.6
University payment deferrals	0.3
Total	**$9.6**
Total Outstanding Budgetary Borrowing	**$21.6**

Fund Shifts ($3 Billion). Fund shifts are budget solutions that use other fund sources—for example, special funds—to pay for a cost typically incurred by the General Fund. These shifts reduce expenditures from the General Fund as they simultaneously displace spending that these other funds otherwise would have supported. As a result, we consider these to be a type of spending-related solution because they typically result in lower overall state spending, inclusive of all funds. We estimate the budget package includes nearly $3 billion in fund shifts. The largest categories include:

- ***$1 Billion for California Department of Forestry and Fire Protection (CalFire) Activities.*** The budget shifts $1 billion in costs for CalFire's operational expenses from the General Fund to the Greenhouse Gas Reduction Fund (GGRF, which is funded with auction revenues from the state's cap-and-trade program) in 2025-26. The budget agreement expresses intent to continue such a shift in the coming years to provide additional General Fund relief but in differing amounts, depending upon the budget condition. Specifically, if the General Fund continues to experience deficits, the plan intends that GGRF would cover $1.25 billion of CalFire's costs in 2026-27, $500 million in 2027-28, and $500 million in 2028-29. If the General Fund is not projected to be in a deficit in 2026-27, GGRF would only cover $500 million for CalFire in that year.
- ***About $300 Million for Various Environmental Activities.*** The budget package reduces about $300 million in planned General Fund support for nine categories of environmental activities—including dam safety, offshore wind development, and wildfire resilience projects at State Parks—and then provides at least as much funding for similar activities from Proposition 4, the climate bond authorized by voters in November 2024. (In some cases, the bond-supported programs—and, therefore, projects that ultimately will end up being

funded—may differ slightly from those that might have been funded with the General Fund. However, the general categories overlap and were selected and proposed by the Governor as fund shifts.)

Reversions ($70 Million). Costs for state programs sometimes come in lower than the amount that was appropriated. This often occurs, for example, when the state overestimates uptake in a new program or as a routine matter in programs where spending is uncertain due to factors like caseload. When actual state costs are below budgeted amounts, a reversion occurs after a period of time—typically, three years. The reversion returns the unspent funds to the General Fund. This year's budget package accelerates some reversions that would have otherwise occurred in the future and proactively reverts certain funds that otherwise are continuously appropriated (which has the effect of realizing savings from the unspent funds that would not otherwise occur). While not all of these amounts represent lower state spending over the long term, they do result in savings today at a cost of forgone savings in the future. As a result, we count them as spending-related solutions. The budget package includes less than $100 million in reversions.

Revenue-Related Solutions ($300 Million)

Change in Tax Rules for Financial Institutions. The spending plan changes the rules about how taxable profits are determined for multistate financial institutions. This change is assumed to increase revenues by $330 million in 2025-26 and $250 million per year thereafter.

MULTIYEAR BUDGET PROBLEM

The budget package has taken steps to partially address the state's persistent multiyear deficits. We describe those actions at a high level in this section, and then provide an overview of the administration's estimates of the out-year condition of the budget after accounting for these ongoing solutions.

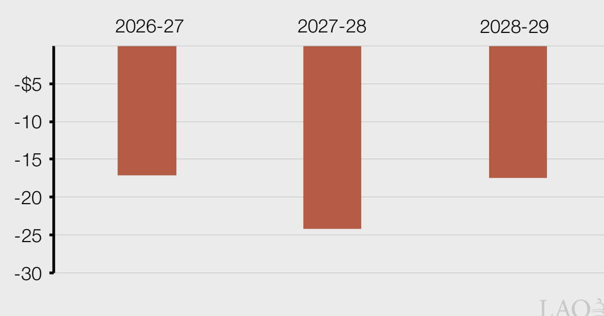
Ongoing Budget Solutions Total $11 Billion. The spending plan includes roughly $11 billion in ongoing budget solutions, including $10.5 billion in ongoing spending solutions, and $300 million in ongoing revenue increases. Nearly all of these spending solutions are reductions. The reductions are largely concentrated in the health area, with ongoing solutions in Medi-Cal—the state's Medicaid program—reflecting about two-thirds of the total. (We describe the health-related budget solutions in more detail below.) In addition to the ongoing solutions, the budget includes $20 million for DOF to contract with consultants to assist and advise DOF on analyzing and creating process improvements within state government. The overall aim of this effort is to find other areas of ongoing savings for future legislative action.

Multiyear Deficits Persist Under Administration's Estimates. Based on the administration's June 2025 projections and assumptions, budget deficits are expected to persist despite the ongoing solutions included in the 2025-26 spending plan. Specifically, the administration projects annual operating deficits ranging from roughly $15 billion to $25 billion throughout the outlook period (see Figure 3). These projected shortfalls represent future budget challenges the Legislature would need to address. However, multiyear estimates—particularly revenue projections—are subject to considerable uncertainty. Revenue estimates can vary by billions of dollars in the near term and by tens of billions of dollars in later years. As such, these estimates should be interpreted cautiously, as shortfalls of these magnitudes are far from guaranteed.

Figure 3

State Faces Future Budget Deficits Under the Administration's Estimates

(In Billions)



BUDGET CONDITION

In this section, we describe the overall condition of the General Fund budget, the condition of the school and community college budget, and state appropriations limit (SAL) estimates under the spending plan. As is the case in the previous section, all of the figures here use the administration's budget estimates as of June 2024.

GENERAL FUND

Figure 4 summarizes the condition of the General Fund under the revenue and spending assumptions in the June 2025 budget package, as estimated by the administration. Under these projections, the state ends 2025-26 with $4.5 billion in the Special Fund for Economic Uncertainties (SFEU). (The SFEU is the state's operating reserve and essentially functions like an end-of-year balance.)

Reserves

General Fund Reserves Nearly $16 Billion Under Spending Plan. Although the state did not withdraw any funds from reserves to address the 2023-24 budget problem, reserves have been used to address budget problems in 2024-25 and 2025-26. In particular, from the BSA, the state has used $5 billion in 2024-25 and $7 billion in 2025-26, bringing the balance to $11 billion remaining at the end of 2025-26. The state already used the entire balance of the Safety Net Reserve—nearly $1 billion—in 2024-25. Along with the planned balance of $4.5 billion in the SFEU, the state's reserves total nearly $16 billion at the end of 2025-26 under the spending plan. (The state reserve for schools and community colleges is also fully withdrawn by the end of 2025-26.)

Figure 4

General Fund Condition Summary

(In Millions)

	2023-24 Revised	2024-25 Revised	2025-26 Enacted
Prior-year fund balance	$51,769	$41,977	$35,145
Revenues and transfers	195,879	226,745	215,733
Expenditures	205,670	233,577	228,366
Ending fund balance	$41,977	$35,145	$22,513
Encumbrances	$18,001	$18,001	$18,001
SFEU Balance	**$23,976**	**$17,144**	**$4,512**
Reserves			
BSA	$23,194	$18,291	$11,191
SFEU	23,976	17,144	4,512
Safety net	900	—	—
Total Reserves	**$48,070**	**$35,435**	**$15,703**

Note: Reflects administration estimates of budget actions taken through July 1, 2025.

SFEU = Special Fund for Economic Uncertainties and BSA = Budget Stabilization Account.

Revenues

Figure 5 displays the administration's revenue projections as incorporated into the June 2025 budget package. As the figure shows, the administration expects revenues from the state's three largest sources—the personal income tax, corporation tax (CT), and sales and use tax—to grow about 10 percent between 2023-24 and 2024-25. This primarily reflects strong stock market growth between June 2023 and June 2025. The spending plan anticipates negative growth in these three major sources from 2024-25 to 2025-26, primarily driven by the CT. In this case, the 15 percent decline is attributable to the expiration of a policy that temporarily increased CT receipts.

Figure 5 reflects several tax policy changes, including an expansion of the state's film tax credit, a new partial tax exclusion for military retirement income, and additional state low-income housing tax credits. In addition, "transfers and loans" in Figure 5 include transfers from the state's rainy-day fund, described elsewhere, as well as loans from the state's special funds, which have been used to partially address the budget problem.

Spending

Figure 6 displays the administration's June 2025 estimates of total state and federal spending in the 2025-26 budget package. (The amounts displayed in the figure do not include some notable actions taken late in the summer legislative session, including appropriations of $3.3 billion from the Proposition 4 climate bond and $540 million from GGRF, which we discuss later in this post.)

Figure 5

General Fund Revenue Estimates

(Dollars in Millions)

	Revised		Enacted	Change From 2024-25	
	2023-24	2024-25	2025-26	Amount	Percent
Personal income tax	$115,166	$126,277	$125,962	-$316	—
Sales and use tax	33,339	33,706	34,862	1,156	3%
Corporation tax	35,456	41,696	35,613	-6,083	-15
Totals, Major Revenue Sources	**$183,962**	**$201,679**	**$196,437**	**-$5,243**	**-3%**
Insurance tax	$3,966	$4,177	$4,359	$182	4%
Other revenues	7,333	7,182	5,626	-1,556	-22
Transfers and loans	618	13,707	9,312	-4,395	-32
Totals, Revenues and Transfers	**$195,879**	**$226,745**	**$215,733**	**-$11,012**	**-5%**

Note: Reflects administration estimates of budget actions taken through July 1, 2025.

As the figure shows, the spending plan assumes total state spending of $317 billion in 2025-26. This is lower than the 2024-25 total by 5 percent. Declines in state spending this year are generally attributable to the state's budget problem and actions taken to lower spending to address the budget problem. (The "Major Features" section of this report also describes some of the major discretionary spending choices and budget solutions reflected in the spending plan.) As of June 2024, federal funds are expected to be flat between 2024-25 and 2025-26, but these projections do not include any potential effects of House Resolution 1: One Big Beautiful Bill Act (H.R. 1), which was signed by the President on July 4. The box on the next page gives a high-level description of the major changes in H.R. 1 for health and human services programs, as well as some late session state responses.

Figure 6

Total State and General Fund Expenditures

(Dollars in Millions)

	Revised		Enacted	Change From 2024-25	
	2023-24	2024-25	2025-26	Amount	Percent
General Fund	$205,670	$233,577	$228,366	-$5,211	-2%
Special funds	93,320	98,637	88,799	-9,838	-10
Budget Totals	**$298,991**	**$332,214**	**$317,164**	**-$15,050**	**-5%**
Bond funds	$4,255	$5,720	$3,886	-$1,834	-32%
Federal funds	149,484	172,349	174,506	2,157	1

Note: Reflects administration estimates of budget actions taken through July 1, 2025.

SCHOOLS AND COMMUNITY COLLEGE BUDGET

Overall School and Community College Funding Up $2 Billion. School and community college spending in California is governed by the rules of Proposition 98. The state meets the Proposition 98 funding requirement through a combination of state General Fund and local property tax revenue. Compared with the June 2024 enacted budget level, the total requirement is up $3.9 billion across 2024-25 and 2025-26 (Figure 7 on the next page). This increase primarily reflects a higher requirement in 2024-25 due to higher General Fund revenue estimates. A decrease in the 2025-26 requirement partially offsets this increase. The budget, however, funds an increase of only $2 billion over the two years. (The difference reflects the $1.9 billion settle-up obligation the state will be required to pay in the future.) Of this additional funding, the state General Fund covers $1.2 billion and local property tax revenue covers $797 million.

Fully Withdraws Proposition 98 Reserve Balance. The Proposition 98 Reserve is a statewide reserve account for school and community college funding. Constitutional formulas and legislative actions determine the size of the deposit or withdrawal each year. The June 2025

House Resolution 1—One Big Beautiful Bill Act

Major Federal Changes to Health and Human Services Programs. Federal House Resolution 1 of 2025 (H.R. 1)—the One Big Beautiful Act passed by Congress and signed by the President in July 2025—introduced multiple, significant changes to states' health and human services programs. These changes primarily impact states' Supplemental Nutrition Assistance Programs (SNAP, known as CalFresh in California) and Medicaid (known and Medi-Cal in California). California's programs will be affected in a number of ways, including by tightening eligibility, reducing federal funding for services and programs, and placing stricter limits on the use of certain financing mechanisms. The H.R. 1 changes to these programs will be phased in over multiple years, beginning in 2025 and continuing through federal fiscal year 2028.

State Spending Plan Actions in Response to H.R. 1. As part of the final 2025-26 budget package, the Legislature provided modest funding and made some statutory changes in response to the more immediate impacts anticipated as a result of H.R. 1. These legislative actions were primarily administrative in nature—focusing on ensuring that (1) the state and counties have the funding needed to implement the changes, (2) the computer systems and staffing are positioned to operationalize the changes, and (3) actions are taken now to reduce possible future federal fiscal penalties included in H.R. 1. It is important to note that, although the final budget package did not include any funding to backfill any anticipated lost benefits for individuals, it did provide some select augmentations for certain health and food programs in response to H.R. 1 provisions. For example, the spending plan includes enhanced funding for food banks and to help ensure access to abortion services.

Figure 7

Tracking Changes in Proposition 98 Funding

(In Millions)

	2024-25			2025-26		
	June 2024 (Enacted)	**June 2025 (Revised)**	**Change From June 2024 Enacted**	**June 2025 (Enacted)**	**Change From June 2024 Enacted**	**Change Across Both Years**
Proposition 98 Guarantee	**$115,283**	**$119,946**	**$4,663**	**$114,558**	**-$724**	**$3,938**
Funding Allocated	**$115,283**	**$118,029**	**$2,746**	**$114,558**	**-$724**	**$2,022**
By Source:						
General Fund	$82,612	$85,711	$3,099	$80,738	-$1,875	$1,224
Local property tax	32,670	32,317	-353	33,821	1,150	797
By Segment:						
K-12 schools	$101,121	$104,101	$2,979	$102,055	$933	$3,913
Community colleges	13,108	13,473	366	12,959	-149	217
Reserve deposit/withdrawal (+/-)	1,054	455	-599	-455	-1,509	-2,108
Funding Owed (Settle Up)	**—**	**$1,917**	**$1,917**	**—**	**—**	**$1,917**

budget package rescinds a $1.1 billion discretionary deposit into this account in 2024-25. It makes a new mandatory $455 million deposit in 2024-25 and a mandatory withdrawal of this same amount in 2025-26. These actions together draw down the entire balance.

Shifts Ongoing Funding From Community Colleges to Schools. The state typically divides Proposition 98 funding between schools and community colleges using an uncodified methodology known as "the split." The methodology involves allocating about 89 percent of the available funding to schools and about 11 percent to community colleges, with certain expenditures excluded from these percentages. The budget establishes a new exclusion, beginning in 2025-26, for the costs associated with the recent expansion of transitional kindergarten. Compared with the previous methodology, this modification shifts $233 million in ongoing Proposition 98 funding from community colleges to schools.

Uses One-Time Savings to Cover Ongoing Program Costs. The budget funds several increases for ongoing school and community college programs, including a 2.3 percent cost-of-living adjustment (COLA). These actions increase the cost of ongoing programs beyond the ongoing Proposition 98 funding level by nearly $1.7 billion. To cover the gap, the budget relies upon one-time savings generated through three main actions: (1) deferring payments from 2025-26 to 2026-27, (2) withdrawing funds from the Proposition 98 Reserve, and (3) repurposing some unused Proposition 98 funds from previous fiscal years. These savings allow the state to cover the cost of these increases in 2025-26. Entering 2026-27, however, the savings expire and the state will need to cover the $1.7 billion shortfall with new ongoing funds, ongoing reductions, or additional one-time actions.

STATE APPROPRIATIONS LIMIT

Under Proposition 4 (1979), the Constitution limits how the state can spend revenues that exceed a certain limit—a set of formulas known as the SAL. During the revenue surges in the early 2020s, the SAL was an important constraint in the budget process and had significant implications for the Legislature's budget decisions. For the last few years, however, the SAL has not been salient to the budget process. This is because declines in revenues have meant the state has more room under the limit. Figure 8 provides an overview of the SAL estimates in this year's budget. As the figure shows, the state is expected to have room across all years in the budget window, including $15 billion in 2023-24, $9 billion in 2024-25, and $35 billion in 2025-26.

Figure 8

State Appropriations Limit (SAL) Estimates

(In Billions)

	2023-24	2024-25	2025-26
SAL Revenues and Transfers	$233.4	$258.6	$252.6
Exclusions	-106.6	-119.5	-120.5
Appropriations Subject to the Limit	**$126.8**	**$139.0**	**$132.1**
Limit	$141.5	$147.6	$166.9
Room/Negative Room	**$14.7**	**$8.5**	$34.8
Excess Revenues?		No	

Note: Reflects administration estimates of budget actions taken through July 1, 2025.

EVOLUTION OF THE BUDGET

This section provides an overview of the 2025-26 budget process. Figure 9 contains a list of the budget-related legislation passed on or before July 1, 2025.

Governor's January Proposal

January Budget Roughly Balanced. Governor Newsom's administration presented its proposed state budget to the California Legislature on January 10, 2025. At the time, both our office and the administration found that the underlying condition of the budget was roughly balanced. (In other words, we did not describe the budget as having a surplus or a deficit.) A key reason this was true was that, in June 2024, the Legislature took proactive steps to address the anticipated budget problem for 2025-26. (These actions are described at a high level earlier in this report.)

Governor's Budget Included Discretionary Proposals That Used and Created Budget Capacity. The Governor's budget included discretionary proposals, which are those that are not already committed to under current law or policy, that both used and created budget capacity. In particular:

- ***Savings Proposals Provided $2.2 Billion in Short-Term Budget Capacity.*** Some January proposals provided short-term budget savings, creating more budget capacity. These proposals resulted in $2.2 billion in General Fund savings within the budget window. This total included a proposal to provide $1.6 billion less in total funding for schools and community colleges than the estimated constitutional minimum funding level for 2024-25, generating a future settle-up payment of the same amount. In addition, the January budget increased revenues by $300 million and shifted nearly $300 million in General Fund spending to the Proposition 4 (2024) climate bond.
- ***Discretionary Proposals Used $700 Million Budget Capacity.*** The budget also included new discretionary proposals that used budget capacity by increasing spending or reducing revenues. These totaled roughly $700 million, including nearly $600 million in new spending proposals and $150 million in revenue reductions associated with expansions to existing tax expenditures and the creation of new ones.

Figure 9

Budget-Related Legislation Passed on or Before July 1, 2025

Bill Number	Chapter	Subject
Budget Bills and Amendments		
SB 101	4	*2025-26 Budget Act*
ABX1 4	1	Amendments to the *2024-25 Budget Act*
SBX1 3	2	Amendments to the *2024-25 Budget Act*
SBX1 1	3	Amendments to the *2024-25 Budget Act*
AB 100	2	Amendments to the *2023-24 Budget Act* and *2024-25 Budget Act*
AB 102	5	Amendments to the *2025-26 Budget Act*
AB 104	77	Amendments to the *2025-26 Budget Act*
SB 103	6	Amendments to the *2022-23, 2023-24,* and *2024-25 Budget Acts*
Trailer Bills		
AB 116	21	Health
AB 118	7	Human services
AB 121	8	Education finance
AB 123	9	Higher education
AB 130	22	Housing
AB 134	10	Public safety
AB 136	11	Courts
AB 137	20	General Government
AB 143	12	Developmental services
SB 120	13	Early childhood education and childcare
SB 124	14	Public resources
SB 127	15	Climate change
SB 128	16	Transportation
SB 131	24	Public resources
SB 132	17	Taxation
SB 141	18	California Cannabis Tax Fund
SB 142	19	Deaf and disabled telecommunications program

Note: This figure includes budget bills and trailer bills identified in Section 39.00 in the *2025-26 Budget Act* that were passed by the Legislature on or before July 1, 2025. Ordered by bill number.

Governor's May Revision

In Spring, Revenues Exceeded Expectations, but Outlook for Future Growth Weakened. Following release of the January budget, revenues for the prior and current years came in $6 billion above expectations, primarily due to stronger-than-anticipated personal income tax collections, which were running $4 billion ahead of prior projections as of April. Ordinarily, such collections would indicate a stronger revenue outlook. However, both our office and the administration lowered our revenue projections for 2025-26, with the administration revising its forecast downward by $11 billion. Several factors contributed to tempered revenue expectations for 2025-26, including: the state's stagnant economy, uncertainty about the sustainability of recent stock market gains, and potential negative effects from expanded tariffs.

Costs of State Programs—Particularly Medi-Cal—Exceeded Expectations After January Budget. Compared to the Governor's January budget, the administration's May Revision estimated that baseline spending (excluding Proposition 98 spending on schools and community colleges) was $12 billion higher. This was an unusually large upward revision in spending for the budget window. The increase was primarily driven by higher projected costs in the Medi-Cal program, which were estimated to exceed January levels by $10 billion over the three-year budget window. This increase was largely due to higher-than-anticipated per-enrollee costs, reflecting a combination of factors such as increased utilization of services, rising medical care prices, and expanded use of high-cost specialty drugs. Although these cost pressures affect all enrollee groups, the administration attributed a significant share of the increase to higher costs associated with individuals with UIS.

As a Result, a $14 Billion Budget Problem Emerged. Taken with other factors—such as new discretionary spending proposals and lower required General Fund spending on schools and community colleges—the net effect of these changes was the emergence of a $14 billion budget problem at the time of the May Revision. To address this shortfall, the Governor proposed $9.5 billion in spending-related solutions, including reductions ($4.9 billion), fund shifts ($3.2 billion), and delays ($1.3 billion). A significant portion of these solutions were ongoing, and under the administration's forecast, their value would grow to $17.5 billion by 2028-29.

May Revision Focused on Reducing Growth in Medi-Cal. Reductions to the Medi-Cal program accounted for roughly two-thirds of the ongoing spending reductions proposed in the May Revision. These changes were intended to substantially slow the program's projected cost growth in future years. Under our estimates, the May Revision proposals would have reduced Medi-Cal's out-year cost growth from about 9 percent (as our office estimated in November 2024) to approximately 1 percent.

Legislature's Budget

The Legislature passed an initial budget on June 13, 2025. The Legislature's budget package differed structurally from the Governor's May Revision in two key ways. First, it included two new major actions to increase budget capacity. Second, it used that additional capacity to reject some of the Governor's proposed spending solutions and to fund other augmentations. We describe these major structural differences in more detail below.

Legislative Actions Increased Budget Capacity by $5 Billion. The Legislature's budget package included two major actions that increased available budget capacity by a combined $5 billion. First, it expanded internal borrowing by approximately $2.5 billion. This included increasing the size of the Medi-Cal-related cash flow maneuver by $1 billion and making a $1.5 billion loan from the state's internal cash resources to the General Fund. (The final budget maintained these actions, but as of this writing, we understand DOF will administer this as a set of traditional special fund loans, rather than one loan from the state's cash resources. DOF is still working to identify the fund[s] that would make these loans.) Second, the budget reduced the 2025-26 year-end balance of the SFEU from $4.5 billion to $2 billion, freeing up an additional $2.5 billion in budget capacity. (The final budget reflected an SFEU balance at the same level of the Governor's May Revision.)

Legislative Budget Made Changes to May Revision Solutions and Provided Targeted Augmentations. The Legislature used the additional budget capacity to modify several of the Governor's May Revision proposals and to fund a limited number of augmentations. In the Medi-Cal program, for example, the budget restored the asset limit to $130,000, rather than adopting the Governor's proposed limits of $2,000 per individual and $3,000 per couple. It also modified the Governor's proposal to establish premiums for the UIS population by reducing the monthly premium from $100 to $30, and delayed the proposed $1.1 billion ongoing reduction to Health Centers and Rural Health Clinics. Beyond Medi-Cal, the legislative package also rejected the Governor's proposal to reduce UC and CSU by 3 percent ongoing (instead deferring payments to the universities but providing the cash earlier to offset the effects of those deferrals) and rejected the Governor's proposal to cap overtime hours for In-Home Supportive Services providers. In addition, the budget included a limited number of augmentations, particularly for the MCS program and various housing and homelessness initiatives.

Final Budget Package

The Legislature passed an amended budget act and associated trailer bills on June 27, 2025. The Legislature also took some additional actions later in the legislative session, which are listed in **Figure 10**. The next section of this report describes the major features of the final budget package.

Budget Act Included Language That Placed Budget Contingent on Passage of SB 131. Control Section 37.00 of Chapter 5 of 2025 (AB 102, Gabriel) contained extraordinary language that made the entire state budget contingent on the passage of SB 131, a trailer bill, by June 30, 2025. SB 131 appropriated funding for a homelessness-related program and contained a number of policy changes to the California Environmental Quality Act (CEQA). (The CEQA changes are described in more detail in the section on major features below.) After the Legislature enacted Chapter 5 and Chapter 24 of 2025 (SB 131, Committee on Budget and Fiscal Review), the Legislature enacted Chapter 77 of 2025 (AB 104, Gabriel), which repealed Control Section 37.00.

Figure 10

Budget-Related Legislation Passed After July 1, 2025

Bill Number	Chapter	Subject
Budget Bills and Amendments		
AB 104	77	Amendments to the *2025-26 Budget Act*
SB 105	104	Amendments to the *2021-22*, *2023-24*, *2024-25*, and *2025-26 Budget Acts*
Trailer Bills		
AB 138	78	State bargaining
AB 144	105	Health
AB 149	106	Public resources
AB 154	609	Climate disclosures
SB 119	79	Social services
SB 146	107	Human Services
SB 147	744	Education finance
SB 148	745	Higher education
SB 151	108	Early childhood education and child care
SB 153	109	Transportation
SB 155	649	California Civic Media Program
SB 156	110	Labor
SB 157	111	Public safety
SB 158	650	Land use
SB 159	112	Taxation
SB 160	113	Background check
SB 161	114	State employment
SB 162	115	Elections

Note: This figure includes budget bills and trailer bills identified in Section 39.00 in the *2025-26 Budget Act* that were passed by the Legislature after July 1, 2025. Ordered by bill number.

MAJOR FEATURES OF THE 2025-26 SPENDING PLAN

This section briefly describes the major spending actions in the 2025-26 budget package, including some actions that were taken as part of special sessions. We also discuss the programmatic features of the budget in more detail in a series of online publications. In the box on the next page, we also describe special session actions taken that have budgetary implications.

K-14 Education

Funds COLA and a Few Other Ongoing Augmentations. The state calculates the statutory COLA each year based on a price index published by the federal government. For 2025-26, the budget provides $2.2 billion to cover a 2.3 percent COLA for existing school and community college programs. For schools, the budget also provides an ongoing increase of $607 million for the Expanded Learning Opportunities Program. (This program funds before and after school activities and summer enrichment.) This augmentation will increase the share of districts qualifying for the program's higher "tier 1" funding rate. For community colleges, the budget also provides $140 million to cover 2.35 percent enrollment growth across 2024-25 and 2025-26.

Funds One-Time Discretionary Grants. For schools, the budget provides $1.7 billion for the Student Support and Professional Development Discretionary Block Grant. Districts can use these funds for any local purpose, but trailer legislation encourages them to prioritize teacher training and professional development, teacher recruitment and retention, career pathways for high school students, and dual enrollment programs. The state will distribute funds on an equal per-pupil basis (about $312 per student). For community colleges, the budget provides $60 million for the Student Support Block Grant. Districts can use these funds for a range of student services, including basic needs (such as food, housing, and transportation), financial aid, counseling, and job placement activities. The state will allocate funds based on student headcount and the share of students qualifying for fee waivers or nonresident tuition exemptions, with a minimum grant of $150,000 per college in each district. In addition to these discretionary grants, the budget funds several smaller grants for schools related to learning recovery, teacher training and recruitment, school meals, and career technical education. It also funds several smaller grants for community colleges focusing on other student support initiatives and career technical education.

Implements Payment Deferrals. The budget reduces spending in 2025-26 by deferring $2.3 billion in payments to 2026-27. Of this amount, $1.9 billion pertains to schools. The state will implement the school deferral by shifting a portion of the June 2026 payment to July 2026. The law exempts districts and charter schools that can demonstrate the delay would make them unable to meet their financial obligations. The remaining $408 million in deferrals pertains to community colleges. The state will implement the community college deferral by moving payments from May and June 2026 to July 2026. The purpose of these deferrals is to free up funding for additional one-time and ongoing spending that would otherwise exceed the available Proposition 98 funding in 2025-26.

Health

Adopts Ongoing Budget Solutions in Medi-Cal, With a Focus on Undocumented Immigrants. To help address a multiyear budget problem, the spending plan reflects a number of ongoing budget solutions in Medi-Cal. The largest pertain to adults with UIS. The UIS population largely consists of undocumented individuals, but also includes certain lawful immigrants lacking citizenship status. Medi-Cal services to this population are relatively costly to the state because they are eligible for federal funds in only limited cases. The UIS-related budget solutions mostly begin in 2026 and are estimated to result in over $5 billion of General Fund savings by 2028-29. They affect several areas, including eligibility (a freeze on new enrollment for comprehensive coverage), benefits (the end of dental coverage), provider rates (lower payments to safety net clinics for services to the UIS population), and new

Special Session Had Notable Budgetary Implications

This year, the Governor called a special session of the Legislature that had notable budgetary implications. (The special session was initially called in November 2024, and then subsequently amended in January 2025.) The measures approved in the special session provided funding for (1) response and recovery costs related to the January 2025 Southern California wildfires and (2) activities to address federal government actions impacting the state. Below, we provide a high-level summary of these measures.

Funding for the January 2025 Southern California Wildfires. During the special session, the Legislature added Control Sections 90.00 and 90.01 to the *2024-25 Budget Act* providing up to $2.5 billion one-time for response and recovery costs related to the January 2025 Southern California wildfires. Specifically, the control sections authorized the Department of Finance (DOF), through June 2025, to augment both General Fund and special fund appropriations for state agencies to support activities such as emergency protective measures, sheltering for survivors, assessment and remediation of post-fire hazards, and other actions necessary to protect persons or property and expedite recovery. The control sections required DOF to publish expenditure reports documenting the use of the funds. As of June 30, 2025, $335.9 million exclusively from the General Fund had been allocated through the control sections by DOF for these purposes. After the special session, the sections were amended to allow funds to be used to reimburse local governments through June 2026 for (1) unmet response and recovery costs, and (2) lost property tax revenue. DOF has not yet received official claims from all affected local governments, but early estimates indicate expenditures for these purposes could be around $200 million across the 2024-25 and 2025-26 budget years. (Modified versions of Control Sections 90.00 and 90.01 were also added to the *2025-26 Budget Act*, extending the availability of these funds. For more on this please see our forthcoming publication, *The 2025-26 California Spending Plan: Other Provisions*.)

Addressing Federal Actions Impacting the State. During the special session, the Legislature amended existing Control Section 5.25 and also added Control Section 5.26 to the *2024-25 Budget Act*, providing a total of up to $50 million one-time General Fund for legal and administrative activities that address federal actions impacting the state. Specifically, up to $25 million was made available through June 2028 for legal activities to allow the Department of Justice (DOJ) and other state departments to defend the state against federal actions or to challenge federal actions more generally. These funds are also available to allow state departments to take administrative steps to mitigate the impacts of federal actions. DOJ is required to report regularly on how these funds are used. The remaining $25 million was made available through June 2028 for grants to legal service providers as follows:

- $10 million to the judicial branch for indigent civil legal services for individuals likely to be impacted by potential or actual federal actions.
- $10 million to the Department of Social Services (DSS) for immigration-related legal services.
- $5 million to the judicial branch to supplement its existing contract with the California Access to Justice Commission for legal services nonprofits generally.

The judicial branch and DSS are required to report to the Legislature on grant awardees. (Details on similar ongoing funding included as part of the 2025-26 budget is discussed in our forthcoming publication *The 2025-26 California Spending Plan: Judiciary and Criminal Justice*.)

cost-sharing requirements (a new $30 monthly premium to access comprehensive coverage).

Implements First Year of Proposition 35 (2024), With a New Limited-Term Budget Solution. In November 2024, voters passed Proposition 35, which creates new rules over how the state spends money from the managed care organization (MCO) tax. A tax on health plan enrollment, the MCO tax historically has helped support the existing Medi-Cal program. Proposition 35 largely continues to use the associated tax funds to support Medi-Cal, but with a greater focus on expanding, rather than maintaining, the program. Accordingly, the spending plan includes an initial plan to implement Proposition 35's rules over the next two years. The plan supports a number of ongoing and one-time augmentations ($5.2 billion MCO tax funds over two years), including provider rate increases and workforce initiatives. Some of the supported provider rate increases are scored as a limited-term budget solution to the General Fund ($1.6 billion over 2025-26 and 2026-27). This is because the state had previously planned to cover the cost of the increases using General Fund support.

Higher Education

State Defers Rather Than Reduces Base University Funding in 2025-26. The budget defers $274 million General Fund for UC and CSU combined from May/June to July 2026, thereby generating one-time state savings in 2025-26. The deferral equates to 3 percent of General Fund support for UC and CSU. The deferral takes the place of earlier proposed ongoing General Fund reductions (of 3 percent in the May Revision and 7.95 percent in the Governor's budget). The state offers UC and CSU short-term, no-interest General Fund loans, if needed, in response to cash flow challenges resulting from the payment deferrals. The budget plan does not specify when the state would provide a one-time back payment to retire these deferrals. Beyond General Fund support, both UC and CSU are raising additional ongoing revenue through increases in their tuition charges and anticipated enrollment growth. The state budget also includes a total of $157 million General Fund for one-time UC and CSU initiatives.

State Modifies University Funding Plan for Next Couple of Years. Under the Governor's compact with the universities, the Governor intended to provide annual 5 percent base increases through 2026-27. Instead of providing a 5 percent base increase in 2025-26, the multiyear budget plan includes intent to provide UC and CSU each a 2 percent increase in 2026-27, followed by a 3 percent base increase in 2028-29 (both attributable to 2025-26). In 2027-28, the state also intends to provide to a one-time back payment totaling $493 million to UC and CSU (also attributable to 2025-26).

Budget Includes Higher Financial Aid Spending in the Current and Budget Years. Specifically, for 2024-25, the package increases ongoing General Fund by a total of $187 million from the June 2024 enacted level to cover higher-than-anticipated costs in the Cal Grant and MCS programs. From the revised 2024-25 level, the budget includes a $243 million ongoing General Fund augmentation in 2025-26 to cover projected cost increases in the Cal Grant program. For the MCS program, the state changes its budgetary approach beginning in 2025-26—basically converting MCS from a typical categorical program to an entitlement program funded one year in arrears. Under previous state law, the state adjusted award coverage, as needed, to remain within the annual state appropriation. Under the new rules, the state set MCS award coverage at 35 percent of remaining student financial need for 2025-26. The state is covering costs in 2025-26 using a General Fund loan. On August 11, 2025, the Governor issued an executive order authorizing a loan of $996 million. The state intends to provide an associated budget appropriation in 2026-27.

California Environmental Quality Act

Budget Package Addresses State's Long-Standing CEQA Policy. The budget package included a number of notable policy changes aimed at speeding up and streamlining CEQA, which was originally enacted by the Legislature in 1970. Unless a project falls under a statutory or certain other type of exemption, public agencies (such as cities and counties) generally must conduct a detailed study of the potential environmental effects of new housing construction (and many other types of development) prior to approving it. These studies, known as negative declarations and environmental impact reports, can provide valuable information to decision-makers and the public and help to avoid unnecessary environmental impacts (pertaining to traffic, air and water quality, and other matters). Yet, required CEQA studies generally are time consuming and costly and the CEQA process can be used to stop or limit housing and other development. In addition, CEQA's complicated procedural requirements give development opponents significant opportunities to continue challenging housing projects after local governments have approved them.

Amends CEQA Requirements Pertaining to Various Housing and Other Development. The changes, which are contained in three budget trailer bills, include: (1) narrowing the scope of existing required environmental reviews for housing projects that meet all but one criterion for an exemption from the CEQA process and (2) eliminating the requirement for CEQA review entirely when local governments rezone (change land-use restrictions for) neighborhoods to meet their state-mandated housing goals, subject to certain restrictions. In addition, trailer bill legislation creates new exemptions from CEQA requirements for various categories of projects, including specified "infill" housing developments (such as certain projects on vacant land within an urban area), farmworker housing, rural health clinics, day care centers, food banks, broadband deployment in a right-of-way, and advanced manufacturing facilities (with each exemption type subject to various requirements and limitations). The trailer bill legislation also makes some limited changes to permitting rules for certain residential projects in the coastal zone.

Authorizes New Statewide Vehicles Miles Traveled (VMT) Mitigation "Bank." In addition, the budget package creates a new option for developers to meet their transportation-related CEQA requirements for projects. Specifically, trailer bill language allows projects to mitigate their VMT impact (at the discretion of the local public agency) by paying a fee. Fee revenue is to be deposited into a fund administered by the Department of Housing and Community Development and used to fund VMT-reducing projects such as affordable housing near transit stops. The Governor's Office of Land Use and Climate Innovation is required by July 2026 to issue initial guidance for this new program, including providing details such as the methodologies for determining the amount of the fee and estimating the anticipated reduction in VMT resulting from payment of the fee.

Recent Voter-Approved Bond Allocations

Budget Contains First Allotment of Proposition 2 Bond Funding. Proposition 2, approved by voters in November 2024, authorizes $10 billion in state general obligation bonds for school and college facilities. Of this amount, $8.5 billion is for schools and $1.5 billion is for community colleges. The 2025-26 budget package begins drawing down these bond funds. The budget assumes the state will award $1.5 billion for school projects, consistent with the state's existing application processing rate. For community colleges, the 2025-26 budget package authorizes the preliminary plans and working drawings phases of 29 new projects and the design-build phase of 1 existing student housing project. The total Proposition 2 cost across all phases of these 30 projects is $863 million.

Proposition 4 (Climate Bond). The budget package appropriates $3.5 billion from Proposition 4, the $10 billion bond approved by voters in November 2024 for climate and environmental activities. This includes $181 million provided through actions taken in April to amend the 2024-25 budget (Chapter 2 of 2025 [AB 100, Gabriel]) and $3.3 billion approved through Chapter 104 of 2025 (SB 105, Wiener). This total includes $1.2 billion for water-related activities and $600 million for projects to improve the state's wildfire resilience.

Cap-and-Invest Program Spending

2025-26 Spending Package Includes Over $4 Billion From GGRF. The budget package assumes spending totaling $4.1 billion from GGRF in 2025-26. The bulk of these funds support existing statutory commitments—most of which are continuously appropriated—such as for the high-speed rail project and programs for housing, transit, forest health, and drinking water. As noted earlier, 2025-26 GGRF spending also includes a $1 billion backfill for CalFire's operational budget in order to achieve General Fund savings while avoiding programmatic impacts. At the end of the legislative session, Chapter 104 of 2025 (SB 105, Weiner) appropriated an additional $540 million from GGRF for a number of activities including related to transit, zero-emission vehicles, and community air protection.

Program Reauthorization Legislation Will Affect GGRF Allocations in Future Years. Separate from the budget package, the Legislature approved legislation that will affect GGRF spending allocations beginning in 2026-27. Chapter 117 of 2025 (AB 1207, Irwin) extends the statutory authorization for the existing cap-and-trade program from 2030 to 2045, makes a number of changes to the program's structure, and renames it "cap-and-invest." Chapter 121 of 2025 (SB 840, Limón) revises the existing statutory allocation amounts that support particular activities, including changing several from being set percentages of GGRF revenues to fixed amounts. For example, beginning next year, the high-speed rail project will receive $1 billion annually rather than 25 percent of auction revenues. The legislation also reserves $1 billion annually from GGRF for the Legislature to allocate based on its budget priorities each year, and expresses intent for particular activities to be funded in 2026-27.

APPENDICES

Note: In the online version of this report, we include a series of Appendix tables that have detailed information on the discretionary spending decisions and budget solutions reflected in the *2025-26 Budget Act*.

LAO PUBLICATIONS

This report was prepared by Ann Hollingshead with contributions from analysts across the office, and reviewed by Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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EXHIBIT C

TK-12 EDUCATION

California provides instruction and support services to roughly 5.8 million students in grades transitional kindergarten (TK) through twelve in more than 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 enter the workforce and pursue higher education.

The Budget includes total funding of $137.6 billion ($80.5 billion General Fund and $57.1 billion other funds) for all TK-12 education programs. The Budget reflects significant Proposition 98 funding that enables increased support for core programs such as the Local Control Funding Formula (LCFF), special education, TK, nutrition, and preschool.

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.

The Budget 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 $98.5 billion in 2023-24, $119.9 billion in 2024-25, and $114.6 billion in 2025-26. These revised Proposition 98 levels represent an increase of approximately $3.9 billion over the three-year period relative to the 2024 Budget Act.

Due to the inherent risk in revenue projections, the Budget appropriates the 2024-25 Guarantee at $118 billion, instead of the currently calculated level of $119.9 billion. The difference between the appropriated and the calculated levels is $1.9 billion, which is referred to as "settle-up." This is intended to mitigate the risk of potentially appropriating more resources to the Guarantee than are ultimately available in the final calculation for 2024-25. The 2024-25 Guarantee level will not be finalized until that fiscal year is certified—a process that will occur throughout 2026.

The Budget includes intent language that allocates any settle-up funds that are realized to reduce ongoing deficits and protect core program funding for school districts and community colleges, including funding for growth and cost-of-living adjustments. This includes paying down TK-14 deferrals.

The Guarantee is in a Test 2 for 2023-24 (although suspended at $98.5 billion) and continues to be in a Test 1 for 2024-25 and 2025-26. This means that the funding level of the Guarantee for 2024-25 and 2025-26 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.

The Proposition 98 Guarantee is "rebenched" to reflect the continued implementation of universal TK and property tax backfills related to the January 2025 fires in the County of Los Angeles. The resulting Test 1 percentage is then "rebenched" to increase the percentage of General Fund revenues due to the Guarantee, from 39.2 percent to 39.6 percent.

PROPOSITION 98 RAINY DAY FUND

The Budget maintains the withdrawal of the full $8.4 billion balance in the Public School System Stabilization Account (Proposition 98 Rainy Day Fund) in 2023-24. The May Revision included a mandatory deposit into the Proposition 98 Rainy Day Fund of $540 million in 2024-25.

Adjustments in capital gains revenues for the final Budget are projected to reduce the mandatory deposit in 2024-25 to $455 million. Additionally, a year-over-year decrease in the Proposition 98 Guarantee triggers a mandatory withdrawal of $455 million in 2025-26, exhausting the remaining Proposition 98 Rainy Fund balance.

PROPOSITION 98 FUNDING SPLIT

In prior years, consistent with the statutory Proposition 98 split, 10.93 percent of the amount of General Fund rebenched into the Proposition 98 Guarantee for the cost of TK expansion was added to the community colleges budget. Over the three-year budget window, this resulted in $492.4 million in increased resources for community colleges, and a like amount of funding that has not been available for TK-12 schools to implement the expansion of TK.

The Budget shifts the full TK expansion funding to the TK-12 education side of the Proposition 98 budget, beginning in the 2025-26 fiscal year. This shifts $232.9 million in ongoing resources from community colleges to TK-12 schools. The purpose of rebenching Proposition 98 for the cost of TK expansion is to ensure that implementation of universal TK does not create a fiscal burden on existing TK-12 programs; therefore, this shift will align resources generated by the rebench.

LOCAL CONTROL FUNDING FORMULA

The Budget includes a LCFF cost-of-living adjustment of 2.3 percent. When combined with population growth adjustments, these baseline adjustments will increase discretionary funds for local educational agencies (LEAs) by $2.1 billion compared to the 2024 Budget Act. To fully fund the LCFF, the Budget uses $405.3 million from the Proposition 98 Rainy Day Fund to support LCFF costs in 2025-26.

DEFERRALS

Budgetary deferrals of $246.6 million for TK-12 education from 2024-25 are fully repaid in 2025-26. However, to fully fund the LCFF and maintain the level of 2025-26 principal apportionments, the Budget defers $1.9 billion in LCFF funding from June 2026 to July 2026.

Universal Transitional Kindergarten

In the 2025-26 school year, the Budget provides a total of $2.1 billion ongoing Proposition 98 General Fund (inclusive of all prior years' investments) to support the full implementation of universal TK, so that all children who turn four years old by September 1 can enroll in TK in the 2025-26 school year—providing access to roughly 51,000 additional children over the 2024-25 school year.

The Budget also provides an additional $1.2 billion ongoing Proposition 98 General Fund to support further lowering the average student-to-adult ratio from 12:1 to 10:1 in every TK classroom.

Before School, After School, and Summer School

The Expanded Learning Opportunities Program is a multi-year investment plan to implement before, after, and summer school instruction and enrichment for students in grades TK-6. The program focuses on LEAs with the highest concentrations of low-income students, English learners, and youth in foster care, otherwise known as unduplicated pupils.

The Budget provides $515.1 million ongoing for the full implementation of the program by increasing the number of elementary schools that offer universal access to students, from all those in LEAs with an unduplicated pupil percentage of 75 percent to all those in LEAs with 55 percent unduplicated students. Additionally, the Budget includes $10.4 million to increase the minimum grant amount from $50,000 to $100,000 per LEA. This increase will allow small LEAs to maintain expanded learning programming without redirecting funding from other local programs.

Literacy Instruction

California's research-based English Language Arts/English Language Development (ELA/ELD) Framework is the state's foundational document to guide literacy instruction. It emphasizes core foundational skills (print concepts/alphabetics, phonological/phonemic awareness, phonics and word recognition, and reading fluency), listening, speaking, writing, and comprehension, along with the vocabulary development and background knowledge needed to develop literacy for multilingual learners.

The Budget provides $480 million to support literacy instruction aligned with the ELA/ELD Framework for all students, including the following investments:

- $215 million one-time Proposition 98 General Fund to expand the existing Literacy Coaches and Reading Specialists Grant Program.
- $200 million one-time Proposition 98 General Fund to support evidence-based professional learning for elementary school educators aligned with the ELA/ELD Framework.
- $40 million one-time Proposition 98 General Fund to support necessary costs, including purchasing screening materials and training for educators, to administer screenings for risk of reading difficulties to all kindergarten through second grade students beginning in the 2025-26 school year.
- $15 million one-time Proposition 98 General Fund for Literacy and Mathematics Networks, to convene literacy and mathematics lead agencies to support the implementation of evidence-based practices aligned to their respective curriculum frameworks.
- $10 million one-time Proposition 98 General Fund for a county office of education to partner with the University of California, San Francisco Dyslexia Center to support the Multitudes screener for risk of reading difficulties, which is free to California public schools, and expand capacity for educator support for those schools using Multitudes.

TEACHER PREPARATION AND PROFESSIONAL DEVELOPMENT

Preparing, training, and recruiting a diverse, expert workforce of administrative, credentialed, and classified staff to work in public TK-12 schools continues to be critical to the success of the entire system. But persistent staffing shortages make it essential to remove barriers for qualified teacher candidates and ensure that current teachers receive the training they need to succeed.

The Budget includes multiple investments intended to support teachers and improve access to the educator pipeline:

- $300 million one-time Proposition 98 General Fund to establish the Student Teacher Stipend Program, which will provide $10,000 grants to teacher candidates completing the required student teaching hours beginning in the 2026-27 school year, and available through the 2028-29 school year. Of this amount, $5 million is available to support a public outreach campaign and a grant management system to facilitate uptake and access to student teacher stipends, teacher residency funds, and national board certification dollars.

- $70 million one-time Proposition 98 General Fund to increase funding for high-quality teacher residency programs.
- $30 million one-time Proposition 98 General Fund to extend the timeline of the existing National Board Certification Incentive Program to support National Board Certified teachers to teach in high poverty schools.

STUDENT SUPPORT AND PROFESSIONAL DEVELOPMENT DISCRETIONARY BLOCK GRANT

The Budget allocates $1.7 billion one-time Proposition 98 General Fund for the Student Support and Professional Development Discretionary Block Grant, to provide LEAs with additional discretionary fiscal support in recognition of rising costs, as well as fund statewide priorities including: (1) professional development for teachers on the 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) teacher recruitment and retention strategies; and (4) career pathways and dual enrollment expansion efforts consistent with the Master Plan for Career Education.

STATE PRESCHOOL

To augment provider rates, the Budget provides $19.3 million Proposition 98 General Fund and $10.2 million non-Proposition 98 General Fund for the California State Preschool Program to support the cost of care. Additionally, within existing funding, the Budget includes authority for the Department of Education to do all of the following:

- Expand State Preschool Program provider contracts to increase enrollment of three-year-olds by 10 percent.
- Fund prospective pay for State Preschool Program providers to ensure timely payment of state contract funding.
- Automate prospective pay for State Preschool Program providers.

OTHER TK-12 EDUCATION ISSUES

SIGNIFICANT BUDGET ADJUSTMENTS

- **Learning Recovery Emergency Block Grant**—$378.6 million one-time Proposition 98 General Fund to support the Learning Recovery Emergency Block Grant. This block grant supports LEAs in establishing learning recovery initiatives through the 2027-28 school year.
- **Career Technical Education**—$150 million one-time Proposition 98 General Fund for career technical education and career pathways programming, subject to pending legislation.
- **Universal School Meals Support Grant**—$145 million one-time Proposition 98 General Fund for specialized kitchen equipment, infrastructure, training, and procurement of sustainably grown food to support schools in providing more freshly prepared meals, $10 million one-time Proposition 98 General Fund to recruit and retain school food service workers, and $5 million one-time Proposition 98 General Fund for a study of ultra-processed foods offered in California school meals.
- **Special Olympics**—$30 million one-time Proposition 98 General Fund, available over three years, for the Special Olympics of Northern and Southern California. The Special Olympics serves thousands of athletes in community and school-based programs in California, providing children with intellectual disabilities the opportunity to improve their overall health and wellness, gain leadership skills, and participate in enriching programs.
- **Mathematics Professional Learning Partnership**—$30 million one-time Proposition 98 General Fund for the Mathematics Professional Learning Partnership, for the Kern County Superintendent of Schools to support educator training and mathematics coaching in LEAs, including expanding upon collaboration with the Rural Math Collaborative and training mathematics coaches who can be deployed in schools and LEAs with the highest need of support.
- **Summer Electronic Benefits Transfer (SUN Bucks)**—$21.9 million in additional ongoing Proposition 98 General Fund to support the SUN Bucks Program, which provides nutrition funding to eligible students during the summer months. These funds will provide the match to an equal amount of federal funds to support the program.
- **Children and Youth Behavioral Health Initiative Grants**—$20 million one-time Proposition 98 General Fund to support the implementation of the Children and Youth Behavioral Health Initiative's all-payer fee schedule.

- **Secondary School Redesign Pilot Program**—$10 million one-time Proposition 98 General Fund for the California Collaborative of Educational Excellence to administer a pilot program to redesign middle and high schools to better serve the needs of all students and increase student outcomes, and to manage a network of grantees to support peer learning and documentation of practices.
- **English Language Proficiency Screener for TK Students**—$10 million one-time Proposition 98 General Fund for the statewide use of English language proficiency of a list of one or more screeners to support multilingual learners in TK.
- **TK Multilingual Learner Supplementary Funding**—$7.5 million one-time Proposition 98 General Fund, available through the 2026-27 fiscal year, to mitigate reductions in potential LCFF apportionment funding to LEAs resulting from the recent exemption of TK students from the English language proficiency assessment.

EXHIBIT D

TK-12 EDUCATION

California provides instruction and support services to roughly 5.7 million students in grades transitional kindergarten (TK) through twelve in nearly 10,000 schools throughout the state. A system of 58 county offices of education, almost 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 enter the workforce and pursue higher education.

The Budget includes total funding of $151.4 billion ($91.1 billion General Fund and $60.3 billion other funds) for all TK-12 education programs. The Budget reflects significant Proposition 98 funding that enables increased support for core programs such as the Local Control Funding Formula (LCFF), special education, educator workforce, and preschool.

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 budget enactment, the revised Guarantee for TK-14 schools is calculated to be $124.9 billion in 2024-25, $125.3 billion in 2025-26, and $128.1 billion in 2026-27. These revised Proposition 98 levels represent an increase of approximately $29.2 billion over the three-year period relative to the 2025 Budget Act, and an increase of approximately $1.2 billion from May Revision.

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 Budget maintains a $3.9 billion settle-up amount in the 2025-26 fiscal year. In spring 2027, if 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. To augment this statutory requirement, the Budget includes language that allocates 33 percent of new General Fund revenues over 2026 Budget Act projections, as calculated at the 2027 May Revision, to pay down any settle-up balance that remains for the 2025-26 fiscal year.

Finally, the Budget 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.

Proposition 98 Rainy Day Fund

The Budget projects mandatory Proposition 98 Rainy Day Fund deposits across the three-year budget window totaling $8.7 billion. To provide additional long-term budget stability, the Budget includes a discretionary deposit of $500 million in 2025-26, leaving the final balance in the Fund at $9.2 billion. The balance of $9.2 billion in 2025-26 triggers school district reserve caps beginning in 2026-27.

REBENCH FOR NON-LOCAL EDUCATIONAL AGENCY STATE PRESCHOOL PROGRAM

Historically, California State Preschool Program contractors that are not local educational agencies have received non-Proposition 98 General Fund and local educational agency contractors have received Proposition 98 General Fund. To reduce programmatic complexity, the Budget changes the funding source for non-local educational agency State Preschool providers to Proposition 98 General Fund.

To allow for this transition without negatively impacting Proposition 98 General Fund supported programs, the Budget "rebenches" Proposition 98 by expanding it in proportion to the size of the incoming program. Specifically, the Budget shifts $813 million from the General Fund to the Proposition 98 General Fund and increases the Proposition 98 Guarantee Test 1 percentage from 39.3 percent to 39.6 percent.

LOCAL CONTROL FUNDING FORMULA

The Budget includes a statutory LCFF cost-of-living adjustment (COLA) of 2.87 percent, which, when combined with population growth adjustments, will result in an increase of approximately $1.1 billion in discretionary funds for local educational agencies as compared to the 2025 Budget Act.

Additionally, the Budget includes $1.1 billion to further increase funding for the 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).

Finally, the Budget includes an ongoing increase of $31.3 million Proposition 98 General Fund to provide a 20-percent increase in LCFF funding for Necessary Small Schools, which is the funding formula for the smallest schools in the state. These schools are the most heavily impacted by enrollment declines and attendance fluctuations; this additional funding will help them maintain instructional programming when student population fluctuates.

STATE EDUCATION GOVERNANCE

For over 100 years, every major study and legislative review of California's governance system has regularly identified the same structural flaw in the governance of California's TK-12 education system. According to the Legislature's 2002 report, California’s Master Plan for Education, "California’s TK-12 education system is governed by a fragmented set of entities with overlapping roles that sometimes operate in conflict with one another, to the detriment of educational services offered to students.” This concern was reinforced in a December 2025 report, "TK-12 Education Governance in California," from Policy Analysis for California Education (PACE), an independent, non-partisan research center led by faculty directors at Stanford University, the University of California Berkeley, the University of California, Davis, the University of California, Los Angeles, and the University of Southern California.

The Budget implements the 2002 Master Plan recommendation to move oversight authority of the management of the California Department of Education and support of local educational agencies under the State Board of Education. The Budget further provides the State Superintendent of Public Instruction the ability to strengthen coordination and alignment among the bodies setting policy from early childhood through postsecondary education. These changes will strengthen governance of California’s education system to provide coherence and meaningful accountability to address the needs of students, parents, teachers, school staff, and administrators.

Further, the Budget reflects the addition of two new State Board of Education appointees, one appointed by each house of the Legislature, as well as the replacement of one gubernatorial appointee with the Superintendent of Public Instruction, bringing the total number of State Board members to 13. The Budget also requires the new Education Commissioner, who will be appointed by the Governor, to oversee the Department of Education, to be confirmed by the State Senate.

SPECIAL EDUCATION

The Budget reflects the state’s ongoing commitment to invest in and improve instruction and services for students with disabilities, providing an unprecedented increase of $2.4 billion 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 to $1,340.

Additionally, the Budget includes an ongoing allocation of $80 million for the special education extraordinary cost pool, which provides reimbursements to special education local plan areas for students with specified high-cost service needs, and the low-incidence disabilities add-on, which provides additional funding to support students with rare, highly specialized needs. The Budget also provides a one-time increase of $30 million for the Supporting Inclusive Practices Project, which provides resources to schools and educators to expand access to the general education environment for students with disabilities.

Further, the Budget 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.

Finally, the Budget provides a one-time investment of $10 million to develop resources and provide technical assistance to support the implementation of alternative pathways and alternative means to a high school diploma for students with disabilities.

STUDENT SUPPORT AND PROFESSIONAL DEVELOPMENT DISCRETIONARY BLOCK GRANT

The Budget provides $5 billion one-time Proposition 98 General Fund for the Student Support and Professional Development Discretionary Block. These funds will provide local educational agencies with additional fiscal support to address rising costs, as well as fund statewide priorities including:

- 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;
- Professional development for teachers on the Mathematics Framework;
- Professional development for TK-3 teachers and elementary school site administrators on the principles and guidelines of developmentally appropriate instruction;
- Teacher recruitment and retention strategies;

- Career pathways and dual enrollment expansion efforts consistent with the Master Plan for Career Education;
- Community school and promising neighborhood partnerships; and
- Deferred maintenance of school facilities.

Paid Pregnancy Disability Leave

Comprehensive benefits, including paid pregnancy disability leave, can improve recruitment and retention of employees while prioritizing the health and well-being of workers and their families during pregnancy. To this end, the Budget requires all TK-14 local educational agencies, to provide all employees with up to 14 weeks of paid pregnancy disability leave beginning on January 1, 2027. This new benefit will support educators who want to start or expand their families and provide protections when pregnancy results in temporary disability. Costs of the benefit are absorbable within the funding allocated to local educational agencies for the discretionary LCFF "super 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 Budget includes $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. Community schools receiving these funds will partner with community-based organizations and Promise Neighborhood lead agencies to provide whole child services in the school setting. The Budget also supports the following investments intended to complement the new ongoing community schools program:

- $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 secondary students, improve student outcomes, and better integrate postsecondary college and career opportunities.

- $15 million to the State Transformational Assistance Center and Regional Transformational Assistance Centers 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 Budget includes intent language to provide $20 million ongoing beginning in 2030-31 for county offices of education to continue regional community schools coordination services, extending existing one-time multi-year funding after it concludes.

LITERACY AND MATH INSTRUCTION

Over the past seven years, the state has made many high-leverage investments in evidence-based literacy instruction 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; strengthen and expand school literacy programs, including comprehensive English language development and dual language immersion programs, and other programs for multilingual learners; and to design interventions for students with disabilities, including dyslexia, through 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 Budget includes a one-time increase of $350 million to extend funding for Literacy Coaches and Reading Specialists Grant Program for all grantees until June 30, 2031.

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 Budget builds on this investment by providing an additional $50 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 Budget includes nearly three-quarters of a billion dollars in new investments to accelerate the state's progress in addressing teacher shortages, including:

- An additional $408 million one-time Proposition 98 General Fund for the Student Teacher Stipend Program to extend the program and provide an additional $5,000 stipend for student teachers pursuing a credential in a high-need field.
- $250 million one-time Proposition 98 General Fund to continue educator residency programs through 2029-30. Educator residencies provide high-quality, clinically rich preparation for teachers and school counselors, with residency program participants having higher program completion and workforce retention rates than non-residency prepared teachers.
- $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 and other teacher recruitment and retention 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. Additionally, the Budget provides $10 million one-time General Fund for GSTG to support awards for students applying in the 2027-28 year to prepare to teach in shortage fields.
- $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.
- $10 million one-time Proposition 98 General Fund for the Pathways to Bilingual Teaching Program to provide competitive grants up to $600,000 to local educational agencies to create pathways that will increase the number of teachers qualified to teach in bilingual settings.
- $10 million one-time Proposition 98 General Fund for the Classified School Employee Teacher Credentialing Program to provide grants up to $24,000 to local educational agencies to support classified employees pursuing teaching credentials.

The Budget also provides $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 Budget creates a viable alternative to examinations, saving teacher candidates hundreds of dollars in examination fees.

Additionally, to support the expansion in transcript review, the Budget 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 support costs to the Commission on Teacher Credentialing related to establishing and maintaining the statewide transcript review process.

SUPPORTS FOR IMMIGRANT STUDENTS

The Budget provides several new investments to support the state's TK-12 immigrant and newcomer students. These investments include:

- $100 million one-time Proposition 98 General Fund for the Department of Education, in consultation with the Department of Social Services, to establish the California's New Americans in Schools (CalNAS) program to provide supportive services for newcomer pupils, English learners, and immigrant families. This program will supplement the existing California Newcomer Education and Well-Being program administered through the Department of Social Services. Allowable uses of funds include: (1) professional development and resources for staff to effectively support immigrant pupils and families; (2) academic and social services supports for newcomer pupils; and (3) contracting with immigration legal service providers to support outreach or immigration-related legal and other support services. Of the amount allocated, $10 million will be available for one or more local educational agencies to provide statewide technical assistance for CalNAS.
- $75 million one-time Proposition 98 General Fund to establish Dream Resource Centers at high schools serving grades 9-12. Funds are intended to support pupils with social services, state-funded immigration legal services, academic opportunities, and parent and family workshops.

EARLY EDUCATION

To strengthen the state's early education programs, the Budget includes the following investments:

- $250 million one-time Proposition 98 General Fund for the Universal Prekindergarten Planning & Implementation Grant, which supports the expansion of high-quality State Preschool and Transitional Kindergarten programs for two-, three-, and four-year-old students throughout the state.
- $51.4 million ongoing Proposition 98 General Fund to provide increased monthly cost of care plus payments for California State Preschool Program (CSPP) contractors in 2026-27.
- $33.6 million ongoing Proposition 98 General Fund to increase the number of CSPP professional development days from 2 days to 5 days in 2026-27.

- $20 million in additional ongoing Proposition 98 General Fund for the state's Quality Rating and Improvement System, which provides assessment, technical assistance, and fiscal support for improving the quality of early care and education programs.

OTHER TK-12 EDUCATION ISSUES

SIGNIFICANT BUDGET ADJUSTMENTS

- **Learning Recovery Emergency Block Grant**—$757.3 million one-time Proposition 98 General Fund to support the Learning Recovery Emergency Block Grant, which provides funds to local educational agencies to establish learning recovery initiatives through the 2027-28 school year. This investment is the final payment to this program, which has received multi-year investments totaling $7.2 billion in past budgets to support schools in learning recovery efforts related to the COVID-19 Pandemic.
- **Kitchen Infrastructure and Training**—$500 million one-time Proposition 98 General Fund for specialized kitchen equipment, infrastructure, and training to support schools in providing more freshly prepared meals made with locally grown ingredients.
- **Support for Students Experiencing Homelessness**—$116 million one-time Proposition 98 General Fund to provide three-year grants to local educational agencies to increase identification of and improve educational 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.
- **Dual Enrollment**—$100 million one-time Proposition 98 General Fund to increase access to college and career pathways for high school students, including expanding access to dual enrollment and dual credit opportunities.
- **Reading Difficulties Risk Screening**—$40 million one-time Proposition 98 General Fund to support continued implementation of student reading difficulties screenings. The 2023 Budget Act required local educational agencies to begin screening students in kindergarten through second grade, for risk of reading difficulties, including dyslexia, beginning in the 2025-2026 school year.
- **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.

- **Charter School Accountability**—The Budget includes new requirements for charter schools to ensure that public funds are properly utilized, address fraud and malfeasance, and improve accountability and oversight. It also provides for the use of verified data in the charter school renewal process until June 30, 2028.

EXHIBIT E

DEPARTMENT OF FINANCE
OFFICE OF THE DIRECTOR

Gavin Newsom ▪ Governor
1021 O Street, Suite 3110 ▪ Sacramento CA 95814 ▪ www.dof.ca.gov

June 30, 2026

Honorable John Laird, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Jesse Gabriel, Chair
Assembly Budget Committee

Honorable Sabrina Cervantes, Chair
Senate Appropriations Committee

Honorable Buffy Wicks, Chair
Assembly Appropriations Committee

Department of Finance's Response to Proposition 98 Certification Comments Submitted by the California Teachers Association

Pursuant to Education Code section 41206.01, the comments received from the California Teachers Association on June 6, 2026, are respectfully rejected for the following reason:

The Department of Finance affirms that the 2024-25 Proposition 98 Guarantee is fully funded by the state. Pursuant to Article XVI, section 8 of the California Constitution, the 2026 Budget Act funds the 2024-25 Proposition 98 minimum guarantee at the calculated level of $124,929,114,000. The certification factors posted on the Department of Finance's website, pursuant to Education Code section 41206.01, reflect total appropriations equal to the calculated Proposition 98 minimum guarantee.

If you have any questions or need additional information regarding this matter, please call Alex Shoap, Principal Program Budget Analyst, at (916) 445-0328.

JOE STEPHENSHAW
Director
By:

Erika Li

ERIKA LI
Chief Deputy Director

Attachment

cc: On following page

cc: Honorable David Alvarez, Chair, Assembly Budget Subcommittee No. 3
Honorable Sasha Renée Pérez, Chair, Senate Budget and Fiscal Review Subcommittee No. 1
Honorable Roger W. Niello, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable David Tangipa, Vice Chair, Assembly Budget Committee
Gabriel Petek, Legislative Analyst
Elisa Wynne, Staff Director, Senate Budget and Fiscal Review Committee
Kirk Feely, Fiscal Director, Senate Republican Fiscal Office
Christopher W. Woods, Budget Director, Senate President pro Tempore's Office
Christian Griffith, Chief Consultant, Assembly Budget Committee
Joseph Shinstock, Fiscal Director, Assembly Republican Caucus, Office of Policy and Budget
Paul Dress, Chief of Staff, Assembly Republican Caucus
Dylan Gray, Chief of Staff, Assembly Republican Leader's Office
Jason Sisney, Budget Director, Assembly Speaker's Office
Mark McKenzie, Staff Director, Senate Appropriations Committee
Jay Dickenson, Chief Consultant, Assembly Appropriations Committee

CALIFORNIA TEACHERS ASSOCIATION

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Honorable John Laird, Chair
Honorable Jesse Gabriel, Vice Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
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senator.laird@senate.ca.gov
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Re: Objection to Proposed 2024-25 Proposition 98 Guarantee Certification

To Director Stephenshaw, Senator Laird, and Assembly Member Gabriel:

The California Teachers Association ("CTA") respectfully submits the following comments on the Proposed Proposition 98 Certification for the 2024-25 fiscal year, published by the Department of Finance on May 14, 2026.

CTA objects to the Proposed Proposition 98 Certification for 2024-25 because the Enacted Budget improperly withheld $1.9 billion of the calculated Minimum Guarantee during the 2024-25 fiscal year.

The 2024-25 fiscal year ended with the state appropriating $1.9 billion less than required by the calculated Proposition 98 Minimum Guarantee. The 2025 Enacted Budget calculated Proposition 98 Guarantee at $119.9 billion. However, the enacted budget appropriated only $118 billion to schools and community colleges.[1] By underfunding the calculated Guarantee by $1.9 billion, the Enacted Budget created an IOU that has no constitutional or statutory grounding. Although the 2026-27 May Revision proposes to repay the $1.9 billion owed to schools and community colleges, the State has not repaid it as of the date of this letter. Moreover, the Administration has incorrectly referred to the $1.9 billion withholding as "settle-up." But the Proposition 98 certification statute does not permit the State to underfund the calculated Minimum Guarantee during the fiscal year; it allows the creation of settle-up only after the fiscal year ends.

1. Proposition 98 Does Not Permit The State To Fund The Calculated Guarantee In A Fiscal Year Below The Minimum Guarantee Without Suspending The Guarantee.

Proposition 98 requires that each fiscal year, the moneys to be applied to schools and community colleges "shall be not less than the *greater* of the following [three] amounts": Tests 1, 2 and 3. Cal. Const. art. XVI, § 8(b) (emphasis added). This funding floor is referred to

[1] Governor Gavin Newsom, State Budget – 2025-26: TK-12 Education at 12 (June 27, 2025), https://ebudget.ca.gov/2025-26/pdf/Enacted/BudgetSummary/TK-12Education.pdf.

as the "Minimum Guarantee." While the Legislature is free to fund schools and community colleges above the Minimum Guarantee, it cannot fund schools and community colleges below that amount except as permitted by the state Constitution. Article XVI, section 8 only permits the Legislature to fund schools and community colleges below the Minimum Guarantee in any fiscal year by suspending Proposition 98 with an urgency statute passed by a two-thirds vote in each house. *Id.* § 8(h).

Proposition 98 has always required schools and community colleges to be funded at the level of the calculated Minimum Guarantee throughout and during the fiscal year. Each budget proposal must include an estimate of the Guarantee and appropriations sufficient to meet the Guarantee based on the "best available estimate until actual data becomes available." Educ. Code § 41206.01(a). Thus, the calculated Minimum Guarantee and appropriations to meet the Minimum Guarantee in the Governor's Budget proposal must be based on the budget proposal's revenue estimates — not the final revenue amount that has yet to be determined and will not be known until after the fiscal year ends. Gov't Code § 13337(b) (Governor's Budget must "specif[y] the percentages and amounts of General Fund revenues that *must* be set aside and applied" to schools and community colleges, "as *required* by [Proposition 98]" [emphasis added]). Further adjustments can occur at the May Revision but there is no constitutional authority for deliberately funding the Guarantee below the then-current estimate in the absence of suspension. *Id.* § 13308(e)(3).[2]

2. The Proposition 98 Certification Statute Does Not Allow The Underfunding Of The Guarantee During The Fiscal Year

The Administration has incorrectly characterized the $1.9 billion withheld during the 2024-25 fiscal year as "settle-up." That characterization relies on procedures from the Proposition 98 certification statute that have no application to the constitutional requirement to fund the calculated Minimum Guarantee during the fiscal year.

The certification statute provides a process to specify the final Guarantee amount and the final expenditures counting toward the Guarantee after the fiscal year ends, taking into account final calculations that are not known until after the close of the fiscal year. Educ. Code §§ 41206-41206.03. The Legislature declared in the certification statute itself that the State through the budget process "can exceed the minimum funding level required by Proposition 98 but it cannot provide less funding than the California Constitution requires, unless the Legislature suspends the minimum funding level pursuant to a separately enacted statute, adopted with a two-thirds vote of the Legislature." *Id.* § 41206(a).

The certification process starts after the close of the fiscal year. *Id.* § 41206.01. If, after the fiscal year ends, the final calculated Guarantee is higher than the funding appropriated, the statute provides a method for ensuring that the difference — called "settle-up" — is continuously appropriated to schools and community colleges. *Id.* § 41206.03(c). Every paragraph of section 41206.01 pertaining to data required for the calculation of settle-up references the *prior* fiscal year.

[2] Importantly, the LCFF continuous appropriation is capped at the Minimum Guarantee level, ensuring the State does not inadvertently provide more funding than the minimum required. Educ. Code §§ 14002, 41206(d).

The certification statutes do not permit the State to preemptively underfund the Guarantee during the current year, and deem the remaining amount owed to be "settle-up." Such an interpretation of the certification statute violates the constitutional requirement to fund the calculated minimum guarantee during the fiscal year or suspend the guarantee.

The unlawful deliberate withholding of $1.9 billion of the calculated Proposition 98 Guarantee amounted to districts having $350 less per student in every California public school classroom during the 2024-25 school year. CTA therefore objects to the Proposed 2024-25 Proposition 98 Certification.

Sincerely,

Teri Holoman

Teri Holoman
Associate Executive Director Governmental Relations
California Teachers Association

Cc: Kenny Louie, Chief Counsel, Department of Finance (Kenny.Louie@dof.ca.gov)
Gabriel Petek, State Legislative Analyst (gabe.petek@lao.ca.gov)

EXHIBIT F

The 2026-27 Budget:

Overview of the Spending Plan

LAO

GABRIEL PETEK | LEGISLATIVE ANALYST

AUGUST 2026

INTRODUCTION

Each year, our office publishes the *California Spending Plan* to summarize the annual state budget. In this publication we provide an overview of the 2026-27 budget package, give a brief description of how the budget process unfolded, and then highlight the major features of the budget approved by the Legislature and signed by the Governor. All figures in this publication reflect the administration's estimates of legislative actions taken through the end of June 2026. In addition to this report, we will release a series of issue-specific, online posts that give more detail on the major actions in the budget package.

BUDGET CHOICES

In most years, we would describe the size of the budget problem (or budget surplus) the Legislature addressed (or allocated) and the mix of choices that make up that total. This year, neither framing fits the budget package as neatly. Although the budget package includes some traditional budget solutions, it also reflects a substantial amount of new discretionary spending and a large, first-time deposit into a surplus holding account. Taken together, these choices roughly offset one another. At the same time, the budget continues to rely on reserve capacity, even as revenues have surged to levels only surpassed by the state's previous peak in 2021-22. Taken altogether, this makes the budget condition difficult to describe concisely. As such, this section describes the state's budget choices on both sides of the ledger: first new commitments and discretionary choices, and then the budget solutions made.

NEW COMMITMENTS

Revenue and Spending Commitments

New Discretionary Spending Totals Nearly $6 Billion. The budget commits $5.7 billion in new, discretionary General Fund money in 2026-27. We define discretionary spending as new spending or revenue reductions that were not previously authorized under current law or legislative policy. Nearly all of these commitments are spending related—revenue reductions account for only about $25 million of the total, mainly a temporary reduction in the minimum franchise tax for newly formed businesses. For context, this new discretionary spending is equivalent to roughly 90 percent of the total year-over-year growth in General Fund spending between 2025-26 and 2026-27. A list of the discretionary General Fund spending actions (excluding Proposition 98 (1988)) in the 2026-27 budget package are listed in Appendix 1.

Most New Spending Is One Time, but the Budget Also Added New Ongoing Costs. Of the $5.7 billion in new discretionary spending, about $5 billion (87 percent) is one time, while the remaining roughly $700 million reflects ongoing commitments—costs that will recur as part of the budget's baseline in future years. On a fully phased-in basis, these will total about $825 million annually. This new ongoing spending is a relatively small share of the total. Nonetheless, it adds to the budget's baseline costs in future years, offsetting the solutions described elsewhere in this report that were used to address the gap between the state's ongoing revenues and expenditures.

New Spending Is Concentrated in Health, Though New Spending Touches Nearly Every Program Area. With over 250 individual items, new discretionary spending reaches nearly every part of the budget, but on a programmatic basis, health programs account for the largest share (nearly 40 percent of the total), followed by general government, labor, and related programs (15 percent); housing and homelessness (12 percent); and criminal justice (11 percent). Human services and resources and environment programs each account for about 8 percent to 9 percent, with the remainder split between higher education (3 percent), K-14 education (excluding Proposition 98) (2 percent), and transportation (1 percent). Within health, the largest commitments are two one-time actions that delay previously planned reductions to Medi-Cal safety net clinic and dental payments ($1 billion and $258 million, respectively), along with $361 million for dental benefits for adults with unsatisfactory immigration status (UIS) and $250 million in public hospital grants. Other large individual commitments outside of health include: (1) $400 million for the Homeless Housing, Assistance and Prevention program (HHAP); (2) $228 million for new child care slots, plus $112 million to increase the child care monthly cost of care; (3) $200 million for the Multifamily Housing Program; and (4) $150 million each for the Community Air Protection Program and judicial branch deferred maintenance. Beyond these larger items, the remainder of the new augmentations consist of many smaller commitments—the median item is about $5 million—reflecting a broad range of initiatives.

Discretionary Reserves and Set Asides

Sets Discretionary Reserve Balance to $4.5 Billion. The Special Fund for Economic Uncertainties (SFEU) is a general-purpose reserve commonly used to provide capacity for unanticipated expenditures, including state costs associated with disasters and other emergencies. On a technical basis, it can be thought of as the end balance of the state's General Fund—the money that remains after accounting for all of the state's expected revenues and spending. The State Constitution has a balanced budget requirement, which means the balance of the SFEU must be set at zero or above for the upcoming fiscal year (2026-27). Any level above that is up to the discretion of the Legislature. As a result, we consider the entire balance of the SFEU to be a discretionary choice. The budget sets the SFEU balance at $4.5 billion, in line with recent budgets, which have set the balance between $3.5 billion and $4.5 billion.

Makes $6.4 Billion Transfer to Temporary Surplus Holding Account (TSHA). The budget package deposits $6.4 billion into the TSHA, to be withdrawn in 2027-28. Importantly, neither our office nor the Department of Finance considers this account to be a reserve. That is because, while it can help the state manage surging revenues within the budget window, it cannot mitigate against a future downturn in revenues. The box below describes this account and the transfer in more detail.

What Is the Temporary Surplus Holding Account (TSHA)?

Revenues Are Both Volatile and Uncertain. State revenues are volatile—they can grow or shrink rapidly from year to year, particularly because California's tax system relies heavily on high-income taxpayers. This means that, in some years, the state will collect significantly less in tax revenue than needed to cover its spending commitments—resulting in large budget problems. Relatedly, there is significant uncertainty about near-term revenue estimates—that is, even for the upcoming fiscal year, revenues can come in significantly above or below projections, resulting in large forecasting errors. This is especially common when revenues are growing or shrinking rapidly.

TSHA Was Set Up to Avoid Overspending a Surplus. In 2024, the Legislature created the TSHA as a tool intended to manage near-term revenue uncertainty. The account was designed for periods when the state has a surplus driven by rapid revenue growth and might otherwise commit to new spending based on revenue estimates that later prove overstated. The Legislature initially considered establishing formulas or rules governing deposits into the account. Ultimately, however, the TSHA was enacted as a flexible and largely discretionary mechanism.

Budget Uses TSHA for the First Time. The 2026-27 budget package deposits $6.4 billion into the TSHA and plans to withdraw the same amount in 2027-28. (By law, funds can remain in the account for up to one year.) In effect, this transfer uses anticipated 2026-27 resources to help balance the following year's budget, rather than allocating those resources to new purposes in the current budget window.

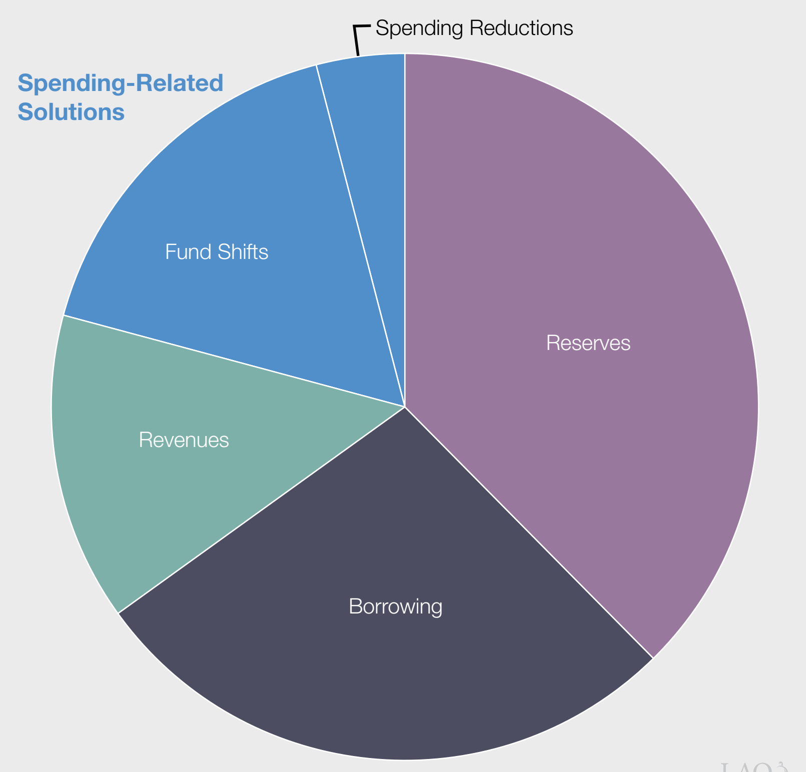
BUDGET SOLUTIONS

The state has several types of solutions—or options—for addressing a shortfall between resources and costs, but the most important include: reserve withdrawals, spending reductions, revenue increases, and borrowing (for example, loaning money from other funds to the General Fund).

Budget Package Included $14 Billion in Budget Solutions. The budget package includes about $14 billion in budget solutions. This total is essentially the same as the amount in the Governor's May Revision (also $14 billion). **Figure 1** summarizes the solutions that the budget package used. As the figure shows, the budget primarily relies on reserves and borrowing, which together represent about two-thirds of total solutions. Spending-related solutions—reductions and fund shifts—represent about $3 billion, or roughly one-fifth of the total. Revenue-related solutions, at $2 billion, represent the remainder. This section provides additional detail on each category of solution. Appendix 2 lists all the budget solutions.

Figure 1

$14 Billion in Budget Solutions in the Budget Package



Reserves ($5 Billion)

Nearly 40 percent of the budget's solutions are achieved by suspending an otherwise required reserve deposit—$5.4 billion. This is the single largest category of solutions in the budget package.

Suspends Budget Stabilization Account (BSA) True-Up Deposit of $5.4 Billion. Proposition 2 (2014) outlines the formulas by which the state must, each year, make deposits into the BSA, unless those requirements are suspended under a budget emergency. Proposition 2 also requires the state to revisit—or "true up"—its estimates of BSA deposits twice: once in each subsequent fiscal year. These true ups are required even if the initial deposit was suspended; however, true ups can themselves be suspended, as well. The state already suspended a $1.6 billion initial deposit for 2025-26. Under the administration's revenue estimates, an additional $5.4 billion true-up deposit was otherwise required for that year. The budget package suspends this entire true-up deposit.

Borrowing ($4 Billion)

The budget package addresses about one-quarter of its solutions using borrowing—$3.9 billion. We define "borrowing" as budget actions that achieve savings in the present but result in an obligation or higher cost for the state in a future year.

Entire Borrowing Total Reflects a Proposition 98 "Settle-Up" Obligation. This year's borrowing consists of a single action: a $3.9 billion Proposition 98 settle-up obligation. Proposition 98 sets a minimum funding requirement for schools and community colleges based on formulas in the State Constitution. The state makes an initial estimate of this requirement when it enacts the budget, then revises this estimate over the following two years to reflect updated data. The budget funds schools and community colleges below the current estimate of the minimum requirement for 2025-26, which provides temporary budget capacity but requires the state to settle up using future revenues. (This is why we categorize settle up as borrowing: it produces savings today at the cost of an obligation the state will need to pay later.)

The Administration Does Not Currently Publish a List of Outstanding Budgetary Borrowing. The borrowing described in this section is similar to the array of measures used during the Great Recession—collectively referred to at the time as the state's "wall of debt"—which created obligations to address budget gaps and that the state repaid or reversed gradually over time. While the state has various financial and accounting reports that allow policymakers and observers to track certain kinds of liabilities, the administration does not produce an easily accessible, public list that consolidates the state's outstanding budgetary borrowing incurred to address recent budget problems. We provide our best estimate of this list in **Figure 2**.

We Estimate the State's Outstanding Budgetary Borrowing Will Total $29 Billion at the End of 2026-27. As figure 2 shows, under the budget package, we estimate the state will have about $29 billion in outstanding budgetary borrowing at the end of 2026-27. This total includes the $3.9 billion Proposition 98 settle-up obligation described earlier in this section. The value of existing obligations can also change from year to year based on repayments and new borrowing, but also updated estimates and other budget actions. For example, the amount of borrowing for the Middle Class Scholarship program has declined, reflecting a budgetary decision to lower award coverage (from 35 percent to 23 percent of students' remaining financial need). The budget package also includes an extension of the business credit limitation, which was set to expire in 2026, and now will expire in 2029.

Figure 2

The State's New Wall of Debt

Reflects Existing Obligations and New Obligations for the end of 2026-27 (In Billions)

Borrowing Type	Amount Outstanding at End of 2026-27
Existing	
Business tax credit limitation (2024-2027)	$7.8
Proposition 98 maneuver (cash borrowing)	6.2
Medi-Cal maneuver (cash borrowing)	4.4
Special fund loans[a]	4.3
Payroll deferral	1.6
Middle Class Scholarships arrears budgeting[b]	0.7
University payment deferrals	0.3
Total	**$25.3**
Newly Created in 2026-27	
Proposition 98 settle up (2025-26)	$3.9
Total (Including Newly Created)	**$29.2**

[a] A share of these loans are outstanding from 2020-21. This does not include interest.

[b] The state appropriated no funding for this program in 2025-26 and began paying for it in arrears. No plan is in place to end this arrangement. The state, however, reduced the amount of associated borrowing in 2026-27 due to reducing award coverage from 35 percent to 23 percent of students' remaining need.

Note: Includes actions taken to address budget problems in 2023-24 and later. Prior versions of this table did not include the business tax credit limitation, but upon further review, we have determined this action should be included.

Spending-Related Solutions ($3 Billion)

Fund Shifts. We estimate the budget package includes about $2.4 billion in fund shifts, nearly all of which are concentrated in Medi-Cal and other health programs. The largest is a $1.7 billion shift that uses Proposition 35 (2024) managed care organization (MCO) tax funds to cover provider payment increases that otherwise would have been supported by the General Fund. Other notable fund shifts include $387 million in MCO tax funds redirected to support behavioral health spending and a combined $212 million in Behavioral Health Services Fund offsets across the Department of Health Care Services, the Department of Public Health, and the Department of Health Care Access and Information.

Reductions ($0.6 Billion). We estimate the budget package includes about $580 million in spending reductions. These are concentrated in child care and Medi-Cal. The largest include a $212 million reduction to State Preschool to align funding with program costs, a $127 million reduction to child care slots, and a $48 million reduction to the child care cost-of-living adjustment (COLA). In addition, the budget package extends new work requirements and six-month renewal periods to Medi-Cal enrollees with UIS, which results in $60 million in savings in 2026-27, growing to roughly $1.2 billion in savings in 2027-28, and $2 billion in savings ongoing.

Revenue-Related Solutions ($2 Billion)

Includes $2 Billion in Revenue-Related Solutions. The budget package includes three ongoing revenue solutions. The largest extends a temporary cap on business tax credits for three additional years before making the limitation permanent beginning in 2030, providing $1 billion in 2026-27. The budget also renews the MCO tax, providing $575 million in General Fund savings in 2026-27, and extends the sales tax to certain digital software sales, raising $450 million in 2026-27. Each of these is described in more detail in the "Major Features" section below.

GENERAL FUND CONDITION

In this section, we describe the overall condition of the General Fund budget and provide state appropriations limit (SAL) estimates under the spending plan. As is the case in the previous section, the figures here use the administration's budget estimates as of June 2026.

BUDGET WINDOW

Figure 3 summarizes the condition of the General Fund under the revenue and spending assumptions in the June 2026 budget package, as estimated by the administration. Under these projections, the state ends 2026-27 with $4.5 billion in the SFEU. (The SFEU is the state's operating reserve and essentially functions like an end-of-year balance.) The revised balance of $29.2 billion in the SFEU for 2025-26 reflects, in large part, a significant upward revision to 2025-26 revenues. That revenue upgrade leaves the budget close to structurally balanced in that year but does not carry through to 2026-27, as the administration assumes revenues are essentially flat in 2026-27. As a result, drawing down that elevated 2025-26 balance—along with other choices described earlier in this report—allows the state to cover costs in 2026-27 that would not otherwise be covered by that year's revenues on their own. In other words, the state has a structural imbalance in 2026-27, even though the enacted budget is balanced.

Figure 3

General Fund Condition Summary

(In Millions)

	2024-25 Revised	2025-26 Revised	2026-27 Enacted
Prior-year fund balance	$54,258	$56,707	$57,221
Revenues and transfers	233,639	245,817	226,754
Expenditures	231,190	245,303	251,477
Ending fund balance	$56,707	$57,221	$32,498
Encumbrances	$27,998	$27,998	$27,998
SFEU Balance	**$28,709**	**$29,223**	**$4,500**
Reserves			
BSA	$18,596	$11,496	$15,070
SFEU	28,709	29,223	4,500
Safety net	0	—	—
Total Reserves	**$48,205**	**$40,719**	**$19,570**

Note: Reflects administration estimates of budget actions taken through July 1, 2026.

SFEU = Special Fund for Economic Uncertainties and BSA = Budget Stabilization Account.

Reserves

General Fund Reserves Nearly $20 Billion Under Spending Plan. Combined, under the spending plan, the BSA ($15.1 billion) and SFEU ($4.5 billion) would total $19.6 billion at the end of 2026-27. The state's Safety Net Reserve, which held $900 million as recently as 2023-24, is now fully depleted. Under the budget package, the state would also end 2026-27 with $9.2 billion in the Public School System Stabilization Account, or Proposition 98 Reserve.

Voters Will Decide on Reserve-Related Constitutional Changes in November. As part of the budget package, the Legislature passed ACA 20, which will appear before voters as Proposition 2 (2026) on the November ballot. If approved by voters, the measure would make several changes to the state's constitutional reserve and debt-payment framework, beginning in 2027-28. It would raise the cap on the BSA's balance from 10 percent to 20 percent of General Fund tax revenues and require larger deposits in years when revenues from capital gains are unusually high. It would also extend the state's current requirement to make extra debt payments toward pension and retiree health liabilities—set to expire in 2030—through 2040, while expanding the purposes of those payments. Finally, the measure would change how both BSA and TSHA deposits count toward the SAL.

Revenues

Figure 4 displays the administration's revenue projections as incorporated into the June 2026 budget package. As the figure shows, consistent with stock-market-driven revenue strength and surges in collections, revenues from the state's three largest sources are estimated to have grown substantially in 2025-26. The administration does not assume this pace of growth continues: combined revenues from the three major sources are projected to grow by just $1.3 billion (0.6 percent) in 2026-27, with personal income tax collections assumed to decline slightly (down 0.8 percent, or $1.2 billion) even as sales and use tax (up 2.9 percent) and corporation tax (up 3.4 percent) continue to grow.

Spending

Figure 5 displays the administration's June 2026 estimates of total state and federal spending in the 2026-27 budget package. General Fund spending is projected to total $252 billion in 2026-27, an increase of $6 billion (2.5 percent) from the revised 2025-26 level. Including special funds, total state spending reaches $347 billion. Accounting for bond funds and federal funds as well, all-funds spending totals roughly $539 billion in 2026-27, with federal funds—at $187 billion—growing by nearly 5 percent. (The "Major Features" section of this report also describes some of the major discretionary spending choices and budget solutions reflected in the spending plan.)

MULTIYEAR

2026-27 Operating Deficit Is Larger Than the Budget's Solutions. As shown in Figure 6, the administration estimates an $18.5 billion operating deficit in 2026-27—somewhat larger than the amount of solutions needed to balance the enacted budget. This difference arises largely because the enacted budget is balanced on a cumulative basis: as discussed earlier in this report, it draws down the elevated fund balance carried over from 2025-26 and prior years. The operating deficit, by contrast, evaluates each year in isolation—comparing the

Figure 4

General Fund Revenue Estimates

(Dollars in Millions)

	Revised		Enacted	Change From 2025-26	
	2024-25	2025-26	2026-27	Amount	Percent
Personal income tax	$131,328	$146,847	$145,609	-$1,239	-1%
Sales and use tax	33,596	34,588	35,598	1,010	3
Corporation tax	41,757	43,662	45,167	1,505	3
Total, Major Revenue Sources	**$206,681**	**$225,097**	**$226,373**	**$1,276**	**1%**
Insurance tax	$4,298	$4,510	$4,728	$217	5%
Other revenues	9,070	7,273	6,258	-1,493	1
Transfers and loans	13,590	8,936	-10,605	-19,063	-8
Totals, Revenues and Transfers	**$233,639**	**$245,817**	**$226,754**	**-$19,063**	**-8%**

Note: Reflects administration estimates of budget actions taken through July 1, 2026.

revenues the state collects that year against the costs it incurs that year. Viewed this way, the state's 2026-27 ongoing revenues fall well short of its ongoing spending.

Administration Projects Operating Deficits Throughout the Forecast Period. Once the entering fund balance is spent down, the state no longer has a comparable cushion to draw on, and the operating deficit becomes a closer approximation of the budget's year-to-year condition. Under the administration's estimates and proposals, the operating deficit narrows after 2026-27—to $10.4 billion in 2027-28, $8.7 billion in 2028-29, and $8.3 billion in 2029-30—but remains notable throughout the forecast period.

STATE APPROPRIATIONS LIMIT

Under Proposition 4 (1979), the Constitution limits how the state can spend revenues that exceed a certain limit—a set of formulas known as the SAL. During the revenue surges in the early 2020s, the SAL was an important constraint in the budget process and had significant implications for the Legislature's budget decisions. For the last few years, however, the SAL has not been salient to the budget process. This is because declines in revenues, coupled with some growth in the limit, have meant the state has more room.

Figure 7 provides an overview of the SAL estimates in this year's budget. As the figure shows, under the budget package, the state has $27 billion in room under the SAL limit in 2026-27—an increase from $8 billion in room in 2025-26.

Figure 5

Total State and General Fund Expenditures

(Dollars in Millions)

	Revised		Enacted	Change From 2025-26	
	2024-25	2025-26	2026-27	Amount	Percent
General Fund	$231,190	$245,303	$251,477	$6,174	3%
Special funds	84,332	91,130	95,129	3,999	4
Budget Totals	**$315,523**	**$336,433**	**$346,606**	**$10,173**	**3%**
Bond funds	$1,610	$10,520	$5,104	-$5,417	-51%
Federal funds	160,091	178,422	187,190	8,768	5

Note: Reflects administration estimates of budget actions taken through July 1, 2026.

Figure 6

State Faces Future Operating Deficits

(In Billions)

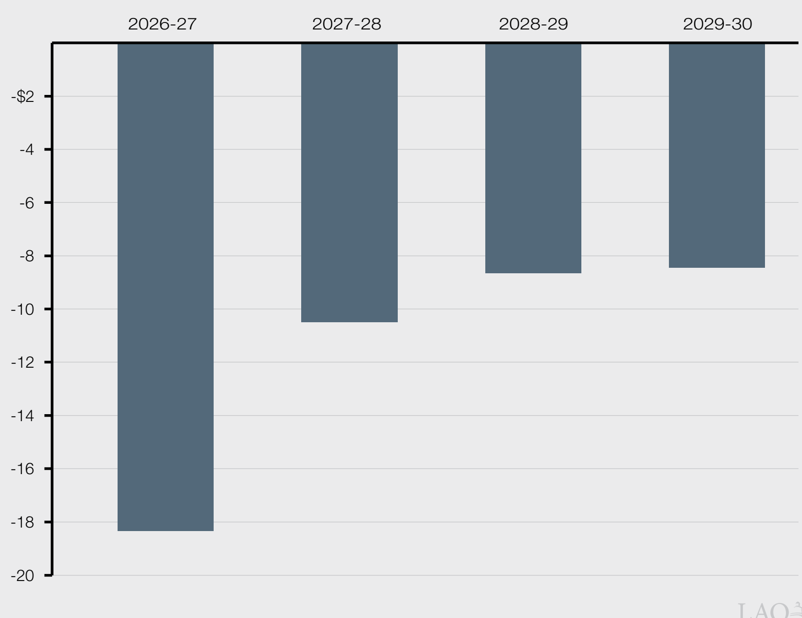


Figure 7

State Appropriations Limit (SAL) Estimates

(In Billions)

	2024-25	2025-26	2026-27
SAL Revenues and Transfers	$263.4	$281.1	$280.3
Exclusions	-120.3	-122.5	-125.6
Appropriations Subject to the Limit	**$143.1**	**$158.6**	**$154.7**
Limit	$147.6	$166.9	$182.0
Room/Negative Room	**$4.5**	**$8.3**	**$27.3**
Excess Revenues?		No	

Note: Reflects administration estimates of budget actions taken through July 1, 2026.

Because appropriations subject to the limit remain below the constitutional limit, the state does not have excess revenues in 2026-27, meaning no additional funding for schools or taxpayer rebates is triggered under Article XIII B. As noted above, if passed by voters, Proposition 2 (2026) would change how BSA and TSHA transfers are treated under the SAL beginning in 2027-28.

EVOLUTION OF THE BUDGET

This section provides an overview of the 2026-27 budget process. Figure 8 contains a list of the budget-related legislation passed on or before July 1, 2026.

Governor's January Budget Proposal

Governor's Budget Roughly Balanced on Higher Revenues. Governor Newsom's administration presented its proposed state budget to the Legislature on January 9, 2026. At the time, the administration estimated the budget faced a roughly $3 billion deficit—which we characterized as roughly balanced. This was considerably smaller than the $18 billion deficit we had projected in our November *Fiscal Outlook*. The difference was driven almost entirely by the administration's higher revenue estimate, a $42 billion upgrade from the *2025-26 Budget Act* reflecting strong income tax collections tied to a stock market boom.

Governor's Budget Solutions Relied on Borrowing and New Reserve Use. The Governor's budget included about $9 billion in budget solutions, the two largest of which were a $5.6 billion Proposition 98 settle-up obligation (funding schools and community colleges below the estimated constitutional minimum for 2025-26) and the suspension of a $2.8 billion BSA true-up deposit otherwise required for 2025-26. The budget also proposed setting the state's operating reserve, the SFEU, at $4.5 billion, and included about $600 million in new discretionary spending.

Figure 8

Budget-Related Legislation Passed On or Before July 1, 2026

Bill Number	Chapter	Subject
Budget Bills and Amendments		
AB 109	19	*2026-27 Budget Act*
AB 112	22	Amendments to the *2022-23*, *2023-24*, *2024-25*, and *2025-26 Budget Acts*
SB 111	21	Amendments to *2026-27 Budget Act*
Trailer Bills		
AB 126	65	Education
AB 150	25	Early care and education
AB 152	26	Human services
SB 125	24	Medi-Cal: Managed care organization provider tax
SB 135	79	Higher education
SB 163	80	Developmental services
SB 164	27	Health
SB 165	61	Skilled nursing facilities: reimbursement rates
SB 166	62	Public resources
SB 168	81	Public resources
SB 169	82	Transportation
SB 170	28	Governor's reorganization plan
SB 171	83	Labor
SB 172	84	State government
SB 174	29	Courts
SB 177	64	Medi-Cal: Fair Share for Big Corporations Act
SB 179	68	Housing
SB 180	85	Taxes

Note: This figure includes budget bills and trailer bills identified in Section 39.00 in the *2025-26 Budget Act* that were passed by the Legislature on or before July 1, 2026. Ordered by bill number.

Spring Revenue Collections

February Collections Confirmed Continued Revenue Strength. In February, we published an updated revenue forecast finding that income tax collections in December and January had exceeded Governor's budget projections by about $6 billion, driven by continued stock market gains connected to investor enthusiasm around artificial intelligence. We estimated this improvement translated into a roughly $2.5 billion upgrade to the budget's bottom line relative to January. At the same time, we reiterated that similar asset-price-driven revenue surges in 2000, 2006, and 2021 were each followed by sharp reversals, and recommended that the Legislature treat any additional resources at the May Revision as a one-time windfall—to be used to reduce reliance on reserves and budgetary borrowing rather than to fund new ongoing commitments.

Governor's May Revision

Higher Revenues Again Improved the Budget's Bottom Line. Governor Newsom presented the May Revision on May 14, 2026. Relative to the January budget, the administration's revenue estimates across the three-year budget window (2024-25 through 2026-27) increased by about $16 billion, again reflecting continued strength in income tax collections. Higher constitutionally required spending on schools, community colleges, and reserves partially offset this improvement. The May Revision also reflected operating deficits that were about half as large as those in the January budget proposal—reducing these deficits was consistent with our guidance.

May Revision Continued to Rely on Reserves and Borrowing. The May Revision continued to rely on reserves and borrowing to balance the budget. The May Revision also introduced a first-time proposal to deposit nearly $10 billion into the TSHA—a mechanism created in 2024 to guard against overcommitting uncertain revenue—and withdraw the same amount in 2027-28, in effect using anticipated 2026-27 resources to help balance the following year's budget. Separately, the administration proposed a smaller $4 billion Proposition 98 settle-up obligation (down from $5.6 billion in January), which added to the state's outstanding budgetary borrowing, projected to approach $30 billion.

Proposed New Ongoing Revenues and Other Solutions. The Governor also proposed ongoing revenue solutions: a renewed and larger MCO tax (providing roughly $575 million in General Fund savings in 2026-27, growing to about $2 billion annually), a permanent cap on business tax credits (an estimated $850 million in 2026-27), and extending the sales tax to certain digital software sales (an estimated $450 million in General Fund revenue in 2026-27). Combined with expanded Medi-Cal spending reductions and fund shifts, the May Revision's solutions totaled about $14 billion.

Legislature's Budget

In the weeks following the May Revision, the Assembly and Senate each held hearings on and adopted their own versions of the budget. The two houses reconciled their differences into a joint legislative budget, passed on June 15, 2026. This version adopted the May Revision's proposed $5 billion package of ongoing revenue solutions (the MCO tax, the software sales tax, and the business tax credit cap) and included $15.1 billion in the BSA. Relative to the May Revision, the Legislature's budget assumed $5 billion more in revenues in 2025-26. The budget then used this new capacity to reject or delay many of the Governor's proposed Medi-Cal reductions; restore funding for child care slot expansion; and increase funding for HHAP, affordable housing, and immigration legal aid. The Legislature's budget also proposed placing reforms to the BSA on the November 2026 ballot.

Final Budget Package

The Legislature and the Governor reached a final agreement in late June, and the Legislature passed the amended budget act and associated trailer bills on June 29, 2026. The next section of this report describes the major features of the final budget package.

MAJOR FEATURES

Tax Policy

Extends Limitations on Business Tax Credits. Two years ago, the state temporarily increased corporation tax revenues by limiting the amount of tax credits a business can claim to $5 million for tax years 2024, 2025, and 2026. A new mechanism also was created for taxpayers to recoup these temporary tax increases as tax refunds in future years. The budget extends this limitation through 2029. Beginning in 2030, the budget also permanently limits business tax credit claims to the greater of $5 million or 70 percent of the business' tax liability. The administration estimates that the extension of the limitation raises General Fund revenue by $1 billion in 2026-27, $3.3 billion in 2027-28, and over $4 billion per year for the remainder of the budget multiyear.

Renews Enrollment Tax on Health Plans. The health plan tax (also known as the MCO tax) is a specific tax on health plan enrollment that helps pay for Medi-Cal. The current tax, set to expire at the end of 2026, provides the state around $7 billion to $8 billion in net revenue annually. This year's spending plan assumes federal approval of a renewed tax from January 2027 through the end of 2029. The renewed tax is estimated to provide $2.3 billion in net revenue, a much smaller amount compared to the current tax. Though smaller in size, the renewed tax will be much costlier to health plans (and likely their consumers). This is because the current tax derives nearly all of its revenue from plans' Medi-Cal enrollment, which effectively is paid for by the federal government. The renewed tax, by contrast, will derive around two-thirds of its net funding ($1.5 billion) from plans' private enrollment. This structural change is needed to comply with new federal rules around provider taxes in Medicaid.

Applies Sales Tax to Digital Prewritten Software. Starting January 1, 2027, the budget extends the sales tax to many sales of prewritten software. The administration estimates that this would raise General Fund revenue by $450 million and local sales tax revenue by $560 million in 2026-27, when it would be in effect for half a year. The full-year revenue estimates for 2027-28 and ongoing are $900 million General Fund and $1.1 billion in local sales tax revenues.

K-14 Education

Unlike the Rest of the Budget, Substantial Resources Available for New K-14 Education Spending. Proposition 98 creates a "budget within a budget" by establishing a minimum funding level for schools and community colleges that is calculated using a set of constitutional formulas. The state meets the guarantee through a combination of General Fund and local property tax revenue. From the minimum annual funding level determined by Proposition 98, the Legislature decides how to allocate resources among various K-14 programs, including funding for existing programs. Although growth in the minimum funding level for K-14 education has a direct relationship with General Fund revenues, the condition of the Proposition 98 budget can differ substantially from the condition of the rest of the budget. Compared with the June 2025 estimates, the guarantee is up $29 billion across the budget window. This increase mainly reflects higher General Fund revenue estimates. After accounting for the cost of current law and policy commitments—including constitutionally required Proposition 98 Reserve deposits and statutory COLA—about $17 billion is available for new discretionary spending. (This estimate does not include the cost of resolving the settle-up obligation described earlier in this report, which would require additional funding in a future year.)

Provides Ongoing Funding Increases Beyond the Statutory COLA. The budget increases per-student funding rates under the K-12 Local Control Funding Formula and community college Student Centered Funding Formula by 4.31 percent. Of this increase, 2.87 percent is to cover the statutory COLA and 1.44 percent is a discretionary augmentation. Part of the discretionary increase funds a new requirement for paid pregnancy disability leave. Specifically, trailer legislation requires all school and community college employers to offer up to 14 weeks of leave at full pay for any employee (excluding a substitute) who experiences a disability resulting from pregnancy, childbirth, or miscarriage, beginning in 2026-27.

Funds Several Other Ongoing Increases. For schools, the budget provides $2.4 billion to bring the statewide funding rate for special education to $1,340 per student, an increase of $396 per student (42 percent) beyond the COLA-adjusted level. The budget also provides $1 billion for a new ongoing community schools program. This augmentation will provide ongoing support for previous grant recipients and expand the community schools model to additional low-income schools. For community colleges, the budget provides $153 million for an additional 2.5 percent enrollment growth across 2025-26 and 2026-27, as well as $48 million to allow districts to claim the higher of their three-year average or current level of credit enrollment.

Funds Discretionary Grants and a Few Other Notable One-Time Activities. For schools, the budget provides $5 billion for the Student Support and Professional Development Discretionary Block Grant. Districts may use these funds for any local purpose, but trailer legislation encourages them to prioritize professional development, teacher retention and recruitment, community schools, career education, and deferred maintenance. The state will distribute funds on an equal per-student basis (estimated at $932 per student). The budget also provides notable funding for learning recovery, literacy coaches, teacher training and recruitment, and kitchen infrastructure. For community colleges, the budget provides $147 million for the Student Support Block Grant. Districts may use these funds for a range of student services, including basic needs (such as food, housing, and transportation), financial aid, counseling, and job placement activities. The state will allocate funds based on student headcount and the share of students qualifying for fee waivers or nonresident tuition exemptions, with a minimum grant of $150,000 per college in each district. The budget also provides notable funding for deferred maintenance as well as various other student support and workforce development initiatives.

H.R. 1-Related Actions

Implements Recently Enacted Federal H.R. 1 Legislation. In July 2025, Congress enacted H.R. 1, which makes substantial changes to federal Medicaid and food assistance policies and funding. This year's spending plan reflects these changes and implements several of them in trailer bill legislation. The Legislature also took additional actions in response to H.R. 1, described below. In all, these changes and actions are estimated to cost the state $1.7 billion General Fund in 2026-27. As of June 2026, the administration also estimates total disenrollments of 1.3 million from Medi-Cal and 700,000 from CalFresh through 2029-30.

Restricts Eligibility for People With UIS. People with UIS (mostly undocumented immigrants, but others too) do not qualify for most federally funded health coverage. The state, however, has provided these people with comprehensive coverage funded solely by the state. The spending plan takes two key actions affecting this population. First, the spending plan applies work requirements and other H.R. 1 eligibility rules to them. Second, it ends comprehensive coverage for immigrant groups that become newly UIS under H.R. 1 (such as refugees and asylees). Neither action is required under H.R. 1, though they result in savings and avoid backfilling lost federal funding. The actions begin in 2027, with the associated General Fund savings ramping up over time (we estimate from around $60 million in 2026-27 to around $3 billion in 2029-30).

Supports County and State Implementation of New Eligibility Rules. On the other hand, the spending plan also adds new spending to implement H.R. 1's requirements, particularly related to new requirements to maintain enrollment. Most notably, it provides one-time General Fund augmentations to support county eligibility determination work in Medi-Cal and CalFresh through H.R. 1 implementation, including $197 million ($709 million total funds) for Medi-Cal and $223 million ($460 million total funds) for CalFresh. These one-time allocations are intended to support county implementation efforts over multiple years. The spending plan also includes some additional resources for the Departments of Health Care Services and Social Services to implement H.R. 1 provisions.

Partially Backfills Lost Federal Funds and Provides Some Limited, Targeted Assistance. The spending plan also backfills some of the lost federal funding resulting from H.R. 1, resulting in additional required state costs. Most notably, it backfills reductions in federal matches for emergency Medi-Cal coverage and for CalFresh administration, with ongoing costs at around $1 billion General Fund. Additionally, while the spending plan does not backfill lost Medi-Cal and food benefits, it targets some one-time funds to certain entities and providers. For example, the spending plan provides $108 million General Fund in 2026-27 ($100 million above typical ongoing state support) to support food banks that are expected to experience higher demand due to CalFresh disenrollment. It also provides $90 million General Fund in 2025-26 to support family planning providers that temporarily lost federal assistance under H.R. 1.

Higher Education

Provides Universities With Large Base Increases. The 2026-27 budget package includes a $1.2 billion ongoing General Fund augmentation for the University of California (UC) and California State University (CSU) combined. Consistent with the 2025-26 budget agreement, UC and CSU each receive a 7 percent base increase along with a 3 percent base restoration relating to payment deferrals enacted last year. Though the base increases are largely unrestricted, UC and CSU are to use them in part to cover enrollment growth costs. The *2026-27 Budget Act* sets forth resident undergraduate enrollment growth targets of 1.4 percent at UC and 1 percent at CSU. Beyond these base increases, UC receives $61 million to complete implementation of the nonresident enrollment replacement plan and CSU receives $91 million for health care and certain pension cost increases. In addition, the 2026-27 budget package contains one-time General Fund totaling $152 million for 25 UC initiatives and $6 million for 2 CSU initiatives.

Makes Large Out-Year Funding Commitments for the Universities. Also consistent with the 2025-26 budget agreement, the state maintains three out-year funding commitments for UC and CSU totaling $1.1 billion (nearly $800 million in 2027-28 and $300 million in 2028-29). All of these commitments are in response to the state providing less than intended for the universities in 2025-26. Notably, the state plans to provide UC and CSU a combined $524 million one-time General Fund back payment in 2027-28 in response to not providing a compact base increase in 2025-26. The state also plans to provide $274 million one-time General Fund in 2027-28 to retire UC and CSU payment deferrals instituted in 2025-26. In 2028-29, the state further plans to provide UC and CSU a combined $296 million ongoing General Fund augmentation, reflecting a 3 percent base increase associated with the remaining postponed 2025-26 compact payment.

Includes Some Notable Financial Aid Actions. The *2026-27 Budget Act* includes a $301 million ongoing augmentation for the Cal Grant Program, part of which covers the cost of higher UC and CSU tuition awards. The state makes one temporary Cal Grant policy change—raising the Transfer Entitlement age cap from age 28 to 30 for five years (2027-28 through 2031-32). Provisional language indicates the state's intent to provide a total of $111 million to cover the cost associated with this policy change. The budget includes $959 million to cover the cost of Middle Class Scholarships (MCS) in the 2025-26 award cycle (as the program is being paid in arrears). For the 2026-27 award cycle, the state reduces coverage from 35 percent to 23 percent of students' remaining need. MCS costs are expected to decline an estimated $268 million in 2027-28 as a result of this change. The budget also extends the Golden State Teacher Grant program (for students in teacher credential programs) and includes a small amount of one-time funding for the state to undertake certain administrative tasks to begin implementing the new federal Workforce Pell Grant program, which took effect on July 1, 2026.

Housing and Homelessness

Adopts Policies Aimed at Streamlining the State's Affordable Housing Funding System. In recent years, the Legislature and Governor have been attempting to create a more coordinated funding system for affordable housing. Most notably, these efforts included a reorganization approved last year which is intended to create within the administration a "one-stop shop" called the Housing Development and Finance Committee (HDFC). (For more information on last year's reorganization, please see our report, *The 2025-26 California Spending Plan: Housing, Homelessness, and Local Government.*) As a next step in this streamlining process, the 2026-27 budget package creates a special set aside for HDFC-awarded housing projects, such that they will automatically receive federal tax credits (rather than having to compete with other project proposals for the tax credits—a key funding source for virtually all affordable housing projects). In addition, the budget agreement splits the Affordable Housing and Sustainable Communities program, which has been administered by the Strategic Growth Council as an integrated housing-transportation award, and places the affordable housing component with HDFC.

Provides Funding for Affordable Housing. In addition to these streamlining efforts, the 2026-27 budget provides some funding for affordable housing programs. This includes $200 million one-time General Fund for the Multifamily Housing Program, the state's flagship affordable housing program. The budget also authorizes $500 million for the state Low-Income Housing Tax Credit program. (This amount is in addition to about $135 million in statutorily required state tax credits for the program in 2026-27.) Due to changes affecting the Greenhouse Gas Reduction Fund (GGRF), however, the budget package assumes a much lower level of ongoing funding for the Affordable Housing and Sustainable Communities program than what has been provided in prior years. (For an overview of these changes to GGRF, please see the "Other" section.) Finally, in June 2026, the Legislature placed a housing bond on the November 2026 ballot (Proposition 1), which, if approved by voters, would provide billions of dollars for various state affordable housing programs.

Adds Funding and Requirements for State's Main Homelessness Program. Last year's budget appropriated $500 million one-time General Fund for a seventh round of the HHAP program in 2026-27. This funding was made contingent on subsequent enactment of legislation that enhances accountability for the program. The 2026-27 budget adds $400 million one-time General Fund to HHAP, bringing total funding for the seventh round to $900 million. In an effort to increase accountability, the budget package also includes several new statutory requirements for grantees. This includes a local matching requirement for all cities (and the counties in which those cities are located) receiving seventh-round HHAP funding.

Labor and Employment

Allocates $668 Million for Interest Payment on Federal Unemployment Insurance (UI) Loan. The budget agreement includes $668 million General Fund to make the required annual interest payment on the state's outstanding federal UI loan. As of July 2026, the state's outstanding federal loan was $18.5 billion, approximately the same amount as was originally borrowed during the pandemic. The interest rate on the outstanding loan is variable and for this year was 3.2 percent.

Tightens Eligibility for Workers' Compensation Benefits for Workers With Pre-Existing Disabilities. A budget trailer bill—Chapter 83 of 2026 (SB 171, Committee on Budget)—tightens eligibility for the Workers' Compensation Subsequent Injury Benefit Trust Fund program, which pays lifetime disability benefits to injured workers with pre-existing health conditions. The new rules apply to pending claims filed after July 1, 2020. The budget plan also funds implementation. (For more information on this program, see our report, *Refocusing the Worker's Compensation Subsequent Injury Program.*)

Other

Allocates Most GGRF Monies, Defers Some Related Decisions. The June budget package assumes about $3.1 billion in spending from GGRF, largely allocated pursuant to the tiered framework established by Chapter 121 of 2025 (SB 840, Limón). This includes:

- ***Tier 1.*** Provides roughly $350 million for various existing statutory activities including state operations support and backfilling revenue losses from both the suspended State Responsibility Area fee and a manufacturing tax exemption.

- ***Tier 2 and Other Discretionary.*** Provides a total of $2.4 billion for three categories of activities: $1.25 billion to support operations at the California Department of Forestry and Fire Protection (achieving a like amount of General Fund savings, consistent with a prior-year budget agreement); $1 billion for the high-speed rail project, as required by SB 840; and $115 million for a new zero-emission vehicle (ZEV) purchase incentive program.
- ***Tier 3.*** Plans for an estimated total of $372 million for programs that receive statutory continuous appropriations, including for local transit, safe drinking water, and forest health projects. (The actual amount of funding that Tier 3 programs receive will depend on how much revenue the state receives from cap-and-invest program auctions over the coming year.)

The budget package also includes some supplemental funding from other sources for programs that have historically been funded by GGRF, including $150 million from the General Fund for the Community Air Protection Program established by Chapter 136 of 2017 (AB 617, Garcia) and $173 million from other special funds for various ZEV purchase incentives. The budget package defers action on some GGRF-related proposals to later in the summer, including (1) a trailer bill that would make various changes to SB 840; (2) $250 million for Tier 2 legislative priorities identified in SB 840; (3) funding support for certain new state operations activities; and (4) statutory language to establish a new Legislative Climate Bureau, consistent with intent language included in SB 840.

Expands and Delays Some Previously Enacted Medi-Cal Budget Solutions. The spending plan revises several ongoing Medi-Cal budget solutions enacted last year. Some revisions expand them, resulting in more savings. Most notably, this year's health trailer bill legislation reduces the reinstated asset limit for seniors and persons with disabilities beginning July 2027. The administration estimates this change saves $257 million ongoing General Fund. On the other hand, other revisions delay the start of enacted budget solutions by 12 months. These delays cost the state $1.6 billion one-time General Fund in 2026-27.

Provides Additional Support for Hospitals. California pays billions of dollars each year to its hospitals, primarily as reimbursement for services provided to Medi-Cal patients. Recent budgets have provided additional one-time loans to support financially distressed hospitals. This year's spending plan builds upon these past initiatives by providing $365 million one-time General Fund to hospitals. Most of this amount ($250 million) is for grants to UC and county hospitals. The remainder ($25 million in 2025-26 and $90 million in 2026-27) is for grants to private nonprofit and public hospitals that are financially distressed.

Provides Court Facility and New Judgeship Funding. The budget provides $2.1 billion in 2026-27 (declining annually to $44 million by 2028-29 and ongoing) from various fund sources to support courthouse construction, facility modification, and deferred maintenance projects, as well as new judgeships. This includes:

- $1.7 billion one-time lease revenue bond authority for the design-build and construction phases of nine courthouse construction projects.
- $150 million one-time General Fund for deferred maintenance projects.
- $102 million in 2026-27 declining to $38.5 million in 2027-28 largely from the General Fund for various phases of 11 court construction projects and one facility modification project.
- $100 million General Fund in 2026-27 declining to $44 million in 2027-28 and ongoing to support 13 new judgeships and the facility modification projects to accommodate them.

LAO PUBLICATIONS

This report was prepared by Ann Hollingshead with contributions from analysts across the office, and reviewed by Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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