Summary of Governor Gavin Newsom's Proposed Budget for FY 2026-27

Introduction

On January 9, 2026, Governor Gavin Newsom released his $348.9 billion proposed budget for fiscal year (FY) 2026-27. The governor's proposal outlines a roughly balanced budget, with a small deficit of $2.9 billion that is largely dependent on an increased projection of $42.3 billion in personal income tax revenues (compared to forecasts in the enacted budget in 2025), bolstered by surging revenues from the artificial intelligence (AI) sector. It is important to note that this increased revenue projection is subject to stock market uncertainty and much larger than the Legislative Analyst's Office (LAO) projection of $28.8 billion. The proposal notably does not include any significant new investments or cuts to programs, including maintained cuts to expanded health care access and allows previous investments in homelessness funding to sunset. It additionally does not provide any new tax solutions to address anticipated impacts on health care, food access, and affordability.

In response to multiple budget deficit years, advocates across the state, including leading budget advocates like the California Budget and Policy Center, have been calling for new measures that increase state revenues in order to address impending threats to community health, safety, and well-being brought on by the affordability crisis.

This document highlights elements of the proposal that may be of interest to advocates and organizations working to foster more equitable, safe, and healthy community conditions. We've additionally identified investment gaps for programs that we know are important for communities to thrive.

This document details aspects of the budget pertinent to PI's three priority areas for California policy:

1. Strengthening community-driven approaches to safety and wellbeing
2. Healthy, equitable built environments and land use planning
3. Aligning public investments with health equity and racial justice.

In addition to summarizing elements of the budget proposal that foster or hinder our three policy priority areas, we include details on budget priorities that advocates are advancing to address gaps that we see in the Governor's proposed budget.

Implications of H.R. 1

The passage of the federal bill, H.R. 1 in 2025 is set to put millions of California residents at risk of losing health care access and losing some, or all, of their food assistance support. The Governor's proposal projects that impacts from H.R. 1 will result in additional costs of $1.4 billion to the general fund for Health and Human Services programs– with $1.1 billion of the costs to Medi-Cal and $300 million for CalFresh. The Governor's proposal does not include any new tax solutions to address the anticipated impacts on those at risk of losing health care access, food security, and rising affordability concerns.

The California Budget & Policy Center has stated that, "given the scale of both the federal and state budget cuts, California leaders should not let the cruelty of the federal government dictate how California acts. Instead, state leaders should take meaningful steps to minimize the harm to people's access to health care and protect communities. Addressing this challenge will require bold leadership and new, ongoing state revenue, particularly from the most profitable corporations and wealthy individuals who benefit the most from H.R. 1's federal tax breaks."

Medi-Cal (Medicaid)

In 2025, the state enacted devastating cuts to Medi-Cal that disproportionately impact undocumented Californians – from enrollment freezes, to increases in monthly premiums, and cuts to dental benefits. The Governor's 2026 proposal imposes further harm to California's immigrant communities by imposing federal work requirements to immigrants receiving state funded Medi-Cal (despite there not being any federal requirement to do so) and does not include any action to protect some immigrant groups who will be transitioned from full-scope Medi-Cal to emergency only.

- **Work and Community Engagement Requirement**— An estimated reduction of $373 million ($102 million General Fund) in 2026-27 and $13.1 billion ($3.6 billion General Fund) by 2029-30, resulting from the new work and community engagement requirements for the Affordable Care Act adult expansion population, effective January 1, 2027.
- **Medical Assistance Percentage for Emergency Services**— A cost of $658 million General Fund in 2026-27 and $872 million General Fund by 2029-30 due to the federal match reduction from 90 percent to 50 percent for emergency services for Affordable Care Act adult expansion population members with unsatisfactory immigration status.
- **Restrictions on Immigrant Eligibility**— Effective October 1, 2026, H.R. 1 will exclude individuals with certain immigration statuses from federal eligibility for full-scope Medi-Cal, which significantly reduces federal funding for this population. If the state were to otherwise

provide full-scope Medi-Cal to this population, the cost is estimated to be $786 million General Fund in 2026-27 and $1.1 billion General Fund ongoing.

The California Immigrant Policy Center, a constituent-based statewide immigrant rights organization, notes that under the Governor's proposal, populations who have had full scope Medi-Cal since the 90's – including refugees, asylees, trafficking survivors, and more – will lose access to federally funded full-scope Medi-Cal. Advocates at Health Access, a coalition of groups advocating for affordable, equitable, and quality health care for all Californians, additionally highlight that this provision would strip these group's ability to manage chronic conditions or get preventative care.

- **Affordable Care Act Adult Expansion Six-Month Redeterminations**—A reduction of $463 million ($74 million General Fund) in 2026-27 and $3 billion ($474 million General Fund) by 2029-30 for decreased caseload resulting from the required federal eligibility redetermination frequency changing from once per year to every six months.
- **Reduced Retroactive Medi-Cal Timeframes**—A reduction of $23 million ($10 million General Fund) in 2026-27 and $48 million ($20 million General Fund) ongoing from the reduction of retroactive Medi-Cal coverage changes from three months before an individual's application date to one month for the Affordable Care Act adult expansion population and two months for all other members, effective no sooner than January 1, 2027.
- **In-Home Supportive Services (IHSS) –** Cuts $86 million General Fund from the IHSS program to effectively eliminate the IHSS Residual Program's role for IHSS recipients who become ineligible for Medi-Cal. Losing Medi-Cal will mean a loss of their IHSS benefits in the absence of the IHSS Residual Program being a continuing coverage option, as it is today. The Residual Program has effectively served as a safety net to allow IHSS recipients to continue to receive services as they re-establish their eligibility for Medi-Cal. Disenrollment from Medi-Cal can occur at redetermination and be due to a paperwork error.

Food assistance and nutrition programs

The governor's proposal does not include additional resources to support with managing or mitigating the worst impacts of CalFresh implementation resulting from H.R. 1. It indicates that the state will have to spend $300 million in additional costs for CalFresh due to changes for eligibility and increased share of costs going to the state.

- **Cost-Sharing Provisions**—The Budget includes an increase of $382.9 million General Fund in 2026-27 to reflect the federal share of CalFresh administrative cost reduction from 50 percent to 25 percent. As a result, the Budget assumes General Fund and county share of cost increases beginning October 1, 2026. The state continues to assess the potential fiscal impact of the benefit cost sharing provision of H.R. 1 based on the payment error rate beginning October 1, 2027. The 2025 Budget Act includes $39.9 million ($20.1 million General Fund) to support various initiatives to improve the state's payment error rate.

- **Eligibility Provisions**— anticipates a reduction of $66.2 million in General Fund costs in 2026-27 due to fewer individuals remaining eligible for CalFresh benefits. Those federal policy changes include, but are not limited to: new ineligibility for certain lawfully present non-citizens, new work requirements and resultant loss of food access for Able-Bodied Adults Without Dependents (ABAWDs), and disenrollment of people impacted by the State Utility Assistance Subsidy Limitations.

Nourish California, an organization that advocates for equitable access to food, health, and well-being for all Californians, notes that "though there were no major cuts to CalFresh, the proposed budget does not sufficiently mitigate the harm to communities that will face reduced or lost CalFresh benefits resulting from the passage of H.R. 1. Anti-hunger advocates urge the Governor to make proactive investments that ensure people have adequate access to food. The CalFresh Fruit and Vegetable EBT Program is a documented success in alleviating hunger, supporting health, and boosting California's agricultural sector."

Maintaining California's Health Infrastructure

State investments play an important role in funding California's health ecosystem, extending resources to public health agencies and community-based organizations, as well as additional supports to the safety net. State leaders must invest in an equitable health infrastructure that provides California's residents quality care and supports needed to thrive, including access to health care. The Governor's budget fails to protect the state's vulnerable communities by not proposing additional state spending to mitigate harms from H.R. 1 and additionally does not introduce new major investments for behavioral health.

- **Medi-Cal –** $196.7 billion ($46.4 billion General Fund) in 2025-26, and $222.4 billion ($48.8 billion General Fund) in 2026-27 for the Medi-Cal program.
    - Projects an increase in Medi-Cal expenditures of appx. $2.4 billion General Fund compared to revised 2025-26 expenditures. This is driven by the Medical Provider Interim Payment loan ending in 2025-26 and a decrease in Managed Care Organization (MCO) Tax revenue available for Medi-Cal support.
- **Education, Prevention, and Treatment of Youth Substance Use Disorders and School Retention (YEPEITA)**—$242.3 million will be available for programs from the California Cannabis Tax Fund dedicated to youth programs. These include Elevate Youth California, a Department of Health Care Services' youth substance use disorder and prevention program, and Natural Resources Agency's Youth Community Access grant program which invests in youth access to natural or cultural resources with a focus on low-income and disadvantaged communities.
    - The Budget includes a one-time shift of $11.5 million in 2026-27, within the YEPEITA Account, from the California Natural Resources Agency to the Department of Social Services (DSS). Historically, the Agency has received funding from cannabis tax revenues to administer competitive grants for youth programs that support access

to natural and cultural resources. This one-time shift to DSS will be invested in child care infrastructure, specifically targeted toward communities impacted by recent wildfires.

- **Future of Public Health Funding**—Maintains the $276.1 million ongoing Future of Public Health (FoPH) General Fund investment in state and local public health infrastructure and workforce, providing $188.2 million ongoing General Fund for local health departments
- **Reproductive Health Grant Program**—$60 million one-time General Fund in 2025-26 for the Department of Health Care Access and Information to provide grants to reproductive health care providers.
- **Managed Care Organization (MCO) Tax** –$4.5 billion in 2025-26 and $2.5 billion in 2026-27 MCO Tax revenue to support the Medi-Cal program. $1.6 billion across 2025-26 and 2026-27 to support increases in managed care payments relative to calendar year 2024 in certain domains. The current MCO Tax is not consistent with the H.R. 1 requirement that prohibits taxing Medicaid providers at higher rates than non-Medicaid providers. Under recent federal guidance, the state will receive a transition period through June 30, 2026, which would result in a General Fund cost of approximately $1.1 billion in 2026-27. However, the Budget assumes a transition period through December 31, 2026 as California will continue to evaluate options to receive a full transition period. Additionally, H.R. 1 and Proposition 35 requirements significantly limit the potential size of a future MCO Tax, resulting in a substantial reduction in ongoing funding to support the Medi-Cal program.

Government Strategies to Address Community Safety and Wellbeing

Community safety and wellbeing can be effectively advanced by understanding the events that have led to present conditions and implementing policies and practices that address the root causes of violence. Comprehensive approaches include a combination of strategies spanning upstream prevention that fosters social and racial equity, from violence interruption and intervention to community-led response and culturally rooted healing practices.

- **Domestic and Sexual Violence Prevention Grants**—This year's proposal does not include new additional funding for new Domestic and Sexual Violence Prevention grants.
- **Behavioral Health Community-Based Organized Networks of Equitable Care and Treatment (BH-CONNECT)**— Continues funding $8 billion over five years in BH-CONNECT, an initiative that aims to improve access to behavioral health services for Medi-Cal members with significant needs, focusing on children and youth involved in child welfare, people involved in the justice system, and individuals at risk of or experiencing homelessness. There is a $1.9 billion investment for the BH-CONNECT Behavioral Health Workforce Initiative administered by the Department of Health Care Access and Information.
- **Behavioral Health Continuum**—The state has invested approximately $8.5 billion total funds across various Health and Human Services departments to expand the continuum of behavioral health treatment and infrastructure capacity and transform the system for

providing behavioral health services. This includes $4.2 billion total funds for the Children and Youth Behavioral Health Initiative, $2.9 billion total funds for the Behavioral Health Bridge Housing Program and the Behavioral Health Continuum Infrastructure Program, and $1.4 billion total funds for Mobile Crisis Response.

- **Behavioral Health Services Act/Proposition (Prop) 1 Implementation—** Prop. 1, a measure approved by voters in March 2024, amended California's Behavioral Health Service Fund (formerly Mental Health Service Fund) and created a $6.4 billion bond to fund behavioral health treatment, residential facilities, and supportive housing for veterans and Californians with behavioral health needs. Advocates note that without additional ongoing investments, Prop. 1 alone will be insufficient to meet growing behavioral health needs or to end homelessness among Californians with significant behavioral health challenges.
    - The budget includes a placeholder of $150 million Behavioral Health Services Fund in lieu of the General Fund for workforce and prevention programming – $100 million at the Department of Health Care Access and Information (HCAI) and $50 million at CA Department of Public Health (CDPH). The Administration anticipates unveiling its specific proposal at May Revision.
    - In 2026-27, counties are estimated to receive over $4 billion Behavioral Health Services Fund for behavioral health treatment and supports.

Ensuring Equity for Children and Youth in Educational Settings

In many communities, schools serve as a community hub, providing not only education but also access to vital resources such as food assistance and health services. Additionally, schools can offer support programs such as job training, mental health services, and after-school care, making them an essential pillar of community wellbeing. The budget proposal presents an opportunity to strengthen the supportive infrastructure of California schools.

- **Pre-K for All—**Universal access to free Transitional Kindergarten (TK) for all four-year-olds (over 400,000 children, 300,000 more than in 2021-22), with increased access to the California State Preschool Program for two-, three-, and four-year-olds. TK reached full implementation in 2025-26, with a total investment of $1.9 billion ongoing non-Proposition 98 General Fund.

- **Universal School Meals—** Continues to fully fund for access to two high-quality, free school meals per school day for all TK-12th grade students. This investment improves children's health and learning, reduces stigma around free meals, and combats childhood hunger.

- **SUN Bucks –** $73.4 million ($36.7 million General Fund) to support outreach efforts and administrative costs associated with the SUN Bucks program, which provides eligible students with a monthly benefit to purchase food over the summer months when they do not have access to daily school meals.

Fostering Equitable Housing Development and Addressing Homelessness

Despite rising housing costs, General Fund support for affordable housing development remains a small portion of total funding and has been declining in recent years. The proposed budget continues this concerning trend by providing no new funding for affordable housing. Instead, the Governor continues efforts to restructure state administration of existing housing and homelessness programs to streamline state procedures and strengthen local enforcement. The Governor has expressed support for a Housing Bond, and housing justice organizations, including Housing Now! California, are advocating for AB 736 (Wicks) and SB 417 (Cabaldon), a proposed $10 billion housing bond. If passed, voters will consider the housing bond as a ballot measure on the 2026 ballot.

- **Affordable Housing—**Representing funding committed in the 2025-26 budget, up to $560 million annually from Cap-and-Invest auction proceeds for affordable housing administered by the Housing Development and Finance Committee as part of the Administration's modernization of the Affordable Housing and Sustainable Communities Program.

> A coalition of California affordable housing, homelessness, and housing justice organizations emphasizes the importance of scaling housing and homelessness investments to the reality of the housing crisis. In an October 2025 letter on the 2026-27 budget, the coalition calls for state leaders to "prioritize $2.8 billion in critical investments this year to build affordable homes, prevent and end homelessness, preserve existing affordable housing, and promote homeownership… this budget is essential to keeping vulnerable Californians housed."

Supporting Resilient and Equitable Infrastructure and Regional Economies

Investments in infrastructure and regional economic development fosters sustainable and equitable economic and physical environments for California's racially diverse communities who have been historically-disinvested from. Investments at the regional-level can be key drivers for the stability of community health and local economies as affordability becomes an increasing issue. With the state facing federal pullbacks and budget cuts into California's capital investments, we note that there are few new investments into this priority area.

- **California High Speed Rail Authority—**$5 billion Greenhouse Gas Reduction Fund (GGRF) over the next five years for the High-Speed Rail project. With the passage of SB 840 (Ch. 121, Stats 2025), the Authority is provided $1 billion per year through 2045 from the GGRF.

Addressing Climate Change through Environmental Justice and Parks and Green Space Equity

The proposed budget introduced an additional Climate Bond investment plan, building on last year's first implementation of the bond approved by voters in 2024. The Budget allocates $2.1 billion and emphasizes "implementation mechanisms [that] will provide transparency, accountability, and equitable access, with a focus on delivering meaningful benefits to historically underinvested communities." Below we highlight Climate Bond investments that align with our and our partners' areas of focus as it relates to equitable land use, park and green space equity, and environmental justice.

Outdoor Access

- **Statewide Parks Development and Community Revitalization Program—**$35 million to continue investments that expand and enhance parks and outdoor access.

Extreme Heat Mitigation

- **Transformative Climate Communities Program—**$137.4 million to fund community-led development and infrastructure projects that achieve major environmental, health, and economic benefits in California's most disadvantaged communities.
- **Community Resilience Centers—**$55.3 million to fund new construction and upgrades of neighborhood-level resilience centers to provide shelter and resources during climate and other emergencies. This program will also fund year-round services and ongoing programming that builds overall community resilience.
- **Urban Forestry Program—**$22.8 million for CAL FIRE's Urban and Community Forestry Grant Program, which aims to increase the long-term benefits trees provide, improve the public's understanding and appreciation of urban trees, and advance urban forest management and tree care. Special consideration is given to projects serving disadvantaged and/or low-income communities.

> The Greenlining Institute applauded investments made to the Transformative Climate Communities and the Community Resilience Centers programs, noting that the "vast majority of voter-approved Prop 4 dollars reserved for these programs were allocated, ensuring resources can reach communities that are ready to move forward with community-driven projects and services."

Safe Drinking Water, Drought, Flood, And Water Resilience

- **Drinking Water—**$173 million for drinking water projects serving small or disadvantaged communities or tribes and that address failing water systems and water systems at risk of failing, as well as failing private wells. Funding will also support wastewater projects serving small or disadvantaged communities that address a violation or connect unsewered homes to a centralized wastewater system.

Wildfire And Forest Resilience

- **Local Fire Prevention Grants—**$58 million to fund wildfire prevention and hazardous fuels reduction projects and activities in and near wildfire threatened communities, with a focus on increasing the protection of people, structures, and communities.
- **Fire Resilience—**$19.6 million for technical and financial assistance to help homeowners in wildfire-vulnerable areas to implement defensible space mitigations, including creation

of an ember-resistant zone within five feet of a home or structure (known as Zone 0) to reduce the potential for structure ignition during a wildfire.

- **Wildfire Risk Reduction Related to Electricity Transmission**—$15.2 million for grants, in coordination with the Office of Energy Infrastructure Safety, to support cooperation in advancing fuel reduction around wildfire-vulnerable communities to reduce wildfire ignitions.

Biodiversity & Nature-Based Solutions

- **Enhancing and Protecting Nature**—$123.3 million for projects that conserve, restore, and connect California's ecosystems and the plants and animals that depend on them through land conservation acquisitions and easements, habitat enhancement and restoration, floodplain reactivation and wetland restoration, and wildlife connectivity.
- **Salton Sea**—$30 million to expand the planning and implementation of priority habitat restoration projects at the Salton Sea and create new public access opportunities across these projects for Salton Sea communities.

Non-Climate Bond Investments

- **Sustainable Communities and Agricultural Land Conservation**—Up to $240 million annually from Cap-and-Invest auction proceeds for the sustainable communities and agricultural land conservation components of the Affordable Housing and Sustainable Communities Program will continue to be administered by the Strategic Growth Council and updated to support more flexible, catalytic infrastructure investments aligned with regional priorities. These updates are intended to maximize the impact of limited ongoing resources in advancing climate-aligned housing, land-use, and transportation outcomes.
- **California State Parks Library Pass Program**— $6.8 million ongoing General Fund to support the California State Parks Library Pass program. Library card holders can borrow a pass from their local library to access select state parks, beaches and monuments for free, helping to remove cost barriers to visit these treasured spaces.