



2025-26 Legislative Budget Summary

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The Legislature has finalized a budget agreement and will be voting on the constitutionally required budget package as early as Friday, or as late as Sunday, June 15th. The Governor will have until June 27th to sign, veto, or line-item the budget. It is likely that an updated agreement may be reached later in June.

The legislative package reflects a slowing of economic forecasts, primarily due to the impact of federal tariffs, along with higher than projected Medi-Cal growth, as well as the impact of the recent Los Angeles wildfires which have dramatically changed the fiscal outlook from the initial January forecasts.

The legislative budget includes a \$232 billion in General Fund total for 2025-26, including \$89 billion in special fund spending, as well as \$4 billion in spending from bond accounts. The legislative budget additionally includes \$12.3 billion in total budget solutions and commitments, while including \$13.2 billion in reserves. These include: reductions of \$3.5 billion in 2025-26, increasing to \$12 billion ongoing; a total of \$7.8 billion in revenue/borrowing in 2025-26, as well as a fund shift of \$1 billion in 2025-26. As of the May Revision, \$174 billion in federal funding were projected to be utilized, which may not come to fruition as projected.

The legislative budget utilizes a \$7.1 billion withdrawal from the Rainy Day Fund, leaving \$11.2 billion in the fund for future use. It is projected by both the Department of Finance, as well as the Legislative Analyst's Office, that California will face future annual deficits between \$10 to \$20 billion annually through 2028-29, assuming reductions at levels proposed in the May Revision. Additionally, the Legislature has begun contemplating the negative fiscal impact the expiration of Proposition 30, approved by the voters in 2012, and Proposition 55, approved by the voters in 2016, could have on future deficits.

The Legislature did reject a significant number of proposals by Governor Newsom, particularly around Medi-Cal cuts, homeless funding, California's cap and trade program, and cuts to both the University of California and California State University. Capitol insiders have already hinted that the Legislature may need to make additional budget changes, potentially including cuts, in August or September should the Trump Administration reduce federal funding, and may further consider a special legislative session this fall, or expedited budget action when the Legislature returns to Sacramento in 2026.

Rainy Day Fund

The Senate is progressing with a plan to place a constitutional amendment on a future ballot to amend Proposition 2 Rainy Day Fund, which was passed by the voters in 2014. The proposed changes would: increase the size of the Rainy Day Fund from 10 percent to 25 percent of the General Fund; increase deposits into the Rainy Day Fund; exclude deposits into the Rainy Day Fund as well as other statutory

reserves (excluding the Special Fund for Economic Uncertainties) from the State Appropriations Limit calculation; add a repayment of the federal Unemployment Insurance loan to debts that can be covered with Proposition 2 funds; and, removes the Legislative Analyst's Office from the budget cap to allow their office to expand.

TK-12 Education

The legislative proposal includes Proposition 98 General Fund totals of \$114.6 billion for 2025-26, \$118.9 billion in 2024-25, and \$98.5 billion in 2023-24. Test 1 is implemented for the 2025-26 fiscal year. A total of \$1.3 billion is dedicated for "settle-up" funding in May of 2026. The budget provides a \$650 million deposit into the Public School System Stabilization Account (PSSSA). These additional "settle-up" fundings will be utilized to pay down deferrals.

Provides \$540 million in one-time contributions in 2024-25 to the PSSSA, while making a \$540 million withdrawal in 2025-26. While existing Proposition 98 deferrals in the budget year would be paid, a new, \$846.4 million deferral would be authorized for 2026-27. The Legislature has signaled their intent to use "settle-up" funds to pay for this deferral, however, if sufficient growth is not achieved, the deferrals would continue into 2027-28.

The legislative proposal includes a 2.3 percent cost-of-living adjustment with per-pupil funding at \$25,176 per student in overall funding, and \$18,671 per student in Proposition 98 funding for 2025-26. An additional \$2.1 billion increase in Proposition 98 funding is provided for the local control funding formula, reflecting the COLA.

The legislative proposal reduces the TK-12 June to July 2026 deferral from \$1.8 billion to \$846 million, which includes a goal of paying off \$579 million of the deferral by 2026-27, while adding a \$267.4 million deferral from 2026-27 to 2027-28. The budget reverts \$177.5 million General Fund from the 2023 Budget Act for the School Facility Program.

The legislative proposal rejected the Governor's proposal to fund transitional kindergarten outside of the 2023-24 and 2024-25 Proposition 98 split, but will begin the split again in 2025-26, providing \$260 million to the California community colleges.

The legislative proposal recognizes the \$10 billion School and Community College Facility Bond passed by the voters in November 2024. It creates a \$500 million, one-time Student Support and Discretionary Block Grant to support dual enrollment, career pathways approaches, as well as professional development for educators in English Language Arts and mathematics.

Significant adjustments include:

- \$2.1 billion for the final year of Universal Transitional Kindergarten implementation;
- \$263 million one-time, \$525.5 million ongoing increase for the Expanded Learning Opportunities Program;
 - Delays the proposed Expanded Learning Opportunities Program expansion to January 1st to allow newly classified Tier 1 local educational agencies time to plan and prepare, while approving the increased minimum grant award to \$100,000, while proposing to stabilize the Tier 2 rate.

- \$378.6 million one-time funding through 2027-28 for the Learning Recovery Emergency Block Grant;
- \$200 million Proposition 98 General Fund for Literacy Instruction Professional Development;
- \$150 million one-time Proposition 98 funding for Career Technical Education;
- \$600 million total Proposition 98 General Fund for the Student Teacher Stipend Program;
 - The Legislature additionally proposes to increase the Golden State Teacher grant awards back to \$20,000 per individual as well as to restore the four-year service and teacher shortage area requirements;
- \$170 million Proposition 98 General Fund for the Universal School Meals Implementation Block Grant;
- \$100 million Proposition 98 General Fund for literacy and math coaches;
- \$35 million Proposition 98 General Fund for the Universal Pre-Kindergarten Block Grant and extends the encumbrance deadline;
- \$20 million Proposition 98 General Fund for a California Youth Behavioral Health Initiative Fee Schedule Bridge Program;
- \$90.7 million in ongoing Proposition 98 funding for the universal school meals commitment;
- \$40 million one-time Proposition 98 funds for the 2025-26 implementation costs of Dyslexia screeners.
- Reduces or rejects new spending duplicative of existing programs with unclear goals to minimize the \$1.8 billion deferral in 2026, including the rejection of:
 - \$100 million for the National Board Certification Incentive Grant Program;
 - \$15 million for the Secondary School Redesign Pilot Program;
 - \$10 million for the University of California, San Francisco Dyslexia Center;
 - \$30 million for the Mathematics Professional Learning Partnership, as well as \$12.5 million for the Statewide Math Network;
- Approves the following Governor's proposals due to the impacts of the Los Angeles Wildfires:
 - Protects funding based on attendance in the Expanded Learning and Opportunities Program;
 - Protects funding for charter schools impacted by the wildfires;
 - Utilizes savings from the Multi-Tiered Systems of Support to support fire-impacted local educational agencies;
 - Holds enrollment harmless in regard to the calculation of allocations for the Student Support and Professional Development Discretionary Block Grant;
 - Appropriates \$1.8 million for impacts of the wildfires;
- \$150 million Proposition 98 General Fund appropriation to increase investments in career technical educational programs.

Higher Education

The legislative proposal modifies the Governor's proposal to defer \$531.6 million for community colleges from 2025-26 to 2026-27 by reducing that deferral to \$377.5 million.

Significant adjustments include:

- \$405 million one-time General Fund to restore the Middle Class Scholarship program to 2024-25 appropriation levels;

- \$20 million one-time Proposition 98 to community colleges for flexible emergency financial aid to students;
- \$100 million one-time Proposition 98 to community colleges for 2024-25 enrollment growth;
- \$80 million one-time Proposition 98 to community colleges for a Student Support Block Grant;
- \$44 million one-time Proposition 98 to community colleges to provide a 90 percent reimbursement rate for Part-time Faculty Office Hours;
- \$6.3 million one-time Proposition 98 to community colleges for Firefighter Apprenticeship reimbursements;
- \$15 million one-time Proposition 98 for Dream Resource Liaisons;
- \$5.1 million one-time Proposition 98 to community colleges for Financial Aid Community Support.

Health/Human Services

The legislative proposal rejected the Governor's proposal to reduce overtime hours and travel hours for In Home Support Services (IHSS).

Significant adjustments include:

- Restores the Medi-Cal Asset Limit at \$130,000, rather than supporting the Governor's proposal for \$2,000, saving a total of \$45 million in 2025-26, \$343 million in 2026-27, and \$510 million ongoing;
- Approves the Governor's proposal to exclude specialty weight loss drug coverage, resulting in \$85 million in savings for 2025-26, which will grow to \$680 million in 2028-29;
- Modifies the Governor's Medi-Cal enrollment freeze, resulting in savings of \$35 million in 2025-26, \$850 million in 2026-27, \$2 billion in 2027-28, and \$3.3 billion ongoing;
- Delays the Governor's proposal to cut \$1.1 billion ongoing from Health Centers and Rural Health Clinics until July 1, 2027;
- \$52 million restoration for the CalFood program;
- \$36 million restoration for the CalFresh Fruits and Vegetables program;
- \$45 million restoration for the Housing and Disability Advocacy Program for housing services for seniors and people with disabilities.

General Government/Retirement

Significant adjustment includes:

- Directing the Legislative Analyst to develop tax reform options by November, which would lower taxes for families, maximize federal deductibility, while minimizing any negative economic impacts on California's economy, while strengthening long-term revenues;
- Adopts the changes to state contribution rates for the California State Teachers' Retirement System (CalSTRS), as well as the California Public Employee Retirement System
- Approves \$6.3 million in permanent funding for operational support at CalSTRS, which includes \$2.6 million for 15 permanent positions, and \$3.7 million for information technology contracts.