



January 2026 Legislative Advocate Report

By Jennifer Baker, CalRTA Legislative Advocate

Governor Releases 2026-27 Budget Proposal

The Governor released his 2026-27 budget proposal, which includes an overall budget of close to \$349 billion, including \$248.3 billion in General Fund expenditures, \$23 billion in reserves, and \$125.5 billion for Proposition 98. The budget projects a modest shortfall of close to \$3 billion, much lower than the projected shortfall of close to \$18 billion as projected by the Legislative Analyst's Office.

While a balanced budget proposal is presented for 2026-27, a \$22 billion shortfall is projected for 2027-28, with an additional two years of shortfalls projected. The Governor has stated the May Revision will include an updated fiscal plan that would address these projected shortfalls, along with providing budget reserves, and will address the continued increase in ongoing baseline costs, which are continuing to increase above projections.

Education

Proposition 98: The Proposition 98 Guarantee for 2026-27 is calculated at \$125.5 billion, with previous fiscal years revised to \$121.4 billion in 2025-26, and \$123.8 billion in 2024-25. The cumulative increases over these years total \$21.7 billion. The local control funding formula includes a 2.41 percent cost-of-living adjustment, which results in an increase of approximately \$2 billion in funding.

Master Plan: The budget proposal would implement the 2002 Master Plan recommendation to shift oversight authority of the California Department of Education, which provides support to local education agencies (LEAs), to the State Board of Education. The Superintendent of Public Instruction would be responsible for the coordination and alignment among the bodies creating policy from early childhood education through postsecondary education. Additional details will be provided in the budget trailer bill language, which will be released in early February.

Health and Human Services

The Medi-Cal budget includes \$222.4 billion (\$48.8 billion General Fund) in 2026-27 and \$196.7 billion (\$46.4 billion General Fund) in 2025-26. It is projected to cover close to 14.5 million members in 2025-26 and 14 million in 2026-27, over one-third of the state's population. The following significant adjustments are related to the implementation of H.R. 1 of 2025:

- Work and Community Engagement Requirement: Estimated reduction of \$373 million (\$102 million General Fund) in 2026-27 and \$13.1 billion (\$3.6 billion General Fund) by 2029-30;
- Medical Assistance Percentage for Emergency Services: Cost of \$658 million General Fund in 2026-27 and \$872 million General Fund by 2029-30 as a result of the federal match reduction from 90 percent to 50 percent;
- Affordable Care Act Adult Expansion Six-Month Redeterminations: Reduction of \$463 million (\$74 million General Fund) in 2026-27, and \$3 billion (\$474 million General Fund) by 2029-30;
- Reduced Retroactive Medi-Cal Timeframes: Reduction of \$23 million (\$10 million General Fund) in 2026-27 and \$48 million (\$20 million General Fund).

LAO Reviews Governor's Budget Proposal

The Legislative Analyst's Office (LAO) issued [The 2026-27 Budget: Overview of the Governor's Budget](#), which indicates that a roughly balanced budget in the near term has been presented. This is largely because it assumes stronger revenue growth than the LAO considers likely, particularly from volatile personal income tax sources tied to the stock market.

While the Governor projects only a small short-term deficit, the LAO warns that significant structural deficits remain in the out years, potentially exceeding \$20 billion annually, and that the budget relies on optimistic revenue assumptions rather than durable solutions. The plan includes a mix of one-time and ongoing budget actions to improve the bottom line, modest new discretionary spending, and higher constitutionally required funding for K-14 education under Proposition 98, with some payments deferred to future years.

Although the budget would maintain sizable reserves by the end of 2026-27, the LAO emphasizes that these reserves could be quickly eroded if revenues fall short and urges the Legislature to take a more cautious approach by adopting conservative revenue estimates and making decisions that better address the state's long-term fiscal imbalance.

LAO Releases Enrollment-Based Funding Report

The LAO report "[Assessing a Shift to Enrollment-Based School Funding](#)" was released earlier this month. The report examines the potential impacts and costs of changing California's school funding system from the current attendance-based model, which allocates funds based on average daily attendance, to one that uses enrollment counts instead. Under state law, the LAO was required to estimate what such a shift would cost without reducing funding for any local educational agency. The report notes that basing the Local Control Funding Formula and three other ongoing programs on enrollment rather than attendance would increase annual state costs by more than \$6 billion, with the largest increases going to districts with lower attendance rates and higher proportions of high-need students. The report also suggests that moving to an enrollment-based system could weaken incentives for districts to improve student attendance over time, since funding would no longer be directly tied to daily attendance rates. The methodology of the analysis uses recent data and assumes existing per-student funding rates are applied to Census Day enrollment, noting that attendance remains below pre-pandemic levels and is a strong predictor of student outcomes. Overall, the LAO highlights significant fiscal implications and potential effects on district behavior in considering a shift to enrollment-based funding.

It is too early to know whether the Legislature will act upon the report or the considerations. This issue has been an ongoing policy and fiscal discussion as various ways to fund schools have been considered over the years.

LAO Analyzes Revenue Trends

The LAO issued a report this month: [California's Strong Revenue Trends Mask Looming Budget Risk](#), which conveyed that California is enjoying unusually strong tax revenue, primarily due to rapid growth in personal income tax receipts driven by a booming stock market rather than widespread economic strength. However, this pattern of strong revenues may be hiding deeper fiscal problems, as happened in the late 1990s when markets later fell, and revenues collapsed. The LAO finds that the Governor's budget forecast does not fully account for the risk of a stock market downturn, leading to a much smaller estimated deficit than the LAO's own forecast. Because state revenue is so tied to stock market performance, ignoring downturn risk can leave the budget vulnerable. Both the LAO and the

Department of Finance agree that the state faces a large structural deficit that will persist even if markets remain strong. The report suggests it would be prudent to build reserves and incorporate economic risk into revenue assumptions to avoid repeating past fiscal stress.

Bill Review Process Begins

Members of the Legislature immediately began gutting and amending two-year bills, as well as introducing new legislation when they returned on the 5th. So far, out of the approximately 135 bills that have been gutted and amended, seven have been bills CalRTA has been following. Of the 224 bills that have been introduced thus far, solely one is related to CalRTA platform priorities. As bills are introduced or amended that would impact CalRTA priorities, I will review them individually and will provide a recommendation that reflects CalRTA goals and priorities. These will first be reviewed by the Governmental Relations Committee and will then move to the CalRTA Board for a final position. Once a position is finalized, I will communicate this position to the Legislature and related state agencies and stakeholders as appropriate. I will continue this communication throughout the legislative process. Please keep a lookout for bill updates in future monthly reports as this process solidifies for this year.

Senate Committee Chairs and Committee Members Announced

Senate Pro Tempore Limón announced Senate leadership and committee members. The following represent areas most influential regarding CalRTA priorities:

Appropriations Committee: Senator Sabrina Cervantes (D-Riverside), Chair; Senator Kelly Seyarto (R-Murrieta), Vice-Chair; Senator Christopher Cabaldon (D-Yolo); Senator Megan Dahle (R-Bieber); Senator Tim Grayson (D-Concord); Senator Laura Richardson (D-San Pedro); Senator Aisha Wahab (D-Silicon Valley)

Budget & Fiscal Review: Senator John Laird (D-Santa Cruz), Chair; Senator Roger Niello (R-Fair Oaks (Vice-Chair); Senator Catherine S. Blakespear (D-Encinitas); Senator Christopher Cabaldon (D-Yolo); Senator Steven Choi (R-Irvine); Senator Maria Elena Durazo (D-Los Angeles); Senator Lena Gonzalez (D-Long Beach); Senator Shannon Grove (R-Bakersfield); Senator Melissa Hurtado (D-Bakersfield); Senator Jerry McNerney (D-Pleasanton); Senator Caroline Menjivar (D-San Fernando Valley); Senator Rosilicie Ochoa Bogh (R-Yucaipa); Senator Sasha Renée Pérez (D-Pasadena); Senator Eloise Gómez Reyes (D-Colton); Senator Laura Richardson (D-San Pedro); Senator Kelly Seyarto (R-Murieta); Senator Lola Smallwood-Cuevas (D-Los Angeles); Senator Akilah Weber Pierson (D-San Diego).

Budget Subcommittee #1 on Education: Senator Lena Gonzalez (D-Long Beach), Chair; Senator Rosilicie Ochoa Bogh (R-Yucaipa); Senator Sasha Renée Pérez (D-Pasadena).

Education: Senator Sasha Renée Pérez (D-Pasadena), Chair; Senator Rosilicie Ochoa Bogh (R-Yucaipa), Vice-Chair; Senator Christopher Cabaldon (D-Yolo); Senator Steven Choi (R-Irvine); Senator Dave Cortese (D-San Jose; Senator Lena Gonzalez (D-Long Beach); Senator Eloise Gómez Reyes (D-Colton).

Health: Senator Akilah Weber Pierson (D-San Diego), Chair; Senator Suzette Martinez Valladares (R-Santa Clarita), Vice-Chair; Senator Anna Caballero (D-Merced); Senator Maria Elena Durazo (D-Los Angeles); Senator Lena Gonzalez (D-Long Beach); Senator Shannon Grove (R-Bakersfield); Senator Caroline Menjivar (D-San Fernando Valley); Senator Steve Padilla (D-San Diego); Senator Sasha Renée Pérez (D-Pasadena); Senator Susan Rubio (D-Baldwin Park); Senator Lola Smallwood-Cuevas (D-Los Angeles).

Labor, Public Employment and Retirement: Senator Lola Smallwood-Cuevas (D-Los Angeles), Chair; Senator Tony Strickland (R-Huntington Beach), Vice-Chair; Senator Dave Cortese (D-San Jose); Senator Maria Elena Durazo (D-Los Angeles); Senator John Laird (D-Santa Cruz).

Assembly Speaker Changes Committee Chairs/Committee Assignments

Assembly Speaker Rivas recently made a number of changes to Assembly Committee assignments. The most notable change impacts Assembly Member Muratsuchi, who has been removed from the following committees: Appropriations, Education, and the Budget Subcommittee No. 3 on Education Finance. Asm. Muratsuchi was the Chair of the Assembly Education Committee. The new Chair is Asm. Darshana Patel.

CalRTA-Supported Bills: Two-Year Bills

Two-year bills must pass through their house of origin by January 31st to continue to move forward. Some measures have already achieved this goal and may continue to be eligible to move forward. The authors of these bills may or may not decide to move a bill forward for any number of reasons. It is additionally possible that some bills may be held, despite the author's attempts to move them forward. As bills fail to move forward, I will remove them from updates to solely include measures that continue to progress.

Retirement

AB 65 (Aguiar-Curry): Would increase paid leave for school employees due to pregnancy, miscarriage, childbirth, termination of pregnancy, or the recovery of these conditions. It would also prohibit a leave of absence for these conditions from being deducted from other leaves of absence available to her. This measure is in the Senate Education Committee.

Health Care/Healthy Aging

AB 83 (Pacheco): Would allow financial institutions to delay, refuse, or prevent transactions if they have evidence of, or have observed actual or attempted financial abuse of an adult. Would additionally permit financial institutions to notify an associated third party when they suspect financial abuse of an eligible adult. The measure failed the deadline to pass out of its house of origin.

AB 280 (Aguiar-Curry): Requires an insurance plan to annually verify and eliminate incorrect listings from its directories of providers. These requirements would need to be 60 percent accurate by July 1, 2026, and 95 percent accurate by July 1, 2029, or face administrative penalties. The measure would additionally require a health plan to provide coverage for all health care services for someone who reasonably relied on inaccurate, incomplete, or misleading information included in a health plan's provider directory, or to reimburse for out-of-network costs. This measure is on the Senate Floor.

AB 510 (Addis): Requires appeals or grievances regarding health care plan decisions to be reviewed by a licensed physician within two business days if the patient faces an imminent health threat, or in a timely fashion otherwise. The measure failed the deadline to pass out of its house of origin.

AB 539 (Schiavo): Reduces health care administrative costs and speeds up patient care by extending the duration of an approved prior authorization by a health plan to one year, which will remove

unnecessary bureaucratic delays and reduce the burden on physicians and patients, especially those with chronic illnesses. This measure is in the Senate Health Committee.

AB 577 (Wilson): If a doctor determines it is in the patient's best interest, it would prohibit pharmacy benefit managers, health plans, and insurers from enacting policies that effectively prevent physicians from acquiring and administering or dispensing drugs in their offices to patients. Also, it prevents pharmacy benefit managers, health plans, and insurers from discriminating against physicians for dispensing or administering prescription drug treatments in their office to their patients. The measure failed the deadline to pass out of its house of origin.

AB 871 (Stefani): Would assist in addressing the senior financial abuse crisis by requiring financial institutions to provide professional development on financial elder abuse and expand required reports to federal authorities to improve the coordination of resources and aid local law enforcement in their investigations to improve the opportunities to recover stolen funds. This bill is in the Senate Rules Committee.

AB 1460 (Rogers): Helps community health centers and other safety net providers address health equity and access to care issues by protecting their ability to utilize contract pharmacies to dispense 340B medications to their patients in underserved communities. The measure ensures that California safety-net providers can use contract pharmacies to serve their patients by prohibiting pharmaceutical manufacturers from placing contract pharmacy restrictions on health care providers that utilize the federal 340B discount drug program to serve low-income communities. This measure is in the Senate Health Committee.

SB 433 (Wahab): Prohibits residential care facilities for the elderly from charging a resident a higher rate than what is charged to a resident who is a recipient of the State Supplementary Program for the Aged, Blind, and Disabled. This prohibition is additionally applicable to a resident who received Medi-Cal reimbursed services through the assisted living waiver, or nursing facility transition, or diversion to assisted living facilities through community supports covered by their Medi-Cal managed care plan. This measure is on the Assembly Appropriations Committee Suspense File.

SB 434 (Wahab): Would extend the eviction notice time provided to seniors facing eviction at a residential care facility by 30, 60, or 90 days, depending on the length of the resident's residency and among other factors relating to nonpayment of the rate for basic services within 10 days of the due date. It would additionally require that eviction documentation include reasonable efforts to create a safe discharge plan, post-eviction needs, goals, and preferences, as well as a list of discharge locations. The measure is on the Senate Appropriations Committee Suspense File.

Legislative Calendar

February 20 – Last day for bills to be introduced.

March 26 – Legislative Spring Recess.

April 6 – Legislature reconvenes from Spring Recess.

April 8 – CalRTA Lobby Day.

April 24 – Last day for policy committees to hear bills that are fiscal.

May 1 – Last day for policy committees to hear non-fiscal bills.

May 8 – Last day for policy committees to meet prior to June 1.

May 15 – Last day for fiscal committees to hear bills introduced in their house. Last day for fiscal committees to meet prior to June 1.

May 25-29 – Floor session only.

May 29 – Last day for each house to pass bills introduced in that house.

June 1 – Committee hearings may resume.

June 15 – Budget bill must be passed by midnight.

June 25 – Last day for a legislative measure to qualify for the November election.

July 2 – Last day for policy committees to meet. Legislative Summer Recess begins.

August 3 – Legislature reconvenes from Summer Recess.

August 14 – Last day for fiscal committees to meet.

August 17-31 – Floor Session only.

August 31 – Last day for each house to pass bills. Final recess begins upon adjournment.

September 30 – Last day for Governor to sign or veto bills.