

Overview of Governor’s Fiscal Year 2026-2027 Proposed Budget

May Revision

County Administrative Office

May 19, 2026

On May 14, 2026, Governor Newsom released a \$349.9 billion revised budget proposal, an 8.7% increase from last year, that maintains continuity with significant multiyear program investments from recent budgets owing to a nearly \$60 billion revenue upgrade since the 2025 Budget Act largely attributable to stock gains. The released document maintains commitments with only minor changes to funding levels for baseline programs beyond inflation. The one significant new revenue is a digital software sales tax estimated to generate \$1.1 billion annually, but of the discretionary amount most of this goes to cities.

The Governor’s Proposal delivers a balanced budget that pays down \$3 billion in supplemental retirement liabilities and replenishes reserves, including \$15.1 billion in the Budget Stabilization Account (Rainy Day Fund), \$10.3 billion in the Public School System Stabilization Account, and \$4.5 billion in the Special Fund for Economic Uncertainties. For the first time ever, \$9.7 billion will be transferred into the recently established Projected Surplus Temporary Holding Account. This provides flexibility to adapt to a persistently volatile market and federal outlook.

A brief summary of potential impacts on the County of the Governor’s Fiscal Year 2026-2027 (FY27) Proposed Budget and May Revision follows and includes departmental input. Overall it is evident there will be significant shifts of costs for critical programs from the federal level to the state and the state onto counties. State lawmakers’ response and negotiations will continue to be monitored for relevant local impacts, culminating in the passage of the Budget Bill on June 15.

Health and Human Services

Medi-Cal: The May Revision reinstates asset test limits and provides one-time funding of \$262 million in workload support for counties to implement H.R. 1 OBBBA’s new eligibility rules.

CalFresh: The May Revision estimates a \$3.7 billion budget and caseload of 3 million and a \$382.9 million increase just to the state as the federal cost share drops from 50% to 25%. Initially there was no mention of support for the \$149.5 million cost to counties for their higher share, an impact of \$1.7 million annually in Monterey, which DSS highlighted would threaten another \$4.4 million of funding for program administration, potentially resulting in workforce reductions. The May Revision includes only \$30 million one-time to help with county administrative workload costs related to expanded work requirements under H.R. 1.

Community First Choice Option: The state covered federal penalty costs due to untimely reassessments of recipients since 2017, but that share declined to 50% in FY26 and is going away entirely in FY27, and counties will be responsible for up to \$92.1 million.

In-Home Supportive Services: The proposal includes an IHSS budget of \$33.4 billion, an increase of \$4.9 billion, and caseload of 875,344, an increase of 103,694. Reductions include \$3.5 million, eliminating the backup provider system, and \$86 million to conform the residual program to Medi-Cal, with a \$233.6 million cut the following year to remove the state’s cost share for growth in hours per case.

CalWORKS: The Governor’s Budget Proposal provides \$1.7 billion in total for Single Allocation funding for county eligibility administration, an increase of \$70.7 million to account for higher Employment Services caseloads, and \$758,347 in Monterey. The May Revise also details a 1.8% increase to Maximum Aid Payment levels at a cost of \$59.5 million funded by the Local Revenue Fund Child Poverty and Family Supplemental Support subaccount.

Mobile Crisis Response: Potential state solutions to mitigate the fallout from federal H.R. 1 OBBBA would shift costs for this mandated behavioral health service to counties and make it an optional benefit beginning April 1, 2027.

Tobacco Tax Related Funding: Overall, a \$9.9 million increase for local programs related to Prop 56 and Prop 99.

Other Impacts: Bringing Families Home, Home Safe and Housing and Disability Advocacy sunset, with the term for previously allocated funds extended through FY28, but no ongoing or new funding provided.

1991 and 2011 Realignment: These revenues impact multiple departments and will continue to be carefully monitored. Sales tax revenues have fallen short of base funding the past couple of years, with the proposal continuing to indicate that any growth would fail to cover caseload growth and there would only be general growth for vehicle license fees. This has been an unreliable revenue source that has not kept pace with rising costs, particularly in recent years, requiring departments to use restricted one-time fund balance amounts to cover local shortfalls.

Public Safety

Inmate Intake and Release: Proposition 47 is estimated to produce savings of \$89.1 million in the May Revision, due to reclassification of crimes and termination of contracts with prisons, and the existing formula allocates 65% to mental health and substance abuse programs, 25% to truancy dropout prevention, and 10% to victim services.

Community Probation: Funding includes \$132.2 million, an increase of \$5.7 million, in statewide incentive grants allocated under SB 678 revocation rate performance metrics. However, Probation notes that Judicial Council funding reduction of \$20 million for pretrial programs (SB 129).

CalVIP: Arm and ammunition excise taxes provide a permanent funding stream for Board of State and Community Corrections (BSCC) grants to counties and cities for gun violence prevention and school safety programs. The Violence Intervention and Prevention Grant statewide includes an amount to combat fentanyl trafficking in FY27, totaling \$51.9 million.

Cannabis Proposition 64: The Governor’s Budget Proposal estimates \$414.1 million, a decrease of \$54.1 million, will be available to fund youth education and treatment (60%), environmental enforcement and clean up from illegal cultivation (20%) and public safety activities (20%) according to an existing formula. Additionally, \$11.8 million of these amounts otherwise dedicated to youth cultural and outdoor programs will be redirected to childcare infrastructure destroyed in LA fires last year.

Legal Services: The May Revision reflects \$20 million one-time for immigration court proceedings to assist individuals in civil detention, a \$10 million grant for vertical prosecution of

human trafficking and \$25 million for crime victims one-time to backfill the federal funding decrease.

Climate Change and Infrastructure

Several years ago, owing to an anticipated budget surplus, Governor Newsom proposed a broad vision for pandemic economic recovery centered around multifaceted infrastructure investments that support climate goals, housing, and workforce development. Thus, most of the ensuing solutions to manage consecutive deficits targeted these areas, with approximately \$11 billion in reductions, deferrals and loans under climate and transportation programs. Voters passed Proposition 4 in November 2024, however, providing \$10 billion in funding for these priorities.

Climate Change Mitigation: The Governor proposes implementing \$2.25 billion of the bond primarily for wildfire and water resilience, as well as extreme heat mitigation, among other priorities. This includes \$241.8 million for failing infrastructure to support safe and reliable drinking water, \$314 million for various local grant programs to address wildfire prevention, \$241 million for community resilience to extreme heat efforts and \$107 million for coastal resiliency projects. There is an increase of \$150 million in the May Revision for wetlands.

Housing: Beginning July 1, 2026, a consolidated Housing and Homelessness Agency with the new Housing Development and Finance Committee will be created to coordinate the application and award process for funding allocations. This overhauls the Affordable Housing and Sustainable Communities program and reassigns \$560 million in Cap-and-Invest revenues. HCD notes that the state funds 90% of project costs, leaving the county and applicant to fund the remaining 10%, which amounts to \$75,000 per unit on a typical 100% affordable housing project. This would require Monterey to identify approximately \$2 million annually to remain competitive. The May Revision would incentivize or compel counties to waive the development impact fees assessed on affordable housing projects that serve to recover costs associated with essential infrastructure improvements (sewer, fire, libraries, parks, etc).

CEQAnet State Clearinghouse Modernization: The May Revision allows the state to assess an indeterminate fee for documents submitted to the system by counties related to the California Environmental Quality Act, including negative declarations and impact reports.

Smart Agriculture: The proposal plans to provide \$89 million from the climate bond to aid farmers in transitioning to more efficient practices by replacing equipment or implementing irrigation systems, soil carbon sequestration, and pollinator habitats. Separately, the General Fund includes a \$24.6 million increase for the Farm to School Incubator grant program, which supports both nutrition education and local producers in accessing the school system.

Road Fund: The Highway User’s Tax Account (HUTA) is expected to grow 2% in gasoline excise tax and 3% in diesel excise tax revenue, while Transportation Improvement Fee revenues are anticipated to increase 7%. Statewide, the May Revision provides Caltrans a \$40 million one-time increase for highway litter abatement and encampment resolution grants and another \$6.2 million to provide social services locally and collaborate on housing.

Advanced Clean Fleets: State clean air regulations require local governments upgrade their vehicles to zero emission by January 1, 2027, but no funding is provided.

Fort Ord Dunes: As part of the Outdoors for All initiative, the state is investing \$3.6 million in the first year and \$3.3 million annually ongoing to operate a new campground at this park.

Libraries: As the State has ended funding for Career Online High School, locally MCFL will no longer be facilitating this service for adults to enroll and obtain a diploma. Other grant opportunities are steadily becoming more cost prohibitive as documentation and reporting requirements increase while award amounts are being reduced.

This overview serves to briefly highlight significant areas of potential impact to Monterey County from the May Revision to the Governor’s FY27 Proposed Budget and is not an exhaustive analysis. A more thorough summary from the California State Association of Counties (CSAC) is attached. Departments can also provide more detailed insight of potential impacts to their corresponding programmatic areas.