

Overview of Governor’s Fiscal Year 2026-2027 Proposed Budget *County Administrative Office* *January 21, 2026*

On January 9, 2026, Governor Newsom released a \$348.9 billion budget proposal, an 8.3% increase from last year, that maintains continuity with significant multiyear program investments from recent budgets owing to a forecasted 6.7% revenue upgrade since the 2025 Budget Act largely attributable to stock gains and lower than anticipated tariffs. The released document maintains commitments but presents few details and only minor changes to funding levels for baseline programs beyond inflation, with the intention to delay additional program or reduction proposals until May, once April tax revenues are known. The Governor’s Proposal delivers a balanced budget that pays down \$3 billion in retirement liabilities and replenishes \$7.3 billion of reserves, including \$14.4 billion in the Budget Stabilization Account (Rainy Day Fund), \$4.1 billion in the Public School System Stabilization Account, and \$4.5 billion in the Special Fund for Economic Uncertainties. This provides flexibility to adapt to a persistently volatile market and federal outlook.

Though the indefinite character of the Governor's Fiscal Year 2026-2027 (FY27) Proposed Budget produced only a brief summary below of potential impacts on the County of Monterey, including 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. Though time for initial review is limited, state lawmakers’ response will continue to be monitored for relevant local impacts to incorporate throughout the budget process, culminating in the State’s May Revise and our Recommended Budget.

Health and Human Services

Disease Surveillance Systems: The Governor’s Proposal does not include funding for CalCONNECT or CalREDIE. Public Health notes that this would require the county to incur hundreds of thousands of dollars to coordinate a replacement with other counties for data sharing.

CalFresh: The proposal estimates a \$3.2 billion budget and caseload of 3.4 million and a \$382.9 million increase just to the state as the federal cost share drops from 50% to 25%. There is no mention of any support for the \$149.5 million cost to counties for their higher share, an impact of \$1.7 million annually in Monterey. DSS highlights that if this share is not met, another \$4.4 million of funding for program administration may be lost, potentially resulting in workforce reductions.

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 MediCal, with a potential \$233.6 million cut suggested 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.

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 \$81.3 million 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. This represents a \$7 million reduction tied to the elimination of state contract beds and an updated methodology that sets the marginal cost of providing food, medical care and programming services at \$20,105 per incarcerated offender.

Community Probation: Funding includes \$127.9 million, an increase of \$1.4 million, in statewide incentive grants allocated under SB 678 revocation rate performance metrics. However, Probation notes that Judicial Council funding will experience a 28.5% decrease, which could impact the new pretrial program (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 \$403.9 million, a decrease of \$64.3 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, \$11.5 million of these amounts otherwise dedicated to youth cultural and outdoor programs will be redirected to childcare infrastructure destroyed in LA fires last year.

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 \$2.1 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.

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.

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 1.8% in diesel excise tax revenue, while Transportation Improvement Fee revenues are anticipated to increase 5.1%.

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.

This overview serves to briefly highlight significant areas of potential impact to Monterey County from 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.