



**RCRC**  
*THE RURAL  
RUNDOWN*

May 14, 2026

**GOVERNOR'S 2026-27  
MAY REVISE**

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## RCRC'S SUMMARY OF GOVERNOR NEWSOM'S 2026-27 REVISED BUDGET

Earlier today, the Newsom Administration released the [2026-27 May Revision](#). *The Rural Rundown* captures highlights of the proposal as it relates to RCRC member counties. This revision is a required step in the State's budget negotiations with lawmakers, who must pass a budget by June 15 for the July 1 start of the 2026-2027 fiscal year.

The Governor's 2026-27 May Revision proposes a budget of \$349.4 billion. The budget reflects revenues of \$328 billion, despite caution from the Legislative Analyst's Office that the state is at or near a revenue peak due to enthusiasm around AI and the related stock market boom. The May Revision reflects an upgraded forecast driven by three-year General Fund revenues that are \$16.5 billion higher than what was projected in January, continuing the Governor's multi-year approach. While the Governor's 2026-27 May Revision does reflect continued growth, it also provides for deposits into the state's budget reserve accounts.

The Governor's 2026-27 May Revision reflects ongoing commitments to education, public safety, Medi-Cal, childcare, and safety net programs, along with investments in wildfire response and mitigation and climate change, and the Administration's policies on homelessness and housing. The Governor also projects to add \$3.6 billion to the Budget Stabilization Account (BSA). The proposal also assumes a budget reserve balance of roughly \$29.9 billion at the end of 2026-27, which includes \$15.1 billion in the Budget Stabilization Account; \$4.5 billion in the Special Fund for Economic Uncertainties; and, \$10.3 billion in the Public School System Stabilization Account. The Governor's 2026-27 May Revision also forecasts an operating reserve of \$4.5 billion in 2026-27 and \$2.1 billion in 2027-28. The Governor expects to deposit funds into the state's Projected Surplus Temporary Holding Account (Surplus Holding Account) for the first time.

**Overview.** At more than \$349 billion, the Governor's 2026-27 May Revision includes a proposed \$246.6 billion General Fund, funded by \$145 billion in personal income tax, \$35.6 billion in sales and use tax, and \$45 billion in corporation tax revenues.

In addition, the Governor's 2026-27 May Revision includes new tax proposals, such as cutting annual taxes for new small business owners in half, a strategy aimed at encouraging start-ups in a state often considered unfriendly to business. The proposal also conforms state tax treatment of Trump Accounts to the federal model, as well as applying sales tax to digital prewritten software.

**Revenue Forecast.** The Governor's 2026-27 May Revision includes the following observations pertaining to the anticipated revenue:

- The three largest sources of revenue—personal income tax, corporation tax, and sales tax—are estimated to be \$16.5 billion higher over the three-year budget window due to a \$13.6 billion upward revision to the personal income tax forecast, a \$2.7 billion upward revision to the corporation tax forecast, and a \$244 million upgraded revision to the sales tax forecast.

- General Fund revenue is projected to be approximately \$16.8 billion, or 2.5 percent higher than predicted in the 2025 Budget Act, primarily driven by the personal income tax and capital gains realizations.
- The sales tax forecast is \$6 million lower in 2024-25, \$188 million higher in 2025-26, and \$63 million higher in 2026-27. Sales tax cash receipts were \$82 million, or 0.3 percent above the Governor’s January Budget, with higher fuel prices and lower effective tariff rates resulting in lower offsetting inflationary impacts.

### General Fund Expenditures by Agency

(Dollars in Millions)

	2025-26	2026-27	Dollar Change from 2025-26
Legislative, Judicial, Executive	\$10,519	\$7,556	-\$2,963
Business and Consumer Services	226	10	-216
Housing and Homelessness	2,392	1,080	-1,312
Transportation	816	552	-264
Natural Resources	6,711	4,870	-1,841
Environmental Protection	277	117	-160
Health and Human Services	91,371	90,187	-1,184
Corrections and Rehabilitation	14,483	14,413	-70
K-12 Education	82,384	91,069	8,685
Higher Education	22,551	26,254	3,703
Labor and Workforce Development	1,127	991	-136
Government Operations	3,303	5,102	1,799
General Government:			
Non-Agency Departments	1,672	1,321	-351
Tax Relief/Local Government	757	483	-274
Statewide Expenditures	7,239	2,561	-4,678
<b>Total</b>	<b>\$245,828</b>	<b>\$246,566</b>	<b>\$738</b>

Note: Numbers may not add due to rounding.

### General Fund Revenue Sources

(Dollars in Millions)

	2025-26	2026-27	Change from 2025-26	
			Dollar Change	Percent Change
Personal Income Tax	\$146,847	\$145,609	-\$1,238	-0.8%
Sales and Use Tax	34,588	35,629	1,041	3.0%
Corporation Tax	43,287	45,017	1,730	4.0%
Insurance Tax	4,510	4,728	218	4.8%
Alcoholic Beverage Taxes and Fees	413	415	2	0.5%
Cigarette Tax	35	34	-1	-2.9%
Motor Vehicle Fees	46	46	0	0.0%
Other	8,616	-5,025	-13,641	-158.3%
<b>Subtotal</b>	<b>\$238,342</b>	<b>\$226,453</b>	<b>-\$11,889</b>	<b>-5.0%</b>
Transfer from/to the Budget Stabilization Account/Rainy Day Fund	7,100	-3,579	-10,679	-150.4%
<b>Total</b>	<b>\$245,442</b>	<b>\$222,874</b>	<b>-\$22,568</b>	<b>-9.2%</b>

Note: Numbers may not add due to rounding.

## **Agriculture**

**Plant Health and Pest Prevention Programs.** The Governor's 2026-27 May Revision includes an increase of \$10.5 million General Fund to maintain critical pest detection activities.

**Williamson Act.** As with previous State Budgets, no funding—other than the nominal amount required to maintain the budget item— is proposed for the Open Space Subvention Program (Williamson Act).

## **Air Quality**

The Governor's 2026-27 May Revision includes \$2.5 million to complete scientific research pertaining to reducing cancer risk from acrolein and ethylene oxide, which are used in chemical manufacturing operations. The Governor's 2026-27 May Revision continues to advance programs to accelerate purchases of zero-emission vehicles (ZEV) in both private and public operations. RCRC has been engaged on behalf of counties to try to mitigate the impacts of unfunded mandates related to ZEVs.

## **Community & Economic Development**

**Housing.** The Governor's 2026-27 May Revision includes continued support for the implementation of the Governor's agency reorganization that established the California Housing and Homelessness Agency (CHHA) and the Housing Development and Finance Committee (HDFC).

Additionally, the Governor's 2026-27 May Revision includes trailer bill language that requires, to the extent feasible, state entities to consider the deferral, waiver, reduction and exemption of development fees to be an in-kind local contribution when awarding funding for new construction projects. Further, the proposal would prohibit local jurisdictions applying for a project in a multifamily rental or ownership housing development program administered by the state, from including development impact fees for those projects.

**Disaster Rebuilding Fund.** The Governor's 2026-27 May Revision establishes the Disaster Rebuilding Fund within the CHHA to support the construction and reconstruction, and renovation loan for properties damaged or destroyed in a disaster. The proposal includes a \$100 million investment, including \$56 million in General Fund and \$44 million in existing National Mortgage Settlement funds. The program may include a construction loan loss guarantee, a construction loan rate buydown, and a low-interest deferred payment subordinate loan program to facilitate financing.

**Homelessness.** The Governor's 2026-27 May Revision maintains \$500 million for the seventh round of the Homeless Housing Assistance and Prevention program (HHAP), contingent on enhanced accountability and performance requirements. Proposed trailer bill language outlines additional requirements and disbursement methodology for Round 6 and 7 applicants, including mandating a compliant housing element if the applicant is a

city or county, and for larger jurisdictions, requiring a Prohousing designation issued by the Housing and Community Development Department. Additionally, the proposal includes placeholder language to require local matching funds for HHAP funding eligibility.

## **County Operations**

**Digital Prewritten Software Tax** – Effective January 1, 2027, the Governor’s 2026-27 May Revision proposes to apply the sales tax to sales of digital prewritten software, regardless of how the product is delivered to the purchaser, whether on a disc or physical medium, electronic transmission and local hosting (download), or remote access through the internet, including Software-as-a-Service (SaaS), where the customer accesses the software hosted by the vendor but never takes possession of it. Of the 45 states with a statewide sales tax, 35 states tax digital prewritten software delivered electronically, and 24 states tax SaaS. This proposal helps with restoring the state’s structural balance and is projected to increase General Fund revenues by \$450 million in 2026-27 and \$900 million in 2027-28, and annually thereafter, and it additionally increases local sales tax revenues by \$560 million in 2026-27 and \$1.1 billion in 2027-28, and annually thereafter. In his press conference, the Governor stated that the local share of the sales tax is for cities and counties to address local structural challenges, including H.R 1.

**Cannabis.** The Governor’s 2026-27 May Revision estimates \$414.1 million will be available for Prop 64’s “Allocation 3” continuously appropriated programs, shown below. The May Revision also maintains a one-time shift, with a \$308,000 increase for a total of \$11.8 million in 2026-27, within the youth, education, prevention, early intervention, and treatment account to the Department of Social Services for childcare infrastructure targeted toward communities impacted by recent fires.

- Education, prevention, and treatment of youth substance use disorders and school retention—60 percent (\$248.5 million);
- Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation—20 percent (\$82.8 million); and
- Public safety-related activities—20 percent (\$82.8 million).

**Rural CUPA Funding.** The Governor’s 2026-27 May Revision seeks to provide \$720,000 annually to implement the provisions of Assembly Bill 993 (Hadwick) of 2025, which RCRC and the California Conference of Directors of Environmental Health sponsored last year. That bill expanded eligibility for two small counties to access up to \$60,000 annually to implement local Certified Unified Program Agencies, which oversee consolidated permitting, inspection, and enforcement related to various hazardous materials programs. Counties that are eligible for the new funding include: Alpine, Amador, Del Norte, Humboldt, Lake, Mendocino, Mono, Napa, Nevada, San Benito, Siskiyou, and Tuolumne Counties.

## **Forest and Public Lands Stewardship**

The Governor's 2026-27 May Revision supports and increases funds for various programs related to wildfire prevention and public lands management. The proposal includes total funding of \$10.5 billion for programs at the California Natural Resources Agency (CNRA), drawn from the General fund, the Greenhouse Gas Reduction Fund (GGRF), which is derived from the proceeds of the Cap-and-Invest program, Climate Bond funding, and federal dollars. RCRC has consistently advocated for the continued funding of wildfire prevention programs from the GGRF and will be supporting efforts to ease the state's ability to fund projects through the Climate Bond.

**State Parks.** The Governor's 2026-27 May Revision includes \$3.6 million General Fund to support operations at the new Ford Ord Dunes State Park campground in Monterey County. The Department of Parks and Recreation will continue to explore expansion of existing parks and acquisition of lands to create new parks.

## **Health Care and Social Services**

The Governor's 2026-27 May Revision includes \$334.2 billion for all Health and Human Services programs. General Fund dollars account for \$90.4 billion of that allocation.

**Behavioral Health.** The Governor's 2026-27 May Revision includes \$174.8 million Behavioral Health Services Fund for the Department of Public Health; \$131.1 million Behavioral Health Services Fund for the Department of Health Care Access and Information; and \$10 million Behavioral Health Services Fund for the Commission for Behavioral Health in 2026-27 for the allocations for these purposes as required in Proposition 1. Of these amounts, \$119.8 million is for the Department of Public Health and \$94.3 million for the Department of Health Care Access and Information to implement new behavioral health population-based prevention and workforce programs in 2026-27 and to continue the BH-CONNECT Workforce Initiative. The May Revision includes \$211.9 million Behavioral Health Services Fund in lieu of General Fund in 2026-27, and \$229.1 million in 2027-28, decreasing to \$226.4 million in 2029-30.

**Managed Care Organization (MCO) Tax.** Proposition 35, approved by the voters in November 2024, requires the Department of Health Care Services (DHCS) to seek federal renewal and reauthorization of the Managed Care Organization (MCO) Tax added by Chapter 13, Statutes of 2023 (AB 119) to permanently continue the tax. The Governor's 2026-27 May Revision includes Managed Care Organization (MCO) Tax revenue of \$4.5 billion in 2025-26 and \$2.5 billion in 2026-27 to support the Medi-Cal program. The May Revision also includes \$1.3 billion in 2025-26, \$2.4 billion in 2026-27, and \$150 million in 2027-28 to support increases in managed care and other payments relative to calendar year 2024, for hospital, community clinic, behavioral health, and other services for provider payments. This includes an increase of \$1.9 billion from excess MCO Tax revenues from calendar years 2025 and 2026, after fulfilling the provider payment increases as required in Proposition 35. Recent federal changes, pursuant to H.R. 1, prohibit taxes that assess higher tax rates on Medi-Cal plans than commercial plans, or otherwise place a disproportionately high tax burden on Medi-Cal plans. In order

to align with the applicable law, the May Revision proposes to seek renewal of an MCO Tax effective January 1, 2027. The May Revision includes \$575 million in 2026-27, \$2.3 billion each in 2027-28 and 2028-29, and \$1.7 billion in 2029-30 from this new tax to support the Medi-Cal program and maintain targeted rate increases for primary, maternal, and non-specialty mental health care implemented on January 1, 2024.

**Medi-Cal.** The Governor's 2026-27 May Revision includes increased Medi-Cal expenditures of approximately \$2.2 billion General Fund compared to the 2025 Budget Act. This increase is driven primarily by federal fund claiming changes, including a one-time retroactive state-only claiming repayment and federal fund claim deferrals, as well as increased Medicare costs.

The Governor's 2026-27 May Revision reflects the following significant adjustments related to the implementation of federal requirements included in H.R. 1:

- **Updated Disenrollment Projections** – Total projected H.R. 1 disenrollment of 44,000 in 2026-27 and 1.3 million by 2029-30, a decrease of 478,000 in 2026-27 and 446,000 by 2029-30 compared to the Governor's Proposed Budget released earlier this year.
- **Work and Community Engagement Requirement** – An estimated reduction of \$357.6 million (\$90.3 million General Fund) in 2026-27 and \$9.6 billion (\$2.4 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. Under this federal policy, these individuals must comply with federal work or community engagement requirements as a condition of Medi-Cal eligibility unless they meet an allowable exemption or short-term exception.
- **Medical Assistance Percentage for Emergency Services** – A cost of \$669 million General Fund in 2026-27 and \$718 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** – Transitions individuals impacted by the federal eligibility change for qualified non-citizens to restricted-scope Medi-Cal, at a General Fund Cost of \$668.1 million in 2026-27 and savings of \$294 million in 2029-30 and ongoing for a July 1, 2027 transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens. The July 1, 2027, transition is a nine-month delay compared to the Governor's Proposed Budget released earlier this year. Effective October 1, 2026, the federal policy 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 \$1.3 billion General Fund ongoing.
- **Affordable Care Act Adult Expansion Six-Month Redeterminations** – A reduction of \$747.3 million (\$186.4 million General Fund) in 2027-28 and \$2.5 billion (\$633 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 for this population. Projected disenrollments have decreased to zero in 2026-27.

- **County Medi-Cal Administration** – A one-time augmentation of \$262 million (\$74 million General Fund) in 2026-27, and \$33 million (\$16.7 million General Fund) in each of 2027-28 and 2028-29 to support county workload for the implementation of Medi-Cal eligibility changes pursuant to H.R. 1. This augmentation for county administration includes optional surge staffing capacity to provide additional support to counties with workload such as application, renewal, call center, and work requirements. The Governor's 2026-27 May Revision also includes a total of \$2.8 billion (\$705.3 million General Fund) for Medi-Cal county administration in 2026-27.

**Indigent Care.** It is important to note that significant downstream impacts are expected from Medi-Cal reductions under H.R. 1. County indigent programs will see increased participation. The county indigent programs were previously supported by a significant portion of 1991 realignment funds, which were redirected due to the implementation of the ACA in 2014, and are now used to meet the State's obligations under CalWorks.

RCRC, along with a coalition of county associations, has requested \$761 million in 2026-27 to rebuild indigent care programs. While funding for increased county workload for eligibility was included in the Governor's 2026-27 May Revision, it does not mention or include funding for indigent care. This proposal forces counties to absorb these costs alone, which simply is not possible and will impact counties' ability to provide critical services.

The Governor's 2026-27 May Revision includes a proposal for implementing a digital software sales tax that would potentially generate \$1.1 billion for cities and counties. During the Governor's press conference, he stated that this is to address local structural challenges including H.R. 1.

RCRC, along with our county partners, will continue to advocate for additional fiscal resources with the resurgence of this population into county care.

**Social Services.** The Governor's 2026-27 May Revision includes \$59.1 billion (\$26 billion General Fund) for Department of Social Services programs.

**CalWORKs Grant Increase.** The Governor's 2026-27 May Revision reflects a 1.8 percent increase to CalWORKs Maximum Aid Payment levels, effective October 1, 2026, which is estimated to cost \$59.5 million in 2026-27. These increased grant costs are funded entirely by the Child Poverty and Family Supplemental Support Subaccount of the Local Revenue Fund.

**CalFresh.** The Governor's 2026-27 May Revision includes \$3.7 billion (\$1.6 billion General Fund) in CalFresh and nutrition programs. In addition, \$11.6 billion in federal food benefits is provided directly to recipients by the federal government. The total CalFresh caseload is projected to be 3 million households in 2026-27.

**In-Home Supportive Services.** The Governor's 2026-27 May Revision includes \$33.7 billion (\$12.7 billion General Fund) for the IHSS program in 2026-27. The May Revision

does not make any changes to the Governor's proposal to remove the state's share of cost for IHSS hours per case growth, beginning in 2027-28, and will impact costs to counties. The proposal also includes an increase of \$30.8 million General Fund in 2026-27 to conform IHSS to the delayed transition to restricted-scope Medi-Cal for individuals impacted by the federal eligibility change for qualified non-citizens to July 1, 2027. The May Revision also includes a reduction of \$62.6 million General Fund in 2026-27 to conform IHSS with the reinstatement of the Medi-Cal asset limit for seniors and disabled adults to \$2,000 for an individual or \$3,000 for a couple, effective no sooner than January 1, 2027.

**Distressed Hospitals.** The Governor's 2026-27 May Revision allows for an augmentation of up to \$50 million General Fund in 2026-27 for the Department of Health Care Access and Information to provide short-term support for hospitals in immediate and significant financial distress. The Administration is continuing to work with the Legislature on this issue.

### **Public Safety, Emergency Management, and Criminal Justice**

The Governor's 2026-27 May Revision includes several updates to programs impacting counties, including:

**Community Corrections Performance Incentive Grant.** The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678) was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Governor's 2026-27 May Revision estimates \$132.2 million General Fund for the incentive program.

**Proposition 47.** Approved by California voters in 2014, Proposition 47 reduces penalties for a variety of specified offenses and dedicates the 'savings' from prosecuting and housing these offenders into programs that support K-12 truancy and dropout prevention, victim services, and recidivism reduction programs primarily focused on mental health and drug treatment. The Governor's 2026-27 May Revision estimates a net savings of \$89.1 million. Proposition 36 is projected to increase the state prison population and therefore decrease savings associated with Proposition 47 in future years.

**Trial Courts.** The Governor's 2026-27 May Revision includes significant budget adjustments to support trial court operations, including \$20 million annually to address rising court interpreter costs and support language access services, as well as \$1.6 million annually through 2029-30 for appellate court security costs.

### **Solid Waste**

The Governor's 2026-27 May Revision seeks to increase spending from the beverage container recycling program to support additional recycling infrastructure, markets, and rural collection opportunities. In particular, the Governor's 2026-27 May Revision would provide \$75 million over three years to support in-state manufacturing for recycled

products, \$100 million for infrastructure to improve sorting and processing, and \$50 million to support rural beverage container recycling opportunities.

### **Transportation**

**Clean California.** The Governor's 2026-27 May Revision includes a one-time increase of \$40 million General Fund to continue investment in the Clean California program that was launched in July 2021 with one-time funding. Since launch, the program has delivered marked improvements along California's highways and roadways through targeted litter abatement, proper waste disposal, and encampment resolution.

**Homeless Encampment Liaisons.** The Governor's 2026-27 May Revision includes a two-year limited-term investment of \$6.2 million General Fund annually to sustain efforts addressing homelessness and encampments on the state highway right-of-way.

### **Water and Wildlife**

**Healthy Rivers & Landscapes.** The Governor's 2026-27 May Revision includes an additional \$25 million one-time General Fund to deliver environmental flows, habitat restoration, science, and monitoring to support the requirements of the soon to be updated Bay-Delta Water Quality Control Plan.

**Wildlife Coexistence.** The Governor's 2026-27 May Revision includes \$1 million to support the Coexisting with Wildlife initiative to proactively mitigate human-wildlife conflict.