

Legislative Update: Overview of the Governor's January Proposals for the 2026-27 State Budget

January 13, 2026

When Governor Newsom released his final state budget proposal last week, it included revenue estimates that were higher than anticipated and avoided a massive deficit that the legislature was expecting based on the Legislative Analyst's projections. The budget proposals for education include modest increases and avoid overt cuts, however many details remain to be seen in trailer bill language that is not expected before February 1.

The governor's overall state budget as proposed is almost 9% higher than the current year, for a total of \$348.9 billion. The state General Fund spending is about \$20 billion higher, at \$248.3 billion. When the 2025-26 budget was enacted, lawmakers assumed there would be a deficit in 2026-27 of \$13 billion; even though California's revenues are higher than had been expected, the governor's plan assumes a deficit of \$2.9 billion for the coming year. To balance the budget, the proposal suspends an expected deposit in 2025-26 into the state's primary Rainy Day fund (the Budget Stabilization Account). However, the proposal shows \$23 billion in total state reserves at the end of the 2026-27 fiscal year.

While the overall approach is to maintain existing programs and limit new spending or programs, there are a couple of significant proposals included in the education budget (see below). Overall, the Proposition 98 guarantee is estimated to be \$21.8 billion above the 2025-26 enacted budget, with higher amounts in all three years that are included in the estimate. In TK-14, there is a fully funded statutory cost-of-living adjustment estimated at 2.41%, which will modestly increase core funding including the LCFF and the SCFF. The governor has also proposed funding increases for the University of California consistent with intent language regarding 2026-27.

In addition to the funding proposals, Gov. Newsom has also included a plan to reform the way the state's public agency governance bodies are structured and operate. We expect the full details will become available in February when the budget trailer bills are released.

Below is a summary of the major items in the January budget proposal. In the coming weeks, as the details of policy proposals become available, CFT will circulate a more detailed report about the governor's budget proposals. As a reminder, the budget process is a months-long one, and the 2026-27 budget will not be finalized until June. In the next few months, legislative budget hearings will occur and the state senate and assembly will develop their own budget proposals. In May, Governor Newsom will revise his proposal in advance of further negotiations with the legislature.

Summary of Major Proposals in the Governor's 2026-27 Budget Proposal

Proposition 98: Each January, the Prop. 98 minimum funding guarantee is calculated and revised based on the overall state general fund picture – for the prior year, the current year, and the budget year. Across the three years, the governor estimates minimum guarantee to be \$21.8 billion higher than the 2025 Budget Act estimates.

- For 2024-25, the guarantee is increased by \$3.9 million to \$123.8 billion; for 2025-26, it is up \$6.9 billion to \$121.4 billion; and for 2026-27, it is estimated at \$125.5 billion.

- In the current year's enacted budget, \$1.9 billion of Prop. 98 funding owed to the 2024-25 guarantee was withheld from appropriation. Now, the governor includes in his calculations this "settle up" payment of \$1.9 billion, but also proposes to do the same thing again for 2025-26 – this time withholding \$5.6 billion from appropriation.
- Roughly 11% of Prop.98 funds are allocated to community colleges and the rest goes to TK-12 education.
- The governor's proposal updates the amounts of required and discretionary deposits and to the **Prop 98 Rainy Day Fund** (PSSSA); for 2024-25 there is a deposit of \$3.8 billion required, and no withdrawals are proposed. For 2025-26, a required deposit of \$424 million and discretionary deposit of \$240 million are proposed. In 2026-27, there would be a required withdrawal of \$407 million, leaving a balance of \$4.06 billion at the end of 2026-27.
- The updated estimates would trigger the local TK-12 school district **reserve cap of 10%** for 2025-26 and 2026-27. The implications for 2025-26 are still unclear, since when budgets were adopted, the cap was not expected to be in effect.

EC/TK-12 Education: The January proposal continues funding for major programs. Another discretionary block grant of \$2.8 billion for TK-12 schools is one of the more significant proposals. Deferrals of \$1.9 billion from the 2025-26 budget would be fully repaid in 2026-27 under the governor's proposal.

- The governor's budget estimates the **statutory COLA** at 2.41% for 2026-27; note this is still an estimate and the final COLA calculation will be known later in the spring.
- The proposal applies the COLA to the **LCFF**, the **LCFF Equity Multiplier**, **County Offices**, and the **categorical** programs it typically applies to – including Special Education. When factoring in the 2.41% COLA, and other assumptions, this allocates about \$2 billion more for LCFF plus \$228 million for programs outside the LCFF.
- Another **Student Support and Professional Development Discretionary Block Grant** for TK-12 is proposed, with \$2.8 billion, one-time funds, allocated for this. The funding would help districts cover costs amidst declining enrollment and attendance including those resulting from federal immigration actions. If allocated the same way as was done for the current year's discretionary grant, this would provide about \$521 per ADA according to estimates by School Services of California.
- Additional funding for **Special Education** is proposed. In addition to applying the 2.41% COLA to special education funding, an additional \$509 million is proposed to equalize base rates across the state. The COLA would also be applied to rates for Program Specialist Regionalized Services, Low Incidence funding, and Special Education Mental health Services.
- There is a proposal for \$1 billion ongoing funds to expand **Community Schools** in the state; further details are needed regarding how these funds would be allocated.
- Additional support of \$64.2 million ongoing funds for **ELO-P** is proposed in order to stabilize the Rate 2 amount at \$1,800 per student. Currently, the districts that receive Rate 2 (where UPP <55%) cannot count on a set funding rate, as it fluctuates from year to year.
- Funding cuts to the **Learning Recovery Emergency Block Grant** would be repaid in full, with a final installment of \$757.3 million proposed for this purpose.

- **Nutrition and Universal Meals:** The budget proposal continues funding for two free meals per day for all TK-12 students. Additional one-time funding of \$100 million is proposed for the Kitchen Infrastructure and Training grants and an additional \$24.6 million is proposed to support for the Farm to School Incubator Grant program.
- Gov. Newsom's January budget includes new funding for the **Master Plan for Career Education**, with a proposal to spend \$100 million one-time funds for college and career pathways for high school students, including dual enrollment and dual credit options. The budget also encourages districts to spend the discretionary grant to expand dual enrollment programs.
- For **Childcare** programs administered by the Dept. of Social Services, the budget proposes \$7.5 billion in support, plus \$89.1 million for a COLA for the childcare programs and \$11.5 million from Prop. 64 for childcare infrastructure in communities impacted by wildfires. Additional details about these proposals are still forthcoming in trailer bills.
- There is \$250 million one-time funding to support **educator residency programs** through 2029-30.
- Other proposals include:
 - Home-to-School Transportation funding – \$322 million one-time plus \$239.2 million ongoing funds.
 - Reading difficulties risk screening funding – \$40 million
 - LA Wildfire Recovery – \$22.9 million
 - County Offices – funding is lower after applying the COLA to the LCFF based on lower ADA expected. \$13.3 million for COEs to offer universal and targeted support to districts and charter schools.
- The governor included a major proposal to restructure the state's **Education Governance and Oversight**. The plan moves oversight for the CA Department of Education from the elected State Superintendent of Public Instruction to the State Board of Education, which is appointed by the governor. The details of this proposal are expected in forthcoming trailer bills.

Community Colleges: The January proposal continues funding for major programs, adds some additional funding to support enrollment growth, which has been recovering to pre-pandemic in some regions. The proposal includes repayment of deferrals (\$408.3 million) included in the 2025-26 budget.

- The governor's budget estimates the **statutory COLA** at 2.41% for 2026-27; this is still an estimate and the final COLA calculation will be known later in the spring.
- The proposal applies the COLA to the **SCFF** and to many **categorical** programs that the COLA is typically applied to – including Adult Education.
- Funding for enrollment growth is proposed, with \$31.9 million to support 0.5% growth in 2026-27 and \$55.3 million for an additional 1% growth in 2025-26.
- The 2.41% COLA to SCFF and categorical programs and funding for enrollment growth would provide \$358.4 million new ongoing funding for the community colleges.

- **Total SCFF funding** is estimated at about \$10.4 billion for 2026-27. No changes are proposed to the hold harmless / funding floor policy, which uses the district's 2024-25 apportionment as a floor starting in 2025-26.
- New funding for **Calbright** is proposed, which would add \$38.1 million in new ongoing funding, bringing total funding to \$53.1 million.
- For the Master Plan for Career Education, \$37 million is proposed for **Credit for Prior Learning** opportunities. Of this amount, \$2 million would be ongoing funding.
- Within in the TK-12 budget, \$100 million is proposed to support dual enrollment programs, though there are few details included in the January proposal.
- An additional \$100 million is added to the **Student Support block grant**, adding to the \$60 million provided in the current year budget for this grant.
- An increase of \$41 million is proposed for the **Common Cloud Data Platform** project; \$5 million of these funds would be ongoing.
- The CA **Healthy School Food Pathways** Program would see an increase of \$14.3 million for apprenticeship and training programs; another \$13.4 million is proposed for apprenticeship related and supplemental instruction costs from last year and the current year.
- **Facilities** funding proposals include \$736.9 million from Prop 2 bonds to finance 10 new and 29 continuing projects. \$120.7 million is also proposed for **deferred maintenance**.
- No cuts are proposed to the **Part-time faculty health insurance** program, which will remain at \$200.5 million; funding for Part-time faculty **office hours** (\$23.6 million), Part-time faculty **compensation** (\$26.54 million), and **Full-time faculty hiring** (\$150 million) also remains unchanged from 2025-26 (no cuts, no increases).
- Some funding (\$8 million per year) for the **Classified Employee Summer Assistance Program** would be shifted to the Basic Needs Centers for the next two years under the governor's proposal and consistent with the current year budget.

University of California: Gov. Newsom entered into a multi-year compact agreement in 2022 with the University of California and the California State University, which called for base funding increases of 5% each year, including in 2026-27. The budgets over the past couple of years have changed the timing of some of these payments, but the governor's proposal would fulfill the agreements made to date.

- The proposal provides an increase of \$254.3 million for the University of California, which represents the 5% base increase for 2026-27 expected under the Compact. It also provides another \$96.3 million as part of 2025-26 base increased that was deferred last year.
- In 2027-28, another \$240.8 million increase is expected (as deferred payment of the fourth year of the compact agreement) along with \$31 million for replacing the enrollment of 902 nonresident undergraduate students with California residents.
- There is no change proposed to an ongoing deferral from the 2025-26 budget (a \$129.7 (3%) budget cut) that is set to take effect in 2027-28.

What's next? Details of the proposals will become known when trailer bills are published in February. Budget committees will meet in both houses of the legislature in the coming months where consider the governor's budgets along with additional proposals from legislators. CFT will advocate for the union's budget priorities throughout the budget process. A revised budget proposal in May will include a final COLA calculation. Given the range of uncertainties of the federal government action along with the national and state economy, there are likely to be more changes for California's budget in the coming months and before the final agreement is enacted on July 1.

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