

## **State and Federal Budget Update** **Attachment I**

### **State Budget**

On January 9, 2026, Governor Newsom released his proposed budget for FY2026/27. Although the Governor's proposed budget is balanced, it projects a deficit of \$22 billion in FY2027/28, an increase of \$3 billion over last year's FY2027/28 forecast. Additional shortfalls are projected in subsequent years.

The Administration identified several risks to the budget, including volatility in technology sector stocks, federal policy uncertainty, and potential impacts from federal H.R. 1. The legislation is estimated to increase state General Fund costs by \$1.4 billion in FY2026/27, including \$1.1 billion for Medi-Cal and nearly \$300 million for CalFresh.

Early budget action includes SB 106, which provides \$90 million in one-time General Fund grants to reproductive and family health providers affected by H.R. 1 reductions. The funds are directed to nonprofit providers and do not include allocations to counties.

The proposed Budget does not include significant policy or funding proposals to address the impacts of federal H.R. 1 on counties. Of particular concern is the absence of funding to assist counties in meeting their obligation to provide medical care for medically indigent adults under California Welfare and Institutions Code (WIC) Section 17000 who may lose health coverage due to these changes. Under WIC 17000, counties must provide basic, subsistence-level medical care as a last-resort safety net necessary to prevent serious harm, pain or infection. Counties provided such care prior to the Affordable Care Act; however, since that time, funding for these services has been redirected to other programs. In addition, eligibility changes to both Medi-Cal and the Supplemental Nutrition Assistance Program (SNAP) are expected to increase administrative workload, which will affect county staffing needs, program operations, and the number of county residents eligible for these programs.

During March and April, the Legislature's budget committees begin holding hearings to review and analyze the Governor's proposed budget in detail. These committees evaluate funding priorities, assess program effectiveness, and consider input from state departments, stakeholders, and the public. This process often results in modifications to the Governor's initial proposal as lawmakers work to align spending plans with legislative priorities and updated fiscal information. At the same time, the state continues to monitor economic conditions and revenue collections, which can fluctuate based on factors such as employment trends, consumer spending, and broader economic performance. If revenues show signs of weakening in the months leading up to May, the Governor may be required to adjust the budget accordingly. In addition to State Budget impacts, the annual State Legislative cycle routinely includes legislation with direct impacts on county operations.

The May Revision—an updated version of the proposed budget released in mid-May—reflects revised revenue estimates and any necessary changes to expenditures. In the event of a significant revenue shortfall, the May Revision may include proposed reductions to state programs, funding shifts, or delays in planned expenditures. Because counties rely heavily on

State funding for a variety of programs and services, any proposed cuts or adjustments at the state level could have direct fiscal and operational impacts on the County, potentially requiring local budget revisions, service adjustments, or the identification of alternative funding sources.

### Federal Budget

Following last fall's federal government shutdown, Congress approved three appropriations measures late last year and earlier this year that, combined, fund most federal departments and agencies through September 30, 2026.

The first measure (P.L. 119-37) funded three FY2026 appropriations bills covering the U.S. Department of Agriculture (USDA), Military Construction–Veterans Affairs, and the Legislative Branch. The Act reversed recent federal “Reduction in Force” actions, temporarily halted additional layoffs, and provided retroactive pay for furloughed federal employees. It also fully funds the Supplemental Nutrition Assistance Program (SNAP)/CalFresh for FY2026, provides \$8.2 billion for the Women, Infants, and Children (WIC) program, restores the WIC contingency fund to pre-shutdown levels, and extends several Farm Bill programs for one year. The legislation does not modify SNAP changes enacted under H.R. 1 that are scheduled to take effect later this year, including limiting eligibility for lawfully present non-citizens (effective April 1, 2026), and expanded work requirements for Able-Bodied Adults Without Dependents (ABAD) (effective June 1, 2026).

All remaining federal departments and agencies, except the Department of Homeland Security (DHS), were funded through two additional appropriations bills (P.L. 119-74 and P.L. 119-75). These measures provide full-year funding for several departments, including Defense, Labor, Health and Human Services, Education, Transportation, Housing and Urban Development (HUD), Commerce, Justice, Interior, and State, as well as several independent agencies.

P.L. 119-75 provides \$77.3 billion for HUD, approximately \$7 billion above FY2025 levels. This includes a \$2.4 billion increase for Tenant-Based Rental Assistance and \$600 million for Tenant Protection Vouchers. Homeless Assistance Grants total \$4.4 billion, a \$336 million increase, and the legislation directs HUD to renew Continuum of Care grants expiring in early 2026 for 12 months, with potential automatic renewals if delays occur in the FY2025 funding competition. Local governments may see in certain areas based on the increases in funding, but increased funding is dependent on specific eligibility for expansion by program. The appropriations measure also extend authorization for several programs, including the National Flood Insurance Program (NFIP), Temporary Assistance for Needy Families (TANF), and the State and Local Cybersecurity Grant Program.

As of this writing, funding for DHS remains unresolved due to ongoing disagreements in Congress related to immigration enforcement activities.

County staff, in conjunction with State and federal legislative advocates, will continue to monitor ongoing State and federal budget developments. Any known impacts that emerge in the coming months will be incorporated into the FY2026/27 Recommended Budget and staff will return to the Board with updates, as necessary.