



Governor's 2026-27 May Revision

Prepared by Jennifer Baker, CABE Legislative Advocate

May 14, 2026

The May Revision reflects a now-positive year-end balance for both 2026-27 and 2027-28 and reduces several structural deficits by over half. The overall budget totals \$349.9 billion while the General Fund totals \$246.6 billion in 2026-27, which is close to \$1.8 billion lower than the January estimate. Overall revenues increased by \$16.5 billion over three years. The May Revision does not include significant new ongoing expenditures and focuses on addressing reserves and spending for the next two fiscal years. This includes an operating reserve of \$4.5 billion in 2026-27 and \$2.1 billion in 2027-28. Total combined reserves, including the Budget Stabilization Account (BSA), the Special Fund for Economic Uncertainties, and the Public School System Stabilization Account, total \$29.9 billion in 2026-27. A total of \$9.7 billion is proposed to be transferred to the Surplus Holding Account for allocation in 2027-28 to address the anticipated fiscal deficit.

A total of \$151.6 billion (\$91.3 billion General Fund and \$60.3 billion from other funds) is provided for TK-12 education.

Budget Stabilization Account (BSA)

Proposition 2, passed by the voters in 2014, known as the Rainy Day Fund, received annual deposits of 1.5 percent of General Fund tax revenue and a portion of capital gains revenue. Over the past two fiscal years, the state has withdrawn close to \$12.2 billion while suspending deposits. The May Revision reflects a BSA deposit of approximately \$3.6 billion in 2026-27 and a minor true-up for 2024-25. The updated 2026-27 balance will total \$15.1 billion. The Governor announced he will negotiate with the Legislature to increase the total amount of deposits into the BSA, allowing for greater fiscal prudence during times of surplus and additional fiscal flexibility during economic downturns, which have become a recurring occurrence in the state's budget process.

Additionally, reserve deposits include \$4.5 billion in the Special Fund for Economic Uncertainties and \$10.3 billion for the Public School System Stabilization Account.

Revenues

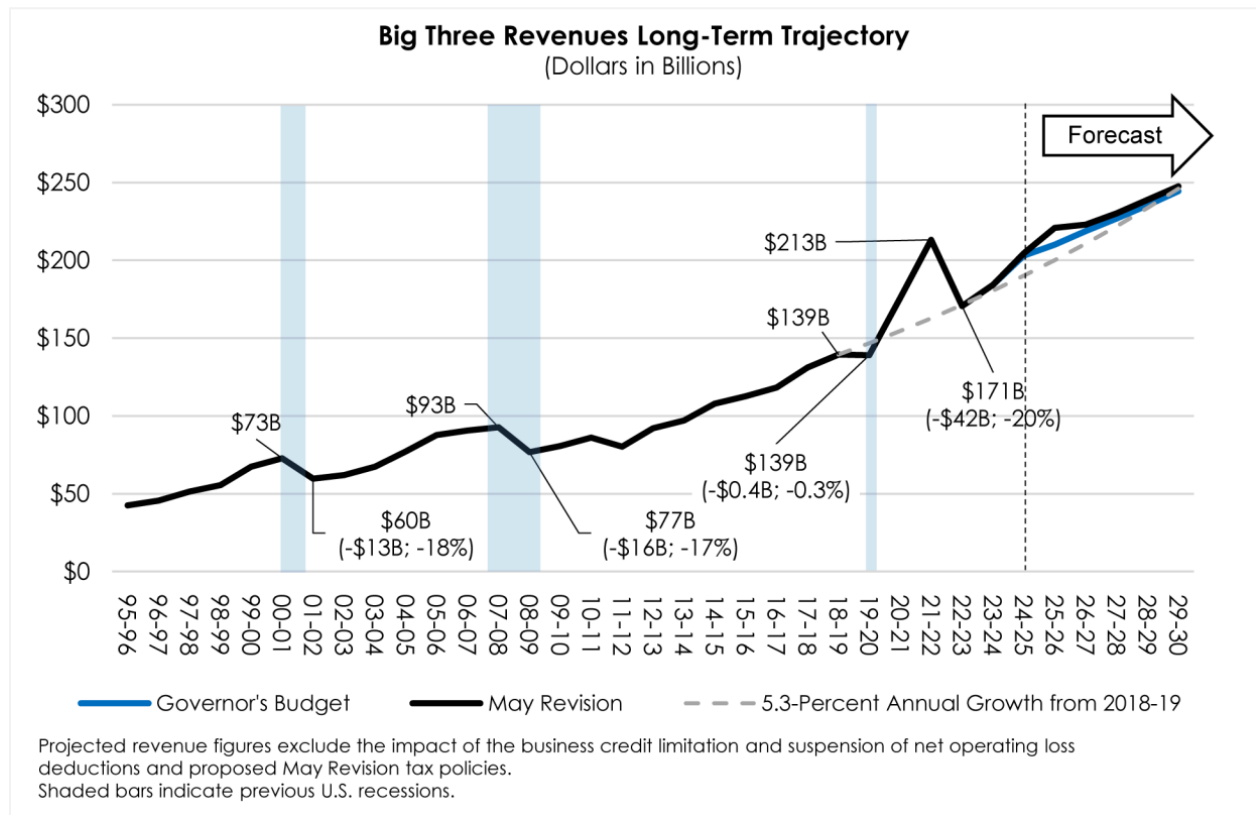
The May Revision includes overall revenue increases from the Big Three tax revenue generators: Personal Income (PIT), Corporate, and Sales and Use Taxes. These three provide \$16.5 billion in higher-than-projected revenues compared with the January projection. PIT accounts for \$13.6 billion of this total, primarily through capital gains.

The PIT forecast is \$1.1 billion higher in 2024-25 and \$9 billion higher in 2025-26, reflecting strong cash results through April 2026 related to the 2025 tax year, and indicating that capital gains realizations are significantly higher than the Governor's Budget forecast.

The Corporation tax forecast is \$2.7 billion higher in the budget window, driven by the Pass-Through Entity Elective Tax (PTET), which accounts for \$4.3 billion of the increase. When the PTET is excluded, overall corporation tax revenues are reduced by \$1.6 billion.

The sales and use tax forecast is \$6 million lower in 2024-25, \$188 million higher in 2025-26, and \$63 million higher in 2026-27.

The updated revenue forecast includes a rosier stock market outlook and a stable economic outlook. General Fund revenues as a result of the Big Three revenue sources are expected to be higher by \$9.9 billion from 2027-28 through 2029-30. The May Revision assumes ongoing moderate economic growth, even with the impacts of short-term inflation. Should fuel prices and inflation continue to rise, risks may be adjusted.



Line chart credit: [Governor's 2026-27 May Revision](#)

Economic Outlook

California saw overall economic growth in 2025, in part due to stronger wage growth in high-paying sectors. This indicates stronger economic momentum than anticipated and a limited impact of tariffs on labor market conditions compared with assumptions. However, the economic outlook is weakening due to broader global and national pressures, including higher global energy prices, the war in Iran, and the delayed economic impacts of tariffs. Economic activity is expected to decline in 2026, with slower personal income growth (4.1 percent), before improving in 2028, with a projected average of 4.7 percent through 2030.

Higher energy prices are projected to lead to increased inflation and reduced purchasing power. The U.S. Consumer Price Index (CPI) inflation is projected to increase from 2.7 percent in 2025 to 3.5 percent in 2026, then decline to 2.2 percent in 2027. California CPI inflation is projected to increase from 3.1 percent in 2025 to 4.1 percent in 2026, then decline to 3.1 percent in 2027.

The May Revision expects the economy to continue growing at a steady, manageable pace over the next several years. It does not predict a recession or major economic downturn, but it also does not expect rapid or unusually strong growth. In other words, the forecast assumes California and the national economy will remain relatively stable, with continued job growth and consumer activity, rather than experiencing a sharp decline in economic conditions.

Growth is projected to slow to 1.5 percent in the third quarter of 2026, reflecting higher energy prices that are expected to reduce real household income and increase business costs. However, economic growth is expected to remain stable at around 2 percent annually from 2027 to 2030.

While inflation is projected to increase in 2026 due to higher energy prices and tariff-related cost pressures, U.S. CPI inflation is expected to ease by 2027, driven by stabilizing energy prices and lower pass-through of tariff impacts.

State Appropriations Limit Calculation

The State Appropriations Limit totals \$182 billion, resulting from applying a 4.73 percent growth factor to the prior-year limit. The revised 2026-27 limit totals \$1.4 billion higher than the \$180.6 billion January estimate.

TK-12 Education

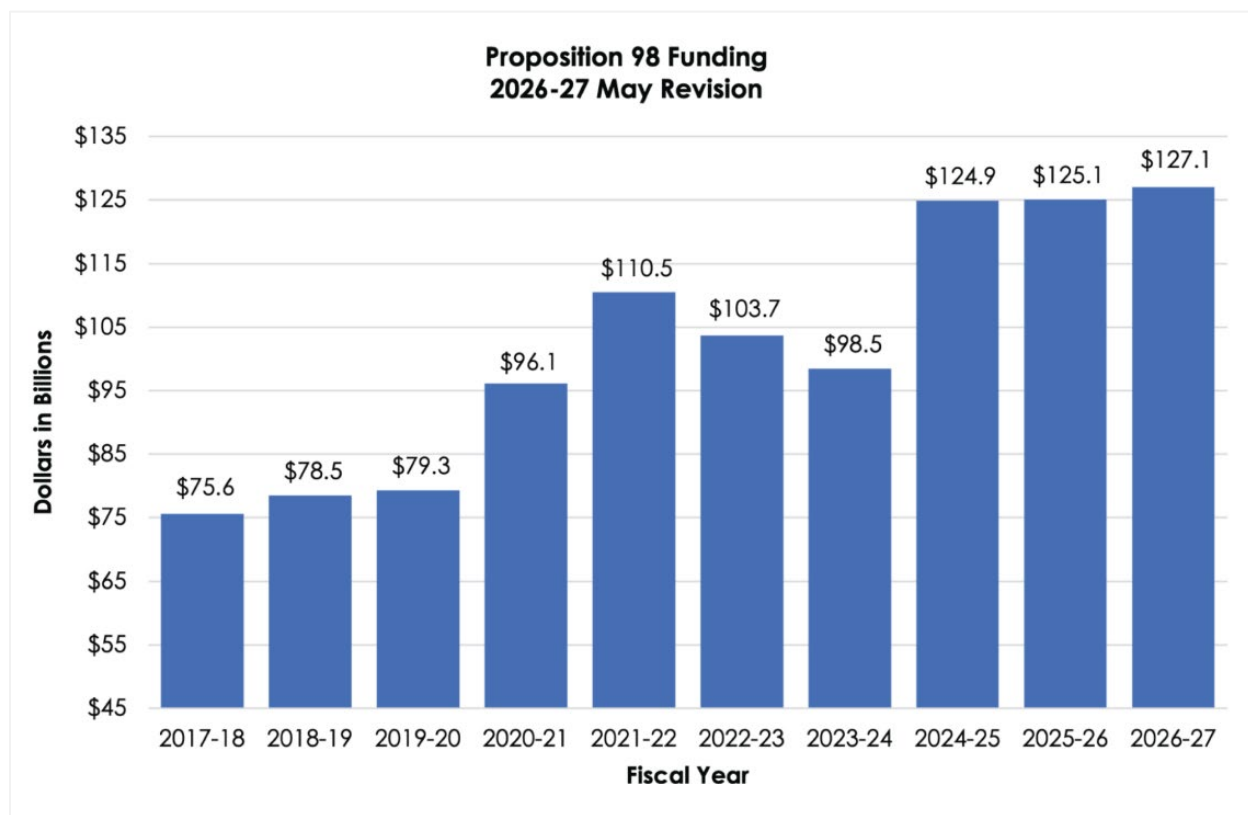
Proposition 98: A total of \$151.6 billion (\$91.3 billion General Fund and \$60.3 billion from other funds) is provided for TK-12 education. Proposition 98 adjustments include \$124.9 billion in 2024-25, \$125.1 billion in 2025-26, and \$127.1 billion in 2026-27, reflecting a total three-year increase of about \$28 billion. Test 1 is applicable to Proposition 98 funding from 2024-25 through 2026-27, which includes roughly 40 percent of General Fund revenues and local property tax revenues. Funding per pupil including all funding totals \$28,282 per student. Total Proposition 98 funding per pupil includes \$21,013 per student.

A total of \$8.3 billion will be provided to fully fund the maintenance factor payment in 2024-25. A \$3.9 billion "settle-up" amount continues to be included in the May Revision for 2025-26, which would be paid in the 2027 Budget Act should revenues remain at the same or higher levels. Additionally, the May Revision continues to include a \$1.9 billion "settle-up" payment in 2024-25, fully addressing the "settle-up" owed for that year.

Proposition 98 Rainy Day Fund: The May Revision projects the Proposition 98 Rainy Day Fund, also known as the Public School System Stabilization Account, will end with a balance of \$10.3 billion. Adjustments in capital gains revenues eliminate the previously projected \$407.1 million mandatory withdrawal in 2026-27 and instead require \$8.7 billion in mandatory deposits across the three-year budget window. The May Revision also increases the discretionary deposit from \$240 million to \$1.6 billion.

Local Control Funding Formula: A super cost-of-living adjustment is proposed in the May Revision, bringing the total funded COLA to 4.31 percent. This reflects the statutory COLA of 2.87 percent, as well as an additional \$906.7 million to increase the total COLA to 4.31 percent.

Special Education: To address the increase in students with disabilities, the May Revision maintains the \$509 million discretionary increase included in January and adds an ongoing base-rate investment of \$1.8 billion, for a total increase of \$2.4 billion, bringing the overall per student rate for special education to \$1,340.



Bar chart credit: [Governor's 2026-27 May Revision](#)

Student Support and Professional Development Discretionary Block Grant: The May Revision includes a total of \$5 billion to fund statewide priorities, including professional development for teachers on the English Language Arts/English Language Development Framework and the Literacy Roadmap, with focused strategies to support literacy for English learners; professional development for teachers on the Mathematics Framework, professional development for TK-3 teachers and elementary school site administrators on developmentally appropriate instruction; teacher recruitment and retention strategies; and career pathways and dual enrollment expansion efforts consistent with the Master Plan for Career Education.

The inclusion of additional funding, as well as the importance of providing professional development for teachers regarding the ELA/ELD Framework, as well as the EL Roadmap are significant fiscal priorities for CABE.

Paid Pregnancy Leave: Up to 14 weeks of paid pregnancy disability leave will be provided beginning in 2026-27 to support educators when pregnancy results in temporary disability. The costs of this increase are considered absorbable within the 1.4 percent discretionary LCFF COLA.

Community Schools: The May Revision maintains the \$1 billion provided in the January budget proposal and adds an additional \$485 million from the California Community Schools Partnership Program, which was previously set aside for extension grants. These resources will be used for the following:

- \$401 million for one-time grants for eligible schools to support planning and implementing the community schools model;
- \$50 million to redesign middle and high schools using community schools;
- \$15 million to the State Transformational Assistance Center to support a statewide transformation of new community schools;

- \$13 million to the State Transformational Assistance Center to develop and implement the ongoing process and certify that community schools are administered with fidelity and have a long-term accountability structure;
- \$6 million for the continued implementation of Transforming Together.

An additional \$50 million is provided as a one-time increase to support the Multi-Tiered Systems of Support framework.

Literacy and Math Instruction:

The May Revision includes a one-time \$428.8 million increase to extend funding for the Literacy Coaches and Reading Specialists Grant Program for all grantees through 2031. An additional \$11.2 million is provided for the Literacy Coaches and Reading Specialists Educator Training Competitive Grant.

The May Revision provides an additional \$60 million in one-time Proposition 98 General Fund to extend the Mathematics Professional Learning Partnership beyond the 2029 expiration date.

Teacher Preparation and Professional Development: The May Revision includes the following to address teacher shortages:

- \$30 million one-time Proposition 98 General Fund for the statewide teacher residency technical assistance center;
- \$16.2 million ongoing federal special education (IDEA) funds and \$1.6 million one-time federal Title II funds to continue the Golden State Teacher Grant Program;
- \$15 million one-time Proposition 98 General Fund to expand and enhance offerings from the 21st Century California School Leadership Academy program for school leaders.

An additional \$5 million one-time Proposition 98 General Fund is provided in the May Revision to build a system for statewide college transcript review by the California Commission on Teacher Credentialing (CTC) to save teacher candidates resources in examination fees. A \$25 fee increase will be applied to teachers when they renew their clear teaching credential to backfill lost testing revenues from the subject matter competency exam exemption and to support the CTC's costs to establish and maintain the new statewide transcript review process.

Significant budget adjustments include:

- **Local property tax adjustments:** \$265.6 million in additional General Fund for school districts and county offices of education in 2025-26, and an increase of \$344.4 million in ongoing General Fund for school districts and county offices of education in 2026-27 as a result of decreased offsetting of property taxes;
- **Cost-of-living adjustments:** \$261 million in additional ongoing Proposition 98 General Fund reflecting growth adjustments and a 2.87 percent COLA for the LCFF Equity Multiplier and specified categorical programs, including Special Education, Child Nutrition, Youth in Foster Care, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program;
- **County offices of education:** \$48.3 million in additional ongoing Proposition 98 General Fund reflecting average daily attendance changes applicable to the county office of education LCFF and a 4.31 percent COLA;
- **Supplemental funding for students experiencing homelessness:** \$30 million one-time Proposition 98 General Fund for grants to local educational agencies to increase identification of and improve outcomes for students facing homelessness;

- **Quality Rating and Improvement System:** \$20 million in additional ongoing Proposition 98 General Fund;
- **California State Preschool Program:** Reduction in the COLA from 2.41 percent to 2.01 percent;
- **Holocaust and Genocide Education:** \$10 million one-time Proposition 98 General Fund to support professional development and provide resources;
- **Multitudes Literacy Screener:** \$5 million ongoing Proposition 98 General Fund to the Sacramento County Office of Education to partner with the University of California, San Francisco Dyslexia Center to support the ongoing use of the Multitudes screener at no cost to local educational agencies and to expand the number of languages supported by Multitudes;
- **Nutrition:** \$2.8 million in additional ongoing Proposition 98 General Fund to support universal school meals in 2026-27;
- **Menstrual products mandate:** \$1.7 million in additional ongoing Proposition 98 General Fund for the Public School Restrooms: Menstrual Products mandated program;
- **Office of the Superintendent of Public Instruction:** Ongoing shift of \$1.5 million non-Proposition 98 General Fund in 2026-27, increasing to \$3 million in 2027-28 from the Department of Education to the new Office of the Superintendent of Public Instruction.

Higher Education

The May Revision includes \$50 billion (\$31.2 billion from the General Fund and local property taxes, and \$18.8 billion from other funds) for California's higher education segments and the California Student Aid Commission.

University of California: The May Revision maintains a \$254.3 million ongoing General Fund increase for base funding augmentation, representing a five percent increase and final year payment of the Compact. The May Revision maintains the proposed \$96.3 million ongoing General Fund increase to partially fund the fourth-year Compact. An additional \$240.8 million one-time planned deferral of the 2025-26 Compact is maintained, representing a 5% base increase in the fourth year of the Compact. A \$31 million 2025-26 deferral is also maintained to offset revenue reductions resulting from the loss of 902 nonresident undergraduate students. A proposed one-time repayment deferral of \$129.7 million is included, representing a one-time deferral of the 3-percent base increase from 2025-26 through 2027-28.

California State University: A \$264.8 million ongoing General Fund increase is proposed, which represents a 5-percent base increase for the fifth and final year payment of the Compact. A \$100.9 million proposed increase is also maintained to partially fund the fourth-year Compact payment. A planned one-time \$252.3 million deferral is maintained, representing a five-percent base increase in the fourth year of the Compact. A \$143.8 million proposed delay of a one-time repayment is maintained, representing a one-time 3-percent base increase from 2025-26, from 2026-27 to 2027-28.

California Community Colleges: The May Revision includes ongoing increase of \$197.7 million Proposition 98 General Fund reflecting a COLA increase from 2.41 percent to 4.31 percent (1.4 percent is discretionary), increasing the total proposed COLA in 2026-27 to \$438.3 million. Up to 14 weeks of paid pregnancy disability leave will be provided beginning in 2026-27 to support educators when pregnancy results in temporary disability. The costs of this increase are considered absorbable within the 1.4 percent discretionary SCFF COLA.

Significant budget adjustments include (partial list):

- **Local Property Tax Adjustment:** Ongoing increase of \$122.8 million in Proposition 98 General Fund as a result of decreased offsetting of local property tax revenues.
- **Adult Learner Demonstration Project:** One-time \$9.7 million increase in Proposition 98 General Fund, for use over three years, to support the Adult Learner Demonstration Project.

- **Categorical Programs Cost-of-Living Adjustment:** Ongoing increase of \$6.1 million Proposition 98 General Fund for a COLA increase of 2.87 percent for select categorical programs and the Adult Education Program.
- **SCFF Growth Adjustment:** Ongoing increase of \$2 million Proposition 98 General Fund for a 0.5 percent enrollment growth increase, while maintaining the additional one percent ongoing growth in 2025-26.
- **Student Support Block Grant:** One-time increase of \$607,000 Proposition 98 General Fund for a flexible block grant, increasing the total amount proposed for 2026-27 to \$100.6 million.