



GENERAL

## CA State Budget Negotiations Heat Up

04.21.26 | Linda J. Rosenthal, JD



This is the fifth year in a row that we've reported in real time on the extraordinary "budget process" of a state with an economy larger than most nations in the world and a population that includes about 1 out of every 8 Americans.

Of course, most people are about as keen on paying attention to a state's finance negotiations as on watching paint dry.

Nevertheless, these deliberations touch "... so many services and our everyday lives, it is critical for Californians to understand and participate in the annual budget process to ensure that state leaders are making the strategic choices needed to allow every Californian ... to thrive and share in our state's economic and social life." Indeed, a hallmark of California's annual budget process is the citizens' right to participate, mandated under the state Constitution.

For the state's massive charitable community, these negotiations are of additional – and particular – interest and importance. Our sector relies heavily on state support, particularly in these times when the federal government has so cruelly reneged on its promises and traditional generosity. But it's a two-way street: state and local governments rely on 501(c)(3)s to provide desperately needed social services as well as community-wide enrichment. Lawmakers sometimes need gentle reminding of that interdependence.

So – in our dual capacities as ordinary California citizens and as charitable-sector leaders and advisors – we should pay careful attention right now and get involved as the annual January – June budget drama plays out.

***Never A Dull Moment***



These five years – 2022 to 2026 – have been anything but boring as compared with the ordinary budget-watching experience. It’s been a wild ride: a rollercoaster of dizzying surpluses followed by plunges into worrisome deficit spirals.

When you’re on a rocket-like ascent – as in 2022 – it’s exhilarating. See [\*Nonprofits Reaching for Piece of CA Budget Pie\*](#) (April 11, 2022) [\$29-billion surplus; “...a time of plenty”] and [\*That CA Budget Pie?: Much Bigger Than Expected\*](#) (May 17, 2022) [Surplus figures again revised upward to \$97-billion. “That’s three times as much pie. Yum.”]

On the downward stretches – in 2023 and 2024 – it’s serious and subdued. There were hard, though not unexpected, choices. California lawmakers and officials are well-aware of the volatility of the state’s taxation system, exacerbated by the well-meaning but less-than-perfect attempted fixes over the past few decades through various voter-approved ballot initiatives.

The year 2025 opened more brightly, appearing poised to deliver a modest surplus. However, on the very day in early January that Governor Newsom unveiled the proposed budget for FY 2025-26, the catastrophic Pacific Palisades Fire erupted.

This year, we’re turning the corner once again, in a rather dramatic upward way quite similar to the early months of 2022. Both times: (a) the pre-New Year’s Day revenue predictions were far too low; and (b) first-quarter actual revenues poured into the Franchise Tax Board faster and in much higher amounts than the estimates.

We set the stage a few months for this 2026 story in [\*CA State Proposed Budget Moves Front and Center\*](#) (January 13, 2026) *FPLG Blog* and [\*There Are Already New Developments in the CA Budget Saga\*](#) (January 18, 2026) *FPLG Blog*.

Recently, there has been more news to report.

### ***The 2026-27 Budget Announcement***

To the general public, the annual California budget process appears to be a six-months’-long, “carefully choreographed and constitutionally mandated” ritual dance between the governor and lawmakers.

More accurately, though, it’s a year-round effort, mostly behind the scenes, led by the Department of Finance in coordination with Assembly and Senate finance staff as well as the Legislative Analyst’s Office. In the fall of each year, they analyze data, work up estimates, and prepare reports ahead of the constitutionally prescribed January 10th deadline by which the governor must unveil a proposed budget for the upcoming fiscal year starting July 1st.

(As we have previously explained in our [\*January 18, 2026, post\*](#)), by the fall of 2025, there were significant indicators that state tax revenues might be on the upswing: indeed, might move back towards positive territory.

However, the Legislative Analyst’s Report in mid-November 2025 presented a different picture. See [\*The 2026-27 Budget: California’s Fiscal Outlook\*](#) (November 2025), Gabriel Petek, Legislative Analyst, *Legislative Analyst’s Office*.



“Mr. Petek and his colleagues took a somewhat gloomy stance on California’s current fiscal situation. While acknowledging the current strength in AI/tech, they present it as one of a number of sources of growing deficits due to volatile revenue. ... [setting] the stage for the LAO’s conclusions and recommendations dripping with caution.”

Against this background, but armed with even more rosy financials since mid-November 2025, Gavin Newsom timely released a somewhat tweaked Governor’s Proposed Budget for FY 2026-27 (January 9, 2026). It had a more cautiously optimistic tone than the Legislative Analyst’s, while “acknowledging the risk always inherent with finance bubbles...”

“[H]istory teaches us,” Governor Newsom wrote in his message to legislators, “that prosperity, if taken for granted, can vanish as quickly as it arrives. California’s responsibility is to act with steady hands and anticipate future instability.”

The governor then recommended an “unusual but defensible approach for the coming months although it strays somewhat from the rigid, Constitutionally prescribed, procedure and timeline for the budget deliberations.”

He explained in writing: “This January budget is not the final word. It is a beginning—a statement of purpose. In the months ahead, we will work together to refine a final budget that looks beyond a single year, mindful of the obligations to the people we serve. I look forward to working with you to safeguard what we have built, to strengthen what remains unfinished, and to prepare California for the years ahead.”

### ***Reaction ... and More Data***

The Governor’s Proposed Budget was posted on Friday, January 9th.

There were, as expected, “immediate statements from the usual sources, ranging from the legislative leaders to budget experts to large charitable nonprofits associated with one or another popular charitable causes.”

“The much-anticipated response from the Legislative Analyst’s Office [dated January 12th] did not pull any punches; the Governor’s proposed budget was ‘alarming.’ More particularly, the LAO criticized the proposed timetable: ‘The state’s deficits will require legislative action. It is essential that the Legislature begin that work now, rather than waiting until the administration puts forward a revised budget in May....’”

Meanwhile – (again, as we had already mentioned in our January 18th post) – the actual (vs. estimated) revenue figures continued to flow into the Franchise Tax Board in January faster and larger in amount than the estimates.

We had included examples at that time from the posts of Jason Sisney, who “advises the Speaker of the California State Assembly and Assembly Democrats on state budget matters.” Mr. Sisney publishes almost daily on his Bluesky and LinkedIn feeds as well as weekly on his Substack under the hashtag #CABudget.



Note, particularly, the observation in his [January 16, 2026, Substack post](#): “FTB booked \$4.6 billion today related to the Jan. 15 deadline, with more likely next week. These levels are similar to totals in Jan. 2021 & 2022. Promising for exceeding recent administration estimates.”

### ***New Development: Strong Revenues Reported***

Jason Sisney has continued to diligently tell us about the latest budget news, highlighted by the key story: Robust tax revenues have continued to flow into the Franchise Tax Board.

See his *Substack Weekly Summary*, (April 7, 2026) [California revenues remain strong in March](#):

- “California collected \$1.4 billion (10.8%) more than projected in state income taxes during March, principally due to gains in corporation taxes....Personal income tax (PIT) collections, net of refunds, were up \$474 million (5.7%)”
- (In accord with his [post](#) on March 19), he “thinks an upward revenue revision of between \$10 billion to \$30 billion remains possible across the two fiscal years, 2025-26 and 2026-27, in the Governor’s May Revision.”
- However, “large portion of this year’s revenue gains” – almost 40% or so – are “likely obligated for schools and reserves.”
- Federal “reckless policies add to economic risks” and “threaten the state’s ability to maintain existing spending levels and will reduce benefits available to millions of Californians in need.”

Also see *Substack Weekly Summary* (April 16, 2026) [Recap of this week’s state budget developments](#):

- “The next few days of income tax processing are among the most important of the year.”]
- “As of yesterday, April [15th], tax collections are [proceeding satisfactorily](#). The largest revenue processing days at the state’s Franchise Tax Board (FTB) are expected today through Monday. It takes a day or more for many payments to go through processing. April collections are very important in determining what revenues will be included in the May Revision and the annual state budget in June.”

An April 20, 2026, post on [BlueSky @jasonsisey.bsky.social](#) adds more detail: “Today, likely the last big April processing day at FTB, saw monthly net personal income tax (PIT) collections surpass \$15 billion—likely durably ahead of the administration’s \$12.5 billion forecast for the month. Good, but not as good as I expected.”

### ***New Development: CA Senate Dems’ New Plan***

California’s Senate Democrats released a new state budget plan titled [Foundation for the Future: Overview](#) (6 pp. PDF). See also, the press release from the State Senate’s President pro tempore, Monica Limon: [California State Senate Unveils “Foundation for the Future” Budget Plan](#) (April 16, 2026).

It’s not unusual for the lawmakers during the spring months of the budget negotiations to offer a counter-proposal to the governor’s Proposed Budget for the upcoming fiscal year. Even with single-party control of the Governor’s Mansion, the Assembly, and the Senate, a Sacramento April



resembles the herding of cats.

The Senate Dems' Overview begins: "The Foundation for the Future budget plan makes responsible choices now to prevent tougher and more harmful budget decisions in the future, for both families and the overall economy. The plan focuses on three key priorities: responsible budgeting, maintaining the essential programs Californians rely on every day, and improving the state's budget long-term."

This plan "is based on revenues being \$20 billion higher than the Governor's proposed budget due to the short-term revenue surge that California is currently experiencing."

Among the "key pillars of the plan is a new corporate tax called a "Fair Share Corporate Tax". It proposes a "fair share contribution on the top 2% of corporations."

The purpose is to "backfill an estimated \$9.5 billion annual hole in Medi-Cal funding caused by federal health care cuts" and made worse by the corporate failure to provide adequate health care coverage particularly for its lower-income workers. (A significant percentage of adult Medi-Cal beneficiaries work full-time but in low-wage jobs that don't include health coverage at all.)

The tax is "estimated to generate \$5 billion to \$8 billion annually starting January 2027."

### *Conclusion*

The budget subcommittees of both the California Assembly and the Senate are meeting regularly right now for hearings. The public are invited to provide input in Sacramento or to watch the live-streamed proceedings at: Senate and Assembly.

To better understand the California budget process, there are a number of helpful, plain-English, resources, including –

- *State Budget Process and Legislative Process: Key Activities and Deadlines* (December 2025, Scott Graves, *California Budget & Policy Center* [brief narrative and chart])
- *Dollars & Democracy: An Introduction to California's State Budget Process* (January 2026) *California Budget & Policy Center* [56-item slideshow]
- *The Budget Process: A Citizens' Guide to Participation* [20 pp. PDF booklet], *California State Senate*

See also – most particularly: *5 Key Questions About California's State Budget Reserves* (April 2026) Scott Graves and Kayla Kitson, *California Budget & Policy Center*. "California has several budget reserves that help to manage annual state revenues and protect services when the state faces a budget deficit. California's Constitution and state law govern when funds may be withdrawn from the state's reserves, the amount that can be withdrawn, and how funds may be used."

– Linda J. Rosenthal, J.D., *FPLG Information & Research Director*

**Update: 4/25/26** per Jason Sisney: "net personal income tax collections ... on track to exceed this month's forecast by around \$2.5 billion. As of March 31, General Fund taxes were exceeding forecast by \$7.6 billion for 25-26 to date. There is considerable upside for revenues in 25-26 and 26-27 compared to the administration's January forecast. Most gains likely would have to be used to



fund schools and reserves, given our constitutional funding requirements.”