

The CA Budget Revision: More Reaction

05.19.26 | Linda J. Rosenthal, JD



It's that frenetic time of year again in Sacramento – May 15th through June 15th – when the annual battle over the California state budget plays out.

More accurately, in flush years – good examples being 2021 and 2022 – it's been the fight *for* the budget: that is, for the budget *spoils*, for a “piece of the pie.”

See, for example, in [Nonprofits Reaching for Piece of CA Budget Pie](#) (April 11, 2022) [the January surplus estimate that year was \$29 billion; “Everyone is lining up to grab some of it.”] And in [That CA Budget Pie?: Much Bigger Than Expected](#) (May 17, 2022), the situation intensified: [“The ‘May Revision’ indicates there will be an extra \$97 billion. That’s three times as much pie. Yum.”]

Now, in 2026, there is once again abundant pie. Imagine endless Thanksgiving, day after day: buffet tables overflowing with pies of every imaginable flavor ... dusted with cinnamon and nutmeg and topped with dollops of fresh sweet whipped cream over scoops of home-churned vanilla ice cream.

“[T]he state’s current fiscal situation is genuinely unprecedented,” according to Gabriel Petek, California’s Legislative Analyst, in [The 2026-27 Budget: Initial Comments on the Governor’s May Revision](#), (May 2026). More particularly, he explained: “The May Revision’s estimate of tax revenues in the current year represents over 30 percent growth from three years ago. Much of this growth is driven by the personal income tax, which is up nearly 50 percent during that same period....”

And of course, Mr. Petek has sounded the alarm – not for the first time – about the dangers of too much pie. “For several years, [we have cautioned](#) that structural deficits were emerging and would soon require corrective action. Despite booming revenues, the budget position is overextended, reflecting: a structurally higher spending base, diminished reserves, an already accumulated wall of



debt, and an operating deficit.”

His prescription: “Periods of elevated revenues like these are typically when the state should be strengthening its fiscal position. Instead, the May Revision draws it down—relying on roughly \$20 billion in reserve withdrawals and suspended deposits, as well as \$4 billion in borrowing (on top of tens of billions of dollars in existing borrowing), to achieve budget balance.”

Does Anyone Have to Listen to The Legislative Analyst?

Not exactly.

“The Legislative Analyst’s Office (LAO) has provided fiscal and policy advice to the Legislature for 75 years.” It is known for its “fiscal and programmatic expertise and nonpartisan analyses of the state budget Historically, one of the most important responsibilities of the LAO has been to analyze the annual Governor’s budget...More generally, the office is a staff resource to all legislators.”

The LAO’s opinion is highly valued, but lawmakers are not required to follow it.

Or their own leadership, for that matter. The phrase “herding cats” is sometimes used to describe proceedings in the California Legislature despite there being supermajorities of Democrats in both the Assembly and the Senate.

Nevertheless, each year, lawmakers are required by the California Constitution to take (or leave) the governor’s Mid-May Revision but in any event to agree on a balanced budget by about June 15th or so. And by July 1st, the governor must sign onto it as well so the FY 2026-27 Budget is in place on time.

Assembly and Senate Deliberations This Spring

Picking up where we left off late last week in CA Mid-May Budget Revision is Out (May 15, 2026), let’s get up to date on how the legislators (or at least the leadership) proceeded, during the period from mid-January to mid-May, to formulate preliminary budget plans in this wildly volatile year.

We told you in CA State Budget Negotiations Heat Up (April 21, 2026) that the state’s Senate Democrats had 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).

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.”

A few weeks later, on May 7, 2026, the Assembly leadership unveiled its own proposal: Assembly Democrats Roadmap to a Responsible & Compassionate Budget: 2026-27 Priorities [18 pp. PDF].



In the Introduction, Assembly leadership wrote: “In this moment, California is caught between two realities: State revenues are surging. Yet the fiscal picture ahead is anything but easy.” Therefore, “Assembly Democrats are united around these north stars (‘Guiding Values’): Responsibility. Compassion. Fairness.”

For example, under “Responsibility,” they explained: California’s finances are under incredible pressure. The Legislative Analyst’s Office has been clear: State costs are climbing — due to Trump inflation impacts on our public programs such as health care, the costs of which have hit families and businesses alike. Harder choices are coming, and spending at every level of government needs to be looked at honestly today to avoid even more dire choices down the road. Yes, this year brought in a lot of tax revenue — a reflection of California’s progressive tax code and the strength of our state’s technological innovation. But this helpful windfall cannot justify big new spending commitments we can’t sustain.”

They continued: “Assembly Democrats know this, and we’re proposing to ask Californians directly: Let’s strengthen our rainy day fund and fiscal reserves by amending the state Constitution to allow for more robust investments in future years. Why do this? Because real responsibility means preparing for the hard years, not spending through the good ones.”

What the Assembly leaders didn’t mention at all is the Senate’s proposed “Fair Share Corporate Tax.”

Now – After the Release of the Mid-May Revision

In last week’s post, there are hyperlinks to the full package of documents housed at the Department of Finance’s website: ebudget.ca.gov

Each year, the Finance staff prepare the main budget flowchart, divided in three sections: January Proposed Budget; Mid-May Revision; and Enacted Budget (which is filled at the end of the process on or about July 1st.)

For convenience, here again are the key links for the Mid-May Revision:

- [May Revision 2026-27](#), [105 pp. PDF] Gavin Newsom, Governor (May 14, 2026), ebudget.ca.gov
- [Governor Newsom releases revised budget plan](#), [YouTube, 2:09:26] May 14, 2026 [“.... We are the temple of the American economy....”]
- [Governor Newsom announces revised budget that eliminates California’s deficit, maintains investments for working families, healthcare, education, and businesses](#) (May 14, 2026) [Press Release, gov.ca.gov](#)
- [May Revise: Messaging and Key Announcements](#) – Fact Sheet Chart [3 pp. PDF], gov.ca.gov

Caveat: These Department of Finance publications are of the “deep-in-the-weeds” variety, i.e., a bit complex for those of us without advanced degrees in government finance.

Post-May 14th Comments from Legislative Leadership



As soon as the Governor's Mid-May Revision was published, the leadership of the two chambers of the California Legislature posted initial reactions.

State Senate

In [*California State Senate Moves Forward on Budget Following May Revise*](#) (May 14, 2026) Press Release, Sen. President pro Tempore, Monique Limon, explained: "California has moved one step closer in crafting the budget plan following the release of the May Revise. This update is an encouraging development toward passing an on-time budget that puts California on a fiscally responsible path for the future."

She added: "While this May Revise is positive, there are still some key points that need further negotiation. Our state must continue to maintain funding for programs like: HHAP, affordable housing, homeownership, and the Middle Class Scholarship. It is also critical that we delay the implementation of cuts to dental programs, clinics, and Medi-Cal premiums....While not identical, the May Revision from the Governor aligns with the Senate framework...."

State Assembly

See [*Highlights of Governor's Proposed 2026-27 May Revision*](#) [34 pp. PDF] (May 14, 2026) Assembly Budget Committee, Chair, Jesse Gabriel, abgt.assembly.ca.gov

In the Overview, the principal author notes the two "realities": first, a chaotic world economy made worse by the current administration in Washington, D.C.; and second, "a soaring stock market and California's key industry – technology – on the ascent" but extreme wealth inequality "under one of the nation's most progressive tax codes, that is fueling rapid growth of state revenue estimates."

"Assembly Democrats' recent *Road Map to a Responsible & Compassionate Budget* spelled out a broad vision for facing these two realities: a balanced approach to fixing California's long-term budget challenges that take a combination of cost controls and new revenue."

"The Governor's Revision includes several proposals inspired by the Road Map and Senate Democrats' similar Foundation for the Future plan...." Of course, "over the next few weeks" certain "differences between the branches of government" will be revealed, "but the May Revision is a helpful start for this part of the budget process. Assembly Democrats are encouraged by the common ground with the Governor and the Senate, and look forward to delivering a budget Californians can count on."

Jason Sisney and his staff colleagues wrote [*this in-depth guide*](#). Mr. Sisney advises the Speaker of the California State Assembly and Assembly Democrats on state budget matters and represents the Assembly at staff level in budget negotiations with the Governor's Office and the California State Senate.

Mr. Sisney posts frequently on [LinkedIn](#) with helpful explanations and updates – and kindly answers questions as well. He has a Substack, too: see e.g., "[*Upside*](#)" and "[*downside*](#)" for *May Revision estimates* (May 18, 2026) ["California state revenues could end up many billions above or below new projections"] and [*The last 30 May Revisions: a look at trends of proposed fund balances and reserves*](#) (May 18, 2026) ["Governor's proposal aims to keep state cash holdings significant in the



coming year”]

Conclusion

Reaction has been pouring in not only from the government personnel but also from academics and experts who have valuable insights. And, of course, the charitable community – (which will be so deeply affected one way or another with the fiscal decisions being made right now) – are making known their views.

Among the resource items in last week’s post is one from the California Budget & Policy Center: a (preliminary) reaction from their CEO: [Statement on Governor Newsom’s 2026-27 May Revision](#) (May 14, 2026) Chris Hoene and Mauricio Torres, Jr.

We now have the more comprehensive – and plain English – guide to the Mid-May Revision from this independent and nonpartisan research organization:

- [First Look: Understanding the Governor’s 2026-27 May Revision](#) (May 2026) California Budget & Policy Center, Report: [“Revised Budget Proposes Common-Sense Revenue Solutions, Yet Continues to Leave Californians Exposed to Unprecedented Federal Cuts”]

Also, check out the free-of-charge, online [Budget Academy](#): “The Budget Center’s essential resources for understanding and navigating the California state budget — all in one place.” Among the offerings are:

- [California’s Rainy Day Fund and Other Budget Reserves Overview](#) [11 pp. PDF] (April 2026) Scott Graves and Kayla Kitson, *California Budget & Policy Center*
- [5 Key Questions About California’s State Budget Reserves](#) [3 pp. PDF] (April 2026) Scott Graves and Kayla Kitson, *California Budget & Policy Center*

The “rainy day fund” and many different “state reserves” are very much relevant to understanding these budget discussions.

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