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2<sup>nd</sup> Quarterly Report

There were two important developments in Sacramento today. First, the Assembly and Senate Appropriations Committees met to consider bills with costs to the state introduced in their respective houses this year. In theory, these committees are tasked with making sure that state revenues line up with the added costs of bills being considered in the Legislature, trimming the bills to match revenues as appropriate. As a practical matter, cost is only one of many factors that influences whether a bill moves off of suspense. The bigger issue is always politics.

Below are updates on several bills CCASLA is tracking.

AB 1796 (Jackson) – Interior Designers – The bill made it off of suspense today and consequently moves to the Assembly Floor. We don't expect that the bill will stall there. We will see what happens as it moves into the Senate.

AB 2106 (Patel) – Certificate of Merit – The bill passed off the Assembly Floor earlier this week and is pending referral to a policy committee in the Senate. It passed on a unanimous 73-0 vote, so no controversy which is good since you support.

AB 2494 (Rogers) – Forest management/planning – This bill passed off of suspense with limited amendments. Similar to AB 1796 it now goes to the Assembly Floor for consideration.

AB 2184 (Wilson) – Nature Based Solutions – Not surprisingly given the bill's \$400 million cost, it was held on suspense in the Assembly Appropriations Committee.

**Budget**

Next, today Governor Newsom released his May Revision to the proposed [2026-27 State Budget](#) with a live-streamed press conference complete with accompanying infographics that were used to explain budget details and themes, while also mocking President Trump and the federal policies that are causing state-level fiscal pain, especially in healthcare.

The Governor went to great lengths to blame the Trump Administration for the state's budget problems and specifically cited federal cuts and increased state costs attributable to HR 1 from 2025 and the just-announced suspension of \$1.3 billion in federal Medicaid payments to the Medi-Cal program. But, at the same time he did not present a doom and gloom budget. He spoke of California's dominance in tech and other industries as reason for budget optimism and cited the uptick in Personal Income Tax revenues as a key reason

for why his revised budget proposal will be balanced using a few tax increases, limited cuts in services, and no significant new and ongoing spending.

On the revenue side of the equation, the Governor is proposing to permanently limit business tax credit use to \$5 million or 50 percent of tax liability whichever is greater; place sales tax on Digital Prewritten Software and Software as a Service; and adopt a 2027 Managed Care Organization Tax. In total, the Governor's

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revenue proposals would raise \$3.6 billion in 2026-2027 and growing to \$5.1 billion in 2027-2028.

On the spending side, the Governor is proposing an asset-test limits for Medi-Cal eligibility and increased premiums for Adults with Unsatisfactory Immigration Status. He is also proposing to shift a lot of programs and administration away from the General Fund to Special Funds. These spending reductions result in \$411 million in cuts in 2026-2027 and grow to \$711.9 million by 2029-2030.

The Governor made it clear that this proposal represents a balanced budget through 2028. He stated this several times. However, the highly respected Legislative Analyst's Office (LAO) has projected ongoing structural deficits as high as \$20-\$35 billion in the coming years. The Governor did not go into detail about the revenue assumptions that his assertion of a multi-year balanced budget are based on. The LAO's projected deficits do not assume a recession, but only slowed economic growth. We expect to see an evaluation of the Governor's budget from the LAO in the coming days.

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EGRS