



California Association for Local Economic Development

Economic Development Analysis Governor's Proposed FY 26-27 Budget

The California Association for Local Economic Development (CALED) is the voice of economic development practitioners and stakeholders. With over 1,000 members, CALED is one of the largest economic development associations in the country. We are pleased to share this economic development analysis of Governor Newsom's proposed FY 2026-2027 budget.

Proposed Budget Continues Spending, Despite Economic Slowdown and Deficit Headwinds

For the last several years, the Legislative Analyst's Office (LAO) and Governor Newsom's Administration have been at odds over the state budget. The LAO issues concerns that the state expenditures are outstripping revenue growth and the Governor's Administration releases a January budget portraying a more optimistic view. After a few months, the legislature ultimately approves a budget that makes minor cuts, relies on internal borrowing, fund shifts, and dips further into state reserves.

This year, the setup for the 2026-27 budget appears no different. Last fall, the LAO predicted an \$18 billion deficit, swelling to annual \$35 billion deficits in the coming years; but on January 9, the Governor unveiled a budget that points to an AI Boom-fueled surge in revenue, and fully funds all state "transformative investments," and calculates that the deficit being closed is only \$2.9 billion.

The Economic Outlook portion of the Governor's budget reveals many troubling warning signs:

- State projected monthly job growth declined from 6,100 to 1,700 in 2025.
- Most state job growth is in low-wage positions.
- High-wage jobs decreased by 10,500 per month between April and September.
- Nearly no payroll job growth is forecast in the budget for 2026.

Such trends do not bode well for the state's broader economy. Demographic trends affect its economic prospects as well. Population growth is essentially flat. The proportion of the senior population is increasing, while school-age youth and children are declining. Immigrants, a critical component of the state's workforce, are affected by increased deportations and reduced international immigration. Also troubling is the state's projected net domestic resident outflows of 70,000 per year.

The Governor's budget cover letter concludes: *"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."* It is unclear, however, if major cuts and/or new revenues will be proposed in the May Revise to address longer-term deficits by the Governor, who has both legacy concerns and national political ambitions.

Economic Development

For local economic developers, however, this initial proposal is positive. Despite the larger uncertainties, the budget funds state economic development programs at anticipated levels. The Governor's budget highlights the following programs and recent expenditures:

- Jobs-First Program, with \$450 million dedicated to advancing economic strategies in 13 regions.
- Small Business Assistance, including full funding for the Technical Assistance Program (TAP), and the Capital Infusion Program (CIP), Inclusive Innovation Hubs (iHubs), California Regional Initiative for Social Enterprises (CA RISE), and COVID relief for small business.
- Film Tax Credits continued at \$750 million annually.
- IBank Infrastructure Revolving Fund, recapitalized with \$25 million in FY 2024-25.



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Proposed New Expenditures

- Extension of California Competes Tax Credit: While the current CalCompetes program does not sunset until FY 2027-28, the Governor proposes to extend this program at \$180 million annually for an additional five years, through FY 2032-33.
- California Export Promotion: \$1.3 million is proposed for GO-Biz to support international trade and export promotion.
- Innovation and Emerging Technologies: \$400,000 is proposed for GO-Biz as ongoing support to engage and grow artificial intelligence, quantum, cloud data platforms, and other emerging business sectors.
- Tax Credit for Sustainable Aviation Fuel: A tax credit against diesel excise tax liability is proposed to incentivize the in-state production of sustainable aviation fuel, a lower-carbon alternative to petroleum-based jet fuel.
- Zero Emission Vehicle Incentives: \$200 million in one-time special funds and statutory language is proposed to establish a new light-duty ZEV incentive program.
- Brownfields: \$40.2 million in one-time special funds is proposed through the Department of Toxic Substances Control to clean up contaminated brownfields and Superfund sites to protect public health and encourage revitalization. Over half of these sites are located in disadvantaged communities.
- Apprenticeship Training Grant Augmentations: \$18.2 million is allocated in 2026-27, \$18.1 million in FY 2027-28, and \$17.8 million FY 2028-29 and 2029-30, to the Apprenticeship Training Contribution Fund for Department of Industrial Relations grants to approved apprenticeship programs in construction and related trades.
- LA Exposition Park: \$96.5 million is proposed to complete deferred maintenance projects necessary to meet code and accessibility requirements prior to increased patronage from the Los Angeles 2028 Olympic and Paralympic Games.
- California Science Center: \$9.3 million is proposed to fund 31 positions to support the 2026 public opening of the Air and Space Center and ongoing operations.

Climate Bond Allocations

Another area of continued opportunity for local economic developers to explore is the budget's proposed \$2.1 billion allocation from the recent Climate Bond (Prop. 4 of 2024) which include:

- Water storage: \$782 million for a wide variety of water storage, groundwater replenishment, flood control, drinking water, regional conveyance, and other projects.
- Wildfire and Forest Response: \$314 million to continue investments in various wildfire and forest resilience projects and programs, including local fire prevention grants, fire resilience and defensible space for homeowners, and risk reduction from electricity transmission.
- Coastal Resilience: \$107 million to continue investments that help protect coastal communities against climate impacts, safeguard local economies, conserve and restore biodiversity and natural areas, elevate tribal knowledge and stewardship, and improve public access to the coast.
- Extreme Heat Mitigation: \$241 million to support implementation of the state's Extreme Heat Action Plan and build resilience to extreme heat across California, including assistance for disadvantaged communities, community resilience centers, and urban forestry.
- Biodiversity and Nature Based Solutions: \$199 million to continue investments that help meet the state's climate and biodiversity goals including funding to enhance and protect nature and the Salton Sea.
- Climate Smart Agriculture: \$89 million to continue investments in various climate smart agriculture projects and programs.
- Outdoor Agriculture: \$35 million to continue investments that expand and enhance parks and outdoor access.



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Housing

The budget does not include any proposed new funding for affordable housing, nor does it mention a possible housing bond, but local governments will notice a major tone change. Unlike past years where the Governor's housing comments were primarily critical of local government, the focus is now refreshingly elsewhere. After years of hammering on local planning and approvals, there appears to be a recognition that market factors dominate. The Economic Outlook section reads: *"The residential construction sector in California continues to be hampered by higher labor and financing costs. Total permit growth fell 9.2 percent year-over-year to just under 100,000 total units in 2024 and continued to decline in 2025."*

The Governor's housing policy focus has shifted to limiting corporate ownership of single-family homes, modernizing residential construction methods, improving coordination among state affordable housing financing programs, helping preserve existing housing, and addressing financing gaps for victims of the LA fires.

Housing Bond Watch For the last several years, despite the consistent proclamation of affordable housing as a top priority, none of the legislative housing bond proposals have been placed on the ballot. Alternatively, the Legislature and Governor approved a climate bond, a school bond, and a mental health bond. In 2026, several housing bond proposals are again pending, including AB 736 (Wicks) and SB 417 (Cabaldon). The deadline for placing measures on the November ballot is June 25th.

Homelessness

No new funds are proposed in the budget for local agencies to address the challenges of homelessness. The budget document states that the state continues to deploy a sixth round of Homeless Housing, Assistance, and Prevention Program (HHAP) totaling \$1 billion, and a seventh-round totaling \$500 million, contingent on enhanced accountability and performance requirements. The state has also allocated \$636 million for 1,818 units through Proposition 1, with \$1.6 billion expected to be made available over the coming year to support housing and services for people experiencing homelessness.

In his State of the State remarks, the Governor asserted that because of the state's efforts, unsheltered homelessness levels have declined in California by 9 percent and listed greater declines in some specific cities. He compared that to an 18 percent increase at the national level. Hours after his speech, however, he was challenged on these figures in a Sacramento Bee editorial.

<https://www.sacbee.com/opinion/article314250505.html>

Yet the Governor's critique of local governments on homelessness continues. He stated that on July 1, the state will redirect over \$1 billion in annual mental health funding to housing and treatment for people living on the streets. The Governor declared this was: *"providing counties what they've been asking for: the predictable funding for housing and substance abuse treatment. No more excuses — it's time to bring people off the streets, out of encampments, into housing, into treatment. Counties need to do their job!"*

Cannabis

The budget estimates \$403.9 million in cannabis revenues will be available for traditional allocations based upon statutory percentages:

- \$243 million (60 percent) for education, prevention, and treatment of youth substance use disorders and school retention.
- \$80.8 million (20 percent) for clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation.
- \$80.8 million (20 percent) for public safety related activities.

Proposed New Cannabis Expenditures

- Northern California Enforcement: \$7.6 million in FY 2026-27, and \$6 million ongoing, to the Department of Cannabis Control (DCC) to support a dedicated sworn officer presence in



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Northern California to strengthen enforcement efforts against the illegal cannabis market, and to meet a growing legal workload related to licensing, compliance, legislation, and public records.

- **Hemp Regulation:**
 - \$7.3 million is proposed in FY 2026-27, to integrate hemp into the cannabis regulatory framework, as required by Chapter 248, Statutes of 2025 (AB 8).
 - \$3.3 million is proposed for the Department of Tax and Fee Administration to support enforcement activities.

Miscellaneous

Other allocations of interest include:

- **Unemployment Insurance Trust Fund Loan Interest:** \$662.2 million is allocated to pay the annual interest payment on the state's Unemployment Insurance loan balance. The state owes approximately \$20 billion to the federal government for unemployment benefits paid out during the COVID pandemic.
- **EDD Improvements:** \$145.5 million is proposed to continue the modernization of the Employment Development Department, including improving call centers, simplifying forms and notices and using data analysis tools to curb fraudulent benefit claims.
- **California State Parks Library Pass Program:** \$6.8 million is proposed to support the ongoing California State Parks Library Pass program. Library card holders can borrow a pass from their local library to access select state parks, beaches, and monuments for free, helping to remove cost barriers to visit these treasured spaces.

Related Documents

- A copy of the Governor's budget proposal:
- <https://ebudget.ca.gov/budget/p/2026-27/BudgetSummary>
- A link to the Governor's State of the State address:
<https://www.youtube.com/watch?v=qBrQqd5vLBU>
- A link to the presentation of the budget by Joe Stephenshaw, Director of Finance:
https://www.youtube.com/watch?v=nDD_PrSjkSs
- A link to the November Fiscal Outlook by Legislative Analyst's Office, which estimated an \$18 billion deficit, and ongoing budget deficits of \$35 billion:
<https://www.lao.ca.gov/Publications/Report/5091>

Legislative Analyst's Office Commentary

The Legislative Analyst's Office released its initial response to the Governor's budget on January 12. While acknowledging the increase in state revenues cited by the Governor, the LAO raised concerns that the Governor's budget is over reliant on stock market gains and will place the state on "precarious footing." The LAO urged the Legislature to not wait for the May Revise but to take early action to begin considering legislative solutions to shrink projected multi-year deficits of up to \$20 to \$35 billion annually. The LAO's suggestions include adopting a budget based on the LAO's lower revenue projections, identifying up to \$10 billion annually in budget solutions, and further increasing state reserves.

<https://www.lao.ca.gov/Publications/Detail/5101>

Next Steps

State revenue projections could decline if the stock market tumbles. All this points to a potentially volatile legislative session, and significant changes in the May Revise. CALED will monitor activities and keep its member updated on developments.