

GOVERNOR'S JANUARY BUDGET OVERVIEW

On January 9, the Governor formally submitted his proposed Budget to the State Legislature, and despite debate over the size of the projected shortfall, Governor Newsom announced that his Administration is expecting \$42.3 million in revenue above last year's revenue projections. As a result, the Administration proposes a Budget for the 2026-2027 fiscal year with reserves totaling \$4.5 billion.

Despite the increased revenue above projections, the 2026-2027 Budget also projects a deficit of roughly \$22 billion in the 2027-28 fiscal year, and shortfalls in the following years through 2030. To combat this, the Administration maintains that the proposed Budget demonstrates fiscal responsibility, builds upon State reserves and prepares the State for structural deficits in multiple consecutive budget years. The proposed Budget makes substantially less investments in new programs and initiatives across the State government, particularly in climate and natural resources.

When previewing his proposal, the Governor noted that his priorities included affordability across all areas, sustainability, and celebrating long-term investments into California's water and power infrastructure that benefit local communities, including recent strides towards the completion of Sites Reservoir through expedited permitting.

CLIMATE BOND

The Governor's Budget proposes \$2.1 billion for the second year of a multi-year expenditure plan to implement the \$10 billion Climate Bond (Proposition 4), authorized by voters in November of 2024. This plan will accelerate projects and programs that build water and wildfire resilience, with up to two-thirds of these investments delivering on California's nature-based solution climate targets. Implementation will be carried out in a transparent way to maximize impact and support historically underinvested communities. The Administration engages with the Legislature on the expenditure plan for these allocations as part of the annual budget process.

Climate Bond Expenditure Plan
(Dollars in Millions)

Investment Category	Bond Allocation	2025-26 Appropriated	2026-27 Proposed	Out-Years
Safe Drinking Water, Drought, Flood & Water Resilience	\$3,800	\$1,199	\$792	\$1,809
Wildfire & Forest Resilience	\$1,500	\$417	\$314	\$769
Coastal Resilience	\$1,200	\$279	\$107	\$814
Extreme Heat Mitigation	\$450	\$110	\$241	\$99
Biodiversity & Nature-Based Solutions	\$1,200	\$390	\$199	\$611
Climate Smart Agriculture	\$300	\$154	\$89	\$57
Outdoor Access	\$700	\$466	\$35	\$199
Clean Air & Energy	\$850	\$275	\$326	\$249
Total	\$10,000	\$3,290	\$2,104	\$4,606

BUDGET HIGHLIGHTS

For this fiscal year, many existing programs are funded by a blend of General Fund appropriations and prior bond funding, including Proposition 4. Some highlights from the Governor's January Budget in the areas of natural resources, climate change and the environment include:

- **Dam Safety and Climate Resilience** — \$2 million to the Dam Safety and Climate Resilience Local Assistance Program for competitive grants for projects that support dam safety and reservoir operations, such as funding for repairs, rehabilitation, and enhancements.
- **Regional Conveyance** — \$68.8 million to support repairs to existing or new water conveyance projects. In 2026-27, the California Natural Resources Agency will prioritize funds for repairs to existing infrastructure.
- **Safe and Affordable Drinking Water** — \$173 million for drinking water projects serving small or disadvantaged communities or tribes and that address failing water systems and water systems at risk of failing, as well as failing private wells. Funding will also support wastewater projects serving small or disadvantaged communities that address a violation or connect unsewered homes to a centralized wastewater system.
- **California Water Plan** — Approx. \$5.7 million for the implementation of [SB 72 \(Caballero, 2025\)](#), which set long-term water supply targets as a component of the California Water Plan.
- **Sustainable Groundwater Management Act (SGMA) Implementation** — \$422.7 million General Fund in state operations and grants to Groundwater Sustainability Agencies (GSAs) to advance the development and implementation of Groundwater Sustainability Plans.
 - \$15.5 million for Groundwater Storage/Banking/Recharge and Instream Flow
- **Flood Control**
 - \$8.7 million for the Urban Flood Risk Reduction Program.
 - Approx. \$60 million for Flood Projects in the Sacramento San Joaquin Delta
 - Approx. \$23 million for Flood Control Subventions Program
 - \$12.9 million for the State Plan of Flood Control
- **Wildlife Conservation Board:**
 - Streamflow Enhancement Program - \$10 million
 - Protect and Enhance Fish and Wildlife Resources- \$110 million
- **Wildfire and Forest Resilience** — \$314 million to continue investments in various wildfire and forest resilience projects and programs
 - Additionally, \$750 million is proposed to CalFIRE from the Greenhouse Gas Reduction Fund (GGRF).
- **U.S. Supreme Court's Sackett Decision** — \$2.6 million ongoing special funds and 12 positions to expand essential water quality permitting and enforcement work.

CAP AND INVEST

The 2026-2027 fiscal year is the first year under the new structure of the reauthorized Cap and Invest Program, the proceeds of which deposit into the Greenhouse Gas Reduction Fund (GGRF). The new structure creates a three-tiered approach to reductions across GGRF funded programs and imposes changes to the funding procedures in place:

2026-27 Cap-and-Invest Expenditure Plan

(Dollars in Millions)

Tier	Program	2026-27	2027-28	2028-29	2029-30
Tier 1 Appropriations	Manufacturing Tax Credit	\$159	\$163	\$168	\$174
	State Operations	\$120	\$124	\$127	\$131
	State Responsibility Area Fee Backfill	\$88	\$88	\$88	\$88
	Legislative Counsel Climate Bureau	\$3	\$3	\$3	\$3
Tier 2 Appropriations	High Speed Rail Authority	\$1,000	\$1,000	\$1,000	\$1,000
	\$1 billion reserved for discretionary appropriations:				
	- CAL FIRE General Fund Shift ^{1/}	\$750	\$500	\$500	\$0
	- SB 840 Commitments	\$250	\$0	\$0	\$0
	- Remaining Amount Available for Tier 2 Discretionary Funding	\$0	\$500	\$500	\$1,000
Tier 3 Appropriations^{2/}	Affordable Housing	\$396	\$435	\$475	\$516
	Transit and Intercity Rail Capital Program	\$283	\$311	\$339	\$369
	Community Air Protection	\$177	\$194	\$212	\$231
	Sustainable Communities and Agricultural Land Conservation	\$170	\$186	\$204	\$221
	Low Carbon Transit Operations Program	\$141	\$155	\$170	\$184
	Healthy and Resilient Forests	\$141	\$155	\$170	\$184
	Safe & Affordable Drinking Water Program	\$92	\$101	\$110	\$120

^{1/} Remaining \$500 million for the CAL FIRE General Fund shift in 2026-27 is funded with additional discretionary funding from interest earnings.

^{2/} Tier 3 funding is based on auction proceeds estimates which are based on recent auction results. This scenario is presented as an example only and should not be considered as a market price forecast.

Despite revenue levels coming in higher than projected, the Cap and Invest Program is funded at 71% this fiscal year. Under the present budget shortfall, \$750 million of GGRF funding will be allocated to CalFIRE this fiscal year. The 29% reduction in funds for GGRF programs is split between the Tier 3 programs above.

- Safe and Affordable Funding for Equity and Resilience (SAFER): \$92 million (70% of its full allocation)

The Legislative Analyst's office report is available [here](#).

CONCLUSION

Governor Newsom will present a revision of his proposed Budget in May based upon the latest economic forecasts after the majority of residents have filed their state income taxes. The Governor and Legislature will then have until June 15 to approve a final budget.

We will be reviewing these proposals in more detail and actively participating in the legislative budget process to help link this funding to ridgetop to river mouth water management in the Sacramento River Basin and the NCWA priorities. If you have any questions or thoughts on the Budget, please contact me at kbezdek@norcalwater.org.

View the Department of Finance's January State Budget proposal presentation at:

https://www.youtube.com/watch?v=nDD_PrSjkSs