California governor signs 2026–27 state austerity budget

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On June 29, California Governor Gavin Newsom signed a $352 billion state budget for the 2026–27 fiscal year. Passed by the Democratic-controlled legislature, the budget imposes deep cuts to healthcare, welfare and education, shifts the tax burden onto working people, and contains a trailer bill, AB 181, stripping the independently elected State Superintendent of Public Instruction of managerial authority.

This is not routine austerity: it is an instrument of class warfare, designed to immiserate the population and suppress democratic resistance in anticipation of the explosion of social conflict that the deepening crisis of American capitalism and the escalating US drive toward war with Iran will inevitably produce.

The official claim of a "balanced budget with a zero deficit" rests on three mechanisms, all of which shift the burden downward.

First, the deferral of $3.9 billion in constitutionally guaranteed funding to K-12 schools and community colleges under Proposition 98, an interest-free, off-book loan from local school districts to the state treasury. The Los Angeles Unified School District alone faces a structural crisis, projecting a deficit of up to $1.6 billion as it heads toward 2027-28.

Second, the drawdown of emergency reserves. The administration touts a $9.2 billion balance in the Public School System Stabilization Account while delaying billions in payments to those same schools.

Third, the reliance on intensive budgetary borrowing. While the budget commits to spending $20 billion more than the state expects to collect in actual tax revenues, it legalizes this structural deficit by borrowing billions from internal state funds and shifting costs into future years—building what the Legislative Analyst's Office calls a massive "wall of debt" to fabricate balance on paper.

The budget effectively penalizes older adults and disabled Californians for maintaining any financial safety net. Reinstating the Medi-Cal asset test means vulnerable seniors must spend down their lifetime savings to meet the new $21,000 individual ($31,000 couple) thresholds before they can access healthcare.

At the same time, the state is pulling back $68.3 million from CalAIM programs that serve as a lifeline for high-need individuals. This cut directly impacts Enhanced Care Management and Community Supports—critical programs that provide hands-on care coordination and housing transitions for people navigating complex disabilities, severe illness, or homelessness.

Two million undocumented immigrants will be transitioned out of managed care into a fee-for-service system by January 2027, projected to save $470 million by reducing capitation rates and utilization—that is, by making it harder to access care. Enrollees lose integrated benefits including case management, housing assistance and medically tailored meals.

Humanitarian immigrants—refugees, asylees, trafficking survivors, domestic violence survivors—will have coverage restricted to emergency and pregnancy care only starting July 2027. Approximately 150,000 people will be told they must wait for a life-threatening emergency before seeing a doctor.

While a legislative pushback ultimately rescued Adult Protective Services from a $70 million clawback originally proposed by Newsom—which would have raised the eligibility age to 65 and stripped abuse and neglect protections from adults aged 60 to 64—the administration's initial willingness to sacrifice that vulnerable population set a stark tone for the budget cycle.

The final signed budget allocates over $200 million to county administrations for aggressive eligibility audits, building a heavily funded apparatus to accelerate removals from benefit lists, while completely blocking the Legislature's $125 million request to fund an emergency county-level indigent care safety net for those who fall through the cracks.

SB 122 expands the sales and use tax to digital prewritten software and Software as a Service, applying a 7.25 percent statewide base rate plus local district taxes. It exempts custom software built for corporate clients and excludes digital products associated with financial speculation, such as cryptocurrency. The burden falls on consumers and small businesses; high-end corporate software and speculative instruments remain untouched.

The business tax credit "cap" limits corporate claims to $5 million per year but preserves indefinite carryforwards, allowing corporations to offset future tax liabilities with unused credits. The Research and Development credit, concentrated among fewer than 100 large technology, biotechnology and pharmaceutical corporations, is structurally protected. Moreover, corporations can convert credits exceeding the cap into refundable cash payments—20 percent per year starting the third year after election—turning the "cap" into an indirect state subsidy.

The California Competes Tax Credit is extended through 2032–33, allocating up to $180 million annually to businesses pledging to expand or remain in California. Under SB 1120, corporations in "strategic industries" can make these credits fully refundable. Meanwhile, the minimum franchise tax for newly formed LLCs, LPs, and LLPs is cut in half—from $800 to $400—from 2027 through 2029.

The class logic is consistent: tax workers' software subscriptions, subsidize corporate R&D, and call it "fiscal responsibility."

The education provisions of this budget represent a sweeping consolidation of executive power. Assembly Bill 181, rammed through as a budget trailer bill, strips the independently elected State Superintendent of Public Instruction of managerial authority over the California Department of Education and transfers it to a governor-appointed Education Commissioner. The elected Superintendent becomes a ceremonial figurehead; the governor's appointee controls administration, regulations and resources.

The bill bypassed public debate despite opposition from both Superintendent candidates and the California Teachers Association. Its purpose is to streamline budget cuts, school closures and the suppression of labor unrest. After the April 2026 cancellation of a strike by 77,000 Los Angeles educators—a betrayal by the union apparatus that cleared the path for 3,200 layoffs—AB 181 extends the same anti-democratic logic statewide.

None of this would be possible without the active collaboration of the trade union apparatus and the pseudo-left organizations that provide a left cover for Democratic Party austerity.

The California Teachers Association issued a belated, anemic objection to AB 181, but it was the same union bureaucracy that cancelled the Los Angeles educators' strike in April, capitulating to the district and clearing the path for 3,200 layoffs. Yvonne Wheeler, president of the Los Angeles County Federation of Labor, declared she would "rather be here today than on the picket line." This is the function of the union apparatus: not to fight austerity, but to enforce working-class submission to it.

The Democratic Socialists of America plays the same role. UTLA is controlled by DSA members. Four DSA-endorsed members of the Los Angeles City Council voted unanimously to declare a fiscal emergency that paved the way for mass layoffs. The DSA issues statements rejecting "the premise that the only way to balance our budgets is on the backs of our most vulnerable" while its own elected officials implement precisely those budgets.

The pseudo-left does not oppose austerity; it provides it with a "progressive" alibi. The DSA's recent endorsement of billionaire Tom Steyer for governor—a candidate whose entire political project is the orderly management of budgets like this one—is a devastating exposure of its class role.

The budget crisis is manufactured. California is home to nearly 200 billionaires. The wealth exists to fully fund healthcare, education, housing, and a dignified life for every resident. The claim that "there is no money" is a political choice.

The same political establishment that insists schools cannot be funded is lavishing hundreds of billions on the war machine, with its current focus on the US war with Iran. The assault on public education and healthcare is inseparable from the drive to war. The ruling class is consolidating executive power, dismantling democratic checks, and impoverishing the population in anticipation of the explosion of class conflict that the deepening crisis of American capitalism will inevitably produce.

This budget is a class weapon. The Democratic Party is not a "lesser evil" to be pressured leftward: in California, it is the main architect of this assault. The union bureaucracy is not a flawed ally: it is the mechanism that blocks working-class opposition. The DSA and the broader pseudo-left are not misguided socialists: they are the left wing of the apparatus that manages the suppression of the working class.

Workers must break decisively from the Democratic Party and all its pseudo-left adjuncts. Rank-and-file committees, independent of the union bureaucracy and capitalist parties, must be built in every workplace and community. These committees must link up across industries and state lines, in alliance with workers internationally, to fight for a socialist program: the expropriation of the capitalist class, the establishment of democratic workers' control over the economy and the full funding of all social needs.

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