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July 1, 2026

TO: CLA MEMBERS/ SYSTEMS/ NETWORK CONTACTS

FROM: Christina DiCaro, CLA Lobbyist

RE: News From the Capitol – Budget Deal

**2026-2027 BUDGET DEAL IS SIGNED
BY THE GOVERNOR:
Bill Language Protects Popular Library Programs**

Yesterday, Governor Gavin Newsom signed AB 109 and SB 111, the two major bills implementing the 2026-27 State Budget, in a press event with Senate President pro Tem Monique Limon, Assembly Speaker Robert Rivas, Senate Budget Chair John Laird and Assembly Budget Chair Jesse Gabriel. Contained in those two bills is critically important language which protects the California Library Services Act, Lunch at the Library, and the English as a Second Language (ESL) library literacy programs.

This year, legislators and the Governor struggled with a unique situation regarding the state Budget. Since late 2025, the state had been benefitting from a wave of higher than expected revenue, due in large part to capital gains taxes, bolstered by the successful stock market. However, even with the beneficial extra dollars coming into the state's coffers, California has a large, ongoing structural deficit and is still spending more than it is receiving in revenues. In January, Governor Newsom proposed a prudent 2026-27 Budget, and in his May Revise he reiterated the need to keep spending in check. The legislature concurred with the Governor's over-arching spending approach but did push back on some of the Governor's proposed cuts to health and human services, environmental, and housing programs.

On June 15th the Assembly and Senate sent the Governor AB 109, a Budget bill that reflected their collective policy and fiscal priorities. The Governor then let the bill sit on his desk, pending further negotiations. For the next two weeks, the Governor and legislative leaders met to find agreement on the remaining, high-level policy issues where there were outstanding issues. The result of those final negotiations were captured in SB 111, which was passed by the legislature on Monday

afternoon. Assembly Budget Chair Jesse Gabriel presented the bill and several related “trailer bills” on the Assembly Floor, stating that the Assembly Democrats had a goal of creating a budget shaped by “compassion,” but also fiscally responsible. “This budget meets that test,” Mr. Gabriel stated. He added that the legislature had to make “tough choices to tighten our belt” and said that the budget agreement makes “real progress on our structural deficit.” After Governor Newsom signed the measures later that evening, he released a video wherein he remarked, “We could have spent every dollar this year and called it a victory. We didn’t. We left a runway for whoever comes next because that’s what responsible government does.”

HIGHLIGHTS FROM THE 2026-27 BUDGET PLAN FOR LIBRARIES:

CLA worked tirelessly this year to protect key programs and CLA priorities in the State Library portion of the Budget. It was a hard-fought effort, since the legislature was reluctant to provide any new funding to public library programs while a Department of Finance audit was underway of the State Library and the Dolly Parton Imagination Library Program. Despite these monumental challenges, CLA worked with Budget Committee staff and legislative offices to secure some positive wins:

CALIFORNIA LIBRARY SERVICES ACT:

- \$2.8 million will be provided this year for the California Library Services Act. Previously, the CLSA was funded at \$1.8 million. The specific distribution for each of the nine Systems is spelled out in AB 109 and SB 111.

ENGLISH AS A SECOND LANGUAGE LIBRARY LITERACY PROGRAMS:

- The \$15 million in one-time funding that was previously provided for the English as a Second Language library literacy programs in the 2021 Budget, was set to expire on June 30, 2026. This would have jeopardized the existing ESL library literacy programs statewide. Knowing that libraries were unlikely to get any new ESL library literacy funding in this year’s Budget, CLA pivoted and asked the legislature and Governor’s office to amend the current law to make the programs eligible for existing funding. Specifically, language in AB 109 creates the authority for ESL library literacy programs to apply for 2026-27 funding under the \$7.3 million currently provided to the California Library Literacy and English Acquisition Services Program. The State Library has previously opined that the ESL programs are not eligible for CLLS funding, so the Budget language makes it clear that they are eligible. This stop-gap is intended to protect ESL literacy programs that otherwise could have expired this year, due to lack of available funding.

LUNCH AT THE LIBRARY:

- Lunch at the Library will continue to be funded at \$3 million for the 2026-27 year. The legislature is also requiring there to be more detailed reporting associated with this item. A portion of the Budget bill language reads: “The California State Library shall utilize streamlined reporting templates, as appropriate, to reduce the administrative burden for smaller or under-resourced library jurisdictions that are reporting data.”

There are two additional programs that were funded in the Budget this year: Career Online High School, which received \$5 million to continue providing library-based programs, and \$6.75 million for the State Parks Pass program, which is popular with library patrons.

If CLA members are so inclined, I would strongly encourage you to take a few minutes to send “thank you” notes to the following individuals for helping us this year with the very challenging State Budget negotiations, particularly if you are one of the regional Systems or a member of the literacy community:

The Honorable Senate President pro Tem Monique Limon
California State Senate
1021 O Street, Suite 8518
Sacramento, CA 95814

The Honorable Assembly Speaker Rob Rivas
California State Assembly
1021 O Street, Suite 8330
Sacramento, CA 95814

The Honorable Governor Gavin Newsom
1021 O Street, Suite 9000
Sacramento, CA 95814

I am personally very grateful to these leaders listed above, along with Senator Sasha Renee Perez (Chair of Senate Budget Subcommittee #1), Senator John Laird (Chair of the Senate Budget Committee), Senator Shannon Grove, the hard-working Senate Budget Committee staff, and the Governor’s Department of Finance. If you are represented by Senators Perez, Laird, or Grove, please consider dropping them a note of thanks as well. <https://www.senate.ca.gov/senators>

II. BUDGET TRAILER BILL CREATES NEW DIGITAL SOFTWARE TAX

As part of this year’s Budget negotiations, the legislature agreed to support a proposal by Governor Newsom to tax digital, pre-written software such as Microsoft Office, Adobe, Zoom, Quickbooks, etc. When the Governor spoke to the press during the release of his May Revision of the Budget several weeks ago, he said that he was “slow to recognize that consumers were paying a 7.25% sales tax when they buy software in a store but not when they buy it online.” He added, “As someone who lives near a Best Buy, I’m at Best Buy often. And I’m paying sales tax on a lot of this prewritten software. And then I find out that all of my friends that aren’t near a Best Buy, they’re downloading and they are not paying sales tax. How is that fair?” The tax would go into effect January 1, 2027 and is estimated to raise about \$450 million in its first year of implementation and then \$900 million and up in the years that follow. Reportedly, 35 other states also tax digital pre-written software. Custom-designed computer software would be exempt from the tax.

The new tax, which was adopted by the legislature and signed by the Governor, is contained in SB 122-Committee on Budget. The state’s non-partisan Legislative Analyst’s Office said that they “see merit in the general idea of modernizing the state’s sales tax and eliminating some of the arbitrary distinctions between taxes and untaxed sales.” The proposal was rapidly embraced by the legislature, leaving the business community and some local government groups virtually no time to ask for carve-outs. The digital software tax could end up being helpful for city and county coffers, while special districts generally do not reap the benefits of local sales tax.