

May 4, 2026

Honorable John Laird, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Jesse Gabriel, Chair
Assembly Budget Committee

Honorable Sabrina Cervantes, Chair
Senate Appropriations Committee

Honorable Buffy Wicks, Chair
Assembly Appropriations Committee

Increase Federal Trust Fund Authority—Department of Rehabilitation

Pursuant to the provisions of Section 28.00, Budget Act of 2025, the following report is respectfully submitted.

The Department of Finance has received the attached section 28.00 application from the Department of Rehabilitation (DOR) for the purpose of increasing their Federal Trust Fund authority by \$250 million in fiscal year 2025-26 for the Vocational Rehabilitation program. This augmentation is necessary to align expenditure authority with available federal fund balances, facilitate timely drawdown of reimbursements, maintain service levels for eligible consumers, and meet increasing statewide demand for employment, training, education, and other services.

DOR has accumulated significant federal fund balances due to standard grant allocation practices and increased federal funding levels over time. When DOR receives the annual Vocational Rehabilitation grant, it allocates 75 percent of the award in the current fiscal year and the remaining 25 percent in the subsequent fiscal year. As federal funding levels have increased over time, this practice has resulted in a significant accumulation of carryover funds. However, current federal expenditure authority has not kept pace with these balances, limiting DOR's ability to fully utilize available resources in the current fiscal year.

In addition, DOR receives reimbursements from the Social Security Administration for eligible program expenditures. Historically, DOR has not requested sufficient federal authority to draw down these reimbursements. As a result, federal resources available to DOR exceed its authorized spending authority.

Pertaining to subdivision (e) of Section 28.00, DOR did not receive official notice of additional funds, as this situation involves a reconciliation of expenditure authority with existing cash balances.

This request meets the following criteria, as required in subdivision (b) of Section 28.00:

- The funds will be expended to support the Vocational Rehabilitation program, which is consistent with state law.
- The funds are available to the state under conditions permitting their use only for the specified purpose, and the additional expenditure proposed would apply to this specified funding purpose.
- Acceptance of the additional funding does not impose on the state any requirement to commit or expend new state funds for any program or purpose.
- The need exists to expend the additional federal funding during the current fiscal year to prevent service disruptions and comply with federal grant requirements.

Finance concurs with the necessity of this change to the approved budget. Finance respectfully requests an expedited review of the submission and a waiver of the 30-day waiting requirement so that DOR can maintain critical operations in the current fiscal year.

If you have any questions or need additional information regarding this matter, please call Christopher Odneal, Principal Program Budget Analyst, at (916) 445-6423.

JOE STEPHENSHAW
Director

By:

A handwritten signature in black ink, appearing to read 'Michele Perrault', with a large, stylized flourish at the end.

MICHELE PERRAULT
Chief Deputy Director

Attachment

cc: On following page

cc: Honorable Corey Jackson, Chair, Assembly Budget Subcommittee No. 2
Honorable Caroline Menjivar, Chair, Senate Budget and Fiscal Review
Subcommittee No. 3
Honorable Roger W. Niello, Vice Chair, Senate Budget and Fiscal Review
Committee
Honorable David Tangipa, Vice Chair, Assembly Budget Committee
Gabriel Petek, Legislative Analyst
Elisa Wynne, Staff Director, Senate Budget and Fiscal Review Committee
Kirk Feely, Fiscal Director, Senate Republican Fiscal Office
Christopher W. Woods, Budget Director, Senate President pro Tempore's Office
Christian Griffith, Chief Consultant, Assembly Budget Committee
Joseph Shinstock, Fiscal Director, Assembly Republican Caucus, Office of Policy
and Budget
Paul Dress, Chief of Staff, Assembly Republican Caucus
Dylan Gray, Chief of Staff, Assembly Republican Leader's Office
Jason Sisney, Budget Director, Assembly Speaker's Office
Mark McKenzie, Staff Director, Senate Appropriations Committee
Jay Dickenson, Chief Consultant, Assembly Appropriations Committee
Debra Cooper, Assistant Secretary, Health and Human Services Agency
Kimberly Rutledge, Director, Department of Rehabilitation
Victor Duron, Chief Deputy Director, Department of Rehabilitation
Justin Freitas, Deputy Director, Department of Rehabilitation

Please report dollars in thousands.

DEPARTMENT Rehabilitation	ITEM NO./ FISCAL YEAR 5160-001-0890 FY 25-26	NOTIFICATION LETTER TO LEGISLATURE: <input type="checkbox"/> 30-DAY NOTICE <input checked="" type="checkbox"/> REQUEST WAIVER OF 30-DAY NOTICE
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PROGRAM TITLE PER GOVERNOR'S BUDGET:

4210-Vocational Rehabilitation

FUNDING (SPECIFY FUND)	CURRENTLY BUDGETED	REQUESTED CHANGE (+) OR (-)	TOTAL
Federal Trust Fund (0890)	470,793	250,000	720,793

(Check appropriate boxes)

- The funds will be expended for a purpose that is consistent with state law (explain use of funds in Part A below).
- The funds are made available to the state under conditions permitting their use only for a specified purpose, and the additional expenditure proposed under this section would apply to that specified funding purpose (as supported by explanation for the purpose of the funds).
- Acceptance of additional funding does not impose on the state any requirement to commit or expend new state funds for any program or purpose.
- The need exists to expend the additional funding during the current fiscal year (explain in Part B below).
- This application is provided to Finance within 45-days of official notice of receipt of funds.
- Explanation of delayed notification to Finance is attached (required if 45-day notification period is exceeded).
- A copy of the official notice of fund availability is attached to this application.
- One-time expenditure.
- Ongoing commitment from this source (if checked, explain under Program Proposal).
- Matching funds required (if checked, explain under Program Proposal).
- Expenditure either supplements or supplants an existing state-funded program (if checked, explain under Program Proposal).

PART A: For what purpose will the funds be expended?

The Department requests an additional \$250 million in FY 2025-26 federal fund expenditure authority to support the provision of vocational rehabilitation services to over 200,000 individuals with disabilities which lead to competitive integrated employment, increased independence, and improved quality of life for Californians with disabilities.

This augmentation is necessary to align expenditure authority with available federal fund balances, facilitate timely drawdown of reimbursements, and maintain service levels for eligible consumers, and meet increasing statewide demand for employment, training, education, and other services. This request has no impact on General Fund.

PART B: Explain the need to expend the funds in the current fiscal year, including the consequence of waiting until budget year to expend the funds:

Approval of \$250 million in FY 2025-26 federal fund expenditure authority is critical to prevent service disruptions and to comply with federal grant requirements. Delaying expenditure authority until the budget year would limit the Department's ability to deliver timely services, reduce capacity to serve eligible individuals, and risk of underutilizing available federal funds.

Expending the funds in FY 2025-26 allows the Department to maximize available federal resources, maintain program continuity, and meet increasing demand for services statewide.

PROGRAM PROPOSAL (Attach additional information as necessary)

TITLE:

VOCATIONAL REHABILITATION

STATUTORY AUTHORITY: (state, federal, as appropriate)

34 C.F.R. parts 361 and 395

DESCRIPTION:

As authorized by Titles I and IV of the Workforce Innovation and Opportunity Act, which incorporates the Federal Rehabilitation Act of 1973, as amended, the Department is the designated state agency responsible for administration of the Vocational Rehabilitation (VR) program. VR services include vocational assessment and counseling, education, job training, and job search and placement activities to gain, retain, or advance in employment.

The Department has accumulated significant federal fund balances due to standard grant allocation practices and increased federal funding levels over time. However, expenditure authority has not kept pace, limiting the Department's ability to access and use these funds.

The Department receives the annual Vocational Rehabilitation grant and allocates 75 percent of the award in the current fiscal year and the remaining 25 percent to the subsequent fiscal year. As federal funding levels have increased over time, this practice has resulted in a significant accumulation of carryover funds. However, current federal expenditure authority has not kept pace with these balances, limiting the Department's ability to fully utilize available resources in the current fiscal year.

In addition, the Department receives reimbursements from the Social Security Administration for eligible program expenditures. Historically, the Department did not request sufficient federal authority to draw down these reimbursements. As a result, federal resources available to the Department exceed its authorized spending authority.

JUSTIFICATION:

The requested expenditure authority increase will allow the Department to fully utilize existing federal resources, sustain and expand service delivery, and continue to meet obligations.

SUBMITTED BY:

BUDGET OFFICER:

Rowena Okada

DATE:

4/23/26

APPROVED BY DEPARTMENT OF FINANCE:

DATE SUBMITTED TO LEGISLATURE:

5/4/26

DIRECTOR:

Kim Rutledge

DATE:

4/24/26

PPBA:

Christopher Odneal

DATE:

4/29/26
