



March 10, 2026

## **The 2026-27 Budget**

# Contract to Achieve Operational Efficiencies

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The 2025-26 budget appropriated up to \$20 million to the Department of Finance (DOF) to contract with a consulting firm to assist and advise DOF in creating efficiencies through process improvements in state government. The budget assumed that the process changes resulting from the contract would reduce state costs by \$500 million in 2025-26, growing to \$2 billion in annual savings by 2028-29. This post provides background on the state's recent efforts to identify efficiencies to achieve budget savings and our office's comments and recommendations concerning the progress of the administration's efforts to reduce state costs through this contract.

## Background

***Finding Efficiencies in Government Worthy Endeavor.*** Efficiency allows government to better allocate limited resources (for example, taxpayer dollars, personnel, or time) to deliver services to the public. As such, identifying ways for state programs to operate more efficiently should be a goal of regular internal administrative review and legislative oversight. Identifying efficiencies can be a worthy endeavor in any year; however, it is particularly important to

minimize unnecessary or duplicative spending in times like the present when the state faces a projected structural budget problem.

***Difficult to Achieve Large Levels of Budgetary Savings Through Efficiencies Alone.*** Identifying efficiencies in state government can result in budgetary savings without reducing service levels.

However, it is difficult to achieve large levels of savings through operational efficiencies alone (that is, without changes to policy or service levels). Past efforts to achieve large unallocated reductions through efficiencies have resulted in some ongoing savings to the state budget but generally have fallen short of the large levels initially assumed.

***2024-25 Budget Assumed Large Ongoing Reductions to Departmental State Operations...*** The 2024-25 budget assumed large levels of ongoing departmental budgetary savings under Control Sections 4.05 and 4.12 related to operational efficiencies and funding associated with vacant positions. (For a detailed discussion of these two control sections, refer to our February 2025 post, [\*The 2025-26 Budget: State Departments' Operational Efficiencies \[Control Sections 4.05 and 4.12\]\*](#)

<https://lao.ca.gov/Publications/Report/4975> .) Both control sections assumed that savings would materialize from an internal administrative exercise coordinated by DOF. At the time of enactment, the 2024-25 budget assumed that these exercises would reduce ongoing General Fund departmental state operations expenditures by \$2.8 billion by 2025-26. (In addition, it assumed \$800 million in General Fund savings from the university systems.)

***...That Eroded Significantly.*** After the exercise, the administration determined that it was able to distribute ongoing reductions to departments in 2025-26 totaling \$586.3 million General Fund. Ultimately, while the level of savings achieved from these two control sections was significant, it still fell short of what was assumed in the budget. (We note that in addition to departmental budgetary savings noted above, Control Section 4.05 also reduced state General Fund expenditures at the university systems.)

***2025-26 Budget Act Authorized Up to \$20 Million for Contract Initially Estimated to Achieve \$2 Billion General Fund Annual Savings Across Three Departments by 2028-29.*** The 2025-26 budget included up to \$20 million for DOF to enter into one or more new contracts to implement process improvements that allow the state to reduce costs. In June 2025, the administration estimated that this endeavor would result in annual General Fund savings of \$500 million in 2025-26, growing to roughly \$2 billion General Fund annually by 2028-29. These estimated savings assumed that these process improvements would occur in three departments—California Departments of Corrections and Rehabilitation (CDCR), Health Care Services (DHCS), and Social Services (DSS). Figure 1 shows the estimated savings assumed as of June 2025.

Figure 1

**Savings Estimated in June 2025 to Result From \$20 Million Contract**

*(General Fund, In Millions)*

	2025-26	2026-27	2027-28	2028-29
CDCR	\$125	\$480	\$554	\$644
DSS	75	75	300	500
DHCS	300	514	1,146	865
<b>Totals</b>	<b>\$500</b>	<b>\$1,069</b>	<b>\$2,000</b>	<b>\$2,009</b>

CDCR = California Department of Corrections and Rehabilitation; DSS = Department of Social Services; and DHCS = Department of Health Care Services.

***2025-26 Budget Included Legislative Oversight Requirements.*** The budget package required DOF to notify the Joint Legislative Budget Committee (JLBC) within ten days of the department entering any contract paid from the up to \$20 million appropriation. In addition, by February 1 of each year of a contract and during implementation of the contractor’s recommendations, the budget requires DOF to provide a status report to JLBC on (1) any proposals put forth by the contractor, (2) any expected programmatic or process changes needed to implement the proposal, (3) the expected time line for implementation, and (4) the progress of the work performed by the

contractor and the administration's progress in implementing the contractor's recommendations.

***Contract Awarded September 2025: Scope Includes Two Departments.*** DOF notified JLBC on October 3, 2025 that it had entered a contract in an amount up to \$20 million with Boston Consulting Group (BCG) on September 26, 2025 for the purpose of assisting and advising DOF on analyzing and creating process improvements within state government. The term of the contract ends January 1, 2027. The scope of the contract does not include DSS and specifies that BCG's work will focus on process improvements at CDCR and DHCS. The contract identifies five workstreams—two pertaining to CDCR and three pertaining to DHCS. For each workstream, the contract outlines a series of deliverables or milestones that the contractor would be required to meet over the course of a 28-week period as well as the amount of payment it would receive in exchange for doing so. We describe the workstreams at a high level below.

- ***Workstream 1: CDCR—Procurement and Inventory Management.*** BCG is expected to analyze CDCR's procurement and inventory management processes, contracts, and financial data to identify opportunities for CDCR to save money by (1) renegotiating, consolidating, or eliminating contracts and (2) reducing quantities purchased or switching to a different product type.
- ***Workstream 2: CDCR—Efficiency of Administrative Functions.*** BCG is expected to assist CDCR in reviewing staffing and processes for department administrative functions (such as workers' compensation, human resources, and information technology) to identify inefficiencies that could be eliminated to save money. This could include processes currently performed by staff that could be automated or entities within CDCR's administration that perform similar functions and could be consolidated to reduce staffing.

- ***Workstream 3: DHCS—Managed Care Organization (MCO) Oversight and Efficiencies.*** BCG is expected to assist DHCS in developing a centralized mechanism for monitoring MCOs along various performance indicators including timely claims payment and dispute resolution, quality of care, and compliance with legal requirements.
- ***Workstream 4: DHCS—Medicaid Program Integrity.*** BCG is expected to develop and pilot an analytical model that could save money in Medi-Cal by detecting pre-payment fraud, reducing improper claims, and flagging areas of possible waste and abuse.
- ***Workstream 5: DHCS—Hospital Financing.*** BCG is expected to conduct a detailed analysis of financial data for hospitals across the state to identify how different hospital payment models create incentives for hospitals. This work would be expected to serve as a basis for developing recommendations to reduce state costs.

## Governor’s Budget Updates

***Expected Savings Revised Downward in Governor’s 2026-27 Budget After No Longer Assuming Savings in DSS.*** Based on the reduced scope of the contract relative to what had been assumed in the 2025-26 budget, and the time it takes to identify and implement efficiencies, the administration revised the expected savings from the contract to \$245 million General Fund in 2025-26. The administration also revised downward the anticipated ongoing annual savings resulting from the effort to \$810 million by 2028-29. This downward revision reflects both savings erosions in CDCR and DHCS, as well as no longer assuming savings in DSS. Figure 2 shows the projected savings assumed at the time of the Governor’s budget. As discussed further below, the administration indicates that the May Revision likely will reflect further erosion to the assumed level of savings.

Figure 2

**2026-27 Governors Budget Assumed Savings From \$20 Million Contract**

*(General Fund, In Millions)*

	2025-26	2026-27	2027-28 and Ongoing
CDCR	\$125	\$250	\$375
DHCS	120	435	435
<b>Totals</b>	<b>\$245</b>	<b>\$685</b>	<b>\$810</b>

CDCR = California Department of Corrections and Rehabilitation and DHCS = Department of Health Care Services.

***February Status Report of Contract Provides Little Information.***

The administration submitted its first February status report of the BCG contract on February 6, 2026. This report provided little information beyond what was already included in the contract. For example, the report did not specify what, if any, changes had been implemented to date or whether the state was on track to achieve the level of savings assumed in 2025-26 or the out-years resulting from the contract. The report did provide a high-level summary of activities to date, including that BCG had reviewed CDCR’s third-party contracts and identified opportunities for CDCR to (1) renegotiate, consolidate, and eliminate contracts and (2) reduce quantities purchased or switch to a different product type. In addition, the report indicated that BCG had identified potential redundancies and processes that could be automated within CDCR’s administrative functions. The next required status report is not due until February 2027—after the contract will have expired.

***Limited Insight Into Specific Activities, but Administration Anticipates Revising Savings Estimates Downward at May Revision.***

It is our understanding from the administration that it is in the early phases of developing and implementing any changes resulting from the BCG contract. Accordingly, the administration has not been able to provide much detail beyond what was reflected in the February report and the contract itself. The administration indicated that it anticipates the May Revision will reflect lower

levels of savings resulting from the contract than were assumed in the Governor's budget; however, the administration did not provide a sense of magnitude of the anticipated erosion in savings. We discuss our understanding of additional information that the administration shared with us in late February 2026 in the bullet points below. Given the work is ongoing, it is possible that some of this information is now out of date.

- ***Administration Expects Full Contract Amount—\$20 Million—Will be Expended.*** The administration anticipates that the entire \$20 million appropriation will be used over the course of the contract.
- ***Work With DHCS Is Delayed Due to Federal Changes.*** BCG is just starting its work at DHCS. The delay was necessary as DHCS responded to changes in federal policy. It is not clear whether the delayed work at DHCS will require meaningful changes in the scope of the work at that department or other changes in the BCG contract.
- ***Work With CDCR Is in Progress.*** The administration is in the process of reviewing BCG's recommendations related to procurement, headquarters staffing, and workers' compensation to identify which recommendations can be implemented and under what time line.
- ***Administration Working With State Compensation Insurance Fund (The State Fund).*** The administration is working with The State Fund—a provider of workers' compensation for state departments—to implement recommendations from the contractor related to savings and efficiencies in workers' compensation administration.
- ***Substantial Implementation Work Will Likely Remain After Contract Ends.*** The contractor's role is primarily to help with various start-up activities, such as identifying areas of inefficiency and assisting with implementation planning. Much of the work of

implementing process and organizational changes will be done by the state itself after the contract ends.

## LAO Comments and Recommendations

***Use Spring Budget Hearings to Prepare for Expected Updates on Contract at May Revision.*** The Legislature may receive important updates regarding the status of the work stemming from the BCG contract at the May Revision. In the meantime, the legislative budget process provides the Legislature an important opportunity to gain more insight into the contract before these updates. Gathering as much information as possible now will better position the Legislature to reassess the value of the contract in the context of whatever information is shared at the May Revision. For example, the budget subcommittees could (1) ask questions to better understand the potential benefits of using a contractor to identify efficiencies as opposed to directing departments to develop them, (2) ask for an update on the work with CDCR and The State Fund given that the activities will have likely progressed somewhat since February, and (3) probe the administration to better understand the expected benefits and time line of the delayed work at DHCS.

***Reassess Contract as Part of May Revision Work.*** The administration's work stemming from the BCG contract represents a major endeavor as it seeks to improve its internal processes and procedures with an overarching goal to reduce state costs. These are laudable goals and the administration appears to be working to achieve them. However, operational changes that result in savings in the magnitude assumed in the Governor's budget take time and can be difficult to achieve in full. As such, it is not surprising that the administration indicates that the May Revision will reflect further erosion to the estimated savings. When it receives these revised estimates, we recommend the Legislature evaluate the following:

- ***Are the Revised Savings Estimates Reasonable?*** It will be important to carefully vet the savings assumed at the May Revision. Specifically, the Legislature will want to ensure that it understands the assumptions that form the basis of the

administration's estimates to ensure that they are realistic. As previously discussed, the state has a history of assuming ambitious savings targets and failing to achieve them. This causes the state to lose valuable time that could have been spent developing and implementing other cost reductions strategies. In addition, overly ambitious cost savings targets can mask, to an extent, the size of the structural deficit.

- ***Is the Contract Likely to Yield Worthwhile Benefits Even if It Is Unlikely to Deliver Significant Near-Term Savings?*** The primary purpose of the contract is to create process improvements within state government that will result in significant cost savings to the state. However, the administration indicates that the work could have other benefits, such as improving the quality of health care or reducing unnecessarily bureaucratic processes, thereby freeing up staff time to address other workload. Moreover, it is possible that the contract will not generate notable near-term savings but could yield worthwhile long-term savings. Accordingly, to fully assess the value of the contract, the Legislature will need a clear and comprehensive understanding of its likely outcomes.
- ***Are the Activities in Line With Legislative Priorities for the Programs?*** The Legislature will want to understand the workstreams underway with the contractor to make sure that the actions they are contemplating are in line with legislative priorities for the impacted departments and programs. Although, as we understand it, many of the changes are unlikely to require law changes and may be more administrative in nature, the Legislature should have a high-level understanding of how those changes may impact programs.
- ***Does the Legislature Want to Proceed With the Contract?*** The Legislature authorized the funding for the contract with the expectation that costs of up to \$20 million could yield up to \$2 billion General Fund savings annually by 2028-29. The contract is now in place. The administration now expects that the full \$20 million will be spent and that savings resulting from the contract will be less than \$810 million General Fund. Considering

the anticipated erosion in savings at the May Revision, it is reasonable for the Legislature to evaluate whether to reaffirm its commitment to the contract. In doing so, we recommend that the Legislature weigh all its options ranging from letting the plan proceed as budgeted to rescoping or directing the administration to terminate the contract.

***If Legislature Moves Forward With the Contract, Require Quarterly Updates.*** If the Legislature decides to proceed with the contract as planned, we recommend it enhance its oversight over the remaining term of the contract. The next formal status report on the work stemming from the BCG contract will not be provided until February 2027—after the contract has ended and after much of the work will have been set in motion. As such, the Legislature might not become aware of an action taken by the administration that is inconsistent with legislative priorities until after the action has been taken. In addition, the Legislature would not necessarily be informed in a timely manner if the work falls behind schedule or savings erode further from what is estimated at the May Revision. Moreover, more regular and detailed information would give the Legislature greater insight into the work itself, which could be helpful for identifying future savings opportunities. For example, efficiencies in procurement implemented at CDCR could possibly be extended to other departments. Accordingly, if the Legislature chooses to move forward with the current contract or a rescoped version of it, we recommend that it require the administration to provide quarterly updates. These updates should include, for each workstream, a discussion of the primary activities accomplished in the quarter, any significant changes in activities or time lines relative to the last report, and discussion of activities and time lines for the upcoming quarter.

***View Unallocated Savings Proposals Skeptically.*** Seeking efficiencies in state government processes and in the budget are laudable goals that should be encouraged. That being said, the recent examples of Control Section 4.05, Control Section 4.12, and the current BCG-focused effort have demonstrated that predicting the

level of savings from such activities is difficult. Thus far, the savings assumed from these past exercises have proven to be unachievable. As such, they will not improve the state's near- and longer-term budget picture as expected. This practice muddies the Legislature's understanding of the state's fiscal health because it assumes a lower level of spending in the budget year than actually will occur. If the Legislature directs the administration to identify efficiencies in the future, we recommend that the Legislature build in only limited assumed savings resulting from such an exercise in the budget.

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