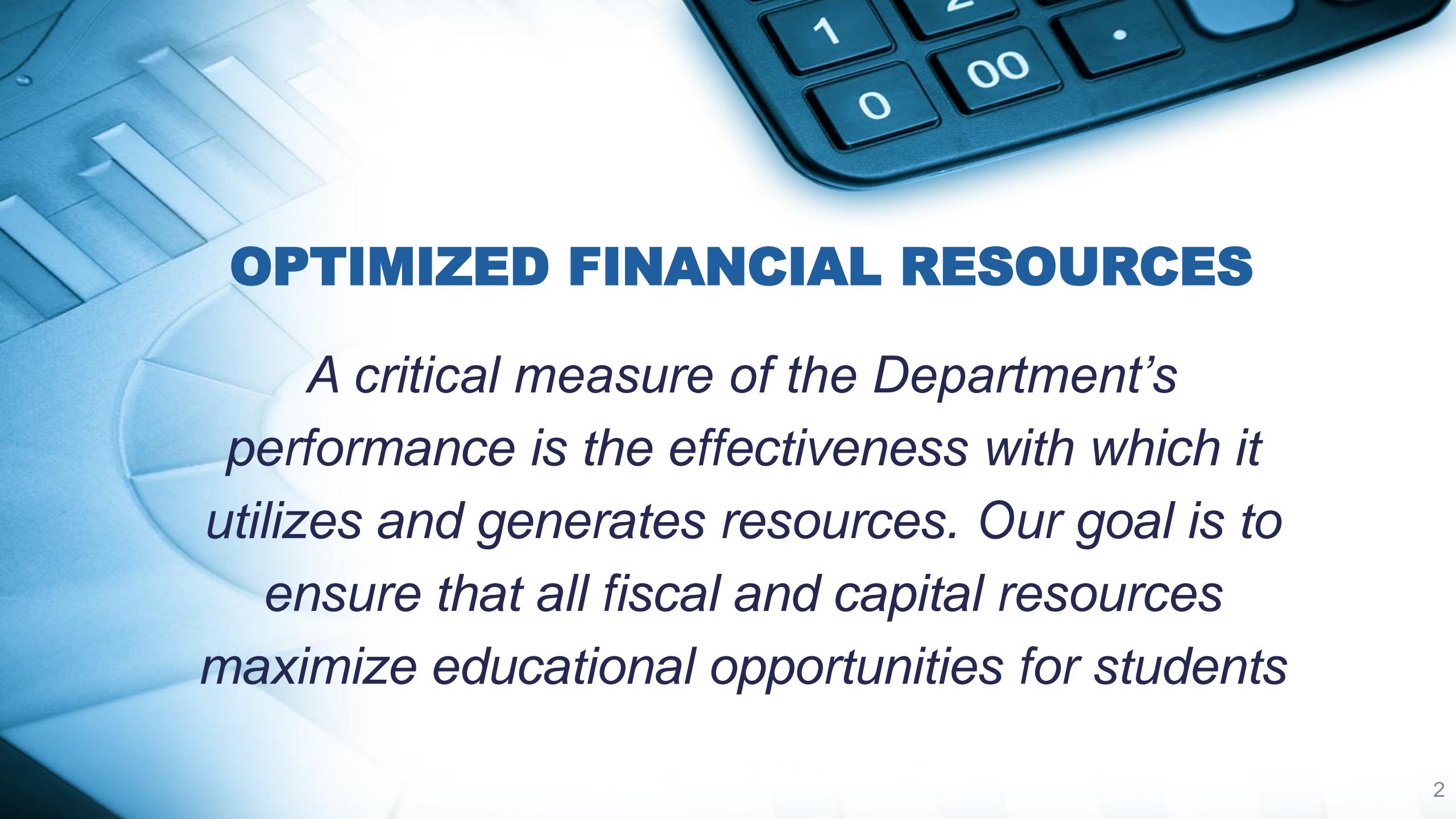




June 2, 2025

# 2025-26 Preliminary Budget



## OPTIMIZED FINANCIAL RESOURCES

*A critical measure of the Department's performance is the effectiveness with which it utilizes and generates resources. Our goal is to ensure that all fiscal and capital resources maximize educational opportunities for students*

# Topics of Discussion

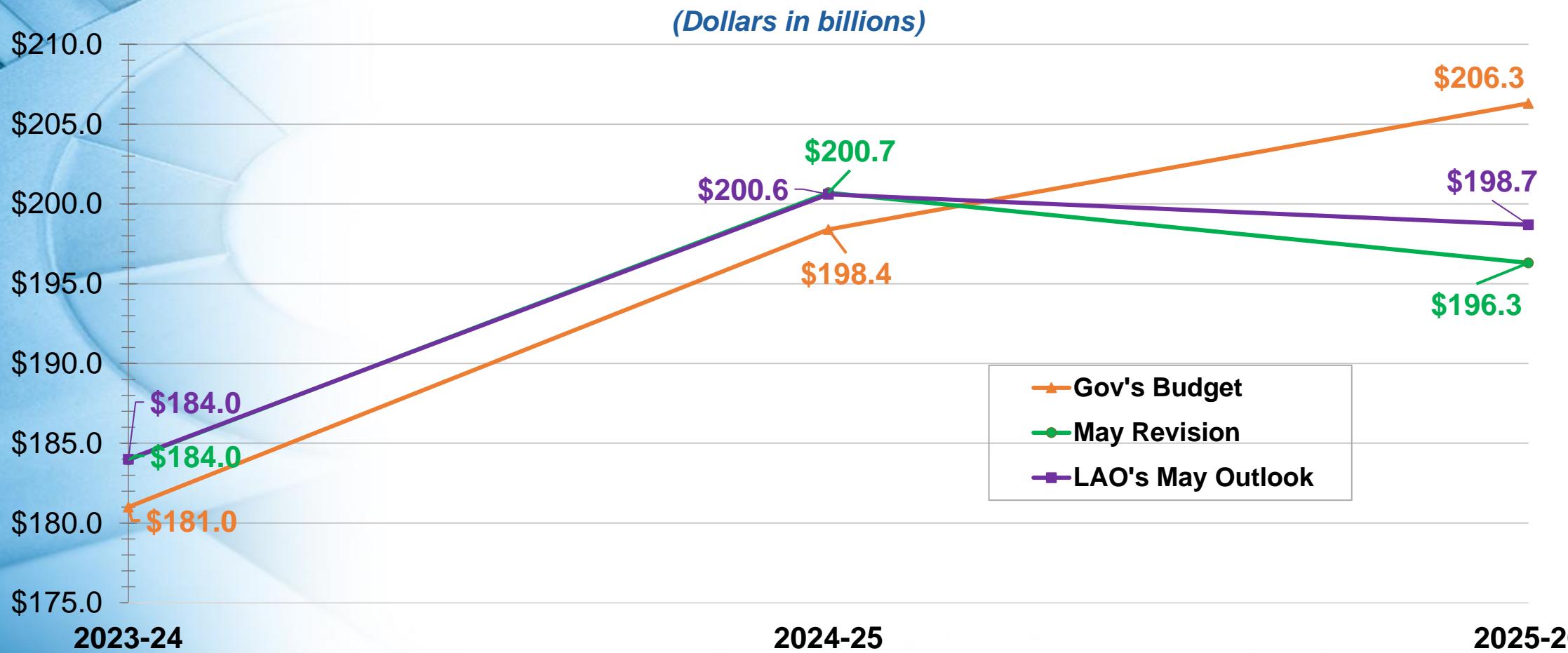
- State Fiscal Outlook
- Governor's 2025-26 May Revision
- Preliminary Budget for 2025-26
- Budget Challenges
- Next Steps

# State Fiscal Outlook

# State Fiscal Outlook

- “Big Three” state tax revenues are down approximately **\$4.8 billion** over the three-year budget window, when compared to the Governor’s January Budget
- In January, the Governor had forecast a budget surplus for 2025-26, due largely to an improved economic outlook and strong tax receipts since enactment of the 2024-25 State Budget. However, at May Revision, the Governor now estimates a budget shortfall of **\$12 billion** due primarily to a deterioration in the State’s 2025-26 revenue outlook and increase in healthcare costs
- Although State tax revenue sources improved in 2023-24 and 2024-25 by **\$2.9 billion** and **\$2.3 billion**, respectively, the “Big Three” tax estimates are forecast to decline by **\$10 billion** in 2025-26
- The immediate risks noted by Governor Newsom include changes to federal policy, notably tariffs, which he attributes to the downgrade in both economic and revenue forecasts

# State General Fund Revenues



# Risks to the State Budget

Stock market volatility in response to federal policy changes can impact projected state revenue

California's unemployment rate is projected to increase in the budget year

California's GDP is projected to decrease in a similar pattern to U.S. GDP in the budget year



Anticipated cuts to key federal programs will increase pressure to backfill losses in federal funding with state dollars

California has several lawsuits pending against the federal government, the outcome of which could affect the economy

The “Big Three” revenues are projected to be lower by \$4.8 billion over the three-year budget window when compared to January

# **Governor's 2025-26 May Revision**

# May Revision Highlights

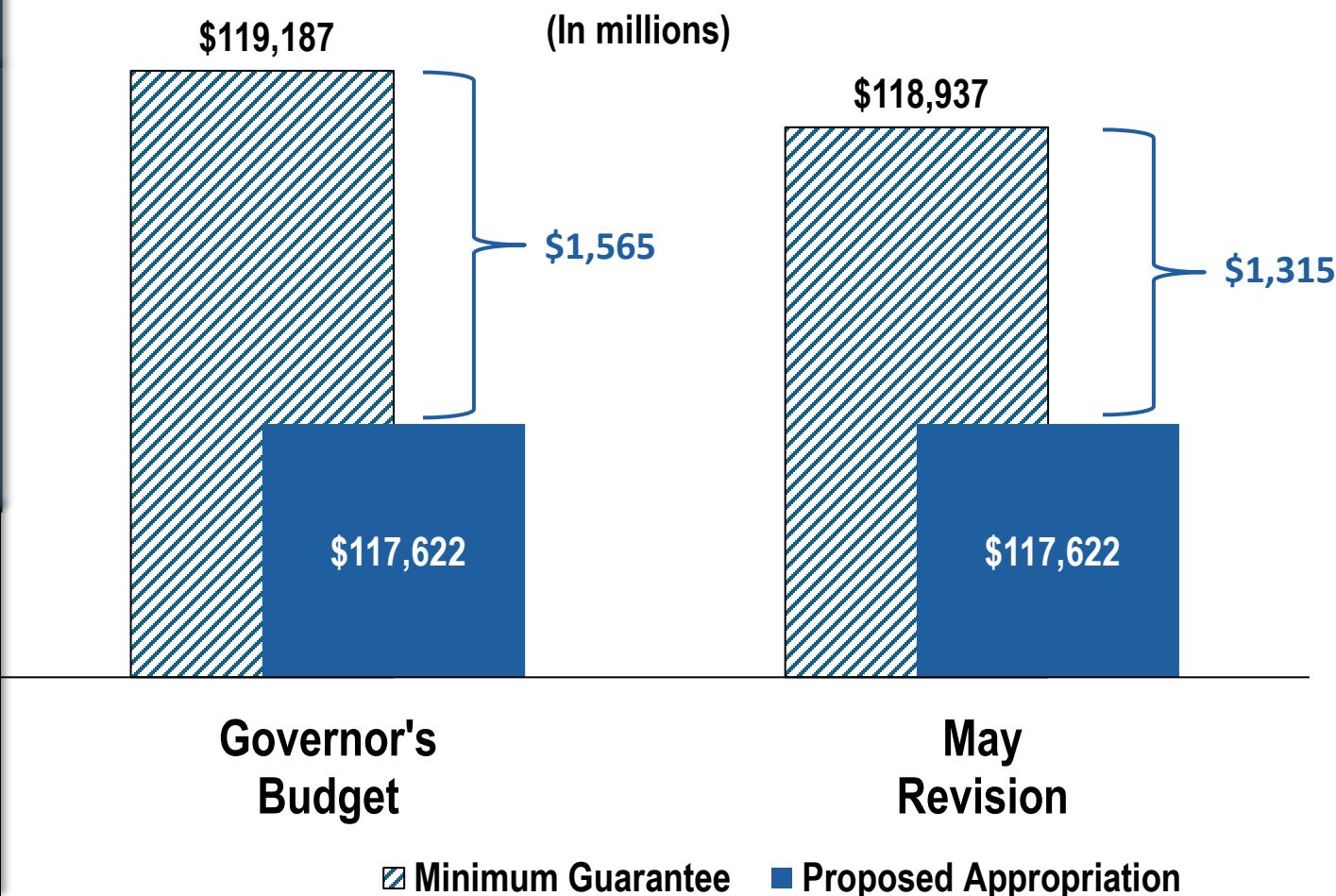
- Despite the significant decline in projected state revenues and additional drop in the Prop. 98 Guarantee since January of **\$4.6 billion**, the Governor is proposing to protect, existing, ongoing K-14 programs and provide a **2.30%** Statutory COLA on LCFF funding and certain categorical programs
- On the non-Proposition 98 side of the State budget, the Governor is proposing significant reductions, primarily to health and human Services programs
- Key reductions include, freezes in Medi-Cal enrollment for undocumented adults, imposition of Medi-Cal premiums, elimination of certain Medi-Cal benefits, and reductions to programs like the Foreclosure Intervention Housing Preservation Program and Homeless Housing Assistance Program
- The May Revise maintains, but marginally reduces, the Governor's January proposal to delay full appropriation of the 2024-25 Guarantee by **\$1.3 billion**

# 2024-25 Proposition 98 Guarantee & Settle Up

## SETTLE UP

Reconciliation of the Proposition 98 minimum guarantee from initial budget estimates to the calculated constitutional minimum guarantee based on actual state revenues and other factors

The May Revision maintains the Governor's January proposal to appropriate less than the 2024-25 minimum guarantee to TK-12 and community college agencies, referring to it as "settle up"



# 2025-26 Proposition 98 Guarantee

- From Governor's Budget, the 2025-26 minimum guarantee is down nearly \$4.4 billion
  - General Fund portion of the guarantee down by \$3.9 billion
  - Local property taxes now estimated to be lower by \$500 million

(In millions)

\$118,924

\$34,321

\$84,603

\$114,568

\$33,821

\$80,747

Governor's Budget

May Revision

■ General Fund    □ Local Property Taxes

# Governor's January Budget Versus May Revision

Item	January Budget	May Revision
Proposition 98 Minimum Guarantee		
2023-24	\$ 98.5 billion	\$ 98.5 billion
2024-25	\$ 119.2 billion	\$ 118.9 billion
2025-26	\$ 118.9 billion	\$ 114.6 billion
2025-26 Statutory COLA	2.43 %	2.30 %
Proposition 98 Reserve (PSSSA)		
2024-25	\$ 1.16 billion	\$ 540 million
2025-26	\$ 1.53 billion	-
Budget Stabilization Account / Rainy Day Fund		
2024-25	\$ 18.0 billion	\$ 18.3 billion
2025-26	\$ 10.9 billion	\$ 11.2 billion

# Changes Since Second Interim

# Key Changes Since Second Interim

## COLA Percentages

	2024-25	2025-26	2026-27
Second Interim Statutory COLA	1.07 %	2.43 %	3.52 %
May Revision Statutory COLA	1.07 %	2.30 %	3.02 %

## CalPERS Employer Rates

	2024-25	2025-26	2026-27
Second Interim	27.05 %	27.40 %	27.50 %
May Revision	27.05 %	26.81 %	26.90 %

*Note, there are no changes to the CalSTRS Employer Contribution Rate Estimates, which are forecast to remain at 19.10 % over the three-year forecast period*

## Key Changes Since Second Interim (cont.)

### Average Daily Attendance (ADA) Estimates

	2024-25	2025-26	2026-27
Second Interim ADA	4,309	4,243	4,182
Preliminary Budget ADA	4,285	4,231	4,180
Estimated ADA Decrease	(24)	(12)	(2)

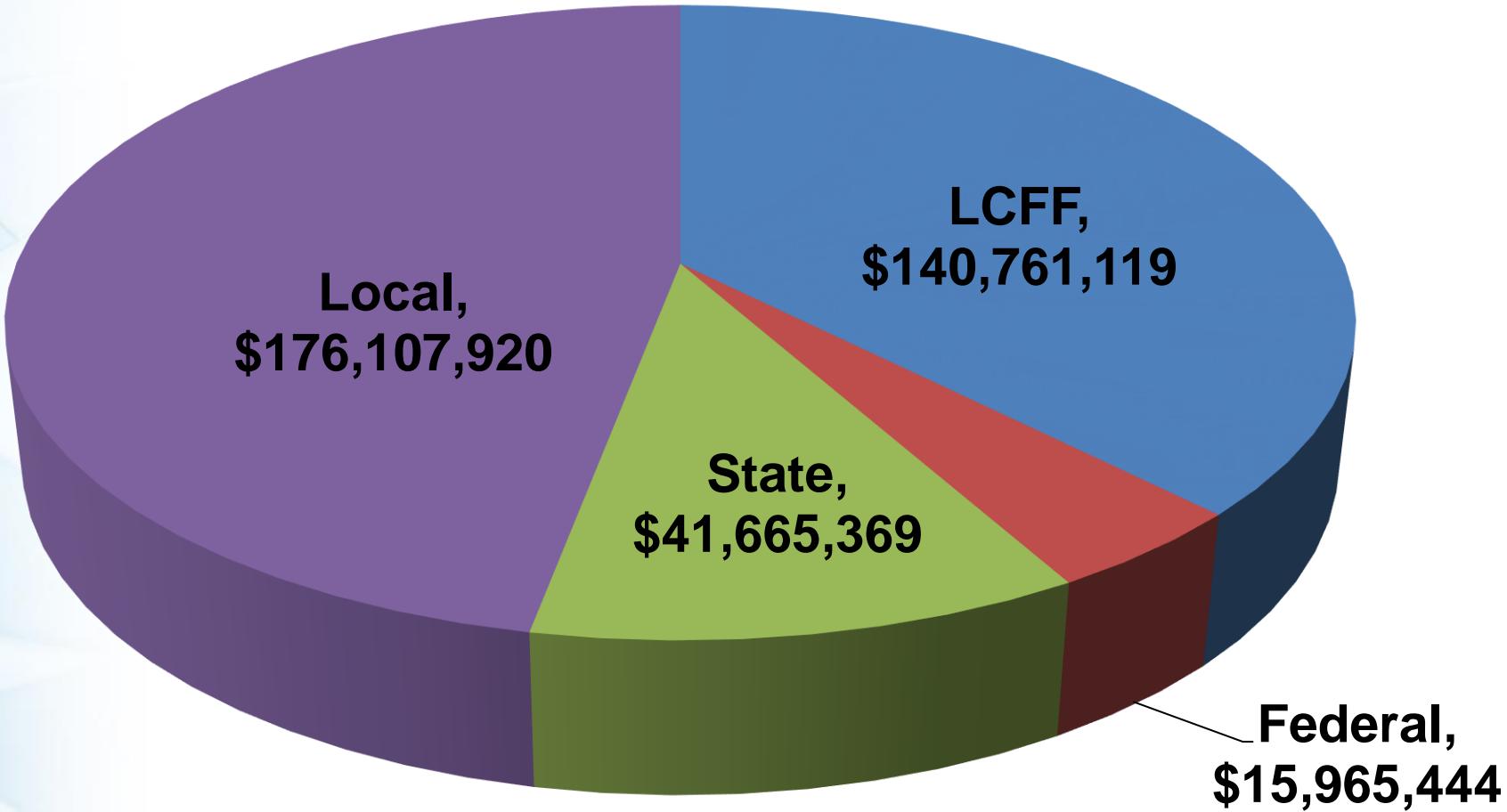
# 2025-26 Budget Assumptions

## Multi-Year Projection (MYP) Assumptions

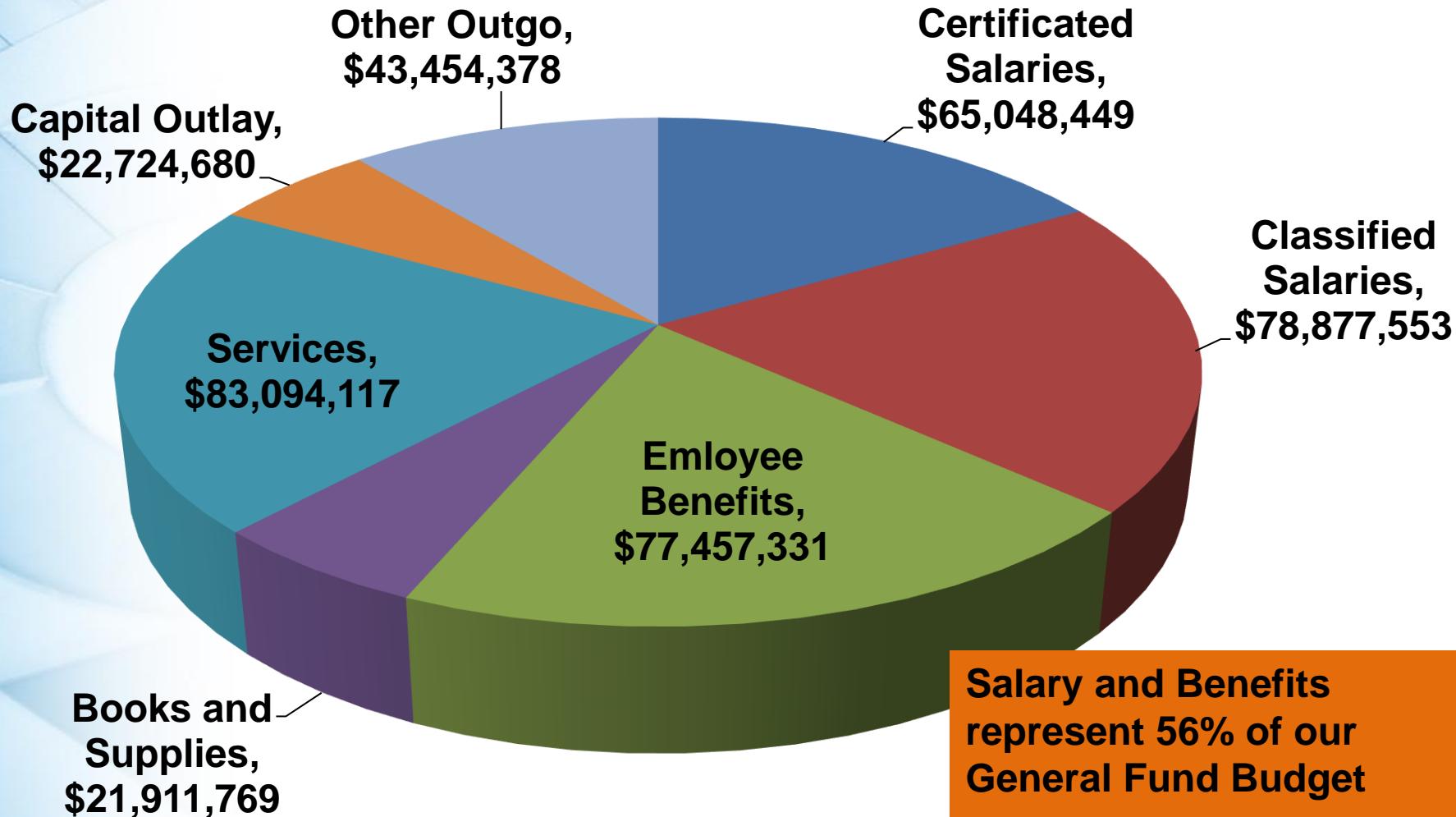
	2024-25	2025-26	2026-27
Salaries	Negotiations Completed (OCSEA & CSEA)	Pending Negotiations	Pending Negotiations
Statutory COLA	1.07%	2.30%	3.02%
Average Daily Attendance (ADA)	4,285	4,231	4,180
LCFF Revenue Projections	\$104,032,408	\$103,077,679	\$103,370,000
Tuition (ACCESS / Special Schools)	\$ 44,460,023	\$ 45,260,167	\$ 46,489,904

# Revenue & Expenditure Summary Charts

# 2025-26 Revenue Projections



# 2025-26 Expenditure Projections



# Multi-Year Projection (MYP)



## Multi-Year Projections (MYP) – Combined General Fund

	2024-25 Estimated	2025-26 Preliminary	2026-27 Projected	2027-28 Projected
Revenues, and Other Financing Sources	\$385,912,748	\$374,499,852	\$381,899,522	\$395,574,621
Expenditures, and Other Financing Uses	\$378,739,624	\$394,470,330	\$368,453,342	\$385,516,134
Surplus/(Deficit) - Revenues Minus Expenditures	\$7,173,124	(\$19,970,478)	\$13,446,180	\$10,058,487
Beginning Balance	\$452,290,337	\$459,463,453	\$439,492,975	\$452,939,155
Ending Balance	\$459,463,453	\$439,492,975	\$452,939,155	\$462,997,642

# Budget Challenges



## Challenges Ahead

- Costs for Step and Column, CalPERS and CalSTRS Pensions, and Health and Welfare Benefits Premiums Continue to Rise
- Inflationary Cost Pressures for Other Items Such as Supplies, Services and Equipment Remain Persistent
- Expiration of One-time Federal and State COVID-19 Relief Funding
- Minimum State Aid / Excess Tax Status
- Uncertainty Regarding State Budget Outlook

# Budget Timeline

# Budget Timeline

1

June 15, 2025 – Constitutional Deadline for Legislature to Pass the State Budget

2

June 18, 2025 – OCDE Adopted Budget Approval

3

June 30, 2025 - Governor Approves Final State Budget

4

Budget Revisions will be incorporated in OCDE's budget

# QUESTIONS ?