



**2025-26
First Interim**

December 3, 2025

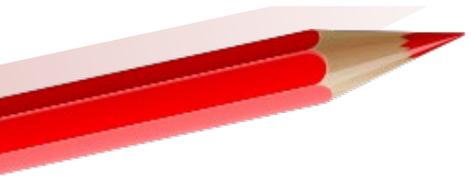


OPTIMIZED FINANCIAL RESOURCES

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

- LAO's Fiscal Outlook for K-12 Education
 - First Interim Budget Assumptions
 - First Interim Financial Report
 - First Interim Multi-Year Projection (MYP)
 - Budget Timeline and Next Steps
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Legislative Analysts Office (LAO) 2026-27 Annual Fiscal Outlook

- LAO is a non-partisan fiscal advisor to the Legislature
- Outlook is based on consensus economic forecasts from major U.S. institutions and professional economists
- Annual outlook provides assessment of economy and includes current and four subsequent years
 - ✓ Outlook covers 2025-26 through 2029-30
 - ✓ Provided to assist in development of 2026-27 State Budget
- The LAO has typically provided one “main” projection with several caveats, or warnings

Legislative Analysts Office (LAO)

2026-27 Annual Fiscal Outlook

Overall Economic Assessment:

- State economy has been in an extended slowdown for about three years due to a soft labor market and weak consumer spending
- Both the California and U.S. economies currently face significant headwinds
 - ✓ Borrowing costs for businesses and consumers remain high
 - ✓ New tariffs on imports are creating cost pressures for businesses and consumers
 - ✓ Uncertainty with the federal government appears to be contributing to general anxiety about the economy
- Amid these conditions:
 - ✓ California businesses have pared back hiring resulting in no payroll job growth in the state this year
 - ✓ Consumers continue to report historically low optimism about the economy's future
 - Consumers in California are also limiting spending, with sales of taxable goods flat over last year
 - And, consistent with these trends, collections from sales and corporation taxes have posted below-average growth in recent months
- In contrast, income tax collections have been strong in recent months, driven by enthusiasm around AI, which has pushed the stock market to record highs and boosted tech compensation
 - ✓ Forecast incorporates strong risk that recent gains are tied to an unsustainable stock market

Legislative Analysts Office (LAO) 2026-27 Annual Fiscal Outlook

State Revenues Exceed Budget Act Estimates by Over \$11 Billion:

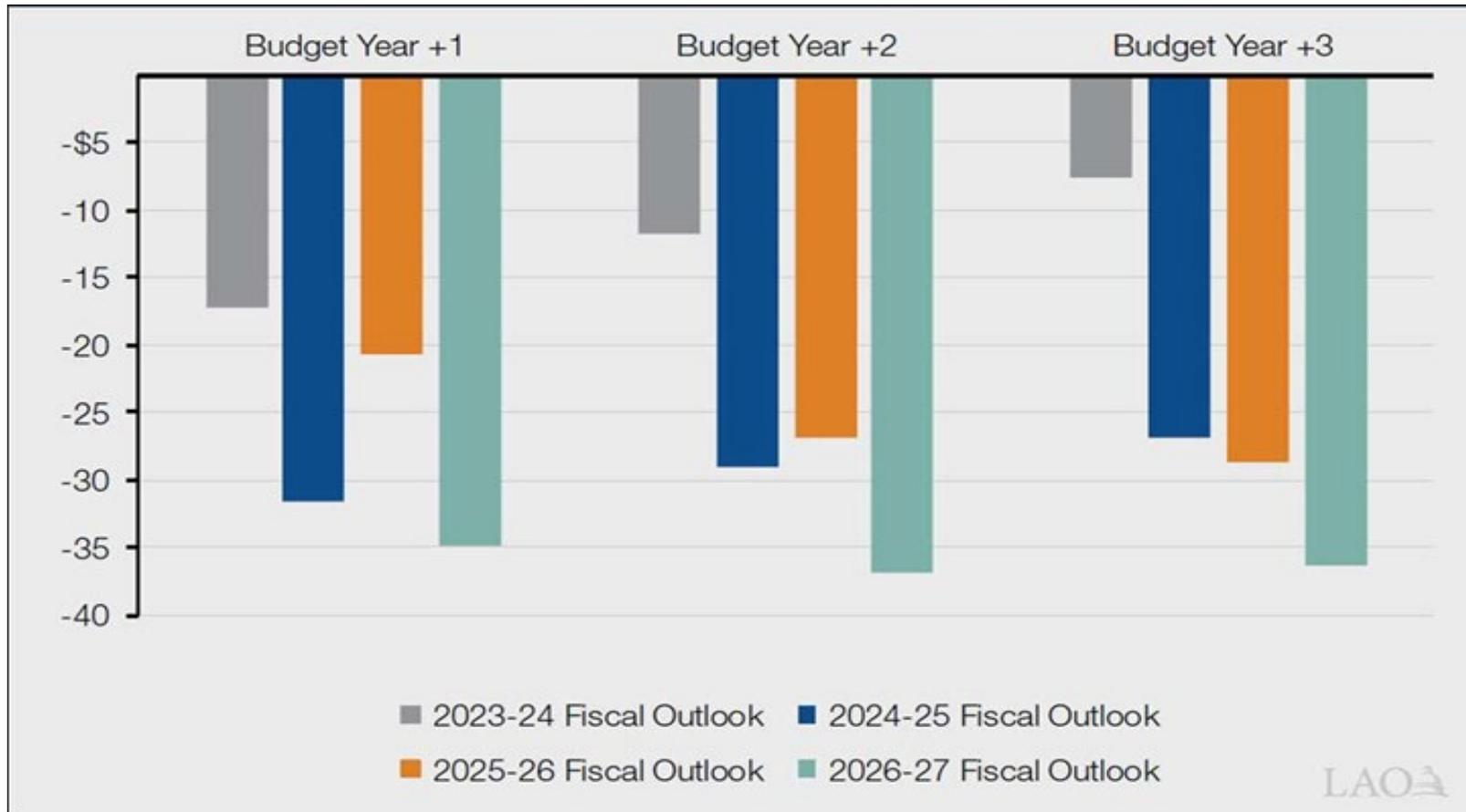
- Collections data reflect stronger than anticipated revenue growth across fiscal years 2024-25 and 2025-26, although the revenue forecast for 2026-27 is down slightly
 - ✓ Overall, revenue projections are up by about **\$11.7 billion** across 2024-25 and 2025-26 relative to the June 2025 Budget Act estimates
 - ✓ Assuming the recent income tax gains are tied to an unsustainable stock market, revenues are forecast to decline in 2026-27 by approximately **\$560 million**, when compared to the June estimates
 - ✓ Proposition 98 Guarantee is revised up by **\$7.0 billion** across the three-year budget window, fiscal years 2024-25 through 2026-27
 - ✓ For 2026-27, the LAO estimates the Guarantee at **\$117.8 billion**, an increase of **\$3.2 billion** from the 2025-26 enacted budget level. This increase would be just enough to fund an estimated COLA of **2.51** percent in 2026-27

Revenue Improvement More Than Offset By Higher Costs

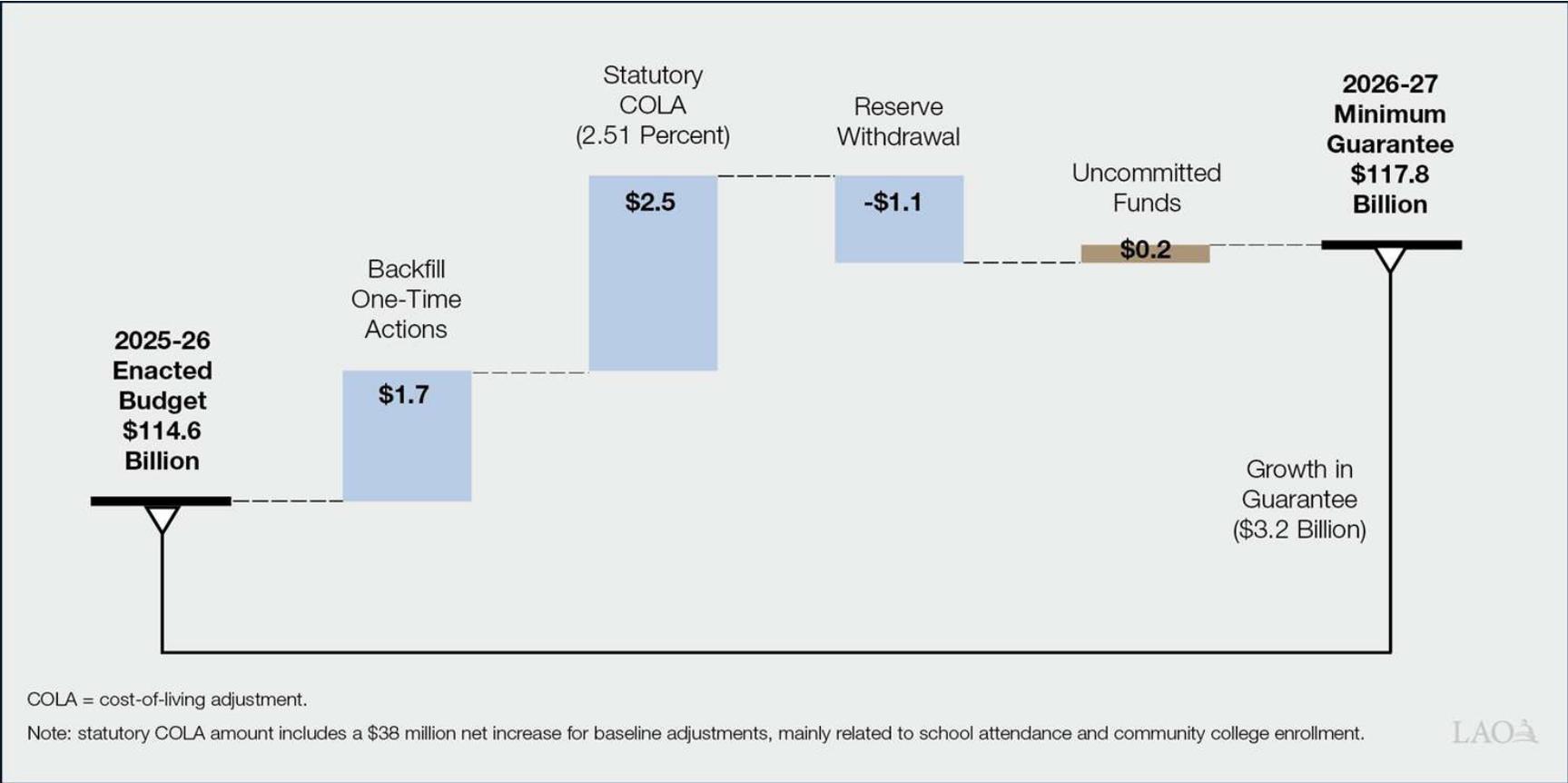
Anticipated Deficit at 2025-26 Budget Act	-\$12.6
Revenues higher	\$11.1
Proposition 98 higher	-7.0
Proposition 2 higher	-3.4
All other spending higher	-5.7
Anticipated Deficit at LAO Fiscal Outlook	-\$17.7

State Faces \$35 Billion Annual Deficits After 2026-27

(In Billions)

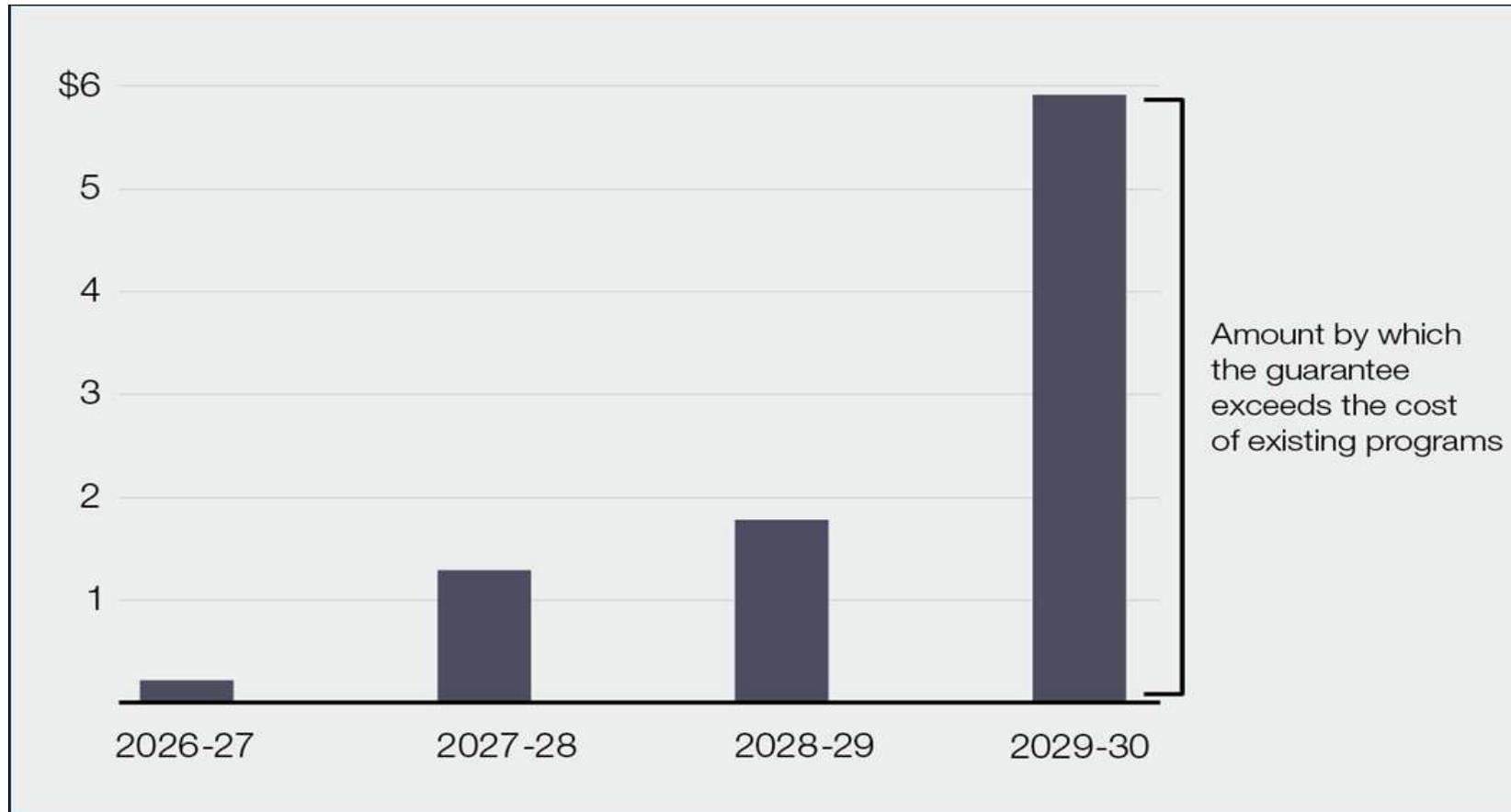


Ongoing Increase Is Just Enough to Cover the Statutory COLA in 2026-27



Limited Funding for New Commitments Over Most of the Outlook Period

(In Billions)



First Interim

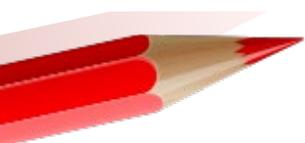


First Interim Report Purpose

- The First Interim Report represents the first official revision to the Department's 2025-26 Adopted Budget
- The First Interim Report includes actual financial information through October 31, 2025 and revised projections for the remainder of the fiscal year
- County offices of education are required to certify their financial condition twice during the fiscal year. This certification addresses the Department's ability to meet its financial obligations for the current year and two subsequent years

2023-24 State Budget ADA Provisions



- Beginning in 2023-24, County Office of Education (COE) LCFF Alternative Education funding is based on the sum of:
 - ✓ The greater of current year Average Daily Attendance (ADA),
 - ✓ prior year ADA, or
 - ✓ the average of the three most recent prior fiscal years ADA
 - ✓ This ADA calculation for COEs is consistent with the school district LCFF ADA calculation introduced with the 2022-23 Enacted State Budget
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First Interim Multi-Year Projection (MYP) Assumptions

	2025-26	2026-27	2027-28
Salaries	Negotiations Completed (CSEA & Mgmt.)	Pending Negotiations	Pending Negotiations
Statutory COLA	2.30%	3.02%	3.42%
Average Daily Attendance (ADA)	4,464	4,381	4,304
LCFF Revenue Projections	\$102,810,491	\$102,728,650	\$102,303,989
Tuition (ACCESS / Special Schools)	\$49,577,201	\$50,937,619	\$52,524,751

Multi-Year Projections – Combined General Fund

	2025-26 First Interim	2026-27 Projected	2027-28 Projected
Revenues, and Other Financing Sources	\$377,164,966	\$382,032,763	\$395,443,065
Expenditures, and Other Financing Uses	\$394,498,103	\$384,666,875	\$385,692,380
Surplus/(Deficit) - Revenues Minus Expenditures	(\$17,333,137)	(\$2,634,112)	\$9,750,685
Beginning Balance	\$479,050,323	\$461,717,186	\$459,083,074
Ending Balance	\$461,717,186	\$459,083,074	\$468,883,759

2025-26 First Interim Certification Options

- **Positive Certification** *

Based on current projections, a school district **will be able** to meet its Financial obligations for the current and two subsequent fiscal years

- **Qualified Certification**

Based on current projections, a school district **may not** be able to meet its financial obligations for the current or two subsequent fiscal years

- **Negative Certification**

Based on current projections, a school district **will be unable** to meet its financial obligations for the remainder of the current year, or subsequent year

* *Staff recommends a **Positive Certification***

Budget Challenges



Local Control Funding Formula
State Policy Deliberation & Local Community Engagement

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

Budget Timeline and Next Steps



Next Steps

First Interim Report

Dec. 2025

Midyear LCAP Update

Feb. 2026

Second Interim Report

March 2026

Public Hearings: LCAP and Budget

Early June 2026

Adopt LCAP and Budget

Late June 2026

Develop LCAP



Thank You!

**Administrative Services
Department**