



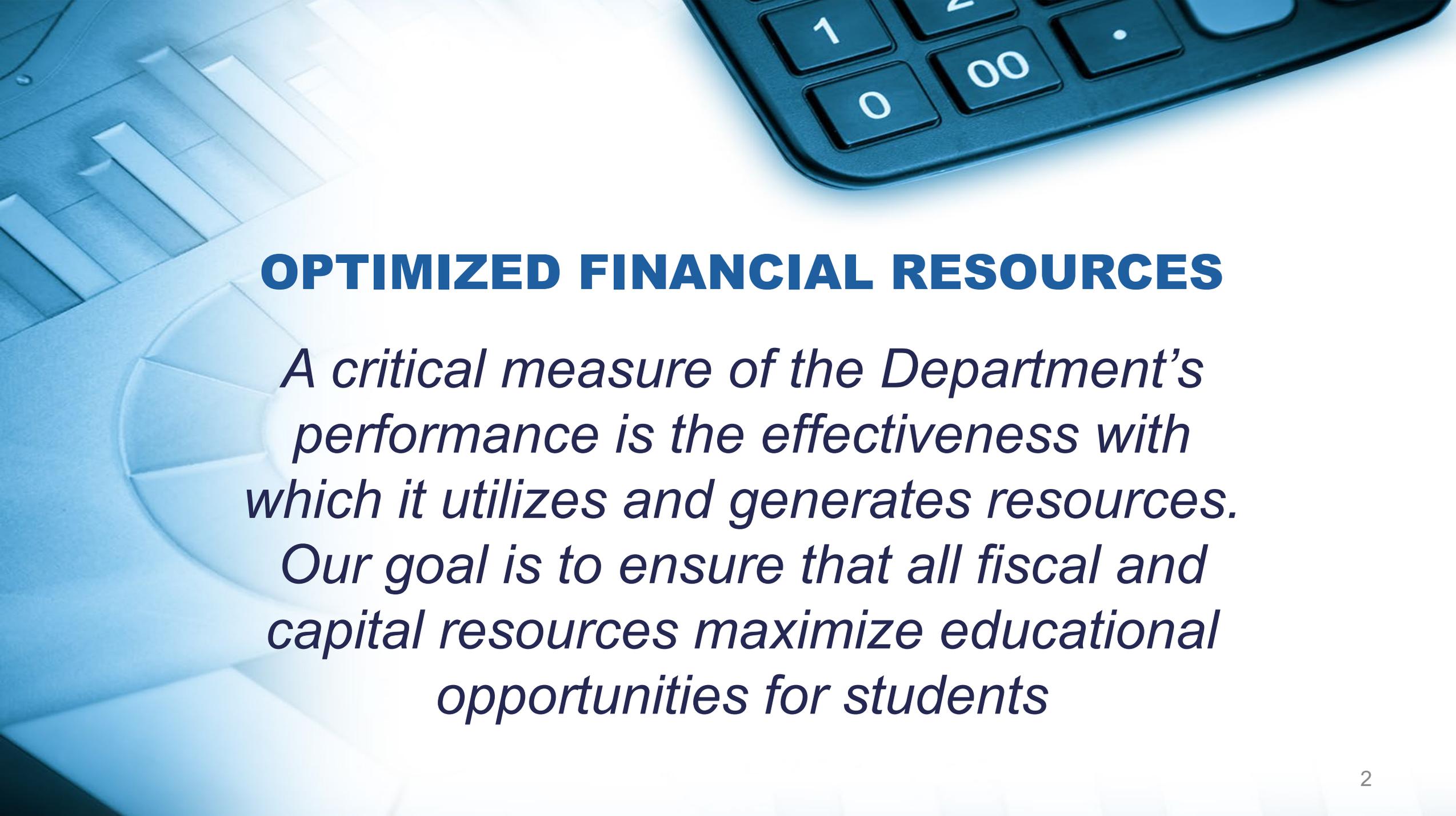
2300144	+11C6V0
2300055	+11C6V0
2300110	+11C6V0
6237158	+11C6V0
2300555	+11C6V0
2300315	+11C6V0

9.90%	7094
12.16%	

**March 4, 2026**

# **2025-26 Second Interim Report**

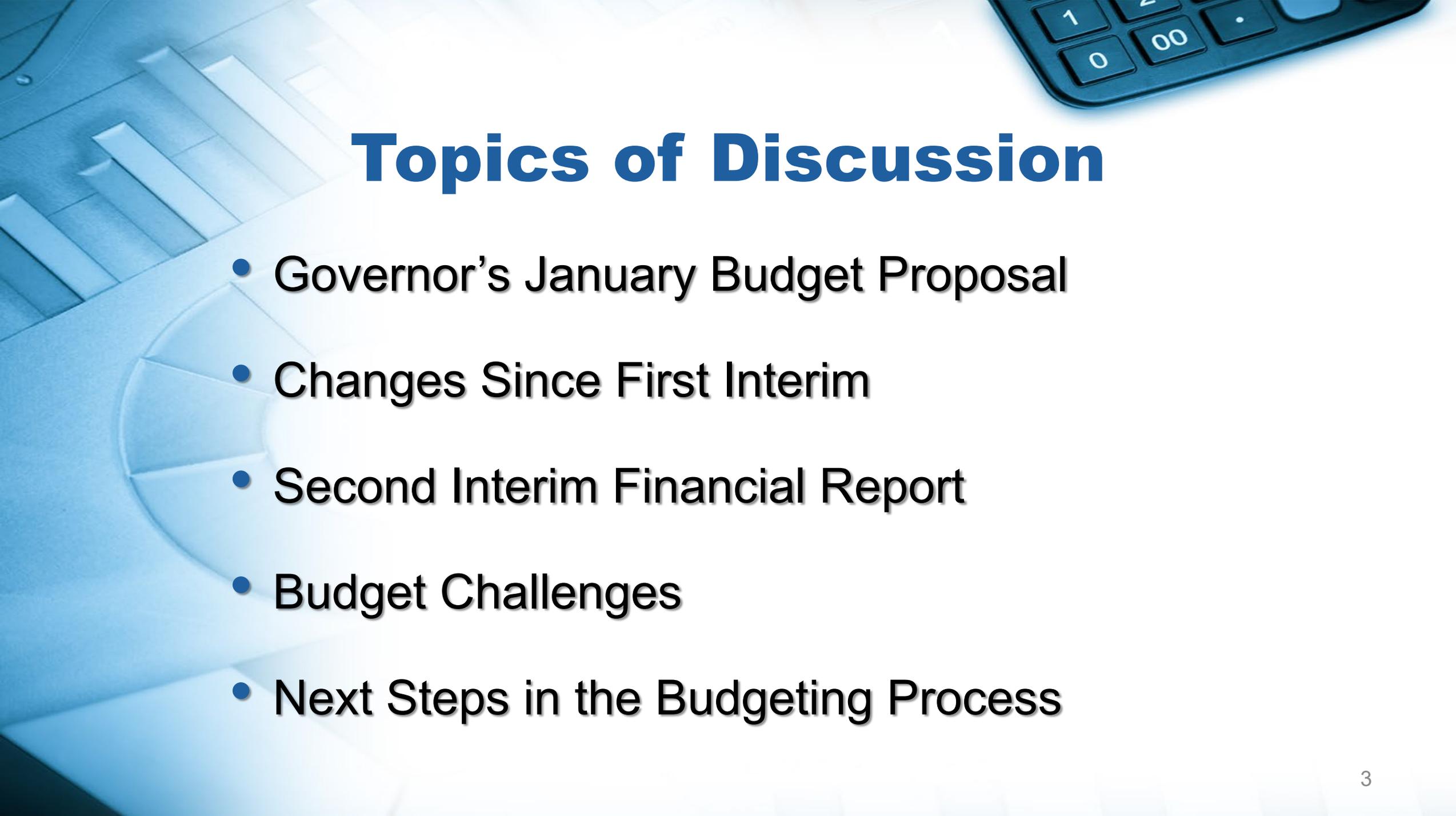




## **OPTIMIZED FINANCIAL RESOURCES**

*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

- Governor's January Budget Proposal
- Changes Since First Interim
- Second Interim Financial Report
- Budget Challenges
- Next Steps in the Budgeting Process



# Governor's January Budget Proposal



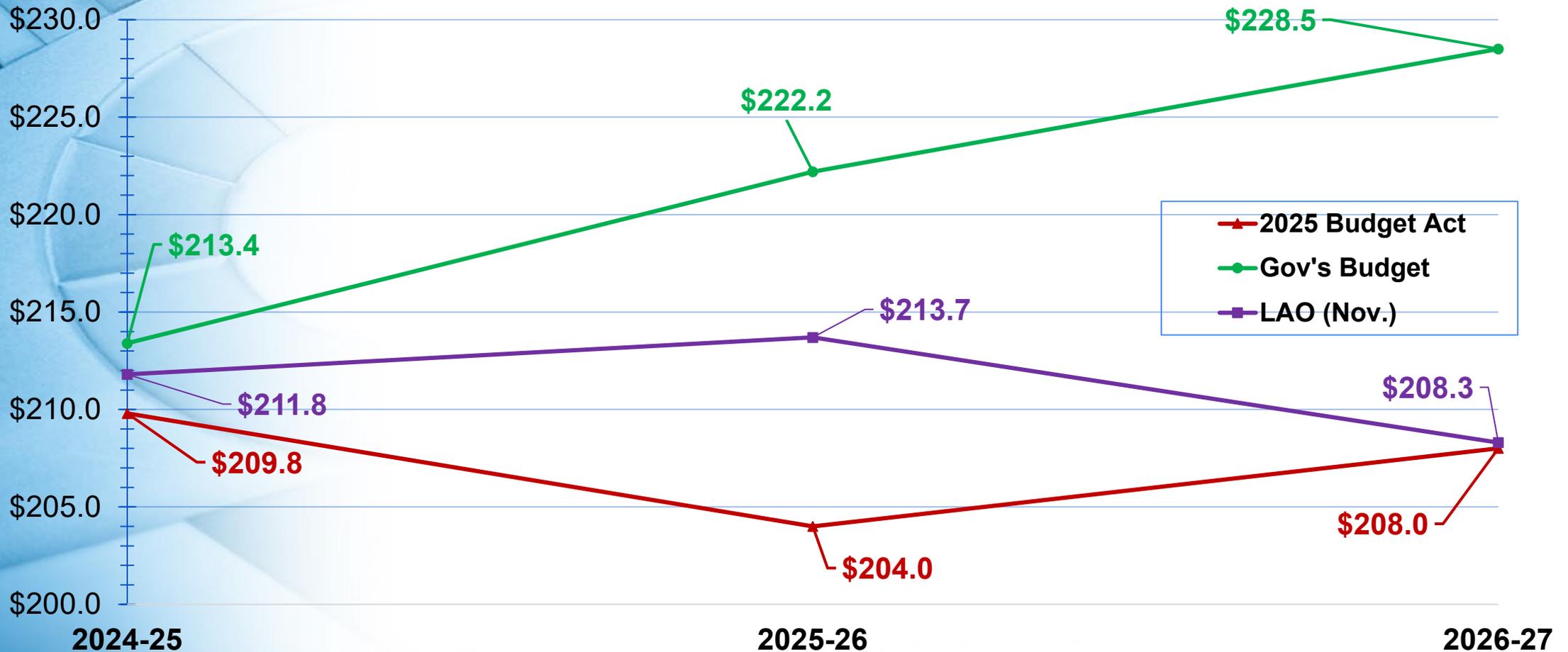
# Governor's Budget Proposal

- The Governor is estimating a modest budget shortfall of approx. **\$2.9 billion** for 2026-27, due largely to an improved economic outlook and stronger than expected tax receipts since enactment of the 2025-26 State Budget
- The DOF now estimates GF revenue over the three-year budget window, 2024-25 through 2026-27, to exceed levels contained in the 2025-26 State Budget by approximately **\$42.3 billion**
- The LAO's November Outlook reflects revenue projections that are roughly **\$30 billion** lower than the Governor over the three-year budget window, primarily due to the LAO's assessment of a strong risk of a stock market downturn
- Regarding risk, the Governor's budget notes that much of the growth has been driven by large technology companies benefiting from an AI boom. If a market downturn equivalent to the one experienced in 2022 were to occur, state revenue could be up to **\$30 billion** below forecast within the budget window

# State General Fund (GF) Revenues

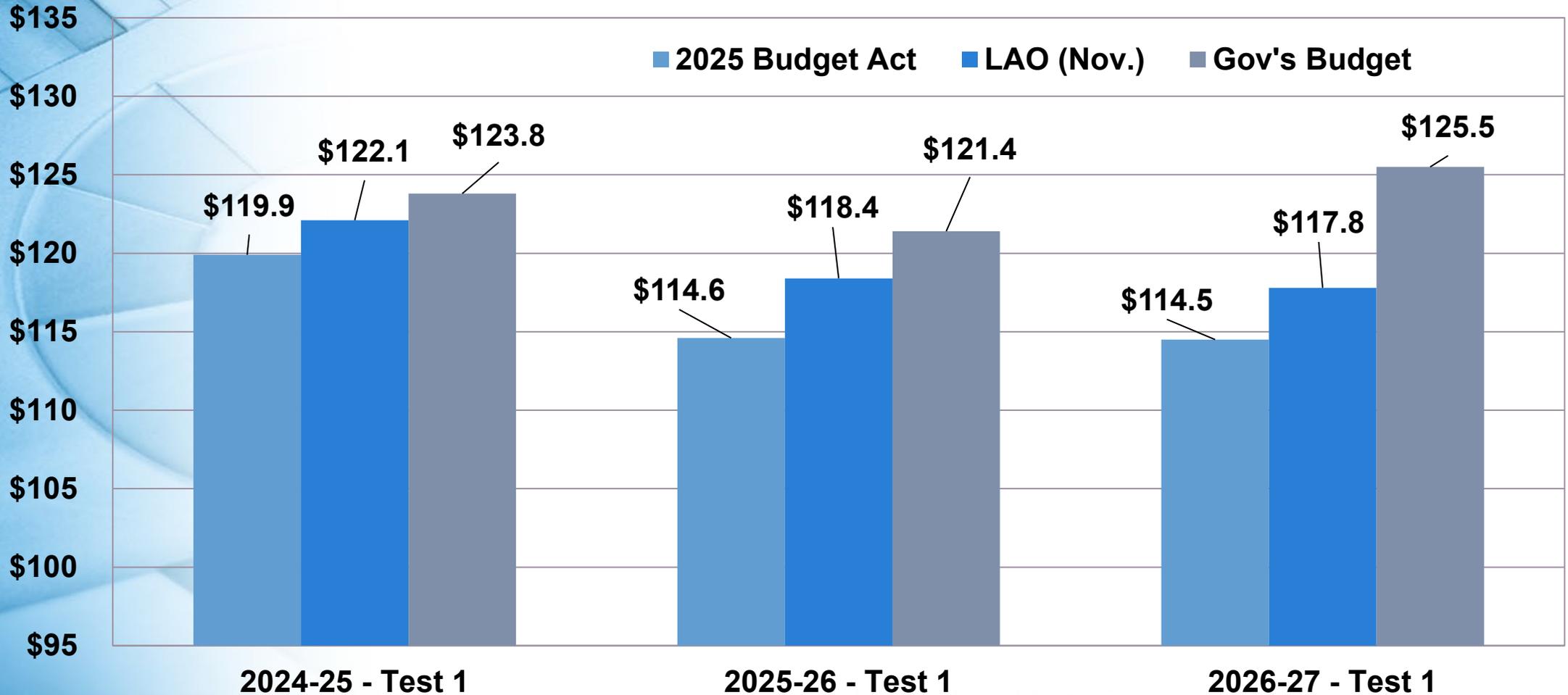
Includes only revenues that affect calculation of Prop 98 Guarantee

(Dollars in Billions)



# Proposition 98 Over Three Years

*(Dollars in Billions)*



# 2025-26 Proposition 98 Settle-Up Proposal

- The Governor's Budget proposes the same withholding strategy used last year, but at a much higher amount

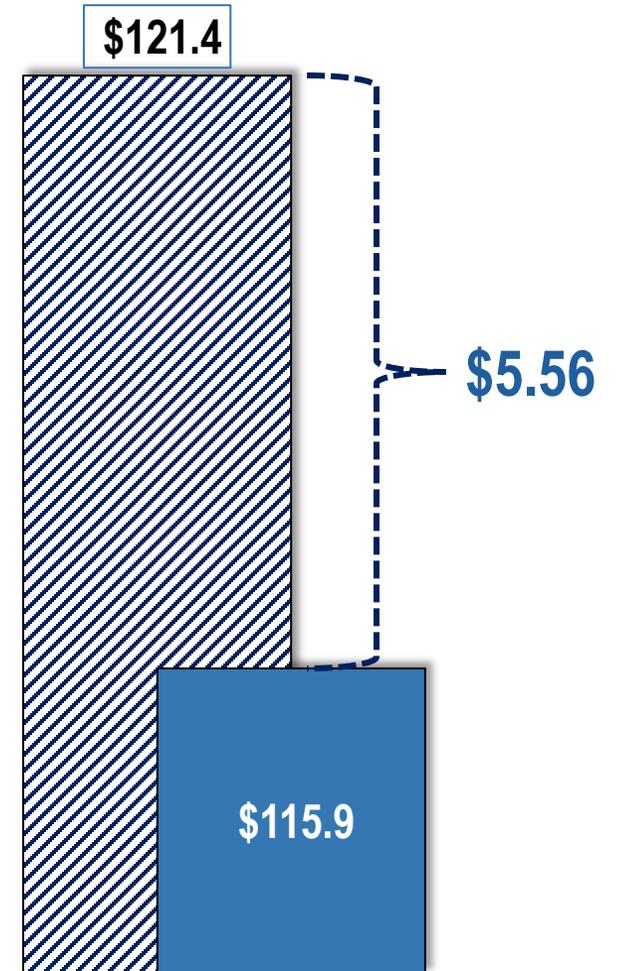
If the 2025-26 minimum guarantee is fully appropriated and allocated to TK-12 agencies on an equal per-ADA basis, LEAs would receive approximately

**\$909**  
Per ADA

The Governor and Legislature determine how Proposition 98 funds are allocated to LEAs

▣ Constitutional Funding Level

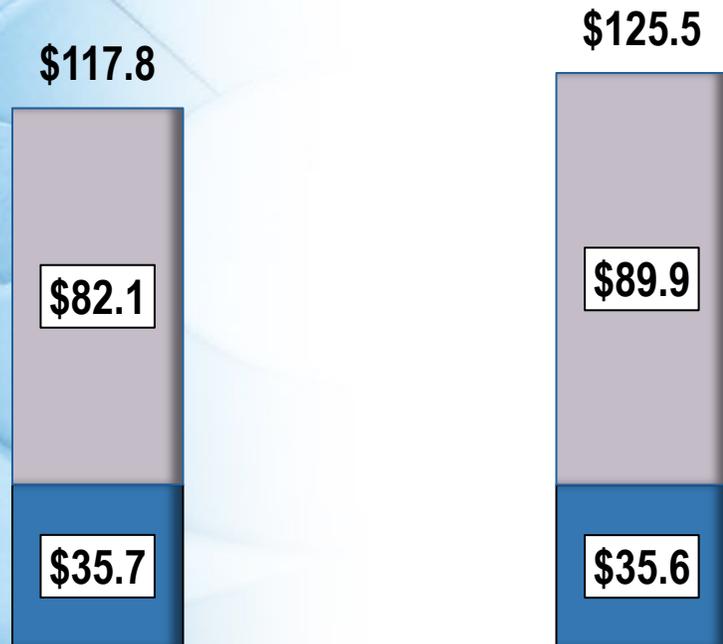
■ Governor's Budget Proposed Funding Level



# 2026-27 Proposition 98 Guarantee

In billions

■ Local Property Taxes ■ General Fund



LAO Fiscal Outlook

Governor's Budget

- The Governor's estimate of the 2026-27 minimum guarantee is \$7.7 billion *higher* than the LAO's November estimate, which is attributable to differences in the tax revenue estimates
- The Governor's personal income tax assumptions alone are \$17 billion higher

# Risks to the State Budget

- Stock market correction
- Large operating deficits beginning in 2027-28
- Sluggish job growth
- Elevated inflation
- Federal policy uncertainty (*foreign trade & Immigration*)





# Changes Since First Interim



# Key Changes Since First Interim

## COLA Percentages

	2025-26	2026-27	2027-28
First Interim – Statutory COLA	2.30%	<b>3.02%</b>	<b>3.42%</b>
Second Interim – Statutory COLA	2.30%	<b>2.41%</b>	<b>3.06%</b>

## CalPERS Employer Rates

	2025-26	2026-27	2027-28
CalPERS - First Interim	26.81%	<b>26.90%</b>	<b>27.80%</b>
CalPERS - Second Interim	26.81%	<b>26.40%</b>	<b>26.90%</b>

*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 First Interim *(cont.)*

## Average Daily Attendance (ADA) Estimates

	2025-26	2026-27	2027-28
First Interim ADA	4,464	4,381	4,304
Second Interim ADA	<b>4,464</b>	<b>4,381</b>	<b>4,304</b>
<b>Estimated ADA Decline</b>	-	-	-



# Second Interim Assumptions



# Second Interim Report

## Purpose

- The Second Interim Report represents the second official revision to the Department's 2025-26 Adopted Budget
- The Second Interim Report includes actual financial information through January 31, 2026 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

# Second Interim Multi-Year Projection Assumptions

	2025-26	2026-27	2027-28
Salaries	Negotiations Completed (CSEA & Mgmt.)	Pending Negotiations	Pending Negotiations
Statutory COLA	2.30%	2.41%	3.06%
Average Daily Attendance (ADA)	4,464	4,381	4,304
LCFF Revenue Projections	\$102,843,825	\$102,343,315	\$101,657,425
Tuition (ACCESS / Special Schools)	\$ 49,577,201	\$ 50,047,577	\$ 50,895,972



# Second Interim Assumptions



# Multi-Year Projections - Combined General Fund

	2025-26 Second Interim	2026-27 Projected	2027-28 Projected
Revenues, and Other Financing Sources	\$377,591,692	\$381,372,407	\$393,135,991
Expenditures, and Other Financing Uses	\$388,158,988	\$384,373,025	\$383,219,054
Surplus/(Deficit) - Revenues Minus Expenditures	(\$10,567,296)	(\$3,000,618)	\$9,916,937
Beginning Balance	\$479,050,323	\$468,483,027	\$465,482,409
Ending Balance	\$468,483,027	\$465,482,409	\$475,399,346

# 2025-26 Second 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



# Challenges Ahead

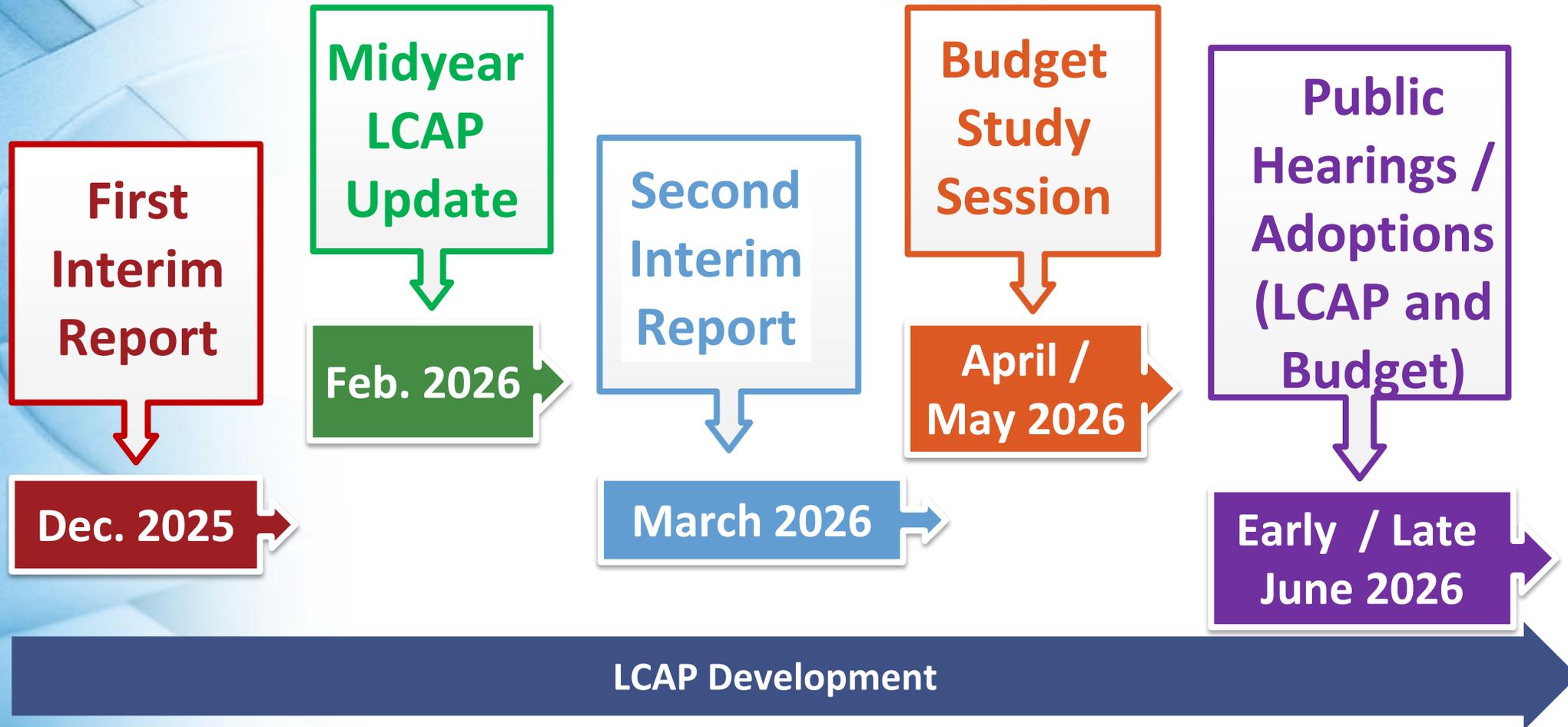
- Costs for Step and Column, CalPERS and CalSTRS Pensions, and Health and Welfare Benefits Premiums Continue to Rise
- Inflationary Cost Pressures for Other Items Such as Supplies, Services and Equipment Remain Persistent
- Expiration of One-time Federal and State COVID-19 Relief Funding
- Minimum State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



# Budget Timeline & Next Steps



# Next Steps





# QUESTIONS ?

