June 3, 2026

2026-27 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 2026-27 May Revision
- Preliminary Budget for 2026-27
- Budget Challenges
- Next Steps

State Fiscal Outlook

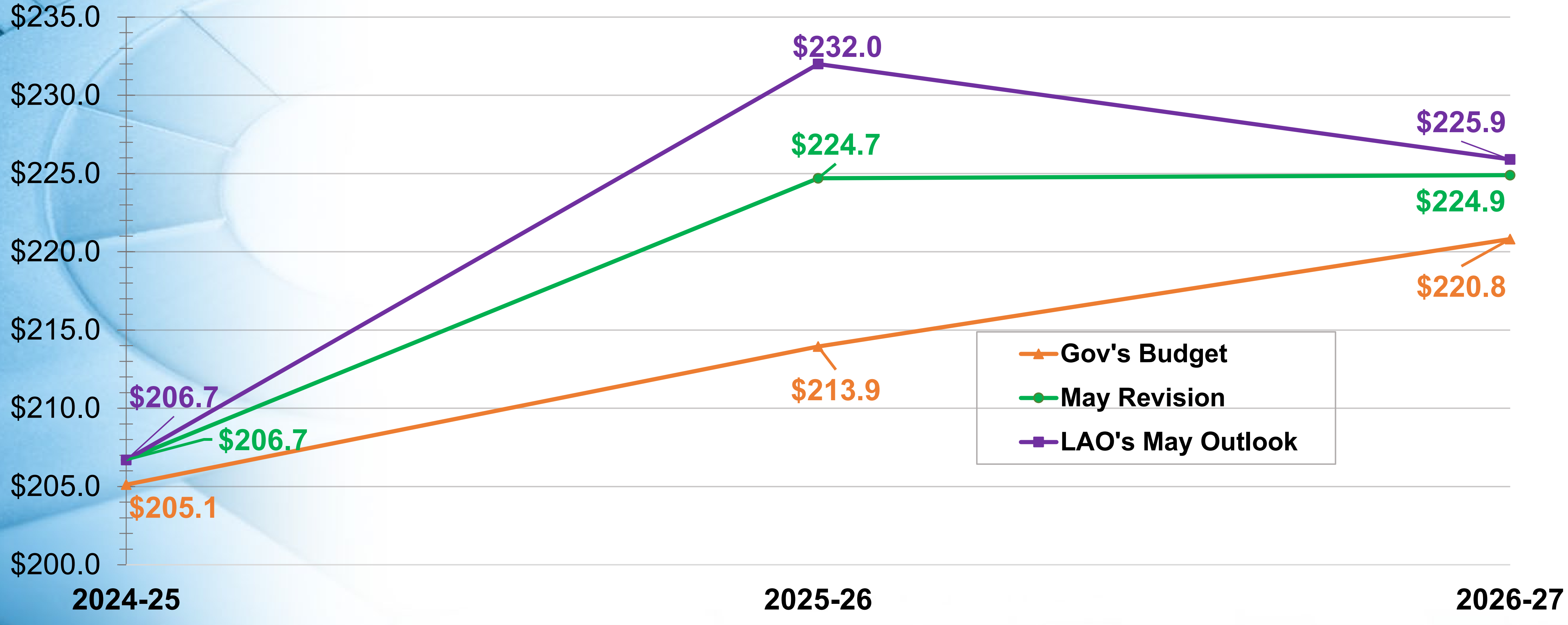
State Fiscal Outlook

- "Big Three" state tax revenues are up approximately **$16.5 billion** over the three-year budget window, when compared to the Governor's January Budget
- In January, the Governor had forecast a budget shortfall of **$2.9 billion** for 2026-27. At the same time, the State faced large structural budget deficits of around **$22 billion** annually in the following fiscal years
- While higher revenues included in the May Revision allow for a balanced budget in 2026-27, difficult decisions are still necessary to achieve a balanced budget in subsequent years
- The May Revision reduces future operating deficits by more than half in subsequent years, but structural risks remain
- Budget solutions proposed by the Governor rely heavily on continued revenue growth and economic stability

State General Fund Revenues

"Big Three" Taxes

(Dollars in billions)



Risks to the State Budget

- LAO projects structural deficits in the outyears despite strong revenue growth
- Budget solutions rely on continued economic growth over the forecast period
- Stock market overly reliant on AI companies’ performance and Capital Gains
- Future economic conditions could be impacted by proposed tax initiatives and subsequent taxpayer behavior
- Federal policymaking uncertainty related to immigration and foreign trade
- Inflation volatility and Fed’s response
- Medi-Cal costs and caseload pressures

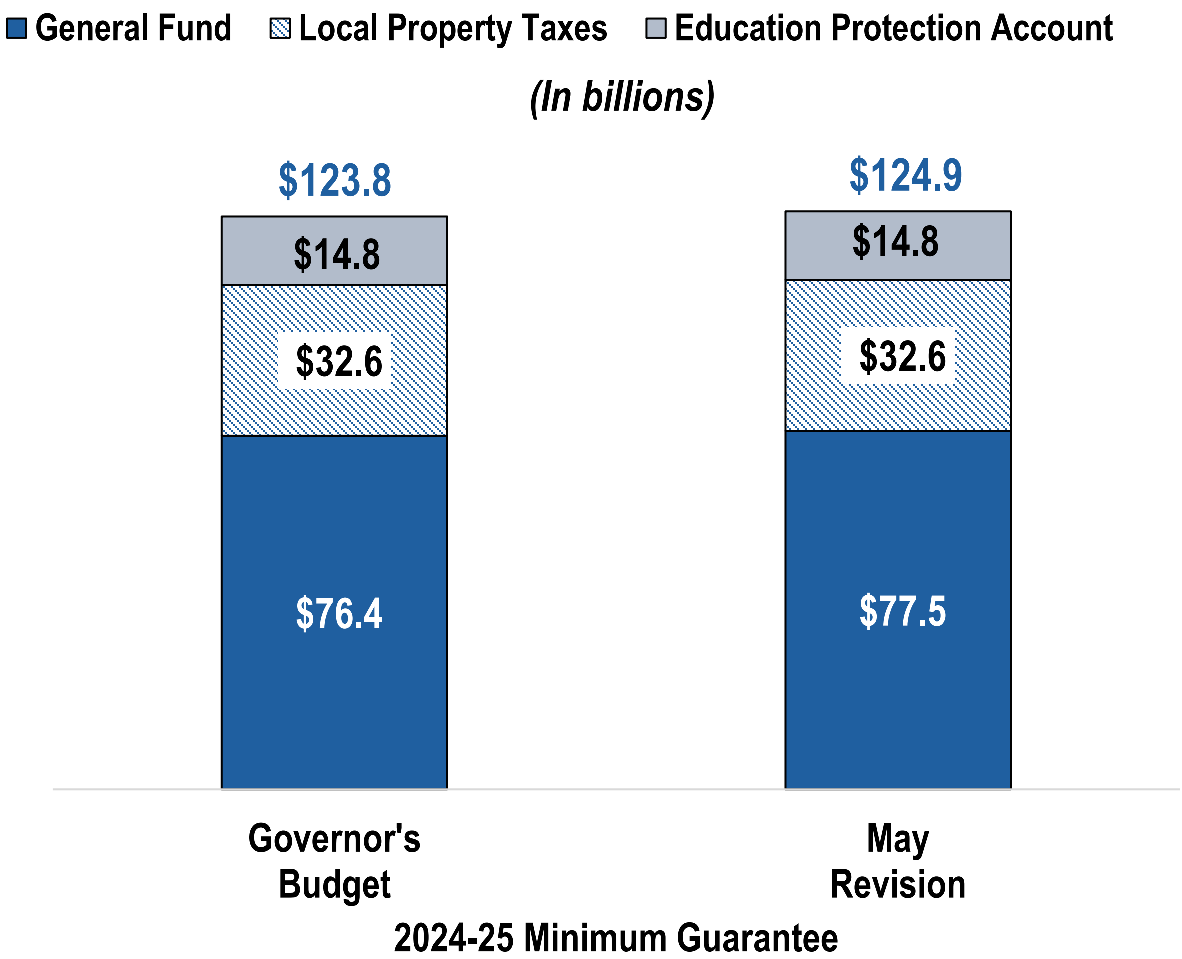
Governor’s 2026-27 May Revision

May Revision Highlights

- Due to the improved revenue outlook since release of the Governor’s January Budget Proposal, the Proposition 98 Guarantee has increased by **$6.4 billion** over the three-year budget window, fiscal years 2024-25 through 2026-27
- The May Revision proposes to fully fund the Statutory Cost of Living Adjustment (COLA) of **2.87%** on LCFF funding and certain categorical programs
- Proposes an additional LCFF investment of **$926.9 million** to help LEAs manage rising costs, offset declining enrollment impacts, and absorb the cost of a new requirement to provide employees with up to 14 weeks of paid pregnancy disability leave
- Recognizing that Special Education continues to be significantly underfunded, the May Revision includes **$2.4 billion** in ongoing funding to increase the Special Education base rate by approximately **$423** per funded ADA
- May Revision also includes a proposed one-time **$5 billion** Discretionary Block Grant

2024-25 Proposition 98 Guarantee

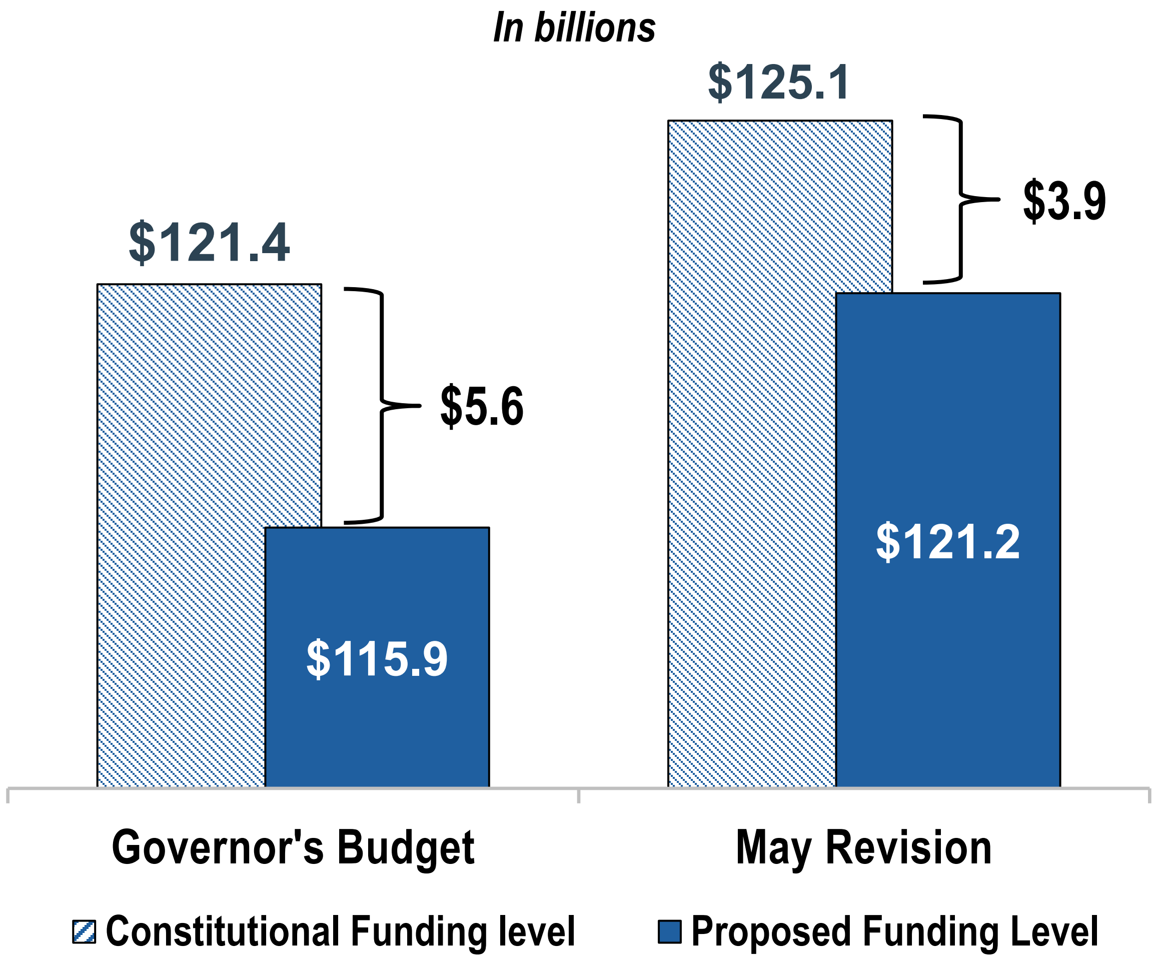
- **The 2024-25 minimum guarantee has increased modestly by $1.1 billion since the Governor's Budget**
  - ✓ **Pays off the entirety of the $8.3 billion maintenance factor obligation that was created when the minimum guarantee was suspended in 2023-24**
  - ✓ **Fully repays $1.9 billion settle up for the 2024-25 minimum guarantee created as part of the 2025-26 Enacted Budget**



2025-26 Proposition 98 Guarantee

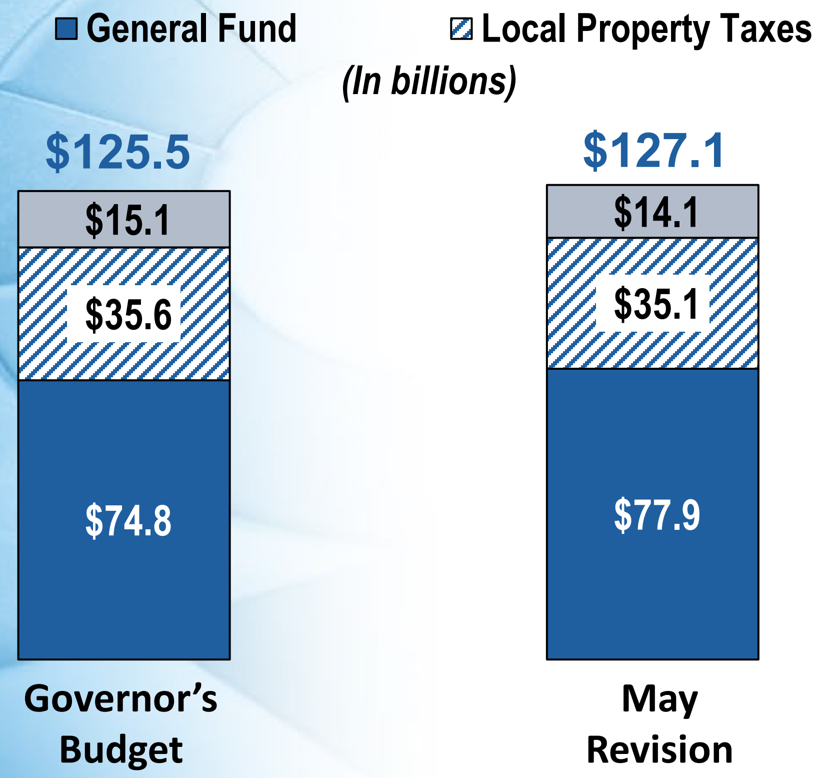
- **The Governor continues to under appropriate the 2025-26 minimum guarantee, but reduces the withholding amount from $5.6 billion to $3.9 billion**
  - ✓ **If revenue estimates materialize or exceed expectations, the May Revision indicates these funds will be distributed in the 2027 Budget Act or across multiple budget years**
- **If the 2025-26 minimum guarantee was fully appropriated in the current year and allocated to TK-12 agencies on an equal per-ADA basis, LEAs would receive approximately**

$654 per ADA



2026-27 Proposition 98 Guarantee

The 2026-27 minimum guarantee has grown by $1.6 billion since the Governor's Budget



In billions	2024-25	2025-26	2026-27	Total
May Revision	$1.1	$3.7	$1.6	$6.4

- Growth over the three-year budget window is up by a total of $6.4 billion, of which $3.4 billion is required to be deposited into the Proposition 98 reserve (PSSSA)
- Ongoing spending increases by $3.2 billion, funded by growth in the minimum guarantee and funding freed up by declines in attendance

Governor's January Budget Versus May Revision

Item	January Budget	May Revision
Proposition 98 Minimum Guarantee 2024-25 2025-26 2026-27	 $ 123.8 billion $ 121.4 billion $ 125.5 billion	 $ 124.9 billion $ 125.1 billion $ 127.1 billion
2025-26 Statutory COLA	2.41 %	2.87 %
Proposition 98 Reserve (PSSSA) 2024-25 2025-26	 $ 3.8 billion $ 4.5 billion	 $ 5.3 billion $ 10.3 billion

Changes Since Second Interim

Key Changes Since Second Interim

COLA Percentages

	2025-26	2026-27	2027-28
Second Interim Statutory COLA	2.30 %	2.41 %	3.06 %
May Revision Statutory COLA	2.30 %	2.87 %	3.30 %

CalPERS Employer Rates

	2025-26	2026-27	2027-28
Second Interim	26.81 %	26.40 %	26.90 %
May Revision	26.81 %	26.40 %	26.80 %

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

	2025-26	2026-27	2027-28
Second Interim ADA	4,464	4,381	4,304
Preliminary Budget ADA	**4,425**	**4,332**	**4,253**
Estimated ADA Decrease	**(39)**	**(49)**	**(51)**

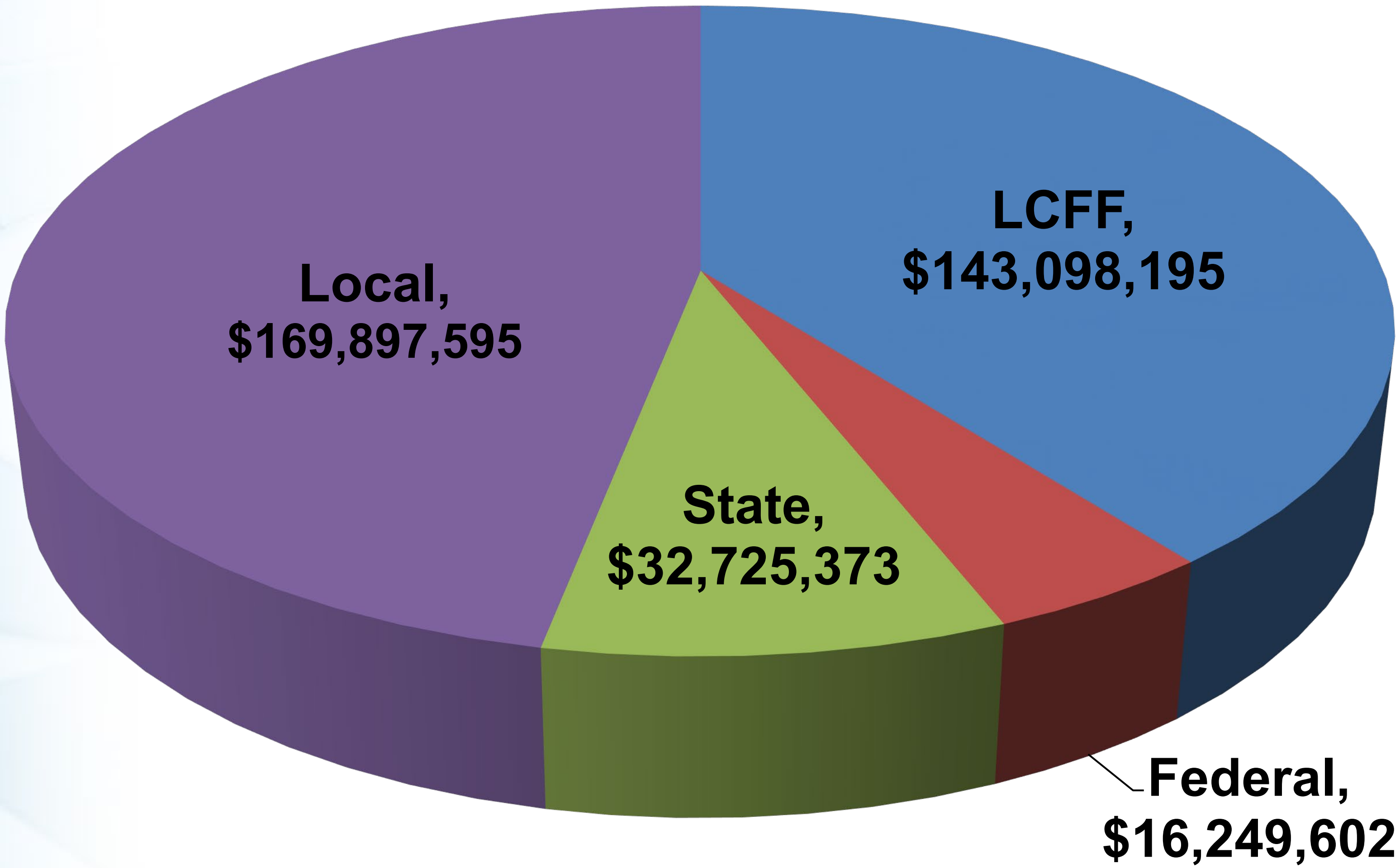
2026-27 Budget Assumptions

Multi-Year Projection (MYP) Assumptions

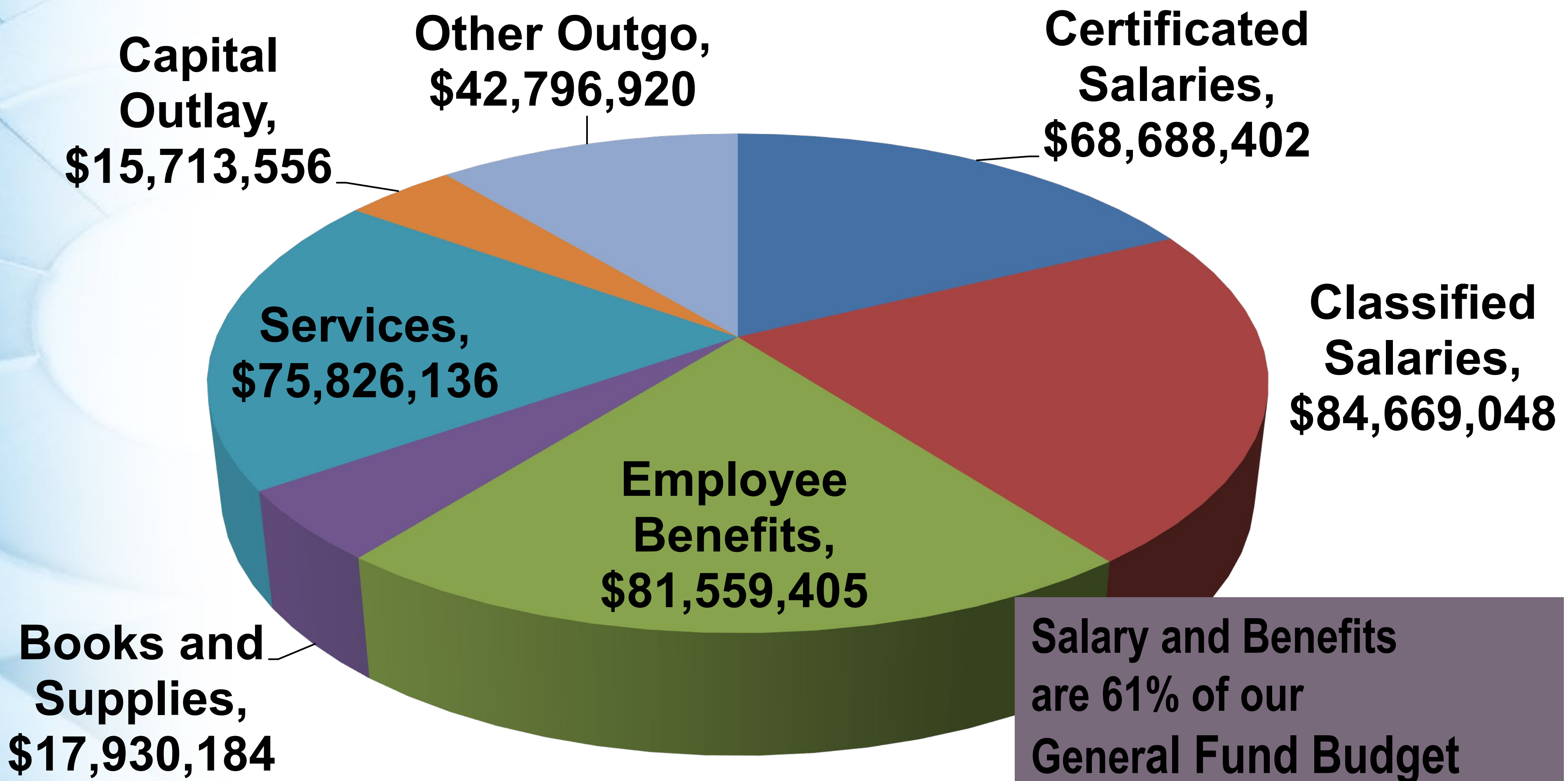
	2025-26	2026-27	2027-28
Salaries	Negotiations Completed (OCSEA & CSEA)	Negotiations Completed / TA (OCSEA / CSEA)	Pending Negotiations
Statutory COLA	2.30%	2.87%	3.30%
Average Daily Attendance (ADA)	4,425	4,332	4,253
LCFF Revenue Projections	$102,097,946	$101,687,183	$99,725,653
Tuition (ACCESS / Special Schools)	$ 44,883,872	$ 49,098,859	$ 50,558,470

Revenue & Expenditure Summary Charts

2026-27 Revenue Projections



2026-27 Expenditure Projections



Salary and Benefits are 61% of our General Fund Budget

Multi-Year Projection (MYP)

Multi-Year Projections (MYP) – Combined General Fund

	2025-26 Estimated	2026-27 Preliminary	2027-28 Projected	2028-29 Projected
Revenues, and Other Financing Sources	$367,774,940	$361,970,765	$370,628,012	$385,564,345
Expenditures, and Other Financing Uses	$378,155,853	$388,356,354	$377,571,208	$394,579,369
Surplus/(Deficit) - Revenues Minus Expenditures	($10,380,913)	($26,385,589)	($6,943,196)	($9,015,024)
Beginning Balance	$479,050,323	$468,669,410	$442,283,821	$435,340,625
Ending Balance	$468,669,410	$442,283,821	$435,340,625	$426,325,601

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, 2026 – Constitutional Deadline for Legislature to Pass the State Budget

2 June 17, 2026 – OCDE Adopted Budget Approval

3 June 30, 2026 - Governor Approves Final State Budget

4 Budget Revisions will be incorporated in OCDE's budget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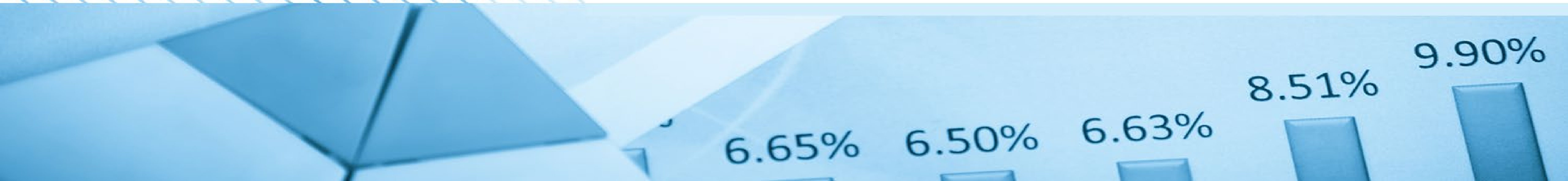
9.90%

QUESTIONS ?


6.65%
6.50%
6.63%
8.51%
9.90%