



Update on Governor's Proposed Budget for 2026-27

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Presented By:

Megan Baier
Director, Governmental Relations

Themes for the 2026-27 Governor's Budget

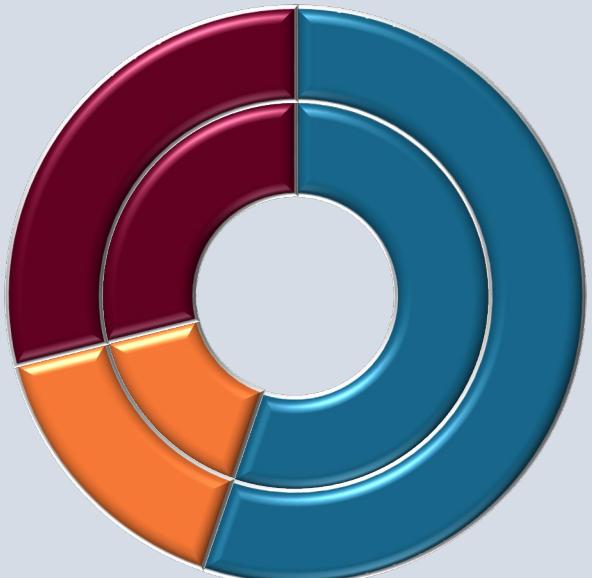


- His accomplishments have been accompanied by mounting state deficits as budget makers outspend state revenues—leading to innovative and concerning budget approaches, directly affecting public education
- The day before releasing his final proposed budget, Governor Gavin Newsom delivered his last State of the State address amidst his legislative colleagues, reminiscing on his accomplishments as California's chief executive officer
 - Environmental resilience
 - A robust global economic competitor and engine of innovation
 - Pre-K for All
 - Affordable housing

Proposition 98

Governor Newsom's 2026-27 Education Priorities

■ Core Education ■ Enrichment ■ Reserves



The Governor revisits key education priorities in his
CALIFORNIA FOR ALL KIDS campaign

71%

Over 70% of new spending is
proposed for core education and key
enrichment programs

29%

Nearly one-third of available funding
used to replenish the Rainy Day
Fund

SOMETHING BORROWED, SOMETHING BLUE

Unfortunately, he also draws from last year's playbook
with a proposed \$5.6 billion settle-up—26% of new
education funding—to address the state deficit

California Economy

Growth

- Investment in artificial intelligence (AI) is masking weakness in other industry sectors
- Income trend is positive
- A rebound in durable manufacturing is projected in 2026 and 2027

Inflation

California Consumer Price Index is following the same trend as U.S. inflation and is projected to continue to climb in 2026 before easing up in 2027

Labor Market

California's unemployment rate is projected to peak at 5.9% and average 5.5% for 2026

Housing

- Relatively flat prices
- Low levels of new construction
- High borrowing costs
- Slow growth in construction jobs

Uncertainty

- Pending Supreme Court rulings on tariffs and the Federal Reserve's (Fed) independence
- Limited and delayed economic data
- Federal policy and regulatory uncertainty

Risks

- Revenue volatility from capital gains dependence
- Geopolitical conflict
- Industry sector imbalances
- Labor shortages due to immigration enforcement policies

Multiyear State Budget Condition

- Although the Governor's Budget uses healthier state revenue assumptions than the Legislative Analyst's Office (LAO) in its November 2025 *Fiscal Outlook*, the state still faces a modest \$2.9 billion shortfall in 2026-27

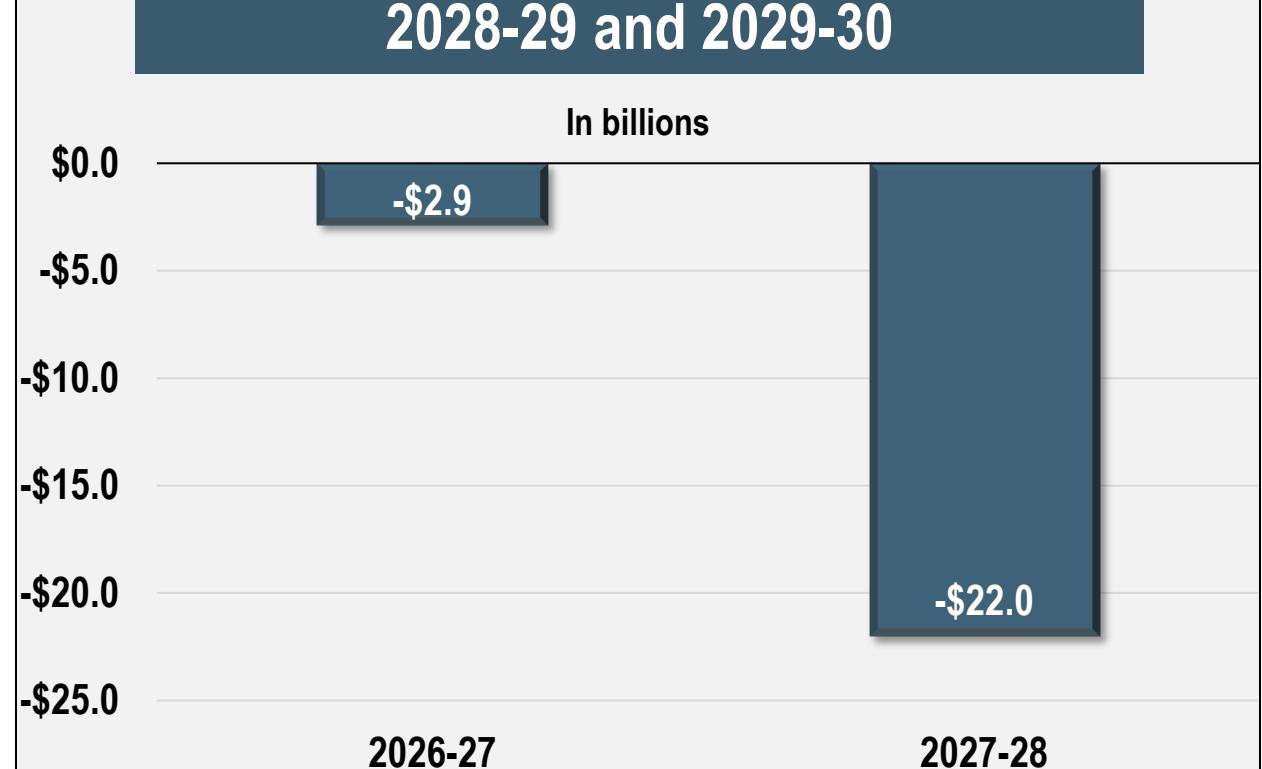
“If a [stock] market downturn of more than 20 percent—comparable to the decline of 2022—were to occur in 2026 and be sustained through the end of the year, revenue could be \$25 billion to \$30 billion below forecast within the budget window.”

~ 2026-27 Governor's Budget Summary

Worsening Budget Conditions

\$22 billion

with continued deficits in
2028-29 and 2029-30

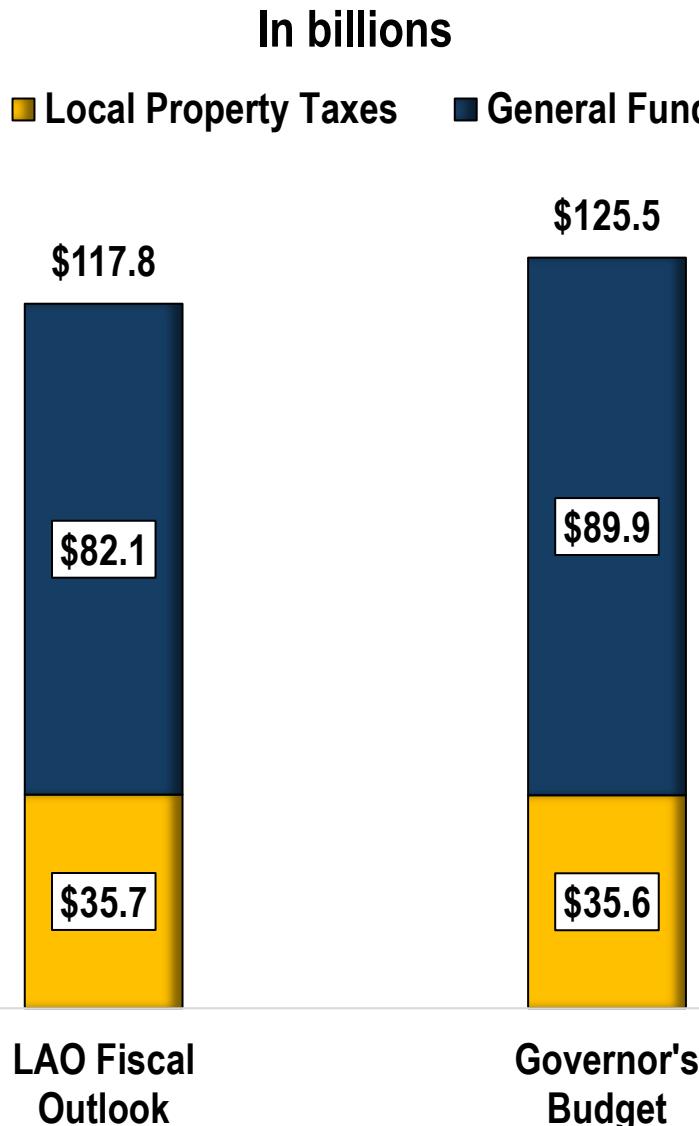


Risks to the State Budget

- **Projected deficit of \$22 billion in 2027-28 and shortfalls totaling \$45 billion in 2028-29 and 2029-30**
- **Stock market volatility overly reliant on AI companies' performance**
- **Federal policymaking uncertainty related to immigration and foreign trade**
- **Inflation volatility and Fed's response**
- **Medi-Cal costs and caseload pressures**



2026-27 Minimum Guarantee



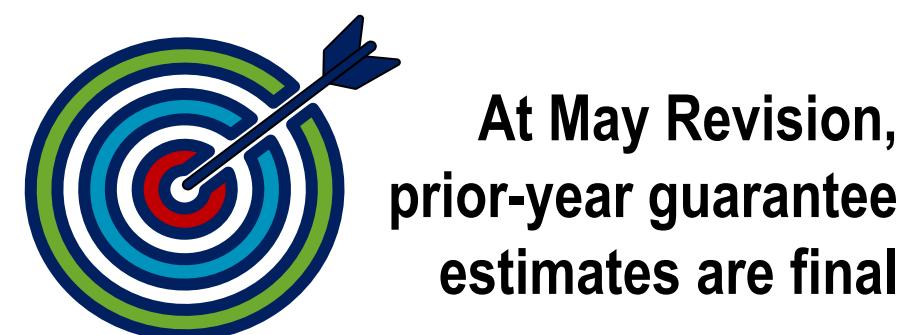
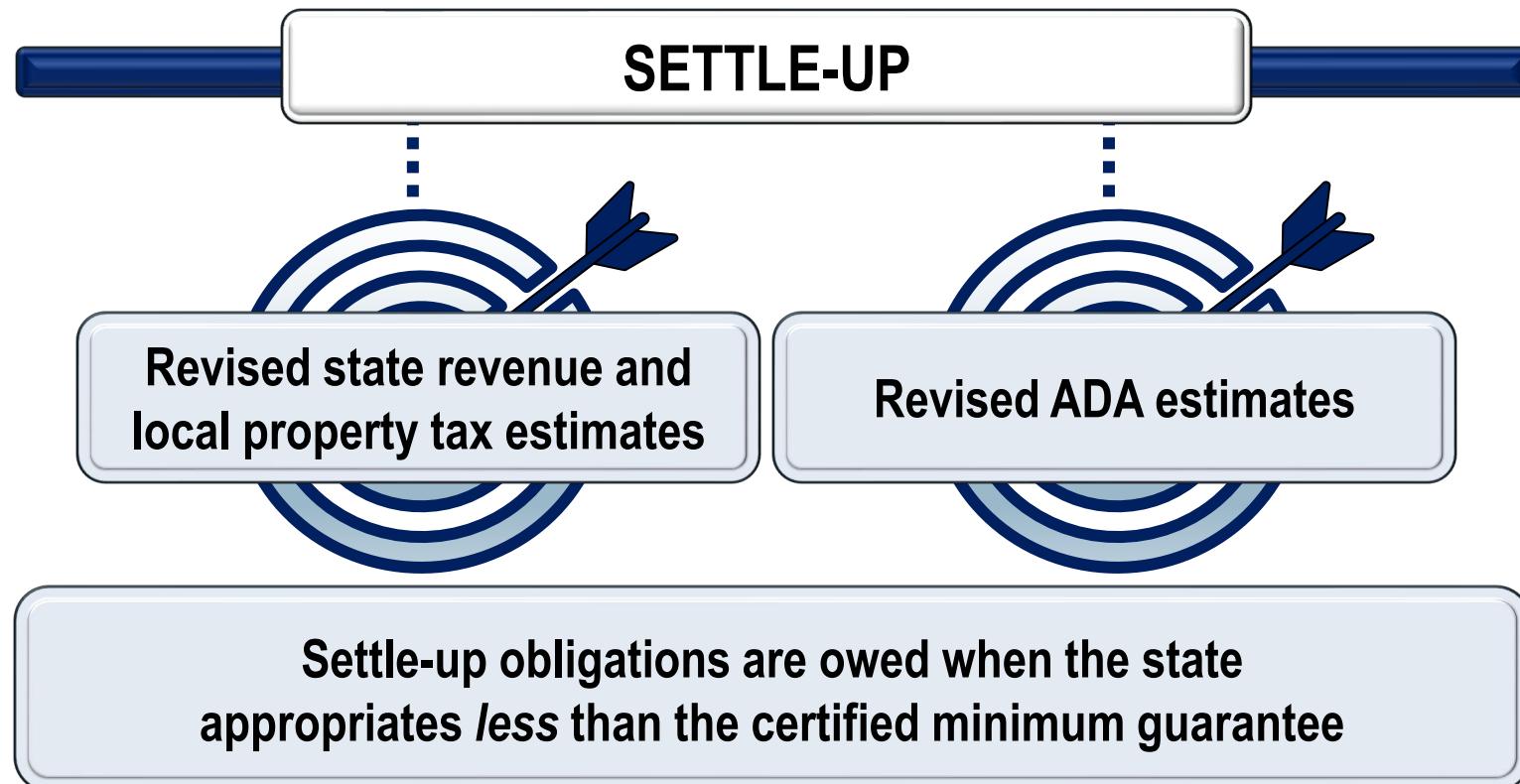
- The Governor's estimate of the 2026-27 minimum guarantee is \$7.7 billion *higher* than the Legislative Analyst's Office's (LAO) November estimate, which is attributable to differences in their "Big Three" tax revenue estimates

2026-27 "Big Three" Taxes (in billions)		
	LAO <i>Fiscal Outlook</i>	Governor's <i>Budget</i>
Personal Income Taxes	\$125.2	\$142.2
Corporation Taxes	\$41.7	\$43.5
Sales Taxes	\$34.3	\$35.1
Total	\$201.2	\$220.8

- The Governor's personal income tax assumptions alone are \$17 billion higher

Reconciling the Proposition 98 Books—Settle-Up

- The Department of Finance (DOF) updates estimates of the minimum guarantee for the prior and current fiscal years to ensure that the state provides TK-12 and community college agencies its constitutionally required minimum level of funding



2024-25 Settle-Up

For the first time since voters approved Proposition 98 almost 40 years ago, the Enacted Budget withheld appropriating \$1.9 billion from the minimum guarantee calculated for the 2024-25 fiscal year without suspending Proposition 98 with a two-thirds vote of the California Legislature and approval of the Governor

Lawmakers referred to this new State Budget tool as “settle-up”
Importantly, this is not a traditional use of Proposition 98’s settle-up mechanism

California Constitution specifies that the state is required to “set apart the moneys to be applied” to local educational agencies (LEAs) each fiscal year, but does not specify timing of appropriation

Law requires the Director of the DOF to provide written notice of “a schedule for the allocation” of settle-up payments to the State Controller unless there is a state-adopted alternative schedule

The Enacted Budget specified that the 2024-25 settle-up had to be used to pay for ongoing costs, reduce outstanding deferrals, and avoid future deferrals

Settle-Up Versus Maintenance Factor

- Historically, when the state has not appropriated the full guarantee, it has *suspended* Proposition 98, allowing lawmakers to appropriate less than the minimum guarantee
 - Proposition 98 has been suspended just three times—in 2004-05, 2010-11, and 2023-24
 - The 2023-24 minimum guarantee was suspended as part of the 2024-25 Enacted Budget when the state could not afford the higher estimate—today's conditions are eerily similar

Questions	Settle-Up	Maintenance Factor
What creates the obligation?	When revised funding level is more than previously appropriated	When the state suspends Proposition 98
Is it adjusted for inflation?	No	Yes, each year, the balance is adjusted for COLA ¹ and changes in ADA ²
When are payments made?	Based on a Director of Finance-determined or state-adopted schedule	Constitution requires payments when General Fund revenues are outpacing personal income
What determines payment amounts?	The Director of DOF or state-adopted schedule	A constitutional formula

¹Cost of Living Adjustment

²Average Daily Attendance

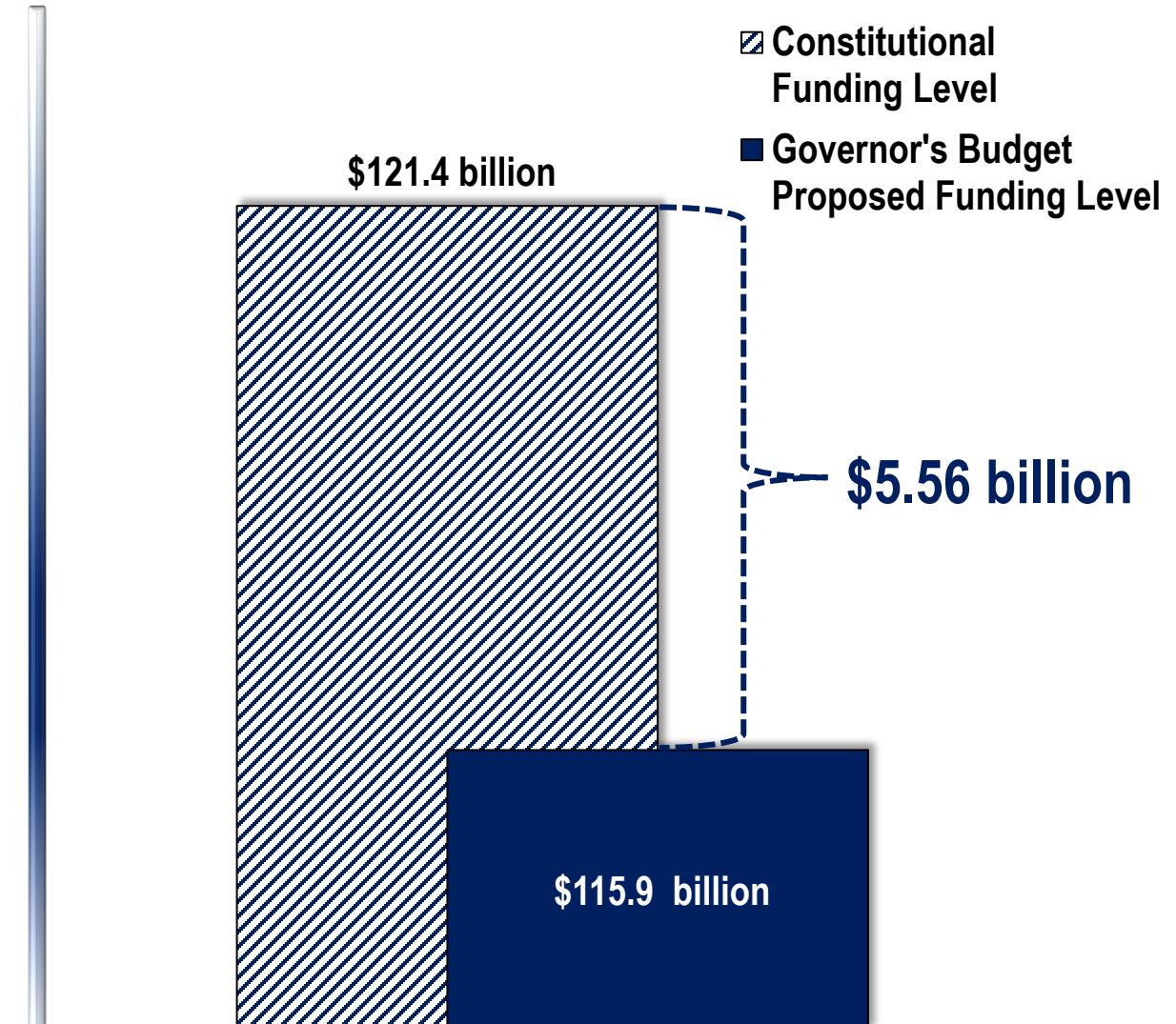
2025-26 Settle-Up Proposal

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

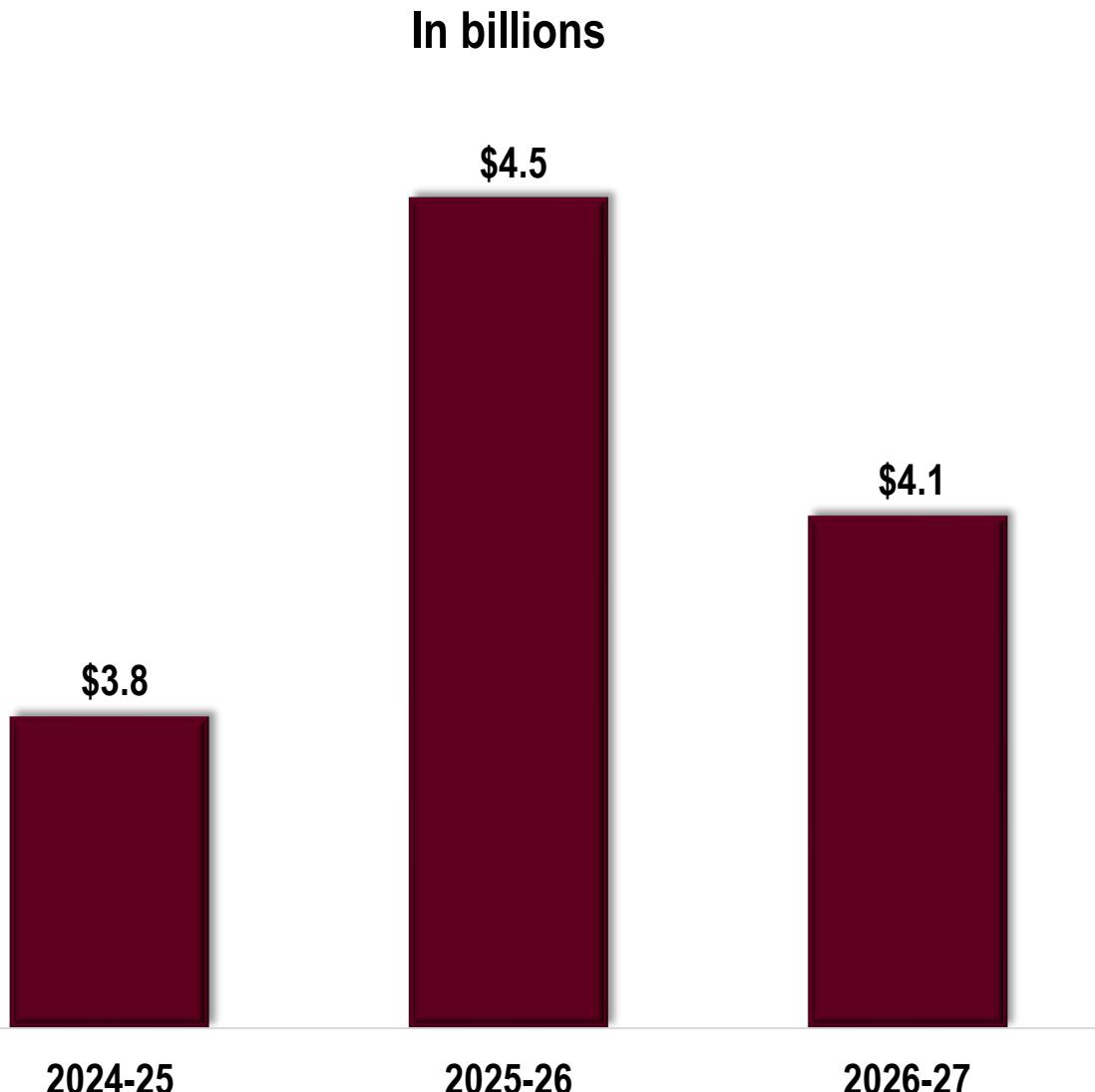
If the 2025-26 minimum guarantee is fully appropriated and allocated to TK-12 agencies on an equal per-ADA basis, local educational agencies (LEAs) would receive approximately

\$909
per (ADA)

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



Proposition 98 Reserves



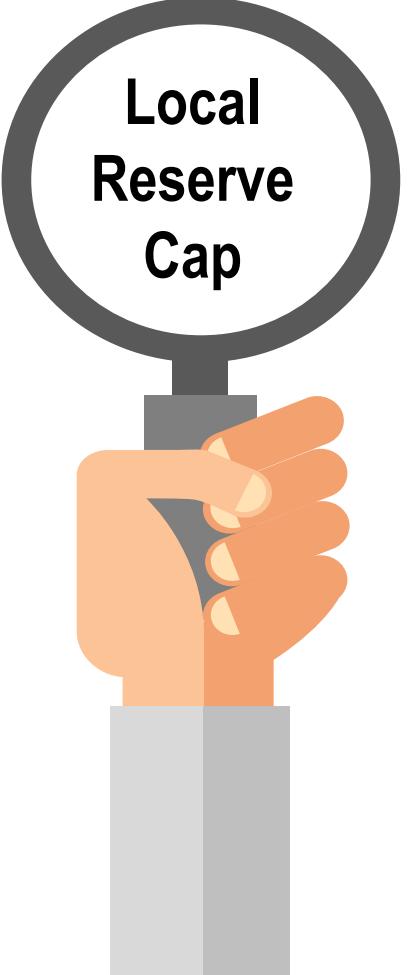
Proposition 2 (2014) requires deposits when capital gains revenue is above average and requires withdrawals when the Proposition 98 minimum guarantee is below the prior-year funding level

The Governor's Budget:

- **Mandatory deposit of \$3.8 billion in 2024-25**
- **Makes a mandatory \$424.3 million deposit and a discretionary \$240 million deposit in 2025-26**
- **Mandatory withdrawal of \$407.1 million in 2026-27, leaving a balance of \$4.1 billion**

Local Reserve Cap Compliance

The local reserve cap is in effect in the following fiscal year when the Proposition 98 reserve is at least 3% of the TK-12 Proposition 98 minimum guarantee



Local
Reserve
Cap

Community-funded and small school districts (fewer than 2,501 ADA) are exempt

An adopted school district budget or 45-day revision must not contain a combined assigned or unassigned ending General Fund balance that is more than 10%

Assigned and unassigned balances within the Special Reserve Fund for Other than Capital Outlay (Fund 17) must also be included within the 10% reserve cap

Law allows LEAs to request exemptions by their county superintendents for up to two consecutive years if certain conditions are met

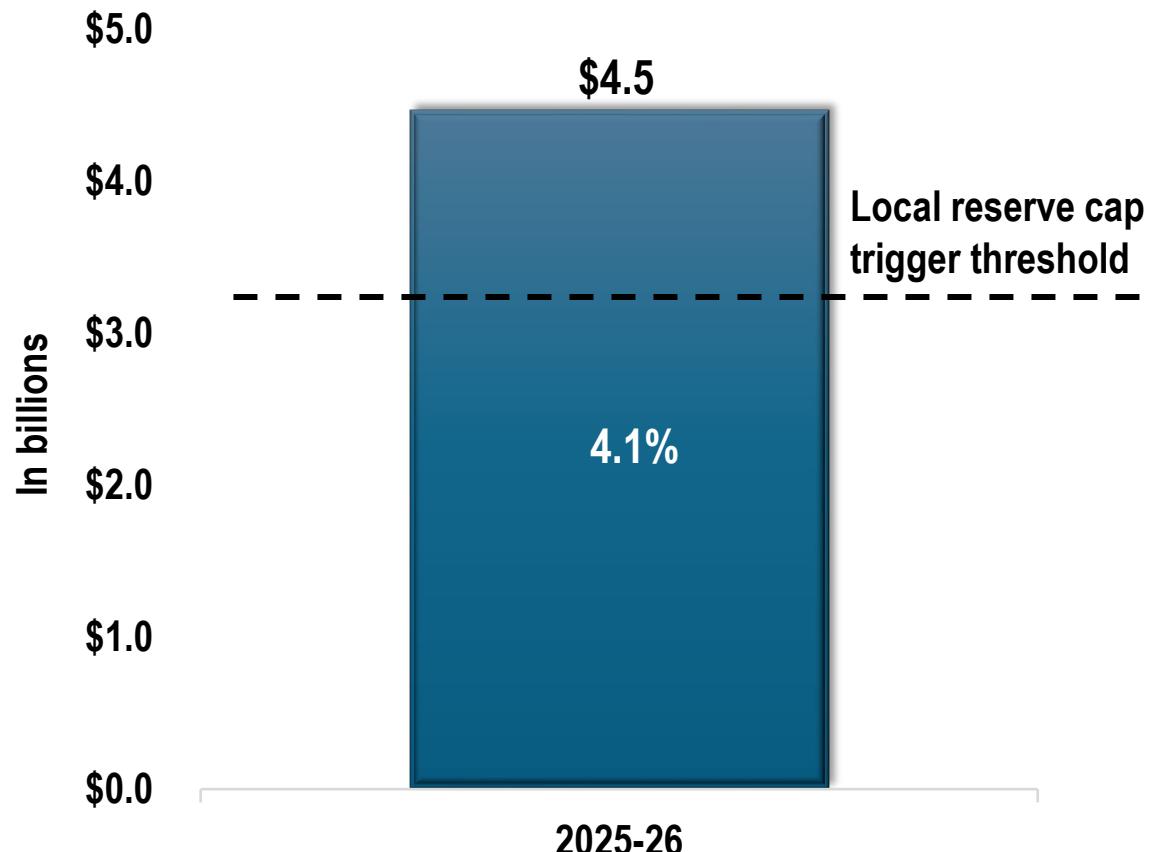
Local Reserve Cap

The Governor's Budget triggers the reserve cap in 2025-26

- Importantly, 2025-26 budget adoption and 45-day revision windows have passed; therefore, the reserve cap becoming operative will not impact local 2025-26 budgets

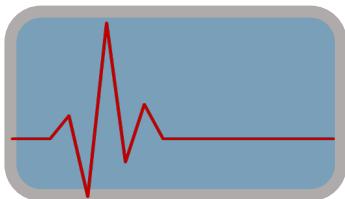
The Proposition 98 reserve balance of \$4.5 billion at the end of 2025-26 is 4.1% of TK-12 agencies' share of the minimum guarantee and will trigger the local reserve cap in 2026-27

Proposition 98 Reserve Balance and Percent of TK-12 Share of Proposition 98



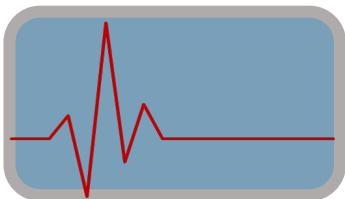
Risks to Proposition 98 and Local Budgets

- In addition to the larger effects that the national and state economy could have on education funding and local budgets, historical risks persist alongside one relatively new risk



Declining Enrollment

Protracted declines in student enrollment continue to pressure local budgets—trends are expected to continue



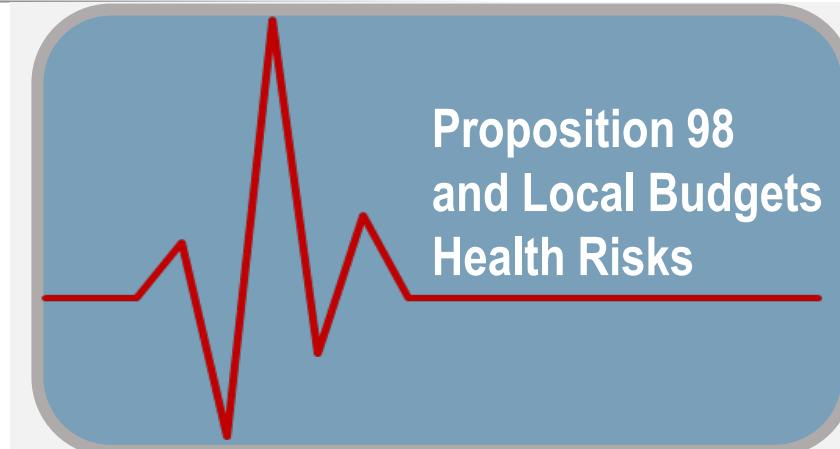
Deficit Spending

A growing number of LEAs are deficit spending, which, when coupled with declining enrollment, can create fiscal crises if unaddressed



Proposition 98 Settle-Up

The state's reliance on Proposition 98 borrowing is concerning as deficits mount

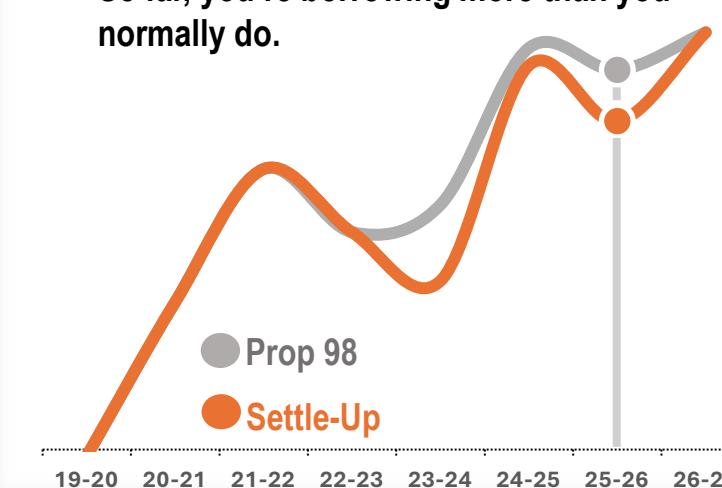


Highlights

Show All

Funding

So far, you're borrowing more than you normally do.



2026-27 Core Education Funding

Youth in
Foster Care

Child
Nutrition

Mandate Block
Grant

Special
Education

State
Preschool

An estimated statutory 2.41% (COLA) is provided for the Local Control
Funding Formula (LCFF) and these
categorical programs:

Adults in
Correctional
Facilities
Program¹

American Indian
Early Childhood
Education
Program

American
Indian
Education
Centers

Charter School
Facility Grant
Program

LCFF Equity
Multiplier



¹2025-26 statutory COLA

2026-27 Proposition 28 Funding

Arts and Music In Schools (AMS) Funding Requirements

**\$1.07 billion
in 2026-27**

*Funding level will be
finalized at May
Revision*

Annual Report

Annual Board-Approved Report specifying the number of full-time equivalent teachers, staff, and aides; students served; school sites providing arts education; and types of programs funded, submitted to the California Department of Education (CDE) by September 30

Annual Certification

Annual Certification that LEA will supplement arts education funding, spend no more than 1% on administrative costs, and, for LEAs enrolling more than 500 students, that at least 80% of funds *employ* certificated or classified staff

School Site Plan

Annual Site Expenditure Plans are required for each school, but do not need to be submitted to the CDE

Proposition 28 Funding Requirements

LEAs have three years to spend each AMS allocation—the first AMS funding cycle ends in 2025-26

AMS funds are audited annually and failure to meet the certification and reporting requirements may jeopardize funds

AMS Funding Requirements



Final Expenditure Report

- The first AMS allocation, which was made in 2023-24, must be expended by June 30, 2026
- LEAs must submit a final expenditure report to the CDE by October 1, 2026
- Unspent funds will be swept and redistributed to all LEAs in the following year's AMS apportionment



Waiver Requests

- LEAs with enrollment over 500 students planning to request a waiver from the AMS requirement to spend 80% of funds on teachers and staff for their 2023-24 allocation, must submit a request to the CDE by June 30, 2026
- Waiver requests may only be submitted for one single allocation period at a time

LCFF Equity Multiplier

Eligibility

Schools with prior-year non-stability rates greater than 25% and prior-year socioeconomically disadvantaged pupil rates greater than 70%

- In 2024-25, there were 1,008 eligible schools
- In 2025-26, School Services of California Inc. (SSC) projects there will be 982 eligible schools²



\$317.7 million¹
for 2026-27

Equity Multiplier funds must be used for evidence-based services and supports for students at LCFF Equity Multiplier schools and the funds must be included in the LCAP

Allocation

Funding allocated on a per-student basis, using school's total prior-year adjusted cumulative enrollment

- In 2024-25, the per-pupil rate was \$939.05
- In 2025-26, SSC projects the per-pupil rate will be \$1,110²

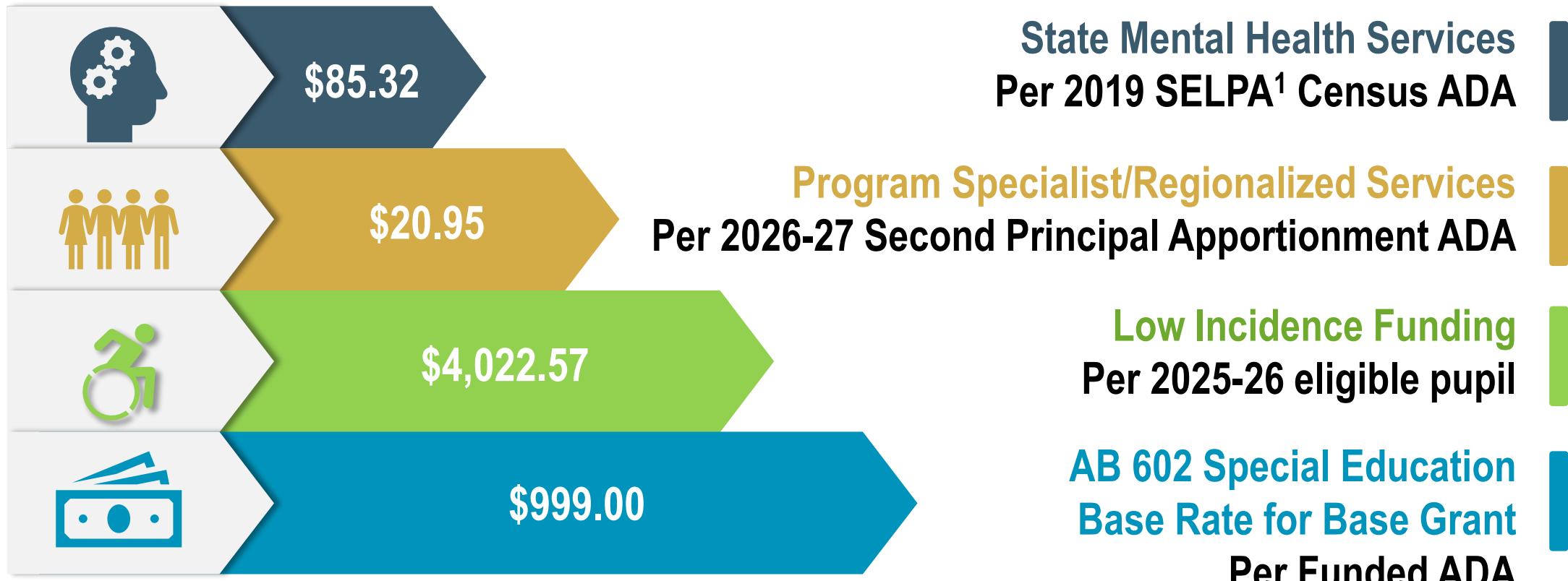
Minimum of \$51,697 per eligible school in 2025-26 and \$52,943 in 2026-27

¹The 2025-26 statewide amount of \$310.2 million adjusted for the 2.41% estimated statutory COLA

²The CDE is expected to publish the list of LCFF Equity Multiplier schools and the per-pupil rate for 2025-26 in February 2026

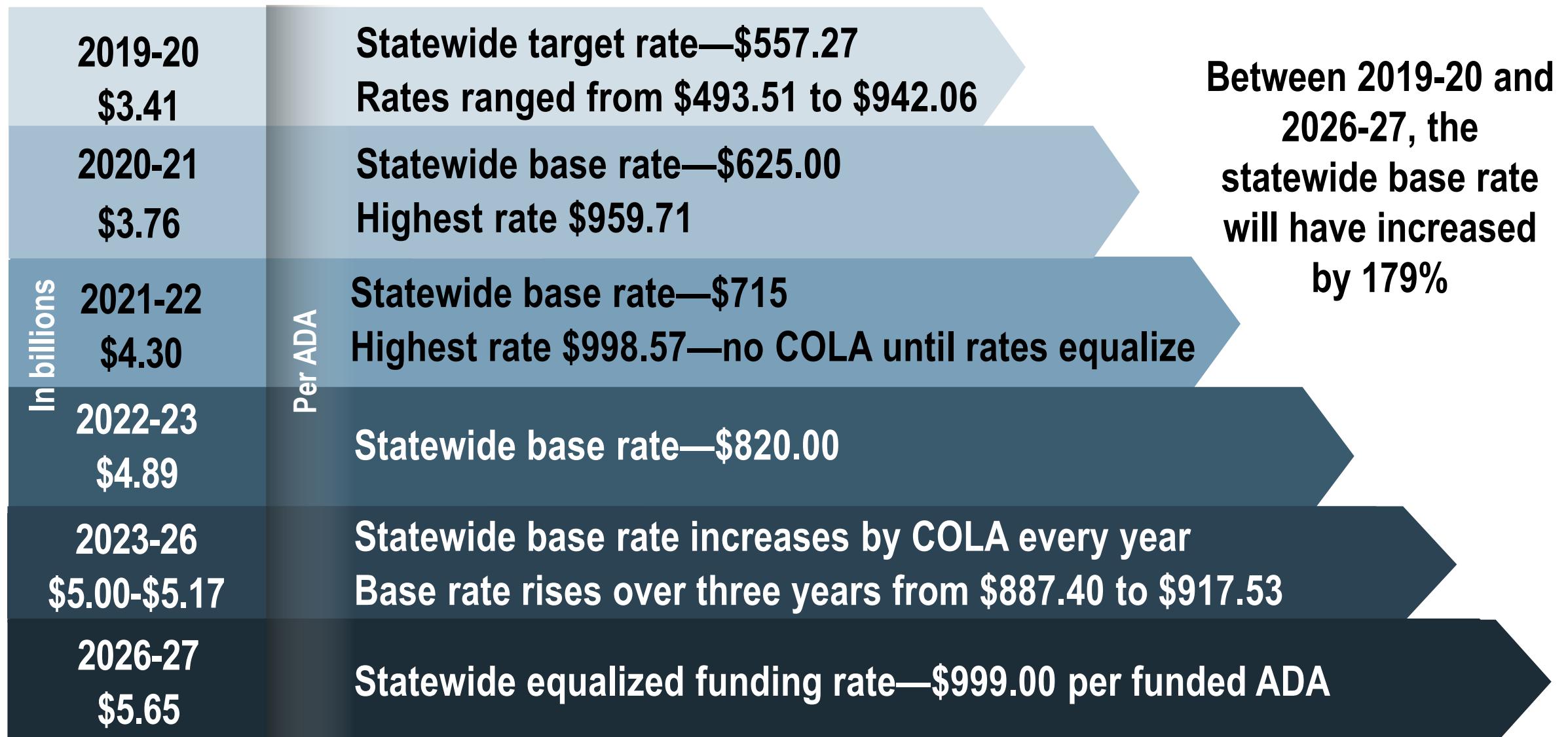
Special Education Funding Projection for 2026-27

- Special education funding proposed to receive the estimated 2.41% COLA
- Proposal for an additional \$509 million to equalize the base rate



¹Special Education Local Plan Area

Historical Special Education Funding Trajectory



Expanded Learning Opportunities Program

The Governor proposes to increase funding by \$62.4 million ongoing to stabilize funding for LEAs that receive Rate 2

		2024-25	2025-26	2026-27
Total Funding		\$4 billion ongoing	\$4.61 billion ongoing	\$4.67 billion ongoing
Requirement to offer the program and provide access for grades TK-6	Rate 1	UPP¹ ≥ 75% must offer and provide access to <u>all</u> students	UPP ≥ 55% must offer and provide access to <u>all</u> students	UPP ≥ 55% must offer and provide access to <u>all</u> students
	Rate 2	UPP < 75% must offer and provide access to all <u>unduplicated</u> students	UPP < 55% must offer and provide access to all <u>unduplicated</u> students	UPP < 55% must offer and provide access to all <u>unduplicated</u> students
Per-Pupil Amount	Rate 1	UPP ≥ 75%: \$2,750	UPP ≥ 55%: \$2,750	UPP ≥ 55%: \$2,750
	Rate 2	UPP < 75%: \$2,000²	UPP < 55%: \$1,575³	UPP < 55%: \$1,800 (guaranteed amount moving forward)
Minimum Amount per LEA		\$50,000	\$100,000	\$100,000

¹Unduplicated Pupil Percentage

²Funds available for Rate 2 in 2024-25 included return of unspent Expanded Learning Opportunities Program funds from fiscal years 2021-22 and 2022-23

³The CDE will provide an updated calculation of the 2025-26 Rate 2 per-ADA amount at First Principal Apportionment

Universal Meals Program and Nutrition

- The Governor's Budget proposal continues to fund the Universal Meals Program and proposes several other investments for school meals and infrastructure

Universal Meals Funding Adjustments

Reduces funding for universal meals by \$67.9 million (ongoing) to reflect updated 2025-26 participation estimates compared to the 2025 Budget Act, partially offset by increased reimbursement rates

Child Nutrition COLA

Applies the 2.41% estimated COLA to child nutrition programs

Kitchen Infrastructure and Training Grants

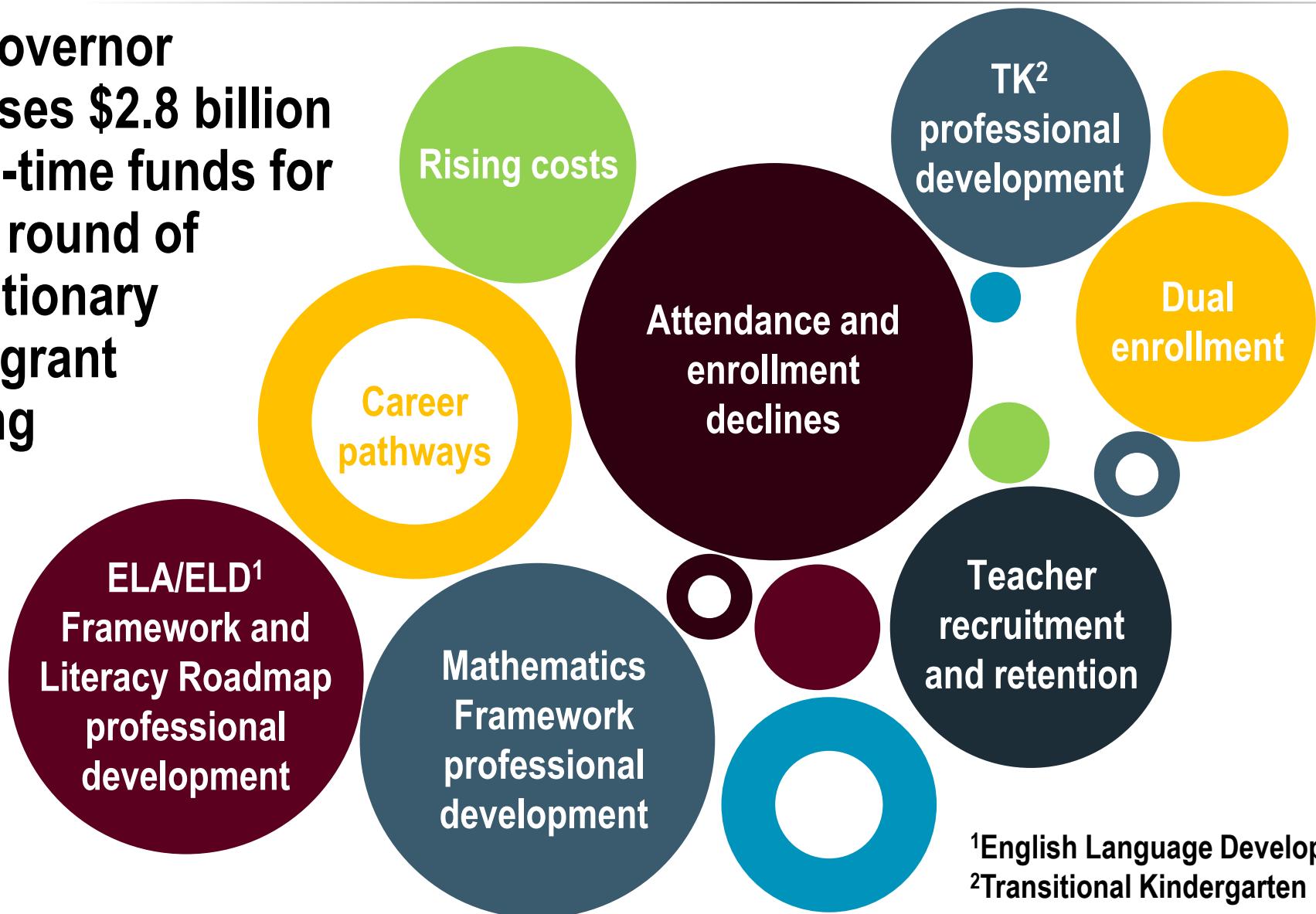
Provides \$100 million (one-time) to support schools in purchasing kitchen equipment, upgrading infrastructure, and providing staff training to expand access to freshly prepared meals

Farm to School Incubator Grant

Provides increased funding with forthcoming accompanying statutory changes

Student Support and Professional Development Discretionary Block Grant

The Governor proposes \$2.8 billion in one-time funds for a new round of discretionary block grant funding



- Use of the block grant is intended to be fully discretionary, but with certain statewide priorities highlighted
- Trailer bill language will include the allocation methodology, expenditure deadline, and other details
- **SSC estimates \$512.48 per ADA, if distributed per ADA**

2026-27 Learning Recovery Emergency Block Grant Funding

- The 2026-27 Governor's Budget proposal restores the remaining \$757.3 million to the Learning Recovery Emergency Block Grant (LREBG) that was deferred in the 2023 Budget Act, bringing the total state investment to \$7.9 billion

LREBG funding supports learning recovery initiatives through the 2027-28 school year

SSC estimates the 2026-27 LREBG investment will provide \$228 per ADA based on 2021-22 ADA and UPP

LREBG allowable uses remain the same as in 2025-26

To utilize funds, beginning in the 2025-26 school year, LEAs must perform a student needs assessment prior to spending funds and include expenditures and actions in the LCAP

Community Schools

\$4.1 billion in one-time funds have been invested in the California Community Schools Partnership Program in prior years, funding approximately 2,500 schools

Trailer bill language will provide additional details regarding eligibility, allowable uses, and associated requirements



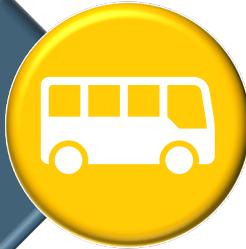
The Governor's Budget proposes \$1.0 billion new, ongoing funds to expand the community schools model

The ongoing investment will support both existing grantees and additional community schools that have large concentrations of students who are low-income, English learners, or in foster care

Other Significant Education Investments



\$100 million (one-time)
Increase access to college and career pathways, including dual enrollment



\$322 million (one-time)
\$239.2 million (ongoing)
To reflect higher costs for HTST¹



\$40 million (one-time)
Support continued implementation of student reading difficulties screenings



\$250 million (one-time)
Continue educator residency programs through 2029-30



\$22.9 million (one-time)
Support LEAs recovering from the January 2025 Los Angeles County wildfires

¹Home-to-School Transportation Program

Statewide Education Governance Reform

- The Governor's Budget proposes to implement the 2002 Master Plan for Education (Master Plan) recommendation to move oversight authority of the management of the CDE and support of LEAs under the State Board of Education

Master Plan for Education



- The Governor's Budget also proposes to provide the State Superintendent of Public Instruction the "ability to strengthen coordination and alignment among the bodies setting policy from early childhood through postsecondary education"
- While further detail will be provided with trailer bill language, 2002 Master Plan recommendations 26 and 27 (of more than 50 detailed recommendations in the 255-page report) are similar to what the budget proposal describes

2026 Tax Initiatives

Proposition 30/55 Extension

CTA¹ is leading an effort to make permanent current voter-approved tax rates for high-income earners

- The taxes were first established by Proposition 30 in 2012, and extended by Proposition 55 in 2016
- The tax rates are set to expire in 2031

Proposition 30 provides significant revenue to the state, between \$5 to \$15 billion per year, with approximately 40% of those revenues going to education programs

The proposed initiative must receive the required number of signatures by May 4, 2026, to qualify for the November 2026 ballot

California Billionaire Tax Act

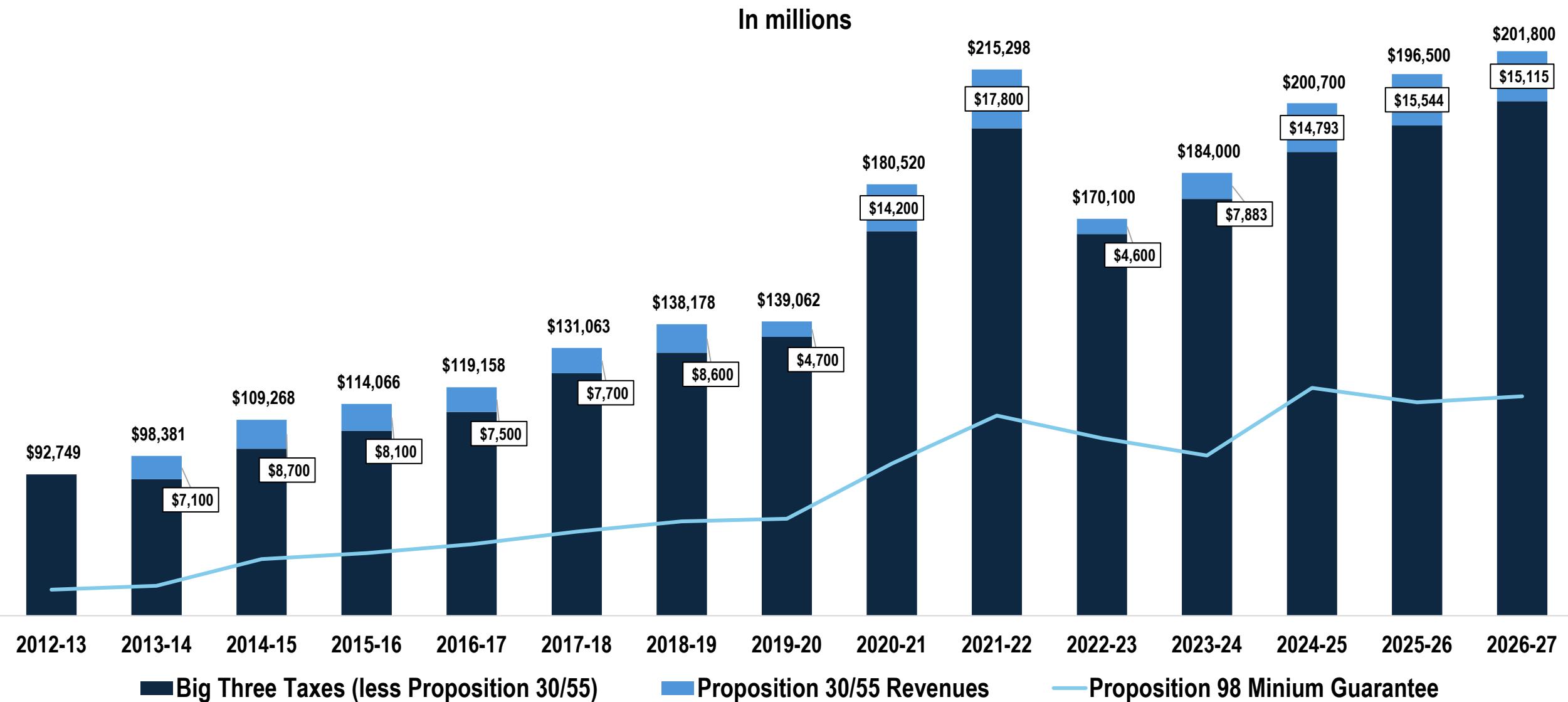
SEIU² is sponsoring an initiative that would impose a one-time 5% tax on taxpayers with covered assets over \$1 billion

Projected to raise tens of billions of dollars in revenue, with 90% dedicated to health care services and the remaining amount for K-14 education and food assistance

The proposed initiative must receive the required number of signatures by June 24, 2026, to qualify for the November 2026 ballot

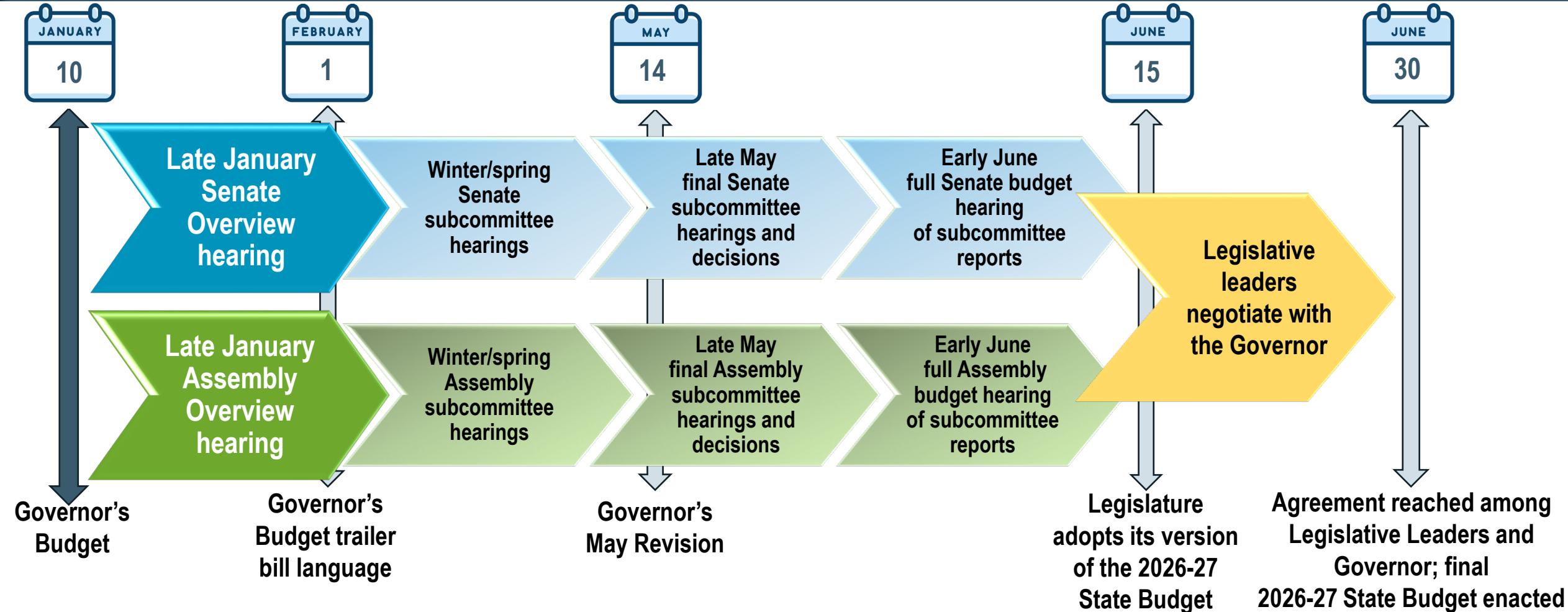
¹California Teachers Association; ²Service Employees International Union

Proposition 30/55 Revenues—Education Protection Account



The Road Ahead—From January to June

The next steps in the State Budget process are controlled by the Legislature, which has the responsibility to examine the Governor's proposals during budget hearings

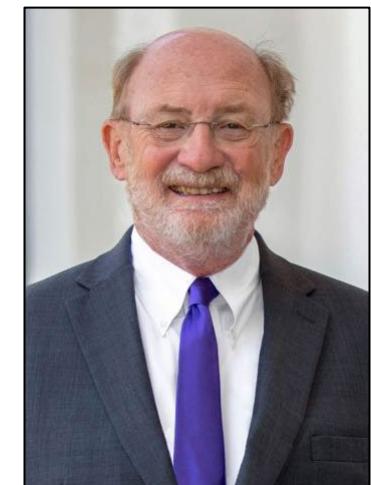


Key Players Shaping California's Education Budget

- Both Senate President pro Tempore **Monique Limón** (D-Santa Barbara) and Senator **John Laird** (D-Santa Cruz) have a bit more time in their positions, terming out in 2028
 - Limón began in November 2025 as leader of the state Senate, with an education background as a Santa Barbara Unified School District board member
 - As an elected official, Limón has led on workers' rights, safeguarding the environment, protecting consumers, and strengthening child care
 - Laird moves on from his role as Chair of the Budget Subcommittee on Education to ascend to the Chair of the full Budget and Fiscal Review Committee
 - While less directly involved in this year's education budget development, he will have a significant role in the 2026-27 State Budget



Senate President pro Tempore
Monique Limón



Senator John Laird

2026 Midterm Election

- November 3, 2026, is the U.S. midterm election
 - California will decide all 52 congressional seats (new lines due to Proposition 50)
 - Voters will decide all 80 state Assembly seats and half (20) of the state Senate seats
 - California will decide its statewide office holders (Governor, SSPI, Secretary of State, etc.)
 - Voters will also determine statewide ballot measures, which could include:
 - Proposition 30/55 extension
 - California Billionaire Tax Act



The Road Ahead—The May Revision

- The next steps in the State Budget process are controlled by the Legislature, which has the responsibility to examine the Governor's proposals during budget hearings
 - Furthering this discussion are the details on the Governor's Budget proposals included in trailer bill language
 - This winter's initial vetting prepares legislators to respond quickly after the next official State Budget checkpoint—the May Revision
 - We believe there should be a thorough debate regarding the Governor's proposal to once again delay funding to our schools while costs continue to increase locally in real time
 - After years of implementing significant new programs during Governor Newsom's tenure, the education community may find some comfort in the proposal's focus on continued implementation of previous investments





Thank you!

meganb@sscal.com