



**Governing Board
Meeting
February 6, 2025**



The Governor's Budget and the Economy

- The California economy is continuing to grow with mixed signals for the road ahead
 - Inflation is persistent and the slowing of interest rate reductions by the Federal Reserve is impacting the state's housing market
 - With increased economic uncertainty, there are notable risks to Governor Newsom's 2025-26 State Budget and economic forecast
- The Governor's Budget projects a \$17 billion surplus and healthy reserves
 - The Governor presents a balanced budget that assumes steady, stable national growth
 - One of the greatest risks to the California economy and the Governor's budget assumptions is the state's vulnerability to the impacts of tariffs and changes in immigration policy





Proposition 98

- Proposition 98 is the bright spot of the Governor's Budget

Within the state's spending limit, Proposition 98 funding encumbers over half of available revenue

Eliminates reliance on one-time funding to support the Local Control Funding Formula (LCFF) and other ongoing costs

Provides significant one-time discretionary resources to help local educational agencies (LEAs) with rising costs and other liabilities

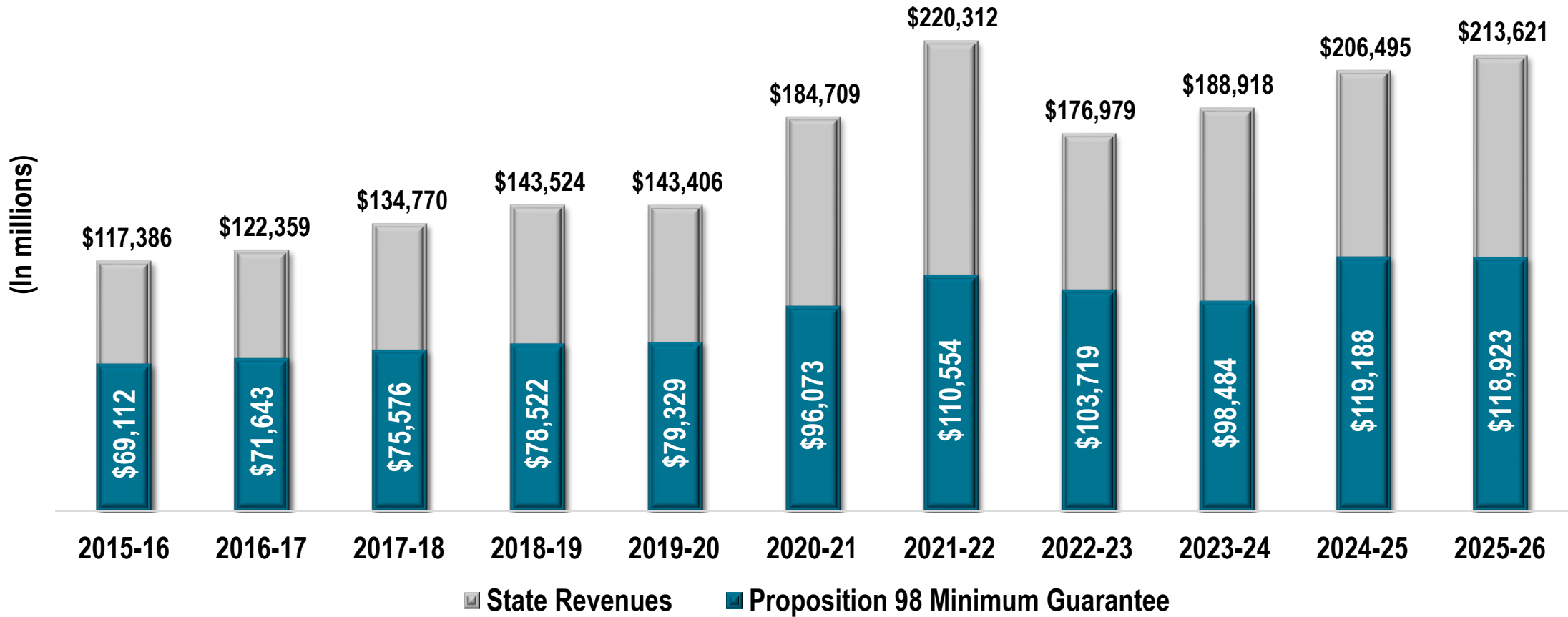
Fully funds the estimated cost-of-living adjustment (COLA)

- But we must be mindful that the state meets its minimum funding obligation to public education every year—including 2024-25

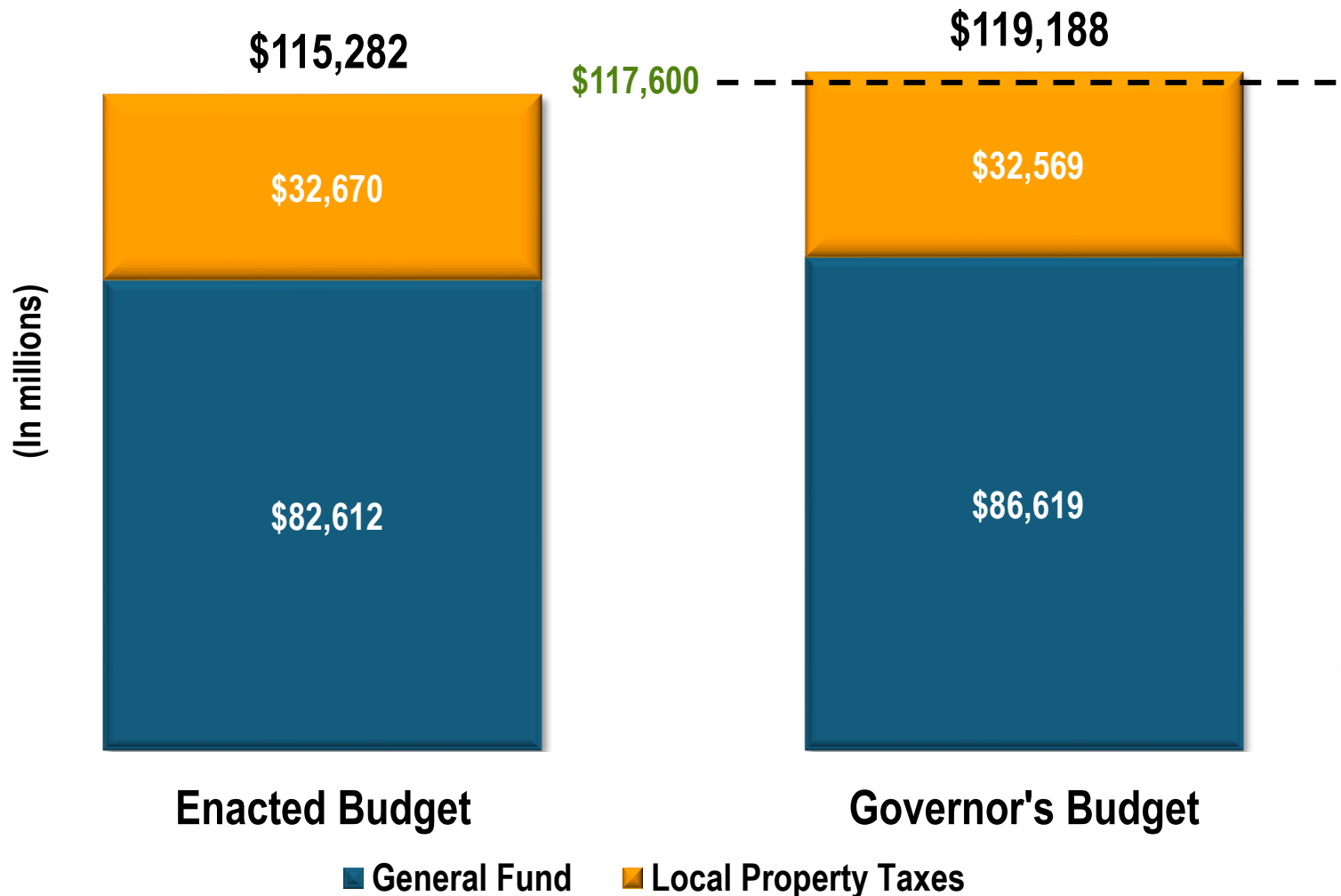
Proposition 98 and the Education Budget



- K-14 education funding continues to encumber a significant share of California’s annual Budget
- Within the state’s spending limit, Proposition 98 funding, including local property taxes, has averaged 55% of state General Fund revenues since 2015—2025-26 is no different



2024-25 Proposition 98 Minimum Guarantee



Due to unanticipated General Fund revenues, the 2024-25 minimum guarantee is revised upward by \$3.9 billion

“[T]he Budget proposes to appropriate the Guarantee at \$117.6 billion, instead of at the currently calculated level of \$119.2 billion...”



Risks to Proposition 98 and Local Budgets

- The education community can breathe a collective sigh of relief as the Governor's Budget contains fewer risks to Proposition 98 and local budgets than recent past

Eliminates reliance on one-time funding to support the LCFF and other ongoing costs

Slowly replenishing the Proposition 98 reserve for times of uncertainty and fiscal turmoil

Fully funding COLA

- The greatest risk to local budgets are local—accounting and budgeting for enrollment changes and rising costs continue to be critical for fiscal health management



2025-26 LCFF Funding Factors



| Grade Span | TK ¹ -3 | 4-6 | 7-8 | 9-12 |
|--|----------------------|----------|----------|----------|
| 2024-25 Base Grant per ADA | \$10,025 | \$10,177 | \$10,478 | \$12,144 |
| 2.43% COLA | \$244 | \$247 | \$255 | \$295 |
| 2025-26 Base Grant per ADA | \$10,269 | \$10,424 | \$10,733 | \$12,439 |
| Grade Span Adjustment | \$1,068 | – | – | \$323 |
| 2025-26 Adjusted Base Grant per ADA | \$11,337 | \$10,424 | \$10,733 | \$12,762 |
| 20% Supplemental Grant per ADA ² | \$2,267 | \$2,085 | \$2,147 | \$2,552 |
| 65% Concentration Grant per ADA ³ | \$3,316 | \$3,049 | \$3,139 | \$3,733 |
| TK Add-On per ADA (inclusive of COLA) | \$6,404 ⁴ | – | – | – |

¹Transitional kindergarten (TK)

²Maximum amount per ADA—to arrive at LEA’s grant amount, multiply adjusted base grant per ADA by 20% and unduplicated pupil percentage (UPP)

³Maximum amount per ADA—to arrive at LEA’s grant amount, multiply adjusted base grant per ADA by 65% and UPP above 55%

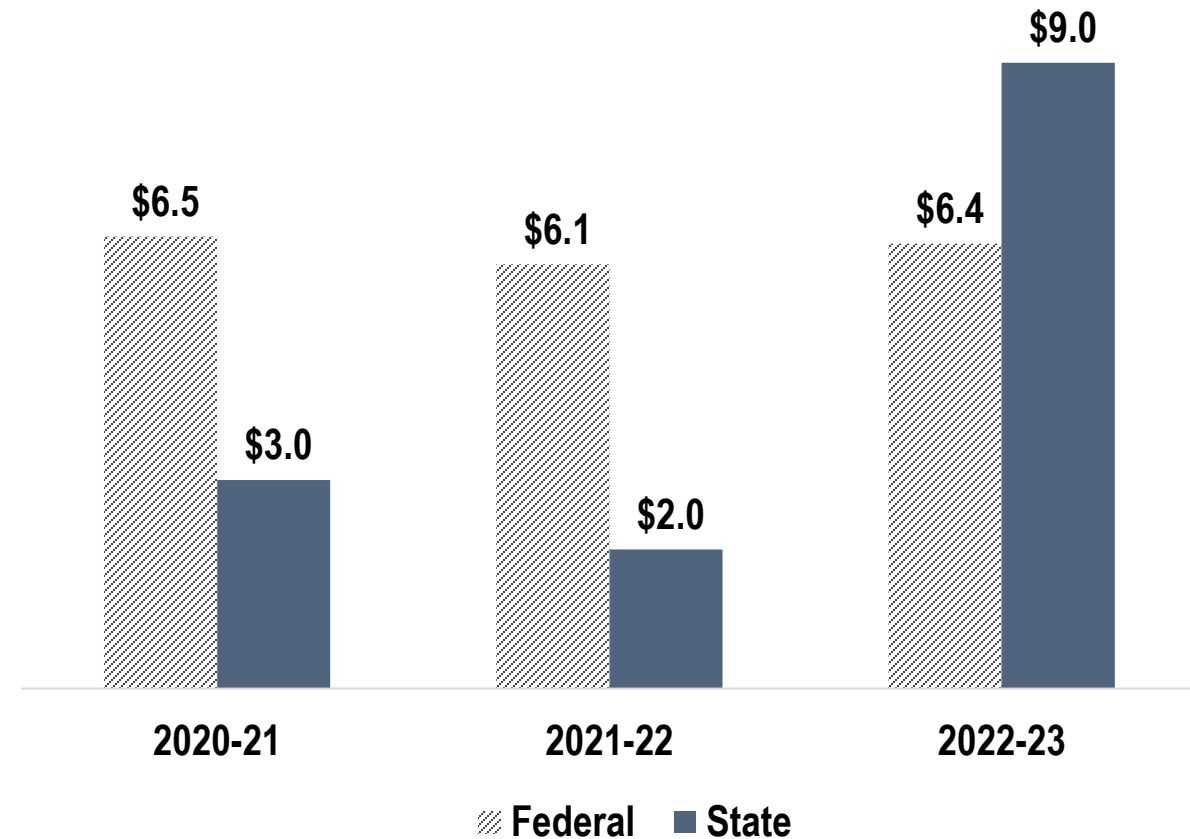
⁴Inclusive of an additional \$3,252 for the student-to-adult ratio reduction from 12:1 to 10:1



One-Time Funds

- LEAs have spent the federal one-time dollars in a relatively similar manner year over year, and the expectation is a comparable amount of federal one-time funds were spent in 2023-24—primarily Elementary and Secondary School Emergency Relief (ESSER) III
 - However, by September 30, 2024, all those one-time funds expired
 - Annual spending equates to more than \$1,100 per student
- Conversely, LEAs recognized state revenues when apportioned with the largest influx occurring in 2022-23 resulting from the Learning Recovery Emergency Block Grant (LREBG) and Arts, Music and Instructional Materials Discretionary Block Grant

Federal and State One-time Revenues
(In billions)



Statewide Data—One-Time Funding Total Salary and Benefits



In 2022-23, approximately \$4.3 billion was spent on staffing expenditures with emergency funding

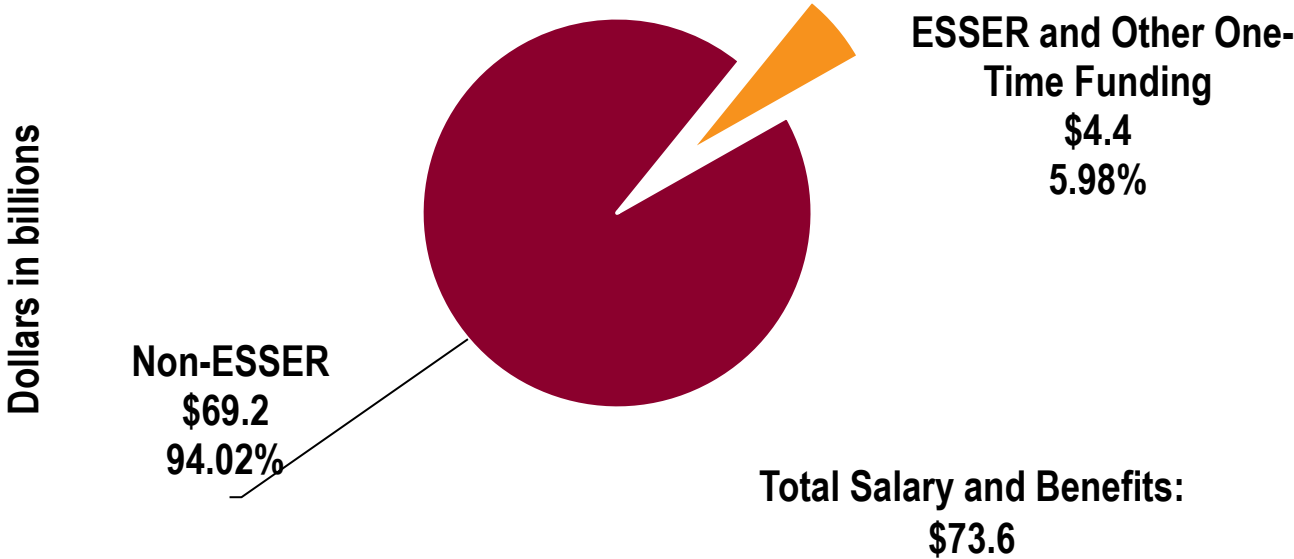
This is 6% of the statewide district workforce funded utilizing temporary resources

- The staffing needs to be addressed through either reduction or elimination of the position or identify an ongoing funding resource



Operational advice:
Evaluate staffing expenditures and assess positions funded with temporary funding and implement a plan to address the expiration of funding resources

2022-23 One-Time Funding Share of Personnel Expense (Salary and Benefits)



Source: Standardized Account Code Structure Unaudited Actuals

Next Steps for 2025-26 Budget Development—SSC Advice



- We do not yet have allocation or program details for many proposals in the Governor’s Budget
 - Until more detail becomes available, do not include in 2025-26 budget development

| Program | Include in 2025-26 Budget Development | Develop Tentative Internal Plan for Funding/Program Requirements |
|--|---------------------------------------|--|
| 2.43% COLA (all applicable programs) | ✓ | |
| LREBG Additional Funding | | ✓ |
| TK LCFF Add-On For Ratios | | ✓ |
| Discretionary Block Grant | | ✓ |
| TK-12 Literacy and Mathematics Coaches/Literacy Screenings | | ✓ |
| ELO-P 55% Threshold | | ✓ |

SSC Financial Projection Dartboard



| Planning Factors | | | | | | |
|---|----------------------|---------|---------|---------|---------|---------|
| | | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
| DOF Planning COLA | | 1.07% | 2.43% | 3.52% | 3.63% | 3.49% |
| California CPI ¹ | | 2.85% | 2.92% | 2.70% | 2.76% | 2.90% |
| CalSTRS ² Employer Rate | | 19.10% | 19.10% | 19.10% | 19.10% | 19.10% |
| CalPERS ³ Employer Rate | | 27.05% | 27.40% | 27.50% | 28.50% | 28.20% |
| Unemployment Insurance | | 0.05% | 0.05% | 0.05% | 0.05% | 0.05% |
| California Lottery | Unrestricted per ADA | \$191 | \$191 | \$191 | \$191 | \$191 |
| | Restricted per ADA | \$82 | \$82 | \$82 | \$82 | \$82 |
| Mandate Block Grant (District) ⁴ | Grades K-8 per ADA | \$38.21 | \$39.14 | \$40.52 | \$41.99 | \$43.46 |
| | Grades 9-12 per ADA | \$73.62 | \$75.41 | \$78.06 | \$80.89 | \$83.71 |
| Mandate Block Grant (Charter) | Grades K-8 per ADA | \$20.06 | \$20.55 | \$21.27 | \$22.04 | \$22.81 |
| | Grades 9-12 per ADA | \$55.76 | \$57.11 | \$59.12 | \$61.27 | \$63.41 |

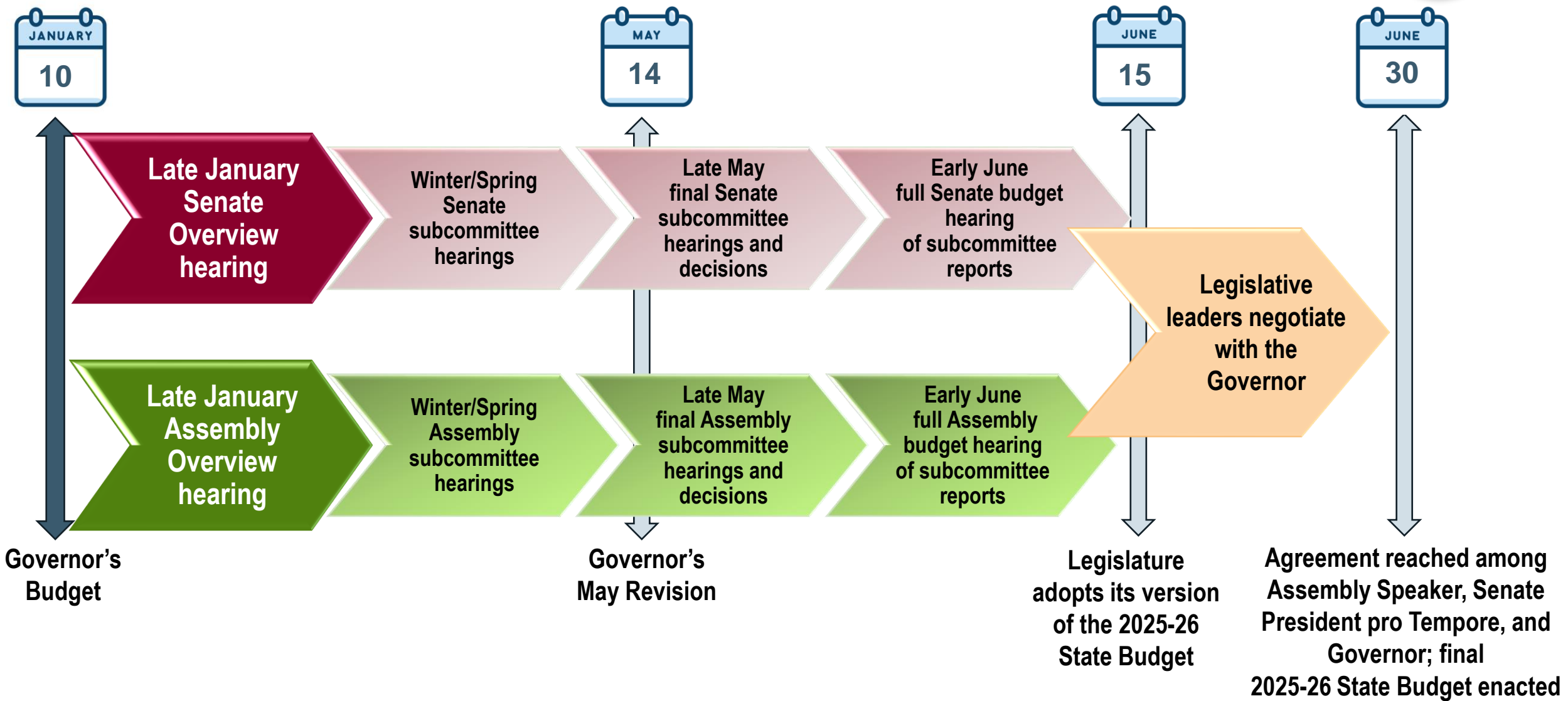
¹Consumer Price Index (CPI)

²California State Teachers’ Retirement System (CalSTRS)

³California Public Employees’ Retirement System (CalPERS)

⁴County Office of Education Mandate Block Grant: \$39.14 per ADA grades K-8; \$75.41 per ADA grades 9-12; \$1.31 per unit of countywide ADA

State Budget Process—From January to June



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Questions?