

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Governor's Budget Proposal for 2025-26

Marin County Office of Education
January 30, 2025



Governor's TK-12 Budget At A Glance

- Strong support for schools is maintained, fully implementing several multiyear initiatives.
- Revenue estimates are at risk from the new federal administration and Southern California fires.
- Over the three-year budget window from the 2024 Budget Act:
 - Revised “big three” tax revenues forecast up \$16.5B.
 - Proposition 98 increase of \$7.3B, from \$111.6B to \$118.9B in 2025-26.
 - Fiscal year 2025-26 is projected to be in Test 1 – percentage of revenue.
- Lower than projected 2.43% cost-of-living adjustment (COLA) on Local Control Funding Formula (LCFF) and categoricals.
- Discretionary one-time block grant in the \$300 per average daily attendance (ADA) range.

Revenues

- Revenue forecasts determine the basis for all else. From the 2024 Budget Act, over the three-year budget window:
 - General fund revenue is up \$16.5B (2.7%).
 - Personal income tax up \$12.6B.
 - Corporation tax down \$2.5B.
 - Sales and use tax up \$174M.
- Capital gains taxes as a percentage of general fund revenues are 5.6% in the budget, down from 11.6% peak in 2021. In 2024-25 it accounts for a significant portion of the growth in personal income taxes.
- Overall revenue projections are at risk from the change in federal administration (Medicaid) and the recent fires (personal income taxes).

Proposition 98 Reserve Fund

- Adjusts the Public School System Stabilization Act (PSSSA) reserve based on new revenue data.
 - Increases 2023-24 deposit by \$1M to \$1.2B but shifts from a discretionary deposit to a mandatory deposit.
 - Makes an additional \$376M mandatory deposit in 2025-26.
 - New fund balance of \$1.5B at the end of 2025-26.
 - Local reserve caps are not triggered for 2025-26.

Proposition 98

- Proposition 98 is up \$7.3B across the three-year window from the 2024 Budget Act (-\$0.3B in 2023-24, \$3.9B in 2024-25, \$3.6B in 2025-26).
- Test 2 in 2023-24; Test 1 in 2024-25 and 2025-26.
 - Funding based on transitional kindergarten through grade 14's (TK-14's) proportion of general fund revenues.
 - 39.6% of revenue once funding is rebenched due to universal TK expansion and Proposition 28 arts and music.
- To insulate the state from overappropriating Proposition 98 in 2024-25, the administration is artificially lowering the 2024-25 Proposition 98 appropriation by \$1.6B to \$117.6B (compared to \$119.2B).
- No maintenance factor payment in 2025-26; \$2.9B balance after COLA.

Proposition 98 (Cont.)

- COLA of 2.43% for LCFF, counties and many categorical programs.
 - State will make it a priority to fund the statutory COLA.
 - Includes growth in ADA yields of 0.70%.
 - COLA adds \$244–\$295 per ADA for base grants across the grade spans.
 - Special education base funding is now \$919 per ADA.
 - Outyear COLAs of 3.39% to 3.63%.
- Proposition 28 arts and music initiative estimated at \$1B, rebenchched from non-Proposition 98 funding (\$134M over 2024-25).
- Adds \$1.8B one-time for a Student Support and Professional Development Block Grant with four state priorities identified, but fully discretionary.

Proposition 98 (Cont.)

- Provides various small recurring and one-time funding augmentations to support various state priorities. These priorities include:

Item	Recurring	One-time
Cal College Guidance Initiative and Cradle-to-Career Data	\$3M	
Literacy and math coaches at high poverty schools		\$500M
K-2 literacy screening materials and training		\$40M
Literacy network within system of support		\$25M (\$5M/yr)
Teacher Recruitment Incentive Grant Program		\$150M
National Board Certification Incentive Program extension		\$100M
Kitchen infrastructure to support freshly prepared meals		\$150M
Transitional kindergarten language screener		\$10M

Program Revisions

- Fourth and final year of universal TK implementation, adding 60,000 students with birthdays between June 2 and September 1, covering all children who turn four years old by September 1 of the school year.
 - Funds lower staffing ratios at 10-to-1 for all TK classrooms.
- Adds \$378M one-time to the Learning Recovery Emergency Block Grant as part of the deferred reduction to the original \$7.9B grant.
- Adds \$435M ongoing to the Expanded Learning Opportunities Program to lower the definition of Tier 1 from 75% unduplicated pupil percentage (UPP) to 55% UPP.
- Adds \$106.3M ongoing to fully fund universal school meals.

Looking Ahead

- Fiscal year 2025-26 and near-term outyears include challenges for local educational agencies.
 - Risks to the revenue forecast and Proposition 98.
 - Relatively normal COLAs.
 - Declining enrollment continues in all regions of the state.
 - ADA yields continuing to recover.
 - Message differences between state maintenance of kindergarten through grade 14 funding and local implications due to declining enrollment and insufficient COLAs.

Planning Considerations

- Updated multiyear projections are essential; have one for each potential scenario (i.e., revenue, ADA and COLA scenarios).
- Ensure position control is accurate and up-to-date. Plan for timely actions regarding to staffing over time.
- Almost every number in the January budget proposal will change by the final budget. Adjust as information changes.
- Do not budget the \$1.8B discretionary grant; save that decision for the August 45-day revision.
- Expansion of the Tier 1 of Expanded Learning Opportunities Program requires attention to detail regarding universal offering.
- Proposed budget does not fund the graduation requirement to add ethnic studies for incoming freshmen in 2025-26.

Questions?

Thank you!