CALIFORNIA COUNTY SUPERINTENDENTS

The Common Message

2025-26 First Interim Report

BASC

Business and Administration Services Committee

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Summary	Peter Foggiato, San Joaquin	Scott Price, Riverside

Table of Contents

Sources 4

Background 5

Key Guidance Based on the 2025-26 Adopted State Budget 5

Planning Factors for 2025-26 and Multiyear Projections 8

Federal Funding Uncertainties 9

Deficit Spending 9

Considerations for Reductions in Force 10

Fiscal Stabilization Plan 10

Summary 11

Sources

Association of California School Administrators
Ball/Frost Group, LLC
California Association of School Business Officials
California Collaborative for Educational Excellence
California Department of Education
California Department of Finance
California Public Employees' Retirement System
California State Teachers' Retirement System
California State Board of Education
California School Boards Association
California School Information Services
Capitol Advisors
Fiscal Crisis and Management Assistance Team
K-12 High Speed Network
National Forest Counties and Schools Coalition
School Services of California
Small School Districts' Association
Statewide Local Educational Consortium Co-Chairs
WestEd

Background

The Business Administration Services Committee (BASC) would like to thank the DOF, State Board of Education (SBE), California Department of Education (CDE), Fiscal Crisis and Management Assistance Team (FCMAT), and our colleagues listed in the "Sources" section of this message for providing BASC and our local educational agencies (LEAs) with the most up-to-date information at the time of writing.

The BASC Common Message is intended to provide guidance and recommendations to COEs, which then tailor this guidance to the unique circumstances of the local educational agencies (LEAs) in their respective counties. Even within a single county, the guidance may vary considerably based on each district's educational, fiscal, and operational characteristics. Consequently, districts and other entities seeking to understand the guidance applicable to a specific LEA should refer to the information released by the COE in the county where that LEA is located.

Key Guidance Based on the 2025-26 Adopted State Budget

Governor Gavin Newsom signed several budget bills (SB 101, AB 102, SB 103, AB 104, SB 105) and trailer bills (AB 121, SB 120, SB 147, SB 151) to adopt and implement the 2025-26 State Budget. The budget retained the majority of the proposals included in the May Revision; however, some additional changes were incorporated. The final budget agreement solves an $11.8 billion general fund deficit for 2025-26 and provides a balanced fiscal plan with reductions in growth in state spending while maintaining key programs.

Key TK-12 funding provisions include the following:

- Revised estimates of general fund revenues result in updated Proposition 98 guarantee levels: $98.5 billion for 2023-24, $119.9 billion for 2024-25, and $114.6 billion for 2025-26. These revised levels represent a $3.9 billion increase over the three-year period relative to the 2024 Budget Act. Due to the risk in revenue projections, the 2025-26 budget appropriates the 2024-25 level at $118 billion — $1.9 billion below the most recent calculation. This difference, referred to as settle-up, reflects uncertainty in revenue estimates and is intended to protect core program funding if realized. Proposition 98 is calculated using Test 2 for 2023-24 and Test 1 for both 2024-25 and 2025-26.

- Revises the 2024-25 mandatory Proposition 98 Rainy Day fund deposit down to $455 million. There is a mandatory withdrawal of $455 million in 2025-26. Of that amount, $405.3 million will be used to fund LCFF in 2025-26. This mandatory withdrawal will exhaust the fund balance of the reserve account in 2025-26. Consequently, the Proposition 98 Rainy Day fund balance is insufficient to trigger the local reserve cap in 2025-26.

- Maintains a 2.3% funded cost-of-living adjustment (COLA) to the Local Control Funding Formula (LCFF). When combined with population growth adjustments, this results in a $2.1 billion increase compared to the 2024 Budget Act. Categorical programs receiving COLA include Special Education, Child Nutrition, Youth in Foster Care, Mandated Block Grant, Charter School Facilities Grant Program, American Indian Education Centers, the American Indian Early Childhood Education Program, and the LCFF Equity Multiplier.

- Includes a $1.9 billion deferral of LCFF apportionments from June 2026 to July 2026. In addition, prior deferrals from 2024-25 totaling $246.6 million for TK-12 education are fully repaid in 2025-26.

- Maintains investment of a total of $2.1 billion in ongoing funding (inclusive of all prior years' investments) to support the full implementation of universal transitional kindergarten (TK), ensuring all children who turn four years old by September 1 of the school year can enroll in TK. An additional $1.2 billion was provided in ongoing funding to support lowering the average student-to-adult ratio from 12-to-1 to 10-to-1 in every TK classroom beginning in 2025-26.

- Provides an additional $606.8 million in ongoing investment in Expanded Learning Opportunities Program for full program implementation and to support the Legislature's intent to increase Rate 2 to $1,575. The budget lowers the eligibility threshold for universal access, expanding it to include LEAs with an unduplicated pupil percentage (UPP) of at least 55%, reduced from the previous threshold of 75%. Additionally, the 2025-26 State Budget includes one-time funding of $590.6 million to account for the 55% UPP change for Rate 1. It also allocates $10.4 million to increase the minimum entitlement grant amount from $50,000 to $100,000 per LEA. To allow time for new Rate 1 LEAs to expand their programs to serve additional students, LEAs are granted a grace period for compliance with the requirement for universal access. Starting in 2025-26, LEAs that are new to Rate 1 will be audited for compliance with their prior-year Rate 2 requirements during their first year of eligibility for Rate 1 funding and will be audited for compliance with Rate 1 requirements each year thereafter.

- Provides $480 million in one-time Proposition 98 funding to support literacy instruction aligned with the English Language Arts (ELA)/English Language Development (ELD) Framework for all students, composed of the following investments: $215 million to expand the existing Literacy and Reading Specialists Grant Program; $200 million to support evidenced-based professional learning for elementary school educators aligned with the ELA/ELD Framework; $40 million for the purchase of screening materials and training for educators to administer literacy screening; $15 million for Literacy and Mathematics Networks to support the implementation of evidence-based practices aligned with curriculum frameworks; and $10 million in funding for a COE to partner with the University of California, San Francisco (UCSF) Dyslexia Center to support the Multitudes screener.

- Includes multiple investments intended to support teachers and improve access to the educator pipeline: $300 million in one-time Proposition 98 funding for the Student

Teacher Stipend Program, which will provide $10,000 grants to teacher candidates who complete the required student teaching hours beginning in 2026-27 and continuing through 2028-29. Of this amount, $5 million is allocated for a public outreach campaign and grant management system. Also includes $70 million in one-time Proposition 98 funding to increase funding for the Teacher Residency Grant Program, and $30 million of one-time Proposition 98 funding to extend the timeline of the existing National Board Certification Incentive Program to encourage teachers to serve in high-poverty schools.

- Allocates $1.7 billion in one-time Proposition 98 for the Student Support and Professional Development Discretionary Block Grant. The block grant gives LEAs discretionary fiscal support to address rising costs, including, but not limited to, the following: (1) professional development for teachers on the ELA/ELD framework and Literacy Roadmap, with a focus on strategies to support literacy for English learners; (2) professional development for teachers on the Mathematics Framework; (3) teacher recruitment and retention strategies; and (4) career pathways and dual enrollment expansion programs aligned with the Master Plan for Career Education. The CDE calculated the block grant to be $313.08 per ADA reported as of the 2024-25 second principal apportionment.

- Maintains $378.6 million in one-time funding to support the Learning Recovery Emergency Block Grant (LREBG) through the 2027-28 school year. Allocation information can be found on the following CDE web page: https://www.cde.ca.gov/fg/fo/r14/lrebg25result.asp .

- Provides $150 million in one-time Proposition 98 funding for career technical education and career pathways programming. These funds will be used to augment the Career Technical Education Incentive Grant (CTEIG) program and will be allocated under the program parameters included in SB 638.

- The Universal School Meals Support Grant provides one-time Proposition 98 funding of $145 million for specialized kitchen equipment, infrastructure improvements, staff training, and the procurement of sustainably grown food to increase freshly prepared meals. Additionally, the budget provides $10 million to support recruitment and retention of food service workers and $5 million to fund a study of the impact of particularly harmful ultra-processed foods in California school meals.

Congress recently approved significant cuts to Medicaid and the Supplemental Nutrition Assistance Program (SNAP). These reductions may impact schools in two ways. First, they change eligibility for participation in safety net programs that are used in the automatic categorical eligibility match done for free and reduced-price meals (FRPM). Reducing FRPM eligibility will affect the unduplicated pupil count/percentage, which is used in LCFF and more than 15 other programs to determine funding allocations to LEAs. Second, they force the state to adjust school funding to mitigate the impact of federal funding cuts. At the same time, projected declines in state revenue and increasing Medi-Cal costs have contributed to a structural budget deficit that is projected to grow significantly. Federal funding reductions, especially to Medicaid, will significantly increase the state's budget deficit and require the Legislature to make difficult reductions in other areas.

Given the risks to the state budget and changes in federal funding, LEAs should exercise caution before making any long-term commitments and should consider increasing reserves to manage potential cash deferrals and absorb potential state and federal funding reductions.

Planning Factors for 2025-26 and Multiyear Projections

Following are key planning factors for LEAs to include in their 2025-26 adopted budgets and multiyear projections (MYPs) based on the latest information available at the time of writing.

Planning Factor	2025-26	2026-27	2027-28
Cost-of-Living Adjustment (COLA)			
Local Control Funding Formula (LCFF) COLA	2.30%	3.02%	3.42%
Special Education COLA	2.30%	3.02%	3.42%
Employer Benefit Rates			
CalSTRS	19.10%	19.10%	19.10%
CalPERS-Schools	26.81%	26.90%	27.80%
State Unemployment Insurance	0.05%	0.05%	0.05%
Lottery			
Unrestricted per ADA	$190.00	$190.00	$190.00
Proposition 20 per ADA	$82.00	$82.00	$82.00
Minimum Wage	$16.90[1]	$17.40[2]	$17.80[3]
Universal TK/ADA LCFF add-on	$5,545.00	$5,712.00	$5,907.00
Mandate Block Grant			
School Districts			
Grades K-8 per ADA	$39.09	$40.27	$41.65
Grades 9-12 per ADA	$76.48	$78.79	$81.48
Charter Schools			
Grades K-8 per ADA	$20.52	$21.14	$21.86
Grades 9-12 per ADA	$58.21	$59.97	$62.02

[1]Effective January 1, 2026, [2]Effective January 1, 2027, [3]Effective January 1, 2028.

Federal Funding Uncertainties

Federal funding for public education continues to evolve. The federal government is taking unprecedented and unpredictable actions that affect the education community. LEAs can view the latest guidance from the CDE at the following web page: https://www.cde.ca.gov/nr/fa/

Due to the current federal shutdown, federal agencies may be short staffed. Depending on the federal program and the length of the shutdown, LEAs could eventually have issues accessing certain federal funds. Therefore, LEAs should analyze cash on hand to determine if short-term financing is required. It is not known how long the shutdown will last. Once the federal government reopens, expect a delay before operations resume.

Deficit Spending

Declining enrollment, coupled with the expiration of federal one-time funds, may result in deficit spending for many school districts. It is essential to distinguish between ongoing structural deficits and one-time shortfalls. As districts work to balance their budgets, any significant reductions shown in multiyear financial projections should be supported by concrete spending reduction plans or accompanied by a fiscal solvency statement that outlines the governing board's commitment to future corrective actions.

To maintain financial health, districts should conduct monthly cash flow analyses to monitor trends and proactively address potential cash shortages. For guidance, refer to FCMAT's April 2020 fiscal alert about effective cash management during uncertain times.

As fund balances potentially decline, districts must exercise caution when allocating resources for long-term commitments, including negotiated salary increases. Modest revenue gains from the cost-of-living adjustment (COLA) may be offset by declining enrollment and rising payroll costs, including increases in retirement and health benefits rates. Each district's capacity to implement and sustain salary increases will depend on its unique financial position. Economic trends also suggest that the LCFF COLA for 2026-27 could be lower than what is included in the LCFF planning factors. Districts should consider creating alternative scenarios that assume a lower COLA in the subsequent years.

Because deficit spending erodes fund balance reserves, it is critical to maintain substantial reserves to buffer against future economic downturns. The Government Finance Officers Association recommends reserves of at least 17%, which typically equals two months of salary expenditures for most organizations. Although school districts may be subject to reserve cap limitations on assigned and unassigned fund balances during periods of strong state revenue, it remains prudent to regularly review overall reserves to ensure long-term fiscal stability. Note that the reserve cap is not applicable for 2025-26 but may be reinstated in future years.

Considerations for Reductions in Force

Declining enrollment and the end of substantial amounts of one-time funding have most LEAs in an unsustainable deficit-spending scenario. Any structural deficit, in which ongoing expenditures exceed ongoing revenues, must be corrected sooner rather than later to avoid fiscal distress.

The first interim report is the version of the LEA's budget that provides the information needed to determine the amount of expenditure reductions an LEA should implement for the following fiscal year. The largest expense in an LEA is salaries and the associated benefits. If the first interim report indicates a structural deficit, identifying the total dollar amount of reductions that need to be implemented by July 1, 2026, is critical because the layoff provisions in statute are unforgiving. Education Code 44949 for certificated staff and 45117 for classified staff govern the process for layoffs, specifying a notification date of March 15th for both certificated and classified positions.

The governing board of an LEA will need time to review many options for reductions and take appropriate action. With the complexities of credentialing needs, seniority lists, bumping rights, enrollment projections by school sites, master schedules, and so on, it is imperative that reductions in force and notifications to employees by March 15th exceed the total amount of reductions needed for the following fiscal year.

Fiscal Stabilization Plan

A stabilization plan serves as a road map to restore fiscal solvency when a district's reserves are projected to fall below the state-required minimum (3% for most districts). Under AB 1200 and AB 2756, county offices of education are required to ensure that each district that has a negative or qualified budget certification develops and implements a stabilization plan to demonstrate how it will regain and maintain fiscal health.

The plan must clearly show how the district will:

- Eliminate ongoing structural deficits.
- Rebuild reserves to at least the state-required minimum.
- Maintain solvency across the three-year multiyear projection (MYP)

Although required for districts with qualified or negative budget certifications, a stabilization plan is also considered **best practice** for districts that have a structural deficit but are still meeting reserve requirements. Even when positive certification is possible, proactive planning helps an LEA do the following:

- Identify and address structural deficits early — before reserves are depleted.
- Avoid sudden, severe budget cuts by phasing in adjustments over time.
- Demonstrate fiscal responsibility to the board, staff, bargaining units, and the community.
- Strengthen credibility with oversight agencies, such as the COE, CDE, or FCMAT.

- Support long-term stability by aligning ongoing revenues and expenditures.

Key Elements of a Stabilization Plan

- Assessment of Current Condition — Identify the factors leading to fiscal distress, including enrollment and ADA trends, rising costs, and structural imbalances.
- Expenditure Reductions — Outline cost-saving measures such as staffing adjustments, program realignment, and operational efficiencies.
- Revenue Enhancements — Consider opportunities for additional funding, including grants, parcel taxes, or improved attendance recovery strategies.
- Retirement Incentives — Evaluate potential cost savings from early retirement or separation incentives.
- Use of Reserves and One-Time Funds — Plan for strategic, temporary use of reserves while avoiding reliance on one-time funds for ongoing expenses.
- Timelines and Milestones — Establish clear deadlines for board approval, implementation of reductions, and progress benchmarks.
- Communication Plan — Ensure transparent communication with the board, staff, bargaining units, and the community to build trust and understanding.
- Oversight and Monitoring — Provide regular updates to the board and COE, with progress measured against specific targets.
- Reasonableness —Fiscal stabilization plans must be reasonable and include sufficient detail to allow oversight agencies to assess the reasonableness of the plan.

Districts must document assumptions (e.g., enrollment projections, COLA, step-and-column, benefit cost increases). Collaboration with labor groups is often necessary, particularly when expenditure reductions involve staffing. Long-term strategies, such as right-sizing operations in response to declining enrollment, should be included. Conservative budgeting practices — such as avoiding overestimation of revenues or underestimation of expenditures — are essential.

Developing a stabilization plan requires difficult decisions, but thoughtful planning, transparency, and conservative financial management are critical to restoring confidence and ensuring long-term fiscal stability. Proactively adopting a plan, even when reserves are above the minimum, can prevent future crises and provide a structured path to sustainability.

Summary

This edition of the Common Message provides LEAs with data and guidance for the First Interim and related information for board presentations. The state budget continues to face increased risk due to changes in federal policy and funding, which may affect both revenues and expenditures. LEAs must navigate short-and long-term challenges, including volatility in the state revenue forecast, declining enrollment and attendance, rising pension costs, inflationary pressures, and the expiration of one-time funds. Because each LEA's funding and program structure is unique, it remains essential for LEAs to continually assess local conditions, collaborate

closely with their respective COEs, and develop comprehensive plans to maintain fiscal solvency while preserving the integrity of their educational programs.