

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

Governor's Budget Proposal for 2026-27

Marin County Office of Education
Annual Funding Forum
January 22, 2026

Governor's TK-12 Budget At A Glance

- Strong support for schools is maintained, but risk mitigation is again deployed.
- Revenue estimates are at risk from the economy.
- Over the three-year budget window from the 2025 Budget Act:
 - Revised “big three” tax revenues forecast up \$42.3B.
 - Proposition 98 forecast up \$21.8B.
- Lower than projected 2.41% cost-of-living adjustment (COLA) on Local Control Funding Formula (LCFF) and categoricals.
- Discretionary one-time block grant in the \$515 per average daily attendance (ADA) range.

Revenues

- Revenue forecasts determine the basis for all else. From the 2025 Budget Act, over the three-year budget window:
 - General fund revenue is up \$42.3B (6.7%).
 - Personal income tax up \$36.7B*.
 - Corporation tax down \$1.7B*.
 - Sales and use tax down \$1.1B.
 - Interest earnings up \$1.2B.
 - Capital gains taxes as a percentage of general fund revenues are 9.9% in 2026, up from 9.6% in 2025 but down from 11.6% peak in 2021. In 2024-25 they account for a significant portion of the growth in PIT.
 - Overall revenue projections are at risk from disproportionately driven market gains and the economy.
- *Excludes impact from pass-through entity elective tax.

Proposition 98 Reserve Fund

- Adjusts the Public School System Stabilization Act (PSSSA) reserve based on new revenue data.
 - 2024-25 mandatory deposit of \$3.8B (compared to \$455M deposit) due to revenue being well above 8% capital gains threshold.
 - 2025-26 mandatory deposit of \$424.3M and discretionary deposit of \$240M (eliminates originally planned withdrawal of \$455M).
 - 2026-27 mandatory withdrawal of \$407.1M (revenues below 8% capital gains threshold).
 - Local reserve caps are triggered for 2025-26 and 2026-27, but 2025-26 is technically not applicable.
 - Balance at the end of June 2027 is \$4.1B.

Proposition 98

- Proposition 98 is up \$21.8B across the three-year window from the 2025 Budget Act (\$3.9B in 2024-25, \$6.9B in 2025-26, \$11.0B in 2026-27).
- Test 1 in all years, but in 2026-27 only \$100M away from Test 3.
- To insulate the state from overappropriating Proposition 98 in 2025-26, the administration is artificially lowering the 2025-26 Proposition 98 appropriation by \$5.6B to \$115.9B (compared to \$121.4B).
 - Pays off the 2024-25 settle-up of \$1.9B.
- No maintenance factor payment in 2026-27; \$584.6M balance after adjustments.

Proposition 98 (Cont.)

- COLA of 2.41% for LCFF, counties and many categorical programs.
 - COLA adds \$247–\$299 per ADA for base grants across the grade spans.
 - Special education base funding is now \$999 per ADA, plus \$509M in equalization.
 - Necessary Small Schools formula is bumped up by 20% (\$30.7M)
 - Outyear COLAs of 3.06% to 3.34%.
- Proposition 28 arts and music initiative estimated at \$1.069B, rebenchbed from non-Proposition 98 funding (\$23.9M more than in 2025-26).
- Adds \$2.8B one-time for a Student Support and Professional Development Block Grant.

Proposition 98 (Cont.)

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

Item	Recurring	One-time
Community Schools	\$1B	
Learning Recovery Emergency Block Grant restoration (2 years)		\$757.3M
K-2 literacy screening implementation		\$40M
Career Technical Education (dual enrollment)		\$100M
Home-to-School Transportation (state level true-up)	\$239.2M	\$322M
Kitchen infrastructure to support freshly prepared meals		\$100M
Extend Teacher Residency Program through 2029-30		\$250M
LA fires support (FCMAT recommendation)		\$22.9M

Program Revisions

- Adds \$62.4M ongoing to the Expanded Learning Opportunities Program to stabilize Tier II rates at \$1,800.

Looking Ahead

- Fiscal year 2026-27 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, but growth is slowing.
 - Message differences between state maintenance of transition kindergarten through grade 14 funding and local implications due to declining enrollment and lower COLAs.

Planning Considerations

- Updated multiyear projections are essential; have one for each potential scenario (e.g., revenue, ADA and COLA scenarios).
- Ensure position control is accurate and up to date. Plan for timely actions regarding 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 \$2.8B discretionary grant; save that decision for the August 45-day revision.
- Like last year, the proposed budget does not fund the graduation requirement to add ethnic studies for incoming freshmen.

Questions?

Thank you!