CALIFORNIA COUNTY SUPERINTENDENTS

The Common Message

2025-26 Second Interim Report

BASC

Business and Administration
Services Committee

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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

Since May 2008, county office of education (COE) chief business officials (CBOs) have collaborated to develop common messages to guide districts in crafting assumptions for their budget and interim reports. The Business and Administration Services Committee (BASC) supports this endeavor by providing COE CBOs with a uniform common message based on assumptions used by the California Department of Finance (DOF).

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 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 Governor's Budget Proposal

On January 09, 2026, Governor Gavin Newsom released the proposed state budget for 2026-27. The Governor's Budget includes a $21.7 billion increase in the Proposition 98 guarantee over the three-year period (2024-25 through 2026-27) compared to the 2025 Budget Act. However, the budget proposes to provide only $115.9 billion for education programs in 2025-26 instead of the Proposition 98 level of $121.4 billion for that year. The budget refers to the approximately $5.6 billion difference as "settle-up." The rationale for creating this settle-up is to mitigate the risk of potentially appropriating more resources to the guarantee than are ultimately available in the final calculation for 2025-26 (if estimated revenues do not materialize).

The major TK-12 funding provisions in the 2026-27 Governor's Budget are as follows:

- The Proposition 98 minimum guarantee is calculated to be $123.8 billion in 2024–25, $121.4 billion in 2025–26, and $125.5 billion in 2026–27.

- Repays $1.9 billion in settle-up created with the enactment of the 2025-26 state budget (for the 2024-25 year) in addition to creating $5.6 billion in new settle-up for 2025–26.

- Fully repays the $1.9 billion deferral of the second principal apportionment (P2) payment in 2026-27. LEAs should still plan for the $1.9 billion deferral in June 2026.

- Estimates the Proposition 98 Rainy Day fund balance, after proposed deposits and withdrawals, to be $4.5 billion at the end of 2025-26, triggering the reserve cap in 2026-

27 (see Reserve Cap section below). The estimated balance at the end of 2026-27 is estimated to be $4.1 billion.

- Includes a cost-of living adjustment (COLA) of 2.41% for the Local Control Funding Formula (LCFF) and other specified statutory programs.

- Provides $30.7 million in ongoing funds to increase the LCFF amount for Necessary Small Schools by 20% in addition to COLA. See Appendix A for the proposed rates.

- Increases special education base rates by $509 million, resulting in a new statewide base rate of $999 per ADA that is now equal for all Special Education Local Plan Areas.

- Provides $2.8 billion in one-time funds for the Student Support and Professional Development Discretionary Block Grant. LEAs may use the funds for discretionary purposes including, but not limited to, priorities identified by the state, such as professional development for teachers on the Mathematics Framework, expanding career pathways and dual enrollment efforts, or addressing rising costs. As a reminder, LEAs should be cautious about using these one-time funds to pay for ongoing costs. Funds will be allocated based on an equal amount per ADA as reported for the 2025-26 second principal apportionment.

- Appropriates $757.3 million to the Learning Recovery Emergency Block Grant as part of the state's final payment to the program.

- Proposes $1 billion in ongoing funding to expand on prior investments in community schools and to expand the model to more school sites with large concentrations of low-income, English learner and foster youth.

- Increases ongoing funding for the Expanded Learning Opportunities Program (ELOP) by $62.4 million. Provides that Tier 2 rates cannot be less than $1,800 per pupil. The proposal increases ongoing ELOP funding to $4.7 billion. The proposal does not include COLA for ELOP, as has been the case since the inception of the program.

- Continues to allocate $1.5 billion in Proposition 2 bond funds for school construction projects in 2026–27.

- Appropriates $100 million (one-time) to the Kitchen Infrastructure and Training program. Grants will be awarded on a competitive basis to support kitchen equipment, infrastructure, training, and continued implementation of universal school meals.

- Provides $40 million (one-time) funds for allocation to LEAs that administer literacy screening to pupils in kindergarten and grades 1 and 2 for risk of reading difficulties. Proposes statutory changes to ensure consistency and quality of results.

- Builds on the Master Plan for Career Education by proposing $100 million (one time) to expand dual enrollment and dual credit opportunities for high school students. These efforts are also highlighted as discretionary priorities in the Student Support and Professional Development Block Grant.

- Proposes $250 million (one-time) to continue educator residency programs through 2029–30.

In addition to these funding proposals, the budget package includes the following significant policy proposals:

- Amends the Education Code to "move oversight authority of the management of the California Department of Education and support of LEAs" from the State Superintendent of Public Instruction (SSPI) to the State Board of Education (SBE), and to provide the SSPI the "ability to strengthen coordination and alignment among the bodies setting policy from early childhood through postsecondary education."

- Introduces several new audit requirements to be incorporated into the annual audit guide, which will affect all LEAs.

- Proposes new requirements for charter schools to address fraud and improve accountability and oversight.

Given the risks associated with the state budget, LEAs should exercise caution before budgeting for any of the increases included in the Governor's Budget other than statutory COLA. These increases, especially the $2.8 billion for Student Support and Professional Development discretionary Block Grant, may change before the final state budget is enacted.

The Legislature will hold hearings on the Governor's Budget throughout the spring. By May 14, the Governor will release the May Revision, which updates state revenue assumptions and modifies proposals. The Legislature must pass a balanced budget by June 15. The enacted budget is signed into law by June 30 and may be followed by clean-up trailer bill in the subsequent months.

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%	2.41%	3.06%
Special Education COLA	2.30%	New Base Rate	3.06%
Employer Benefit Rates			
CalSTRS	19.10%	19.10%	19.10%
CalPERS-Schools	26.81%	26.40%	26.90%
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]	$17.90[3]
Universal TK/ADA LCFF add-on	$5,545.00	$5,679.00	$5,853.00
Mandate Block Grant			
School Districts			
Grades K-8 per ADA	$39.09	$40.03	$41.25
Grades 9-12 per ADA	$76.48	$78.32	$80.72
Charter Schools			
Grades K-8 per ADA	$20.52	$21.01	$21.66
Grades 9-12 per ADA	$58.21	$59.61	$61.43

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

Federal Funding

On February 3, 2026, the President signed into law the 2026 federal fiscal year funding bill for the U.S. Department of Education (ED) and federal education programs.

Most federal education programs were funded at last year's level, including Title I, Part A; Title I, Part C Migrant Education Program; Title II; Title III, Title IV A and B, TRIO, and GEAR-UP, IDEA, and McKinney-Vento. These appropriations are related to grants available for the 2026-27 school year.

The legislation also included a provision that prohibits the withholding of program funds from states, as happened last summer with Title I, Part C and five other programs.

Deficit Spending and Fiscal Stabilization

Many school districts are experiencing significant fiscal pressure due to declining enrollment, expiration of federal one-time funds, and constrained state revenue growth. As a result, many districts are projecting deficit spending during the multiyear projection period, increasing the importance of prudent fiscal planning and long-term sustainability.

Districts must clearly distinguish between one-time budget shortfalls and ongoing structural deficits because any structural imbalance presents a significantly greater risk to fiscal solvency. Deficit spending that is driven by the loss of one-time federal funding or declining enrollment, without corresponding expenditure adjustments, is not sustainable over time and will continue to erode reserves.

When deficit spending is projected, especially when accompanied by significant expenditure reductions in future years, districts must support those projections with specific, actionable, and realistic plans. If expenditure reductions are not yet fully defined, the governing board should adopt a fiscal solvency statement affirming its commitment to take corrective action to restore structural balance. Multiyear projections that rely on unspecified, delayed, or unrealistic future reductions may be deemed unreasonable for second interim reporting and fiscal certification purposes.

Given heightened cash flow risk in the current fiscal environment, districts should closely monitor cash flow through regular (at least monthly) cash flow analyses to identify emerging risks and avoid potential cash shortfalls. As fund balances decline, districts must exercise caution when making long-term financial commitments, including negotiated salary increases and benefits enhancements.

While cost-of-living adjustments may provide modest revenue growth, these increases may be offset by declining enrollment, salary schedule growth, increasing pension contribution rates, and rising health and welfare costs. Each district’s ability to sustain compensation increases must be evaluated within the context of its individual fiscal condition. Given the continued economic uncertainty at both the state and federal levels, districts are strongly encouraged to model alternative scenarios using more conservative revenue and enrollment assumptions in the outyears.

Because deficit spending directly erodes reserves, maintaining adequate fund balance levels is essential to withstand future fiscal volatility. While statutory reserve requirements establish minimum thresholds, districts should regularly assess whether their overall reserves are sufficient to support ongoing operations and absorb unforeseen fiscal disruptions. Even in years when statutory reserve caps do not apply, prudent reserve management remains an essential component of sound fiscal practice.

A fiscal stabilization plan serves as a roadmap for restoring and maintaining fiscal health when reserves are projected to approach or fall below required minimum levels, or when a district has an ongoing structural deficit. Under AB 1200 and related statutes, county offices of education must ensure that districts with qualified or negative certifications develop and implement such a plan. However, adoption of a stabilization plan is also considered a best practice for any district that has a positive certification but faces a structural imbalance.

At a minimum, a fiscal stabilization plan should clearly demonstrate how the district will:

- Eliminate ongoing structural deficits.
- Rebuild and maintain reserves at or above the state-required minimum.
- Remain solvent across the full multiyear projection period.

Effective stabilization plans include a clear assessment of the factors contributing to fiscal stress, realistic expenditure reduction strategies, consideration of available revenue options, and a thoughtful approach to the limited and temporary use of reserves or one-time funds. Assumptions about enrollment, revenues, compensation, and benefits costs must be clearly documented and reasonable. When staffing reductions or compensation adjustments are contemplated, early communication and collaboration with labor groups is often necessary.

The plan should also establish timelines, milestones, and monitoring mechanisms, with regular reporting to the governing board and COE. Transparency with education partners is essential to maintaining trust and credibility during periods of fiscal adjustment.

Although developing and implementing a fiscal stabilization plan often requires difficult decisions, early proactive conservative planning helps districts avoid more disruptive actions in the future. Adopting a stabilization framework early — even when reserves remain above minimum levels — can strengthen long-term sustainability and demonstrate responsible fiscal stewardship.

Reserve Cap

The Governor’s January budget proposes to make deposits into the Public School System Stabilization Account (PSSSA), or Rainy Day Fund, that would provide for an account balance of $4.5 billion at the end of 2025-26. Because this amount is 4.1% of the TK-12 share of the Proposition 98 minimum guarantee based on current projections, the reserve cap is triggered in the 2026-27 fiscal year. Current law places a 10% cap on school district reserves in fiscal years immediately after those in which the balance in the PSSSA is equal to or greater than 3% of the total TK-12 share of the Proposition 98 guarantee.

When the reserve cap is triggered, the portions of fund balance that are subject to the cap are the assigned and unassigned reserves in the General Fund 01 and the Special Reserve for Other than Capital Outlay Fund 17. Any funds that are in the committed portion of the fund balance, meaning that the governing board took formal action to set aside the funds, are not included in the reserve cap calculation. Small districts (fewer than 2,501 units of ADA) and community-funded districts are excluded from the local reserve cap consideration.

Although the amount in the PSSSA at the end of 2024-25 is also projected to be large enough to trigger the reserve cap for 2025-26, there is no practical effect as the requirement applies to the adopted budget and the 45-day revision that have already passed.

Learning Recovery Emergency Block Grant

The 2024-25 state budget mandated revisions to the LCAP template instructions to implement the settlement agreement from the Cayla J. lawsuit. These changes imposed new requirements for the use of LREBG funds starting in 2025-26. LREBG funds expended between 2025-26 and 2027-28 must be supported by a needs assessment per Education Code 32526(d), with both planned and actual expenditures documented in the LEA's LCAP.

In addition, the Governor's 2026-27 budget proposal includes a $757.3 million appropriation to the LREBG, to be allocated to LEAs under the same method as the original LREBG. If adopted, this means LEAs will have additional funds that are subject to the LCAP incorporation requirements.

For LEAs that are already planning on carrying over LREBG funds to 2026-27 or beyond, any additional funds allocated through the 2026-27 adopted state budget could be incorporated into the 2026-27 budget and LCAP through a midyear update and the Annual Update in 2026-27. Other options might include the following:

- Incorporating the new allocation into their 2026-27 LCAP and budget adoption, but clearly stating in writing in the LCAP and budget assumptions that these dollars and actions are dependent on the new LREBG funds being included in the adopted state budget.

- Documenting the needs assessment in the LCAP summary sections but waiting to put the funds into the LCAP and budget. Then the dollars and actions could be added as part of the midyear update and Annual Update if the funds are approved in the state budget.

- Waiting until 2027-28 to incorporate any new funds into the budget and LCAP.

LCAP and the LCFF Equity Multiplier

As a reminder, because of the year-to-year volatility surrounding the receipt of Equity Multiplier funds for any particular school, LEAs may consider incorporating certified prior year funding allocations into their 2026-27 budget and LCAP (i.e., plan to use certified 2025-26 allocations in the 2026-27 budget and LCAP). The CDE will certify 2025-26 allocations at P1.

As a reminder, LEAs must present a midyear LCAP update annually by February 28.

Summary

This edition of the Common Message provides LEAs with data and guidance for the second 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.

APPENDIX A

Necessary Small School Funding Rates (Proposed January 2026 Governor's Budget)

Necessary Small Elementary Schools

Number of Teacher(s)	Average Daily Attendance	Funding Amount 2025–26	Funding Amount 2026-27 (with 2.41% COLA applied)
1	1 to 24	$277,457	$340,972
2	25 to 48	$549,072	$674,765
3	49 to 72	$820,926	$1,008,852
4	73 to 96	$1,092,539	$1,342,643

Necessary Small High Schools

Number of Certificated Employee(s)	Average Daily Attendance	Funding Amount 2025–26	Funding Amount 2026-27 (with 2.41% COLA applied)
1	1 to 19	$233,818	$287,344
2	1 to 19	$333,366	$409,680
3	1 to 19	$740,514	$910,033
4	20 to 38	$907,196	$1,114,871
5	39 to 57	$1,073,880	$1,319,713
6	58 to 71	$1,240,562	$1,524,551
7	72 to 86	$1,407,246	$1,729,393
8	87 to 100	$1,573,928	$1,934,232
9	101 to 114	$1,740,612	$2,139,072
10	115 to 129	$1,907,294	$2,343,912
11	130 to 143	$2,073,978	$2,548,753
12	144 to 171	$2,240,662	$2,753,594
13	172 to 210	$2,682,875	$3,297,039
14	211 to 248	$3,167,262	$3,892,311
15	249 to 286	$3,651,657	$4,487,594