

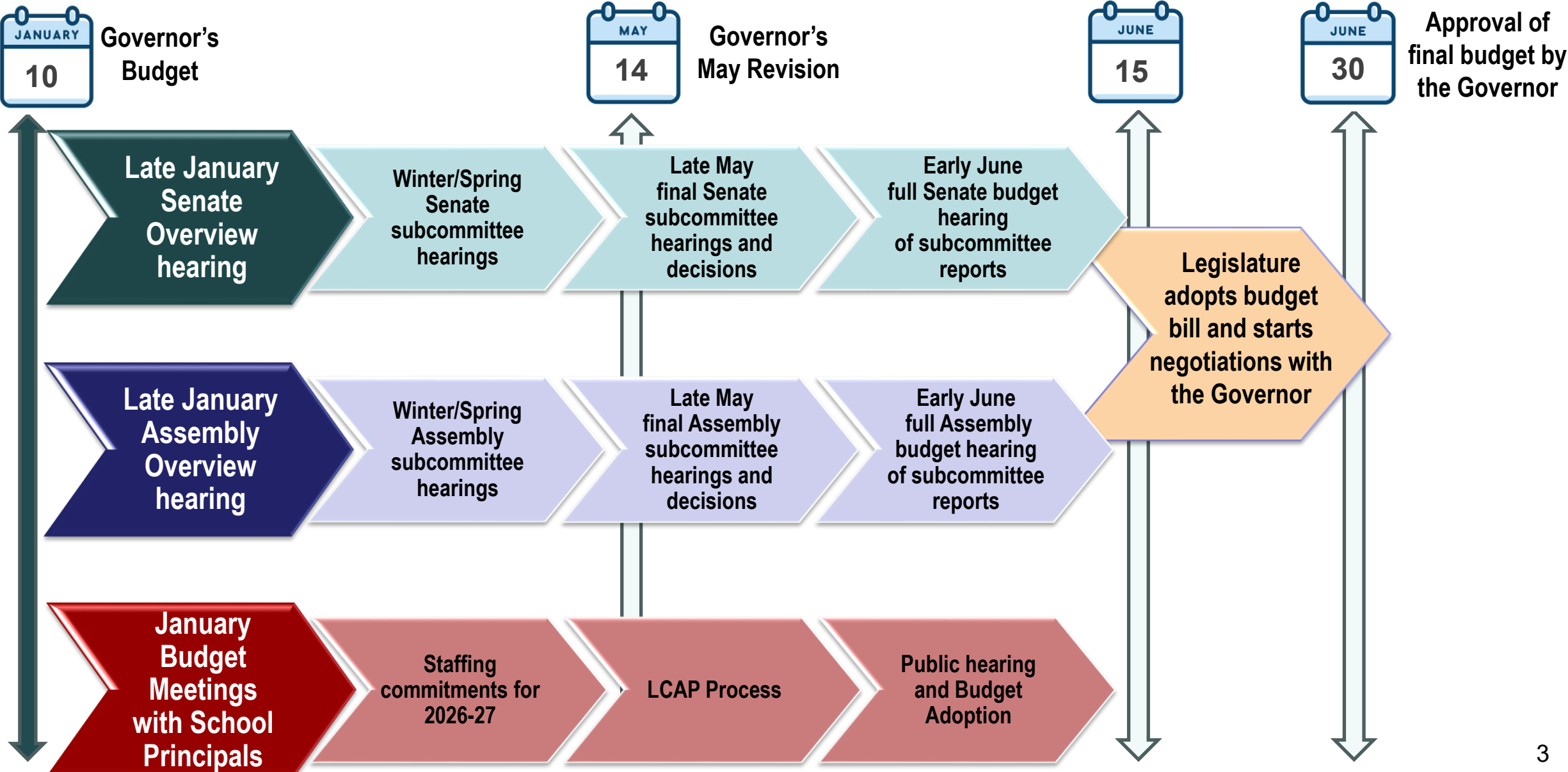
Governor's Budget Proposal for Fiscal Year 2026-2027

January 27, 2026

Agenda

- **Background and timeline**
- **Governor's proposal for 2026-27 education budget**
- **Next Steps**

State Budget Process – Background & Timeline

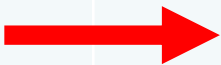


The Governor's Budget and the Economy

- The U.S. and California economies continue to grow, but highly sensitive to risks related to stock market
- Governor's budget proposal includes a \$2.9 billion deficit for the 26-27 budget
- The state projects a \$22 billion deficit in 27-28 and shortfalls in the following two years
 - State will release a plan in May to balance the 26-27 and 27-28 budget
- LAO projects a \$35 billion deficit in 27-28 and encourages the administration to take immediate steps to address this problem

Cost of Living Adjustment (COLA)

Year	COLA at First Interim 2025-26	January Budget Proposal for 2026-27
2025-26	2.30%	2.30%
2026-27	3.02%	2.41%
2027-28	3.42%	3.06%
2028-29	3.31%	3.34%

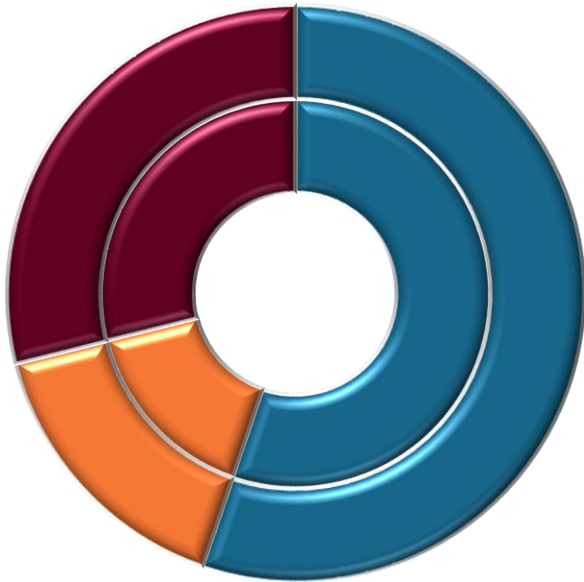


About \$600K
per year
reduction

Education Funding – Proposition 98

Governor Newsom's 2026-27 Education Priorities

■ Core Education ■ Enrichment ■ Reserves



71%

Over 70% of new spending is proposed for core education and key enrichment programs

29%

Nearly one-third of available funding used to replenish the Rainy Day Fund

“SETTLE-UP” – NEW STATE TOOL TO HOLD FUNDS BACK

Unfortunately, he also draws from last year's playbook with a proposed \$5.6 billion settle-up—26% of new education funding—to address the state deficit

Education Funding – Proposition 98

- Historically, when the state has not appropriated the full guarantee, it has suspended Proposition 98, allowing lawmakers to appropriate less than the minimum guarantee

Questions	Settle-Up	Maintenance Factor
What creates the obligation?	When revised funding level is more than previously appropriated	When the state suspends Proposition 98
Is it adjusted for inflation?	No	Yes, each year, the balance is adjusted for COLA and changes in ADA
When are payments made?	Based on a Director of Finance-determined or state-adopted schedule	Constitution requires payments when General Fund revenues are outpacing personal income
What determines payment amounts?	The Director's or state-adopted schedule	A constitutional formula

Settle-Up

- **If the State's budget deficit is \$2.9 billion, then why hold back \$5.6 billion from school districts?**
 - **State's budget problems may be bigger than what is in the proposal**
 - **Is \$5.6 billion being used to fund other priorities?**
- **\$5.6 billion translates into \$909 per ADA**
 - **For AUSD, it means approximately \$8 million (\$900 x 8,810 ADA)**

Proposed Categorical Funding

Discretionary Block Grant

**\$2.8 billion, Prop 98 (one-time)
Allocation methodology not specified**

Expanded Learning Recovery Program (ELOP)

**Guaranteed \$1,800 per-pupil funding for schools
with less than 55%UPP**

School Nutrition

**Various one-time grants to fund universal means
and kitchen equipment**

Next Steps for 25-26 Second Interim and 26-27 Budget

- We do not yet have allocation or program details for many proposals in the Governor’s Budget

Program	Include in 25-26 Second Interim and 26-27 Budget	Wait Until Signed In June 2026
2.41% COLA (all applicable programs)	✓	
School Nutrition Programs		✓
Discretionary Block Grant		✓
Expanded Learning Opportunity Grant		✓

Board Discussion & Questions