

A 3D map of California is shown on the left side of the slide. The map is white with a red star in the upper left corner, a brown bear walking on a green patch of grass in the center, and the words "CALIFORNIA REPUBLIC" in brown capital letters below the bear. The southern portion of the map is colored red. The map has a slight shadow and is set against a light gray background with some faint blue lines on the left side.

Buckeye Union School District Budget Advisory Committee

Governor's Proposed 2026-2027 State Budget – Fiscal Outlook

***Presented: BAC Meeting
May 27, 2026***

What Is The “MAY REVISION”

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The Mid-Year
Recalibration: Updating
January's proposals
with actual tax receipts.



Revenue Realities:

Updating state general fund
trajectories.



Programmatic Shifts:

Expanding, reducing, or
maintaining expenditures.



Education's Guarantee:

The legally required update on
Proposition 98 funding capacity.

Themes From the May Revision

- Governor Gavin Newsom released his 2026-2027 May Revision amid significant financial and economic uncertainty:

Projects significant personal income tax (PIT) growth fueled by capital gains in the current year and moderating in the budget year

- This eliminates projected ongoing deficits while providing budget stability that will last after he leaves office, if his forecast holds

Shores up existing programs instead of creating new ones and provides significant one-time discretionary fund preparing education for a rainy day

Proposes a new benefit to local educational agency (LEA) employees of paid pregnancy disability leave (PPDL), which he proposes to fund through the Local Control Funding Formula (LCFF)

Provides an historic increase to special education funding that surpasses the statewide equalized funding rate proposed in January

Continues his plan to under appropriate the Proposition 98 minimum guarantee to the tune of \$3.9 billion

May Revision & The Economy

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- May Revision revenues were upgraded by approximately \$16.5 billion over the budget window due primarily to PIT
- Strong capital gains collections contributed to higher-than-expected revenues

- Inflation assumptions increased from the Governor's Budget
- Rising energy prices and global uncertainty continue to pose inflation risks
- Higher costs continue to affect operating costs across state programs

- Labor market growth continues at a slower pace than prior years
- Hiring activity and job openings have moderated
- Technology and financial sectors significantly influence state revenue



- May Revision assumes moderate but stable growth
- No projected contraction

- May Revision balances both 2026-27 and 2027-28 fiscal years
- Future operating deficits reduced, but structural risks remain
- Budget solutions rely heavily on continued revenue growth and economic stability

- California unemployment remains above the national average
- Labor market conditions remain stable

May Revision & The Economy

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The Proposition 98 minimum guarantee is up more than \$6 billion over the three-year budget window



The May Revision provides significant increases in ongoing and one-time resources to LEAs



The statutory cost-of-living adjustment (COLA) is fully funded at 2.87% and an additional 1.44% increase is provided, but does not apply to all programs and comes with new spending requirements [**Mandate tied to COLA**]



Despite increased revenue, the May Revision continues to under appropriate the 2025-26 minimum guarantee by \$3.9 billion [**Approx. \$654/ADA or approx. \$2.6 Million to BUSD**]

Prop. 98: Determining the Minimum Guarantee

- Every State Budget cycle, the state is constitutionally required to calculate its obligated minimum spending level for TK-12 and community college agencies for three fiscal years using one of three “tests”

Prior Year (2024-25)

The recalculation for the immediate prior fiscal year will be subject to official state certification and will be used to finalize the state’s obligation

Test
1

Public education funding must be at least equal to its share of state General Fund revenues in 1986-87—approximately 40%

Current Year (2025-26)

This is a revised estimate based on updated revenues and student attendance factors

Test
2

Public education funding is based on prior-year funding, adjusted for changes in student attendance and personal income per capita

Budget Year (2026-27)

This is the estimated education funding level based on the state’s projection of revenue and student attendance factors

Test
3

Public education funding is based on prior-year funding, adjusted for changes in student attendance and General Fund revenue per capita, plus 0.5%

Prop. 98 Funding Maneuver Settle-Up vs. Suspension

The “Settle-Up” maneuver under-appropriates funds while bypassing all built-in mechanisms that protect long-term education funding.



Suspension (The Standard Method)

- Outstanding balance adjusted for COLA & ADA yearly.
- Constitution prescribes repayment based on revenue.
- Requires a 2/3 legislative vote.



Settle Up (The Governor's Proposal)

- No adjustments made for COLA or ADA.
- Director of Finance unilaterally determines repayment schedule.
- Requires simple majority vote.

Prop. 98 Funding Maneuver

How Did We Get Here - Again?

How We Arrived at a Shortfall

Step 1: The Tax Delay (2023)

Due to severe winter storms, the collection of 2022 federal and state income taxes was delayed. The state adopted the 2023 Budget Act flying entirely "fiscally blind" based on projections rather than actual receipts.



Step 2: The Reality Check (Late 2023)

When tax receipts finally arrived, the "Big Three" revenues had fallen by 25%. This retroactive shortfall reduced the Prop 98 minimum guarantee by \$14.3 billion.



Step 3: The Overpayment (2024)

Because schools had already been funded based on the blind projections, it resulted in a massive \$8 billion overpayment to TK-14 education that the state legally could not easily claw back.



Step 4: The Correction (2025-2026)

To balance the books, the state is now utilizing unprecedented maneuvers, including a multi-billion dollar under-appropriation of the current guarantee.



\$1.9 Billion Withheld

Prop. 98 Funding Maneuver

How Did We Get Here - Again?

The state is intentionally under-appropriating the 2025-26 guarantee by **\$3.9 Billion**.

State Appropriation

The Minimum Guarantee

Prop 98 Reserve

The Local Impact: If fully funded, LEAs would receive roughly

\$654 more per ADA

(Approx. **-\$2.6 Million** to BUSD).

\$10.3 billion

Prop. 98 Funding Maneuver

MANDATE tied to COLA – Pregnancy Disability Leave



The Mandate Tied to the COLA: **Paid Pregnancy Disability Leave (PPDL)**

The Governor proposes funding this entirely out of the **LCFF COLA**.
Applies to certificated and classified employees.



Requirements

- Pregnancy, childbirth, recovery.
- No minimum hours/length of service required.



Duration

- Full pay up to a maximum of 14 weeks.
- Determined by physician.



Tracking

- Not deducted from accrued paid leave.
- Runs consecutively with state/federal leaves.

Overview of the California Economy

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California's Bifurcated Economy: Two Distinct Realities

AI / Technology-Driven Growth



The Driver: Unprecedented capital expenditures in AI (projected to hit 2% of US GDP in 2026). California continues to lead in venture capital.



The Output: Disproportionate economic and fiscal impacts relative to their total share of employment.



The Result: Surging personal income growth driven by high-income tech and financial-sector earnings.

The Broader California Economy



The Driver: Housing affordability, elevated interest rates, and slower construction activity weighing on general economic conditions.



The Output: Modest nonfarm employment growth with several industries experiencing slower hiring and restructuring.



The Result: The labor market is increasingly described by economists as "stable, but paralyzed," with state unemployment remaining above the national average.

"California's new bifurcated economy is not one between East and West, but one between AI, Aerospace, and the like, and the rest of the economy." —UCLA Anderson Forecast

Overview of the California Economy

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AI & Tech-Driven Capital Gains



Surging high-income earnings eliminate projected ongoing deficits.



The Broader Economy

- Sluggish corporate/sales tax, rising unemployment, paralyzed labor markets.

Takeaway: The state's budget solutions rely almost entirely on outsized stock market/tech growth. Structural deficits persist beneath the surface.

Overview of the Federal Economy

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The present is uncertain, and the future is even more so. The state's economic outlook is heavily caveated by proposed shifts in federal trade and education funding.

Trump's 2026 Proposed Budget

Non-Defense Spending **-\$163B**

Proposed reduction from 2025 levels, heavily impacting federal education allocations.

Trump's 2026 Proposed Budget

K-12 Simplified Funding

Consolidates 18 formula and competitive grants into a single \$2 billion program.

Trump's 2026 Proposed Budget

Program Eliminations

Complete elimination of Adult Education, Title III (English Language Acquisition), and Migrant Education.



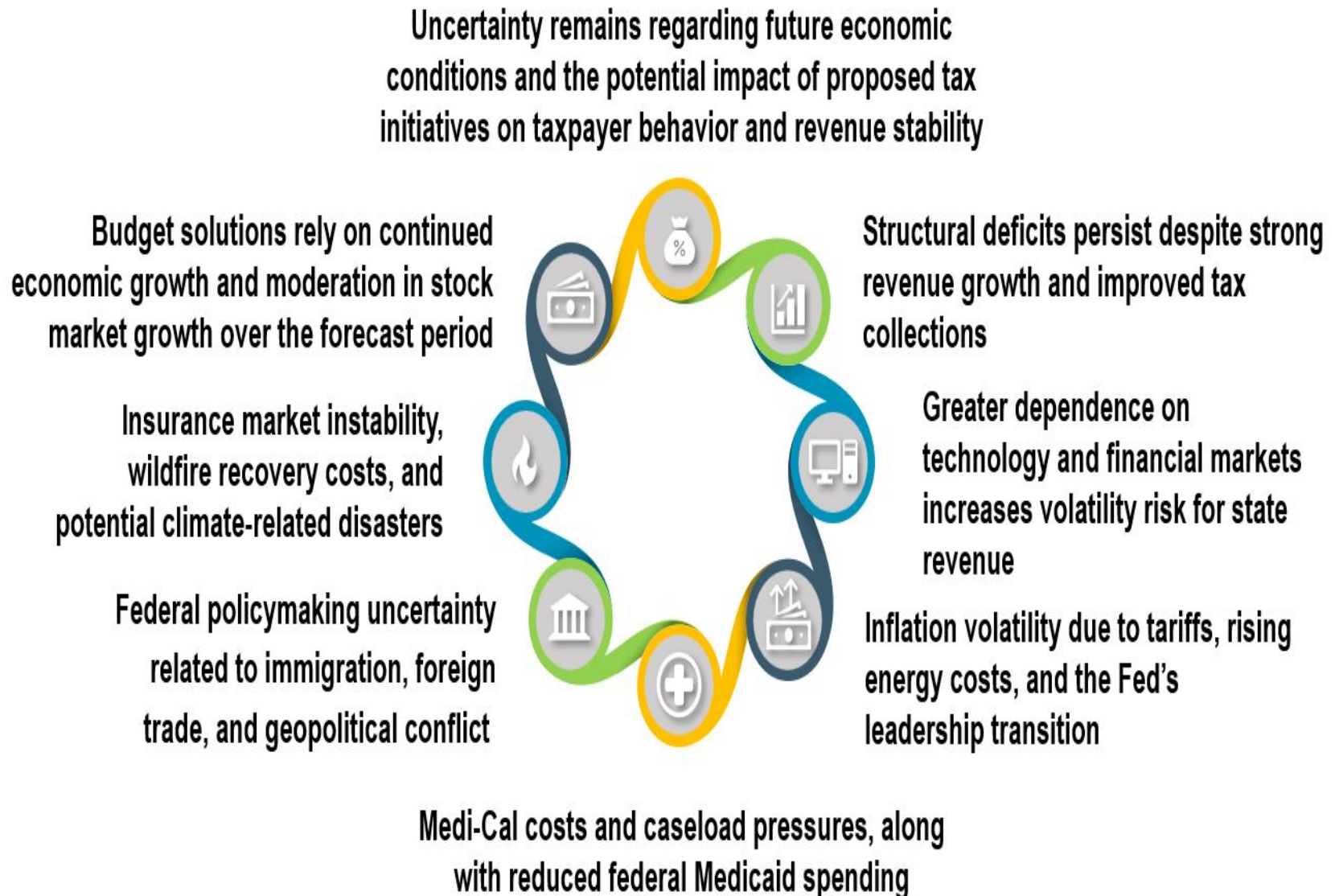
Trump's 2026 Proposed Budget

Maintained Foundations

Title I and Special Education funding remain intact under the current proposal.



Risks to the California State Budget



Risks to Prop. 98 & Education

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**The Governor's
Settle-up Proposal**

**Declining Enrollment and
Increasing Cost Pressures**

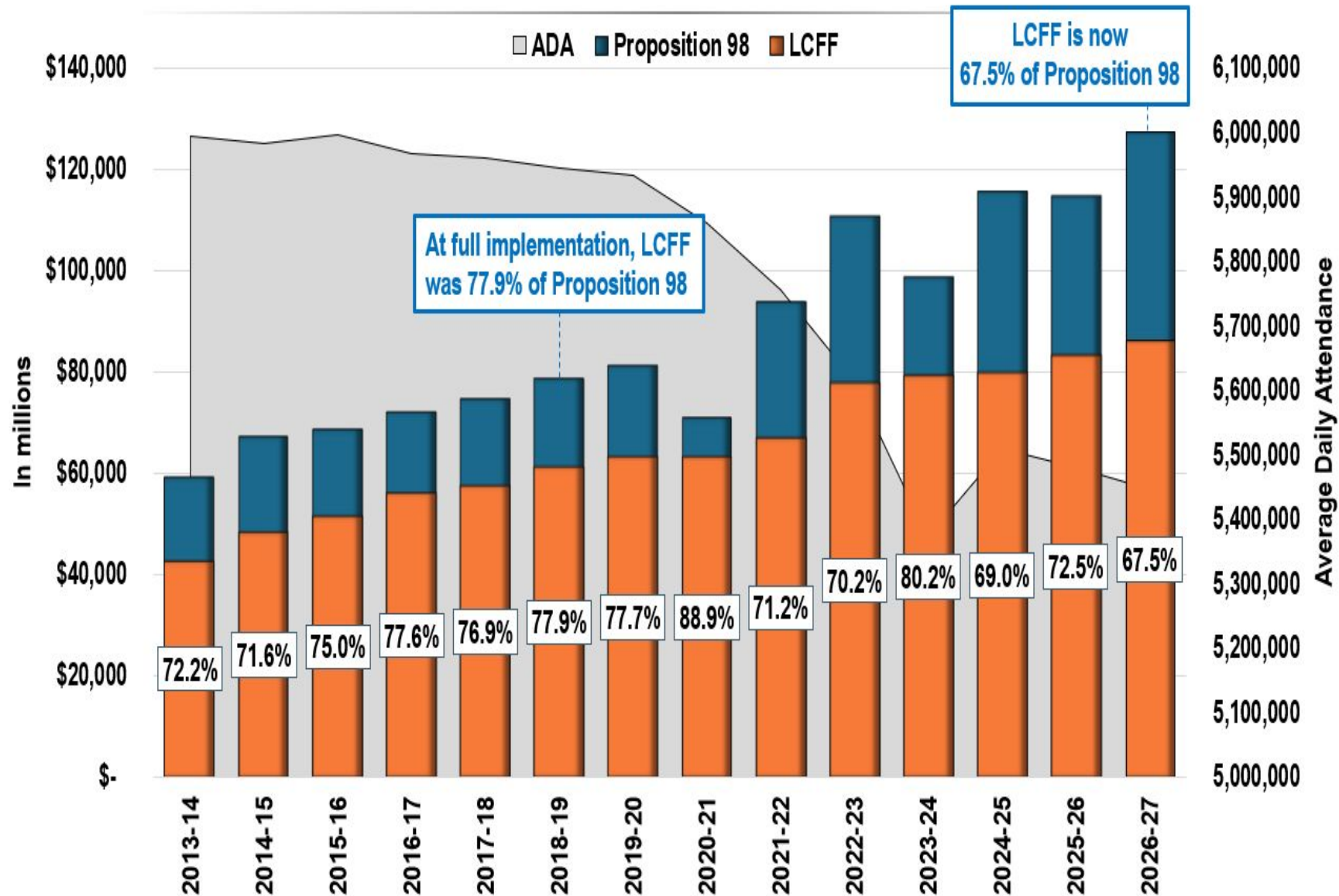
**Economic
Uncertainty**

**State Revenue
Volatility**

**Strained General
Fund Condition**

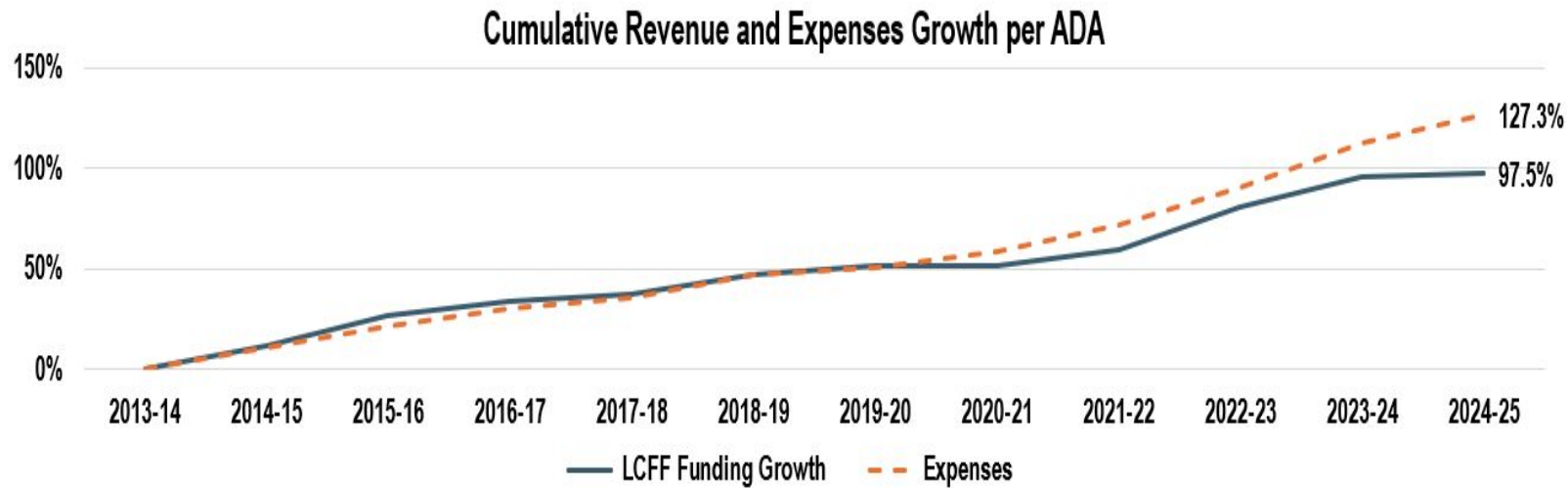
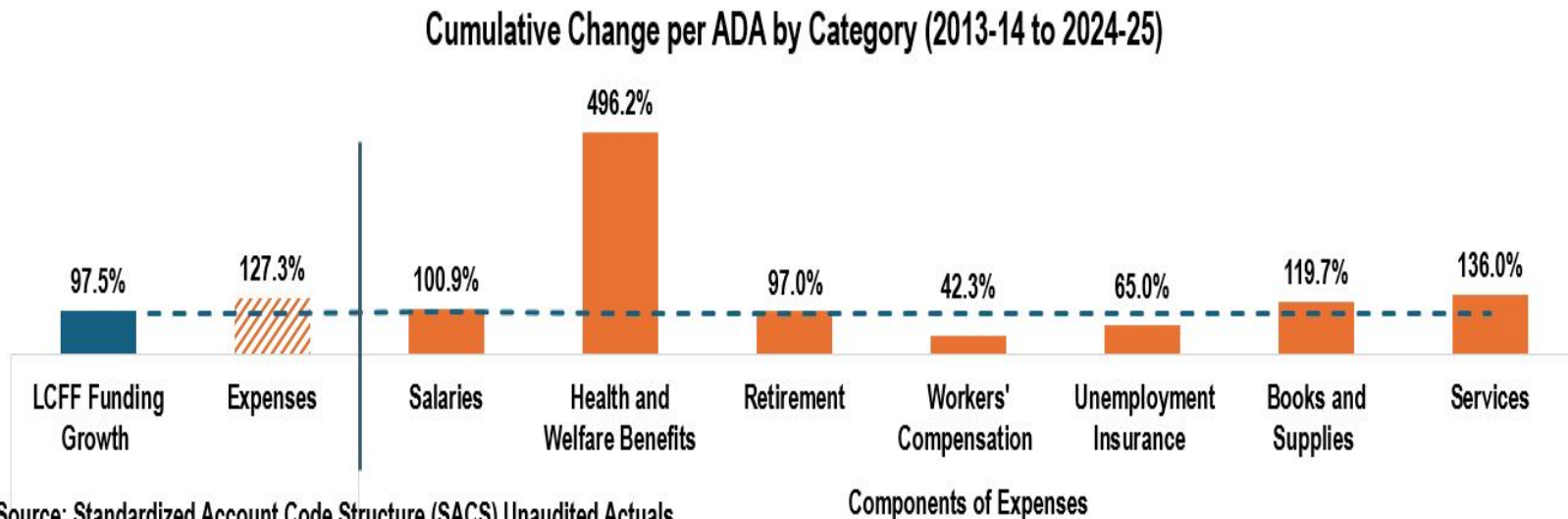
Risks to Prop. 98 & Education – LCFF Share of Prop. 98 from 2013-14 to Present

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Risks to Prop. 98 & Education – Historical Revenue & Expenditure Trends

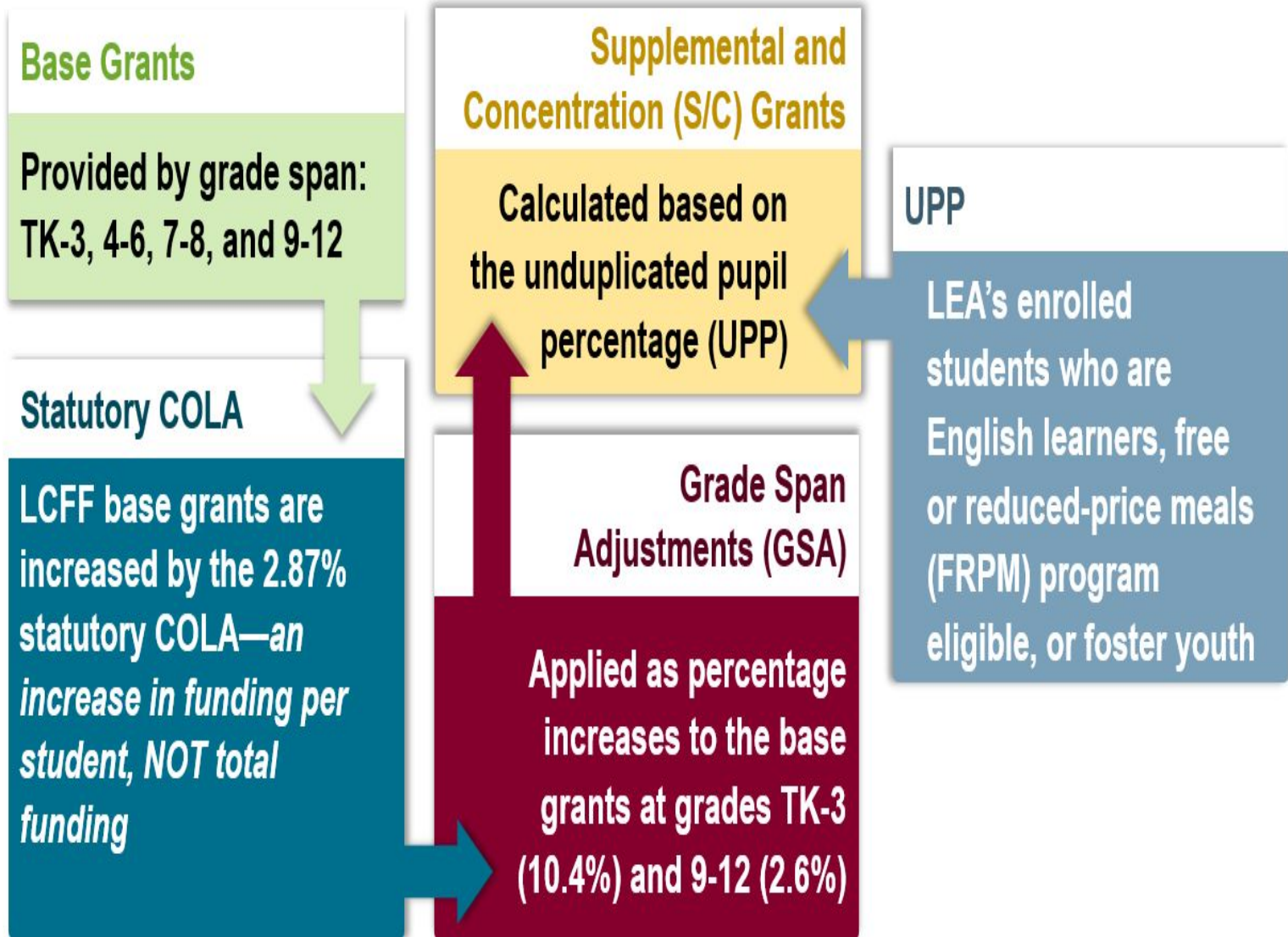
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Source: Standardized Account Code Structure (SACS) Unaudited Actuals

2026-27 School District and Charter School LCFF Funding Factors

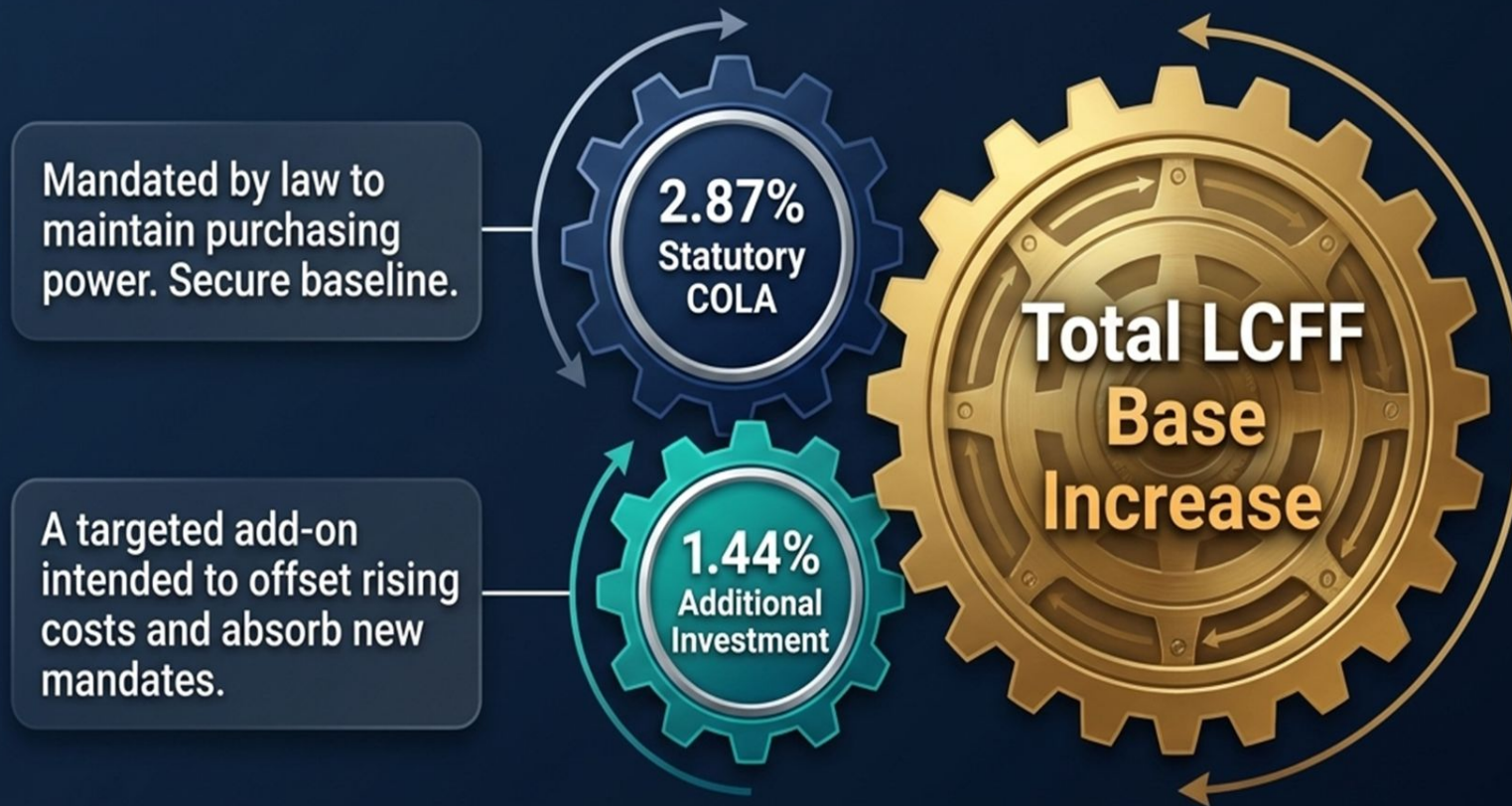
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Revenue Engine: 2026-2027 LCFF

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The Revenue Engine: Two Gears Driving the 2026-27 LCFF



Synthesis: Rather than a simple 4.31% COLA, the state split the funding mechanism. Both gears lift the base grants, but the 1.44% comes with new operational strings attached.

2026-27 LCFF Funding Factors

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Local Translation: Constructing the 2026-27 LCFF Base

Formula Builder



Note: These figures do not yet include Grade Span Adjustments (TK-3 at 10.4% and 9-12 at 2.8%) or Supplemental/Concentration grants.

2026-2027 LCFF Funding Factors

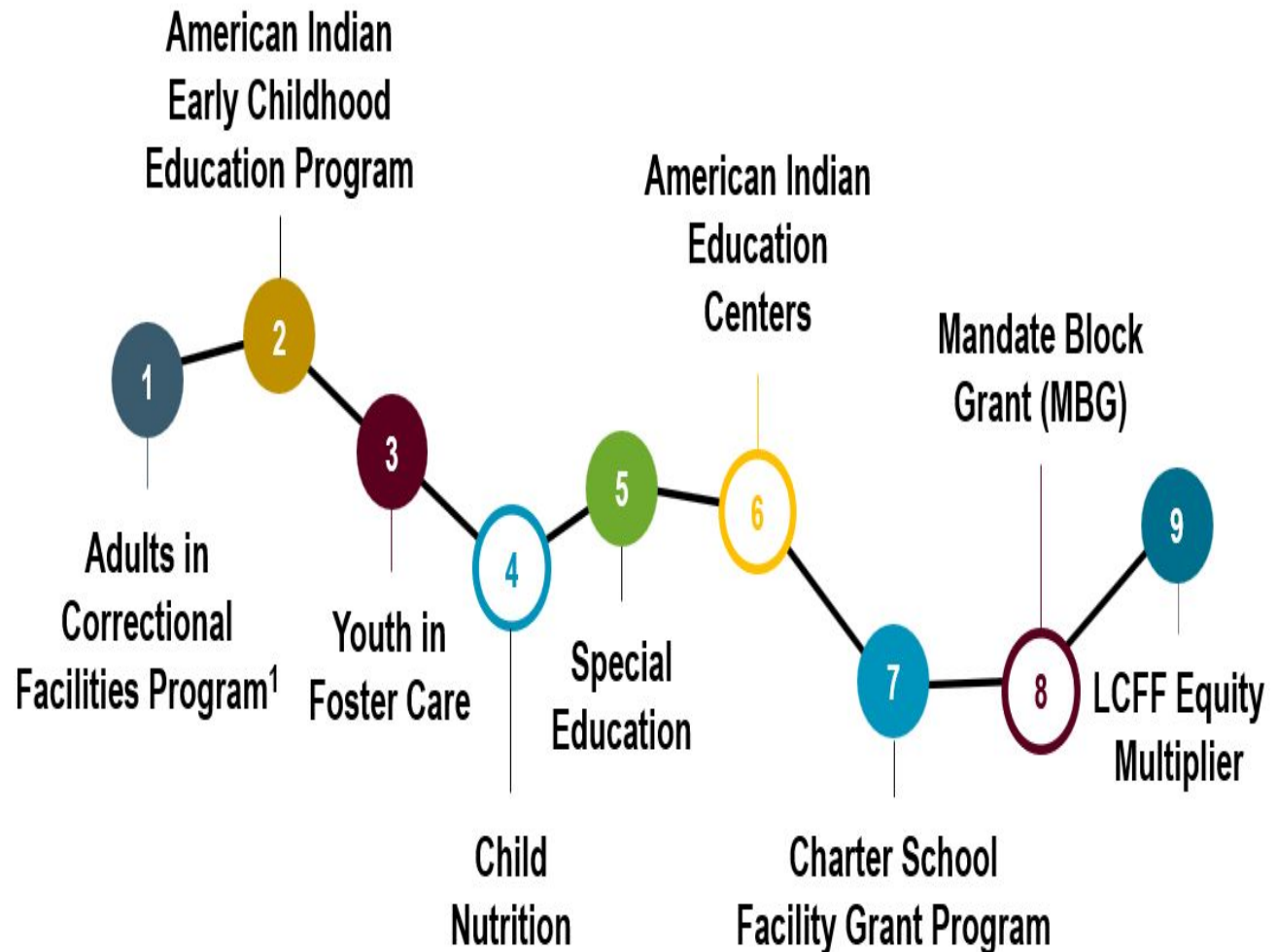
Grade Span	TK-3	4-6	7-8	9-12
2025-26 Base Grant per ADA	\$10,256	\$10,411	\$10,719	\$12,423
Statutory COLA—2.87%	\$294	\$299	\$308	\$357
Additional LCFF Investment—1.44% ¹	\$148	\$150	\$154	\$179
2026-27 Base Grant per ADA	\$10,698	\$10,860	\$11,181	\$12,959
GSA	\$1,113	-	-	\$337
2026-27 Adjusted Base Grant per ADA	\$11,811	\$10,860	\$11,181	\$13,296
20% Supplemental Grant per ADA ²	\$2,362	\$2,172	\$2,236	\$2,659
65% Concentration Grant per ADA ³	\$3,455	\$3,177	\$3,270	\$3,889
TK Add-on per ADA (inclusive of statutory COLA)	\$5,704			

¹Intended to offset rising costs and declining enrollment impacts, as well as absorb costs of new PPDL requirement

²Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 20% and UPP

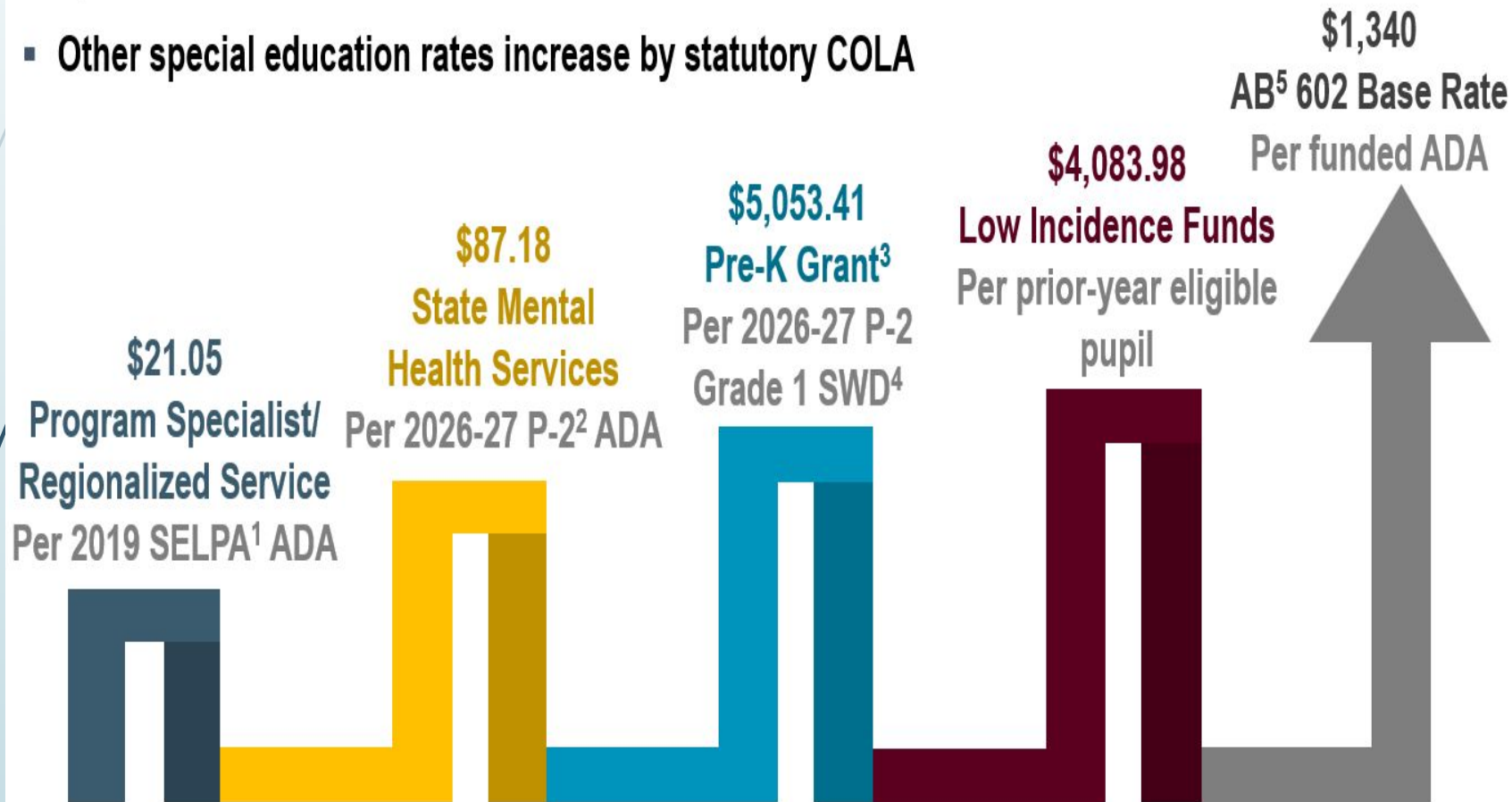
³Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 65% and UPP above 55%

2026-27 Categorical Programs Receiving 2.87% COLA



2026-27: Special Education Rate Increases

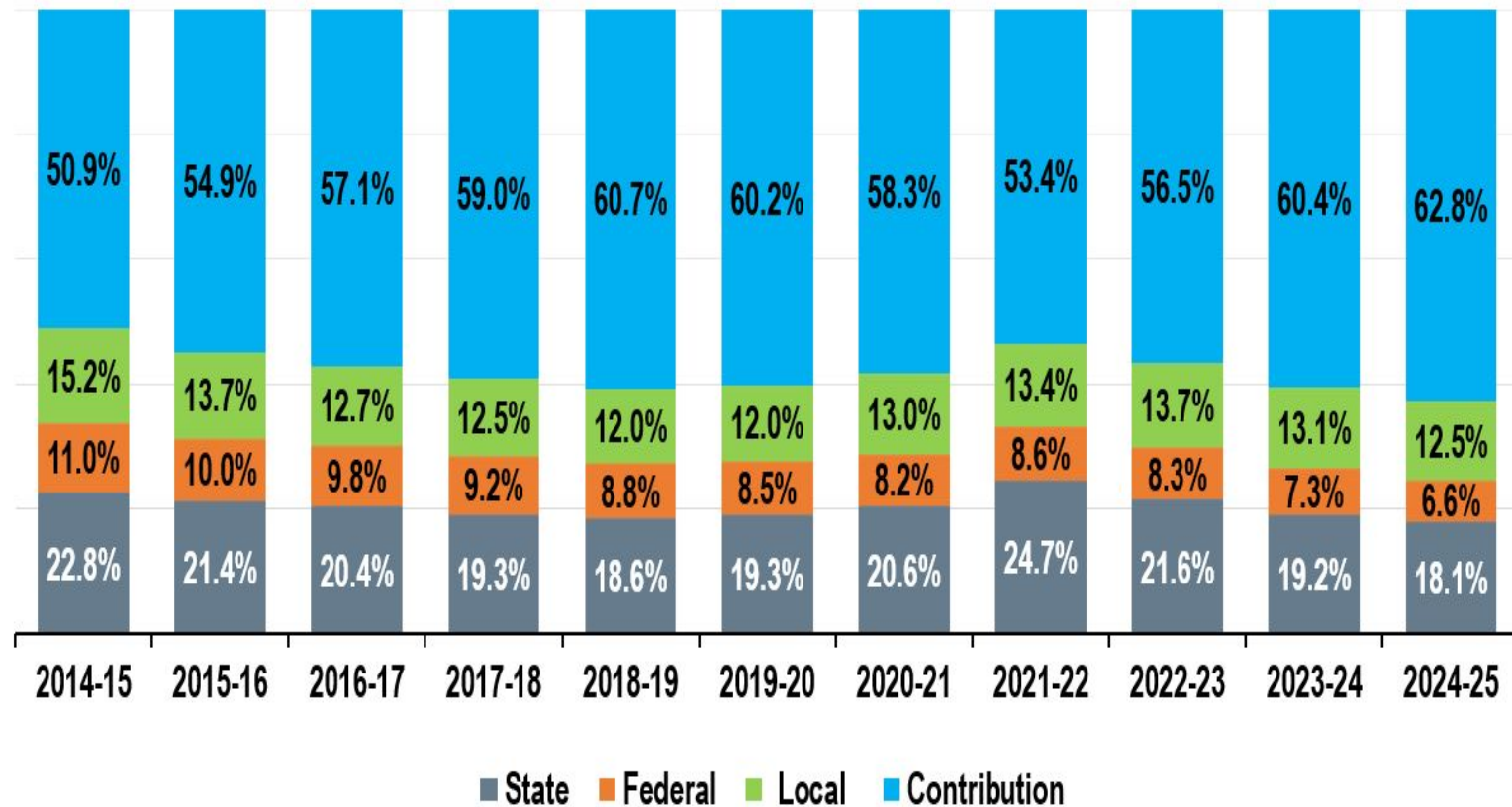
- Special education base rate to receive historic additional investment of over \$2.3 billion
- Other special education rates increase by statutory COLA



¹Special Education Local Plan Area; ²Second Principal Apportionment; ³Early Intervention Preschool Grant; ⁴Students with disabilities; ⁵Assembly Bill

2026-27: California Special Education Expenditures by Revenue Source

- Declining enrollment is impacting revenue generation for all sources
- Average General Fund contribution rate is the highest ever due to increasing expenditures



Student Support & Professional

One-Time Relief: Student Support & Professional Development Block Grant

Funding

State investment of
\$5.0 Billion.
Distributed per-ADA.

~\$936.98 per ADA
(Approx. \$3.8 Million to BUSD).

Expires June 30, 2030.

Allowable Uses

Fully discretionary,
highlighting priorities:

- ⚙ Professional development
- ⚙ Dual enrollment
- ⚙ Teacher recruitment
- ⚙ Rising costs

CAUTION

The Legislature is
pushing back. 

They may change the
allocation method
(weighting on UPP
instead of flat ADA)
or restrict the use
of funds.

May Revise – Other Items of Interest

- **Local Reserve Cap Triggered:** The state's Proposition 98 reserve is projected to reach \$10.3 billion, which exceeds the threshold to trigger the local reserve cap. As a result, for the 2026-27 fiscal year, most school districts cannot have a combined assigned and unassigned ending General Fund balance that exceeds 10%.
- **Strict Contractor Requirements:** A new proposal requires LEAs to adopt comprehensive contractor approval and evaluation policies by July 1, 2027. Contracts must be with licensed, insured entities, be nonsectarian, and reflect reasonable market value. Additionally, contractors interacting with students must meet background check requirements and maintain safety procedures. Compliance will be checked during annual K-12 audits.
- **Expanded Charter School Oversight:** Charter authorizers will face new oversight responsibilities, including expanded fiscal monitoring of enrollment, attendance, and credit/debit card transactions.
- **Prop 28 – Art and Music:** Funding Continues in 2026-2027



May Revise – Other Items of Interest

- **Expanded Learning Opportunities Program (ELOP):** Funding is increased by \$62.4 million to \$4.67 billion ongoing. For "Rate 2" LEAs (those with an unduplicated pupil percentage below 55%), the state guarantees a per-pupil funding amount of at least \$1,800 moving forward.
- **Statutory COLA for Categoricals:** A 2.87% statutory COLA will be applied to several programs outside of the LCFF, including Special Education, Child Nutrition, Youth in Foster Care, and the Mandate Block Grant. **[No Super COLA]**
- **Teacher Workforce Investments:** The budget continues to invest in educator recruitment, including \$250 million for the Teacher Residency Grant Program and \$16.2 million for Golden State Teacher Grants targeted at special education credential candidates.
- **Literacy Coaches and Reading Specialists:** The state is providing \$440 million in new one-time funds to augment the existing grant program and extend its encumbrance period through June 30, 2031.
- **Community Schools:** The **budget maintains \$1.0 billion in ongoing funds** to expand the community schools model for sites with an unduplicated pupil percentage of 65% or more.
- **Menstrual Products Mandate:** The state proposes adding the menstrual products mandate (which requires free products in 6-12th grade restrooms) to the Mandate Block Grant.



May Revise – Other Items of Interest

☐ Nutrition Investment

- ☐ The Governor remains committed to fully funding the Universal School Meals Program
 - ☐ REMINDER: LEAs¹ must provide breakfast and lunch to students that request a meal, free of charge for each school day, and LEAs must participate in the federal National School Lunch Program (NSLP) and School Breakfast Program to receive state reimbursement
- ☐ The Governor is also providing additional funding for the SUN Bucks Program
 - ☐ \$90.7 million in additional ongoing dollars for a total of \$1.94 billion (state funding) in 2025-26 to fully fund the Universal School Meals Program
 - ☐ SUN Bucks Program
 - ☐ \$21.9 million in additional ongoing funding to support the SUN Bucks Program - \$120 in grocery per eligible child - summer
 - ☐ 2022-23 KIT Encumbrance and Reporting Extension
 - ☐ Proposes to extend the 2022-23 Kitchen Infrastructure and Training (KIT) encumbrance and reporting deadlines from June 30, 2025, to June 30, 2026

PROP 30/55 – Major Concern

The Looming Tax Cliff: Proposition 30/55

- **Context:** Prop 30/55 PIT makes up about 6.2% of the 'Big Three' state revenues. It is set to expire in 2030.
- **The Action:** The California Teachers Association (CTA) has submitted 1.6 million signatures (875k needed) to qualify a permanent extension for the November ballot.



Employer Pension Contributions: CalSTRS vs. CalPERS



Takeaway: CalSTRS provides baseline stability at 19.1%, while CalPERS projections offer a slight easing of rates over the next five years.

Next Steps: Budget Development

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Budget Development Risk Matrix

Proposal	Risk Level	Context
2.87% Statutory COLA	Nearly Zero Risk	Known number as of April 2026.
1.44% Addl. Investment	Nearly Zero Risk	Policy is unopposed, but exact funding subject to negotiation.
Discretionary Block Grant	Medium Risk	Ultimate funding level, ADA vs UPP allocation, and flexibility still heavily negotiated.
Special Education Base Rate	Low Risk	Broad support, but ultimate level subject to negotiation.

Next Steps: Budget Development

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Next Steps: BUSD Adoption Timeline

Compliance Rules before July 1



June 10, 2026:

Board Meeting - First Review of BUSD 2026-2027 Budget and LCAP.



June 24, 2026:

Board Meeting - Vote on LCAP and Budget Adoption.



August 2026:

45-day Material Revision made to Budget (if negotiated state changes require it).

Next Steps: Budget Development

Final Thoughts: A Softening Economy

"The Governor's proposals align with a softening economy—prioritizing the preservation of existing programs over the creation of new ones. However, the unprecedented conditioning of the COLA with a new program mandate, combined with the return of the Proposition 98 maneuver, places distinct operational pressures directly onto local districts."



BUSD Budget Advisory Committee |
Moving toward June 10 First Review.

Next Steps

- June 10, 2026 BUSD Board Meeting - First Review of BUSD 2026-2027 Budget and LCAP;
- June 24, 2026 BUSD Board Meeting to Vote on LCAP and Budget Adoption
- August 2026 – Material Revision made to Budget, if needed.

FINAL THOUGHTS?

- The Governor's proposals are largely to be expected in a softening economy, with a focus on maintaining programs instead of creating new ones
- What was less expected was the Administration's conditioning COLA with a program Mandate AND the Prop. 98 Maneuver, again.
- THANK YOU FOR ATTENDING

QUESTIONS?