School Services of California INC.
An Employee-Owned Company

San Bernardino County Superintendent of Schools
Business Services Conference

October 30, 2026

Presented By:

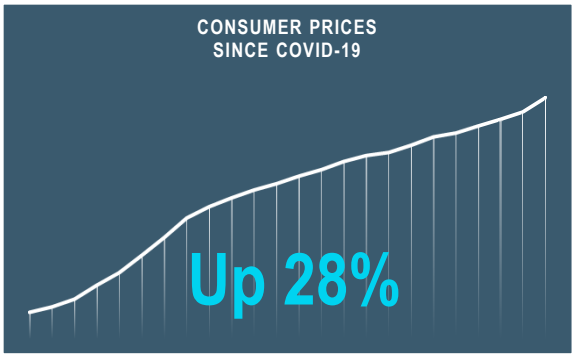
John D. Gray
Chief Executive Officer

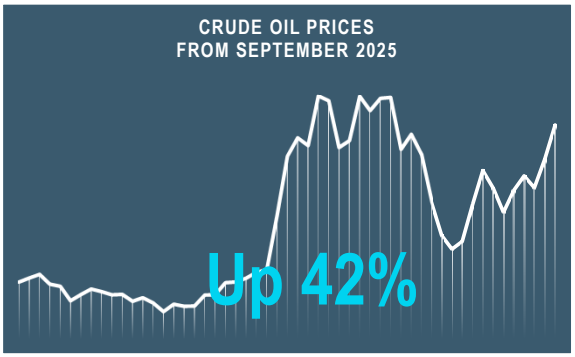
Patti F. Herrera, EdD
President

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1 Key Economic Indicators

- U.S. unemployment has remained stable
- Everyday consumers are feeling the pinch of inflation
- Fuel costs are driving prices up across the broad economy, and most especially at the gas pump



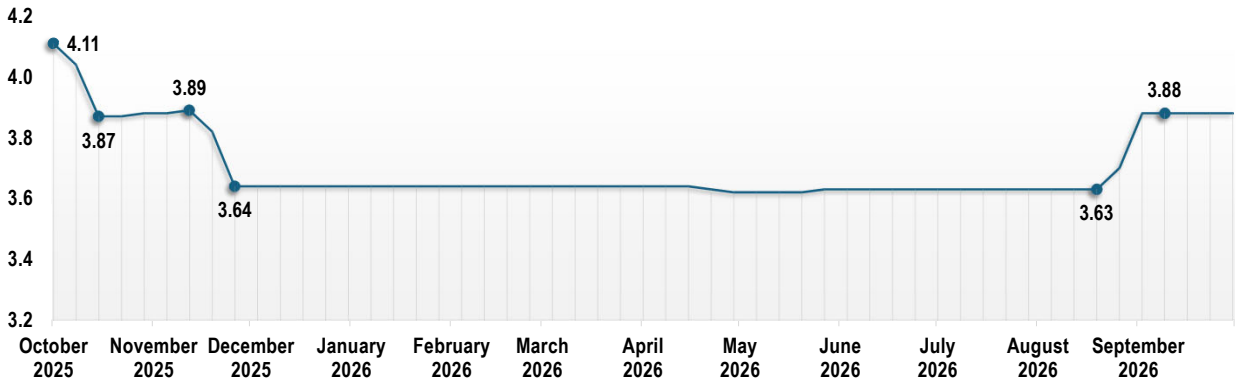


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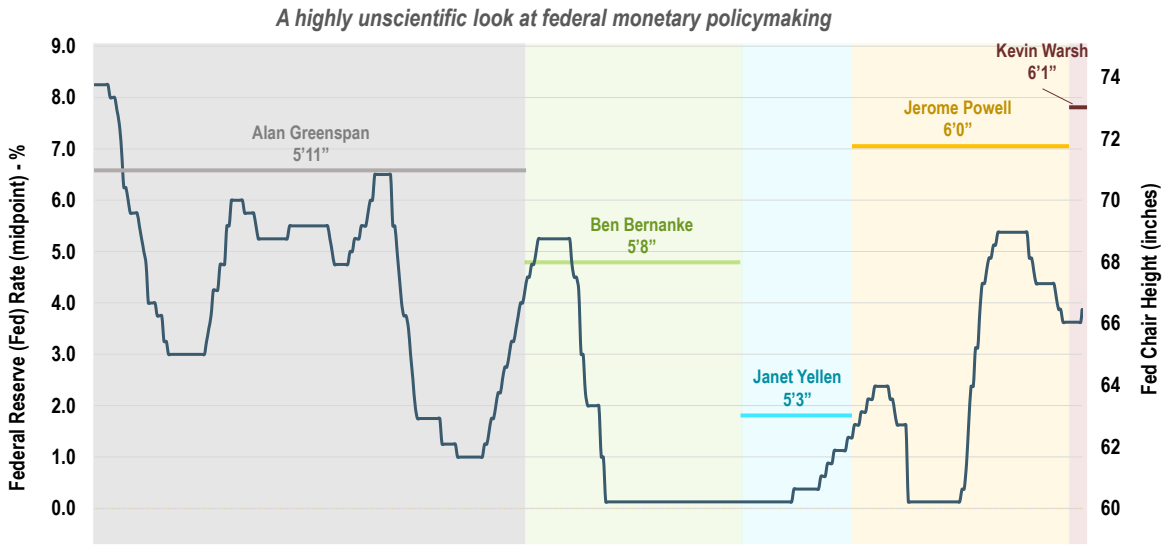
2 Federal Funds Rate (Percent)

- One of the Federal Reserve's (Fed) mandates is to control consumer prices
- The Fed began tightening monetary policy after a short period of relative interest rate stability



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3 Predicting Fed Rates—Correlation or Causation?

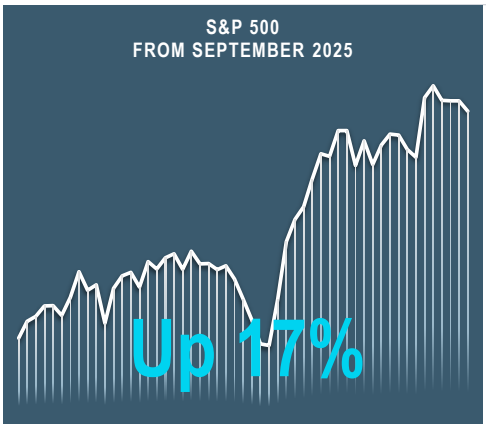


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4 Wall Street



2026-27 Fiscal Year-to-Date through September

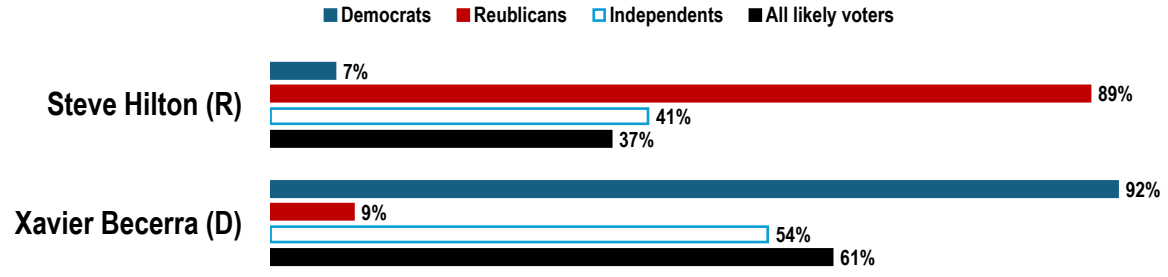
Revenue Source	Forecast	Actual	Difference
Personal Income	$30,704	$33,109	$2,405
Corporation Tax	$3,976	$5,770	$1,794
Sales and Use Tax	$8,446	$8,699	$253
Other Taxes	$2,259	$2,470	$211
Total	$45,385	$50,048	$4,663

- Wall Street remains exuberant over artificial intelligence, but the S&P 500 is heavily reliant on seven companies, which make up 35% of the total index value —the "Magnificent 7"
- Stock market performance is buoying state revenues

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5 California Political Landscape—Implications for Education

California Governor's Race
Public Policy Institute of California, October 28, 2026



California State Legislature

	Incumbent Seats	Open Seats
California State Senate	11	9
California State Assembly	67	13

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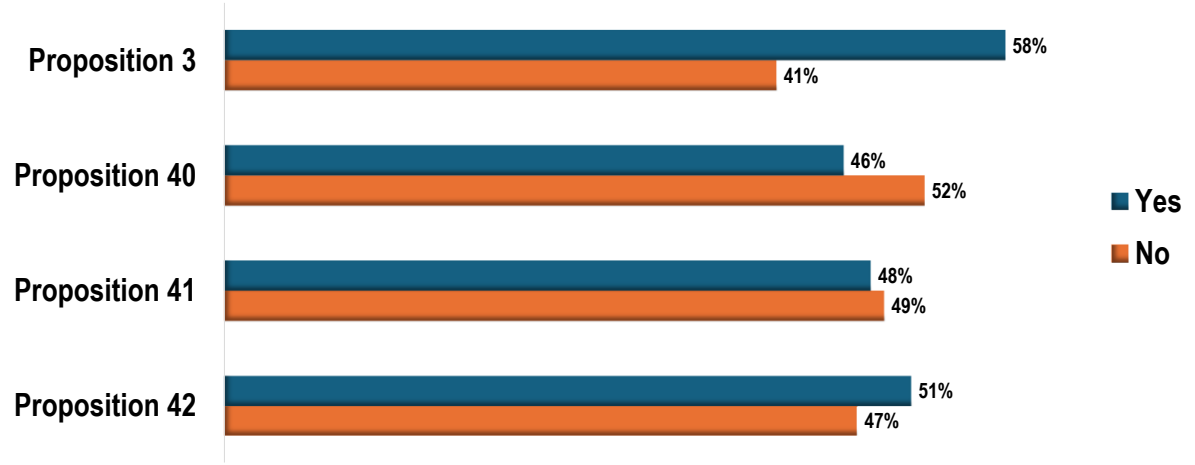
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6 California Political Landscape—Implications for Education

California Tax Initiatives

Public Policy Institute of California, October 28, 2026



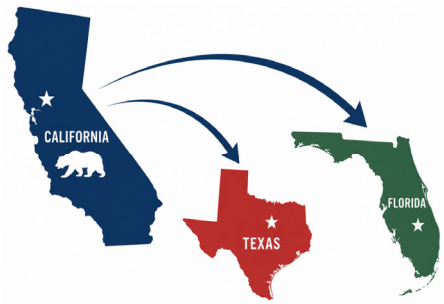
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7 Proposition 40 (Billionaire Tax Act)

Name	Net Worth (in billions)
Larry Page[1]	$256.2
Sergey Brin[1]	$236.4
Mark Zuckerberg	$225.1
Peter Thiel[1]	$26.7
Jan Koum	$17.1
Don Hankey[1]	$8.1
Steven Spielberg[1]	$7.0
Reed Hastings	$5.1
David Sacks[1]	$2.0
Andy Fang	$1.7

- Proponents estimate $100 billion in revenue
- Per a Hoover Institution study, departures, avoidance, and long-term tax base erosion could reduce actual collections to closer to $40 billion
- The Supreme Court indicated that heightened scrutiny may apply to the retroactive provision

- Publicly announced billionaire departures reduced the tax base by nearly 30% before signatures were submitted
- Likely additional outmigration reduces expected collections to ~$40 billion
- Estimated net present value: ~$24.7 billion after lost income tax revenues, with most simulations producing a negative outcome



[1]Confirmed departure prior to January 1, 2026

Source: Hoover Institution, *The Net Present Value of the Billionaire Tax Act* (March 2026)

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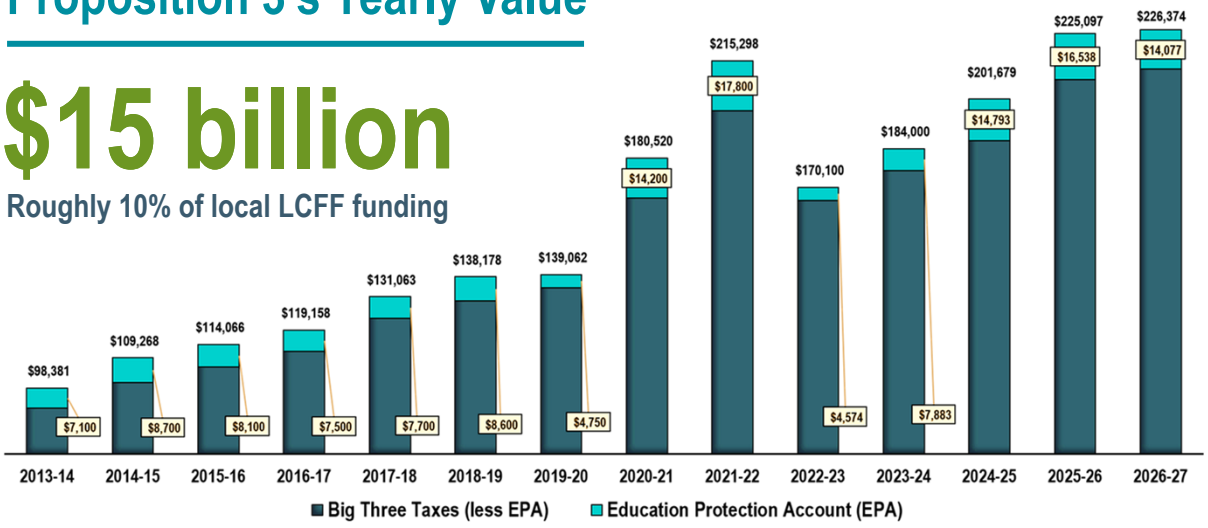
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8 Proposition 3—What It Means for Education

Proposition 3's Yearly Value

$15 billion

Roughly 10% of local LCFF funding



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9 "We Can't Wait" and Collective Bargaining

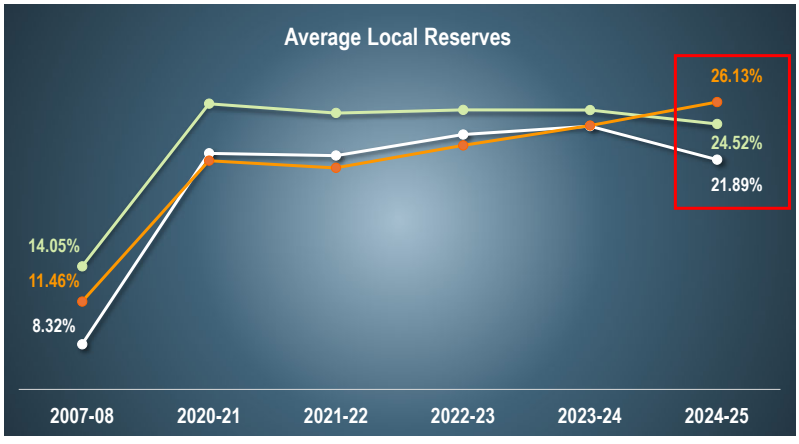
CTA's[1] effort to pass Proposition 3 has been the driver to the "We Can't Wait" Campaign

Double-digit salary demands, full/increased benefits, lower class sizes, lower special education caseloads

WE
Salary

CAN'T
Benefits

WAIT
Caseload



[1]California Teachers Association

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10 Classified Employee Ratio Working Group

- The California Department of Education (CDE) convened a working group to develop recommendations for classified employees as required by AB 1273 (Bonta, Statutes of 2024)
- In July 2026, the CDE reported the working group's recommendations to Governor Gavin Newsom and the Legislature

Classifications

- Assignment clusters by environmental setting, type of work, enrollment impact, and specialized needs
- Classified Employee of the Year framework, plus expanded classifications

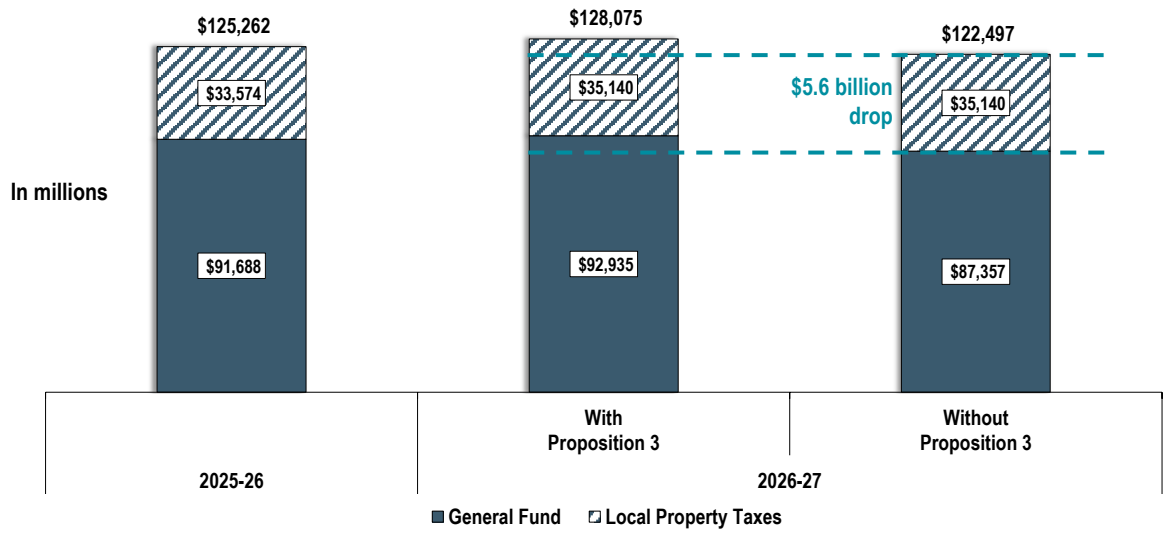
Localized

Recommendations should take local factors into account, such as enrollment, geography, collective bargaining agreements, facilities, and student needs

Workgroup TK-12 Groupings
Clerical and Administrative Services
Custodial, Maintenance, and Grounds Services
Food and Nutrition Services
Health and Student Services
Information Technology Services
Library and Media Services
Paraprofessional Services
Student Safety and Security Services
Translation and Interpretation Services
Transportation Services

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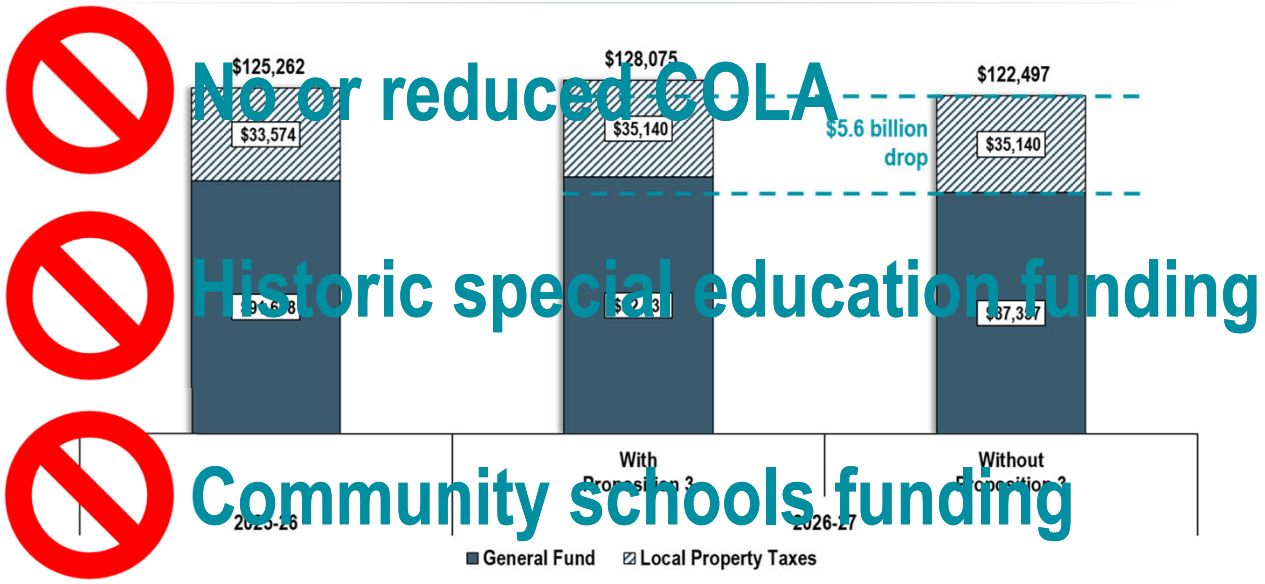
11 Proposition 98 Funding—With and *Without* Proposition 3



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12 Proposition 98 Funding—With and *Without* Proposition 3



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13 2027-28 COLA

Federal Implicit Price Deflator for State and Local Governments

	Q2	Q3	Q4	Q1
2025-26	132.430	133.690	134.578	136.278
2026-27	141.118	143.275	?	?

Source: Bureau of Economic Analysis

- Current inflationary and economic trends directly impact the statutory cost-of-living adjustment (COLA) for the impending 2027-28 fiscal year
- We have 6 of the 8 data points used to compute COLA for 2027-28
- Assuming no change in the quarterly rate of government prices, COLA would be 6.33%
  - Applied to the Local Control Funding Formula, special education apportionments, and various categorical programs

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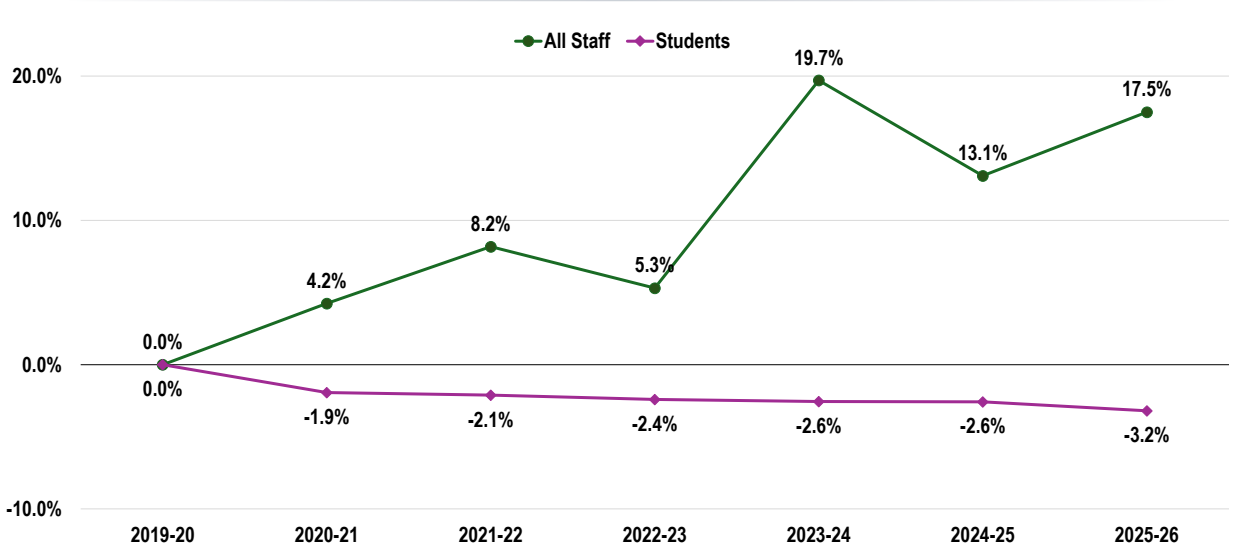
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14 Assembly Bill 1200 Implications?

Next State Takeover Unified School District Unrestricted General Fund Multiyear Projection			
Description	**2026-27**	**2027-28**	**2028-29**
Revenues	$521,600,640	$534,836,086	$547,874,246
Expenses	$524,152,348	$535,554,972	$546,154,803
Contributions	($218,720,812)	($226,205,441)	($228,056,377)
Net Increase/Decrease	($221,797,233)	($226,924,326)	($226,336,933)
Beginning Balance	($61,818,485)	($283,615,718)	($510,540,044)
Ending Fund Balance	($283,615,718)	($510,540,044)	($736,876,977)

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15 Local Fiscal Pressures—San Bernardino County "Alligator"



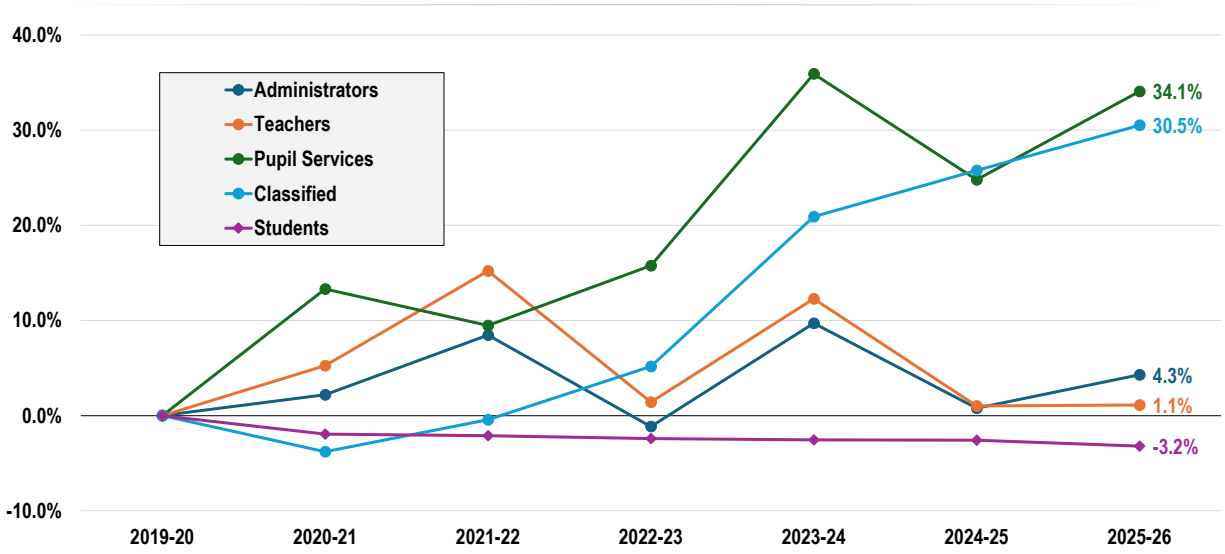
Source: California Department of Education (CDE)

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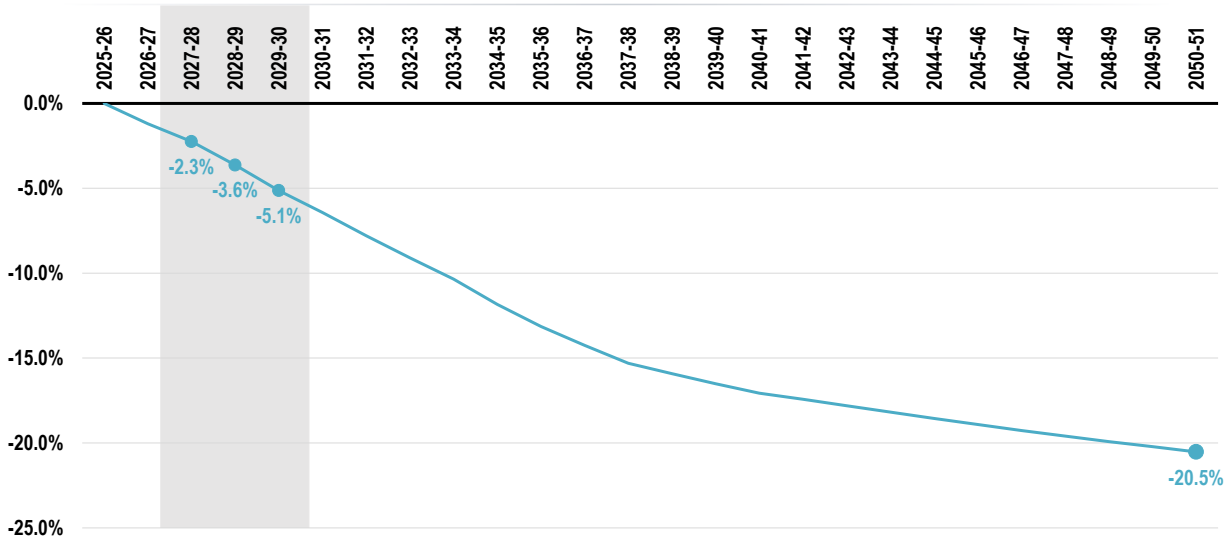
16 Local Fiscal Pressures—San Bernardino County "Alligator"



Source: California Department of Education (CDE)

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17 Inland Empire Student Enrollment Projections



Source: California Department of Education (CDE)

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18 Student Support and Professional Development Block Grant

$5.0 billion

$935 per ADA
Based on 2025-26 Second Principal Apportionment data

2025 FCMAT[1] estimate for education's exposure from AB 218 — **$2.0 billion to $3.0 billion**

Use of funds

Discretionary with state priorities highlighted including:

- Professional development, dual enrollment and career pathways, teacher recruitment and retention, and rising costs

Expenditure Deadline

June 30, 2032

Final Expenditure Report

September 30, 2032

- Unexpended funds will be collected

Budget Trailer Bill Clarification

- Requires hearing on declining enrollment to be held in conjunction with the Local Control and Accountability Plan (LCAP) public hearing on plans to address the impact of declining enrollment, including but not limited to:
  - Attracting and retaining students
  - Strengthening course offerings
  - Class size reduction
  - New program opportunities
  - Facilities management
  - Local revenue options
- Did not clarify the prohibition to charge professional fees

[1]Fiscal Crisis and Management Assistance Team

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19 New Digital Product Sales and Use Tax

EFFECTIVE JAN. 1 2027

- SB 122 extends sales tax to digital products, including prewritten software
  - Under certain conditions, may apply to contracts executed before January 1, 2027
  - Will impact financial and payroll systems, student information systems, productivity applications, cybersecurity software, and subscription-based platforms

What You Can Do Now to Prepare

1 Take Inventory



- Familiarize yourself with products subject to tax
- Identify and price all software, SaaS, and digital subscriptions
- Include current and planned purchases

2 Review Contracts



- Review existing agreements that extend beyond January 1, 2027
- Engage vendors about their plans to implement new tax

3 Plan and Budget



- Update current year budget and multiyear projections, as appropriate, for cost impact of new tax
- Assess ongoing operational impact

4 Collaborate



- Work with IT, purchasing, and fiscal teams
- Develop internal processes to track and apply tax

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20 Paid Pregnancy Disability Leave—Differing Opinions

- Paid PDL is a new entitlement for LEA employees with no case law interpreting its application
- Use best information available now and prepare to adjust practice as interpretation develops

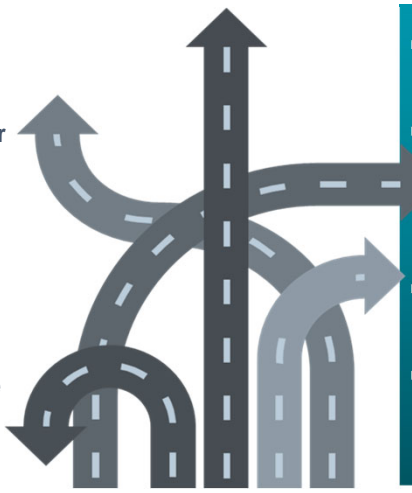
Up to 14 weeks

Fully paid leave for public school employees disabled by pregnancy or related conditions, available beginning January 1, 2027

1.44% LCFF Additional Investment

Law[1] states that LEAs shall use the funds from the 1.44% additional investment in the LCFF to reimburse paid PDL costs—COLA with strings!

[1]Education Code § 42238.022(b)(1) and (4)



- Differences in legal interpretation do not obstruct practice
- Leave entitlement will vary by employee; not every pregnancy-related disability will follow the maximum leave scenario
- Rely on your LEA's legal counsel for complicated leave cases
- The legal aspects of employee leave are complicated, but the operational path does not have to be!

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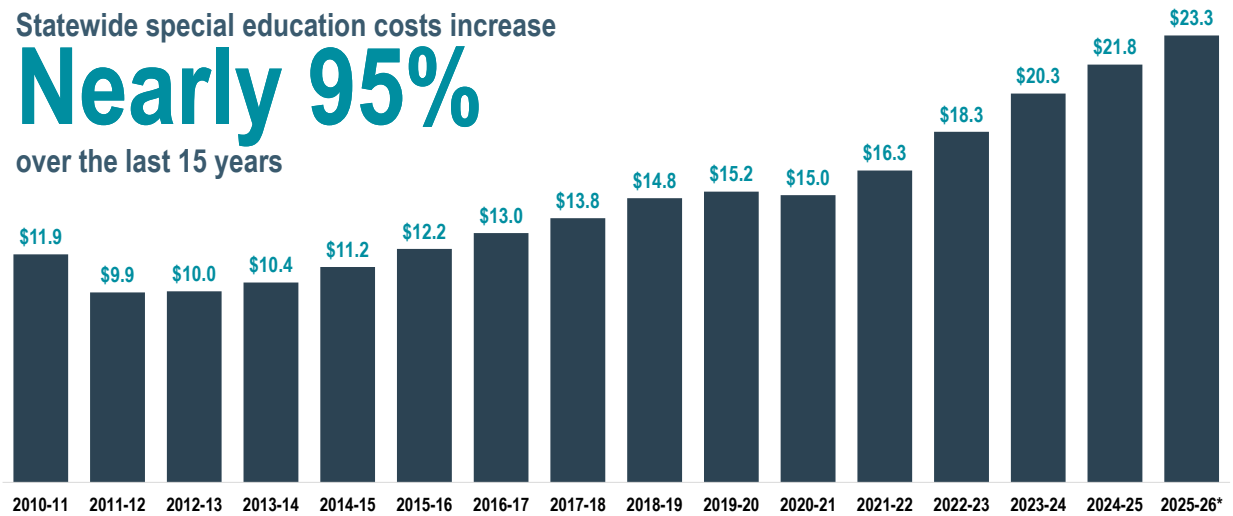
21 Statewide Special Education Expenses

In billions

Statewide special education costs increase

Nearly 95%

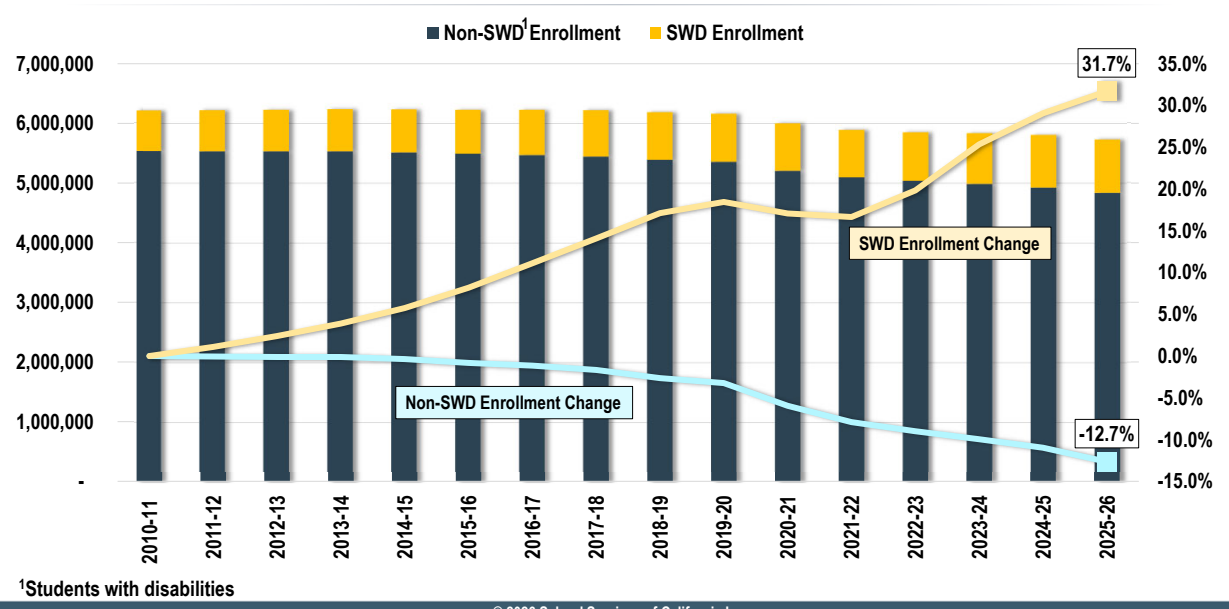
over the last 15 years



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22 Statewide Student Trends



[1]Students with disabilities

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23 Settle-Up Payments

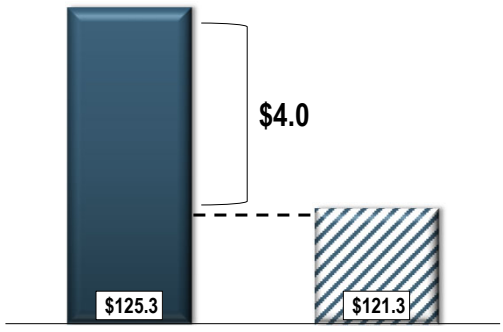
Settle-up payments will be deposited into the Proposition 98 Reserve

The Legislature will decide when and how they will be allocated to districts

2025-26 Settle-Up Repayment

2027-28 May Revision Revenue Estimates	=	A
2026-27 Enacted Budget Revenue Estimates	=	B
Difference in Estimates	=	(A-B)
Proposition 98/Proposition 2 Obligations	=	C
Settle-Up Repayment	=	[(A-B)-C] x 33%

2025-26 Minimum Guarantee
(in billions)

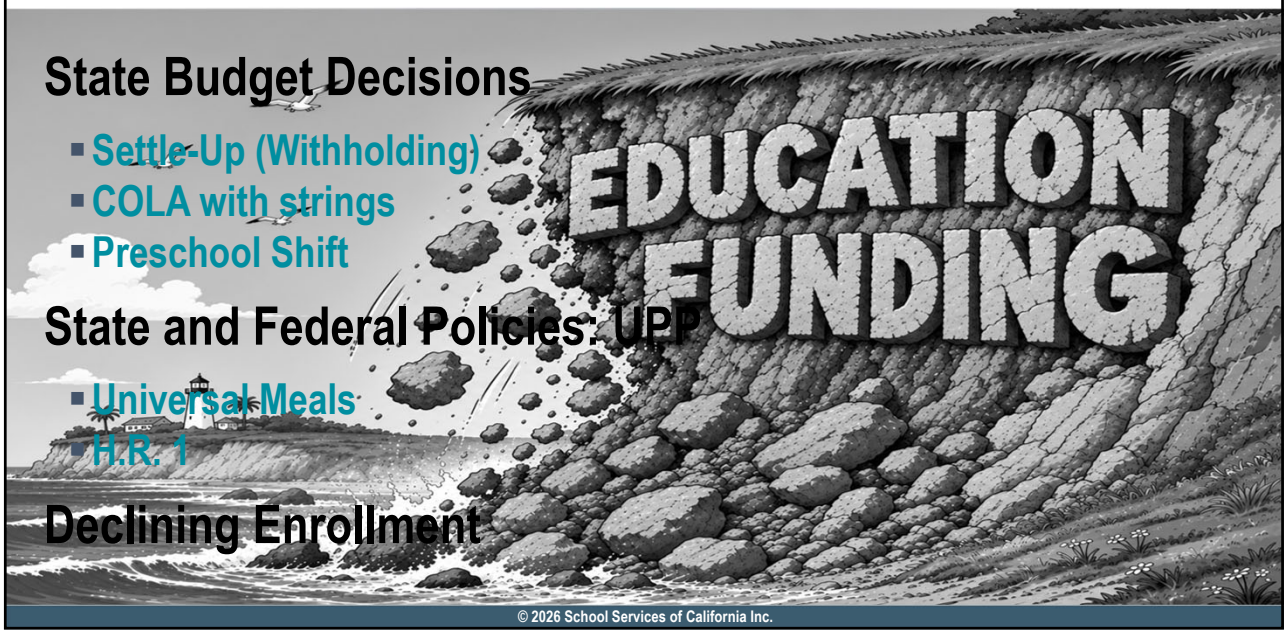


Note: Difference in settle-up amount is due to rounding

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24 **Trends Eroding Education Funding**



State Budget Decisions

- Settle-Up (Withholding)
- COLA with strings
- Preschool Shift

State and Federal Policies: UPP

- Universal Meals
- H.R. 1

Declining Enrollment

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Thank you!

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