

SRCS Information on the 2025-26 Governor's May Revision & 2024-25 Third Interim

May 28, 2025

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Presentation Items

- The Annual Budget Reporting Cycle
- Information on the 2025-26 Governor's May Revision
- Overview SRCS 2024-25 Third Interim
- SRCS 2024-25 Third Interim Budget Assumptions
- SRCS 2024-25 Third Interim General Fund 01 Revenues & Expenditures
- SRCS 2024-25 Third Interim General Fund 01 Multi-Year Projection
- Areas to Monitor
- Next Steps

The Annual Budget Reporting Cycle

WE ARE HERE

WE ARE HERE

May

3rd Interim Financial Report (If Qualified at 2nd)

March

2nd Interim Financial Report

Feb. to June

SRCS Next Year LCAP & Budget Planning & Development

February

LCAP Mid Year Update

May

Governor's May Revise (For next year)

June

LCAP & Budget Adoption

June

Enacted State Budget

August

45 Day Budget Update

September

Unaudited Actuals (prior year)

December

1st Interim Financial Report

January

Governor's Budget Proposal (For next year)

January

Audit Report (prior year) (without extension)

Each Fiscal Year July 1 - June 30



Information on the 2025-26 Governor's May Revision

Information on the 2025-26 Governor's May Revision

- Overview of the State Budget and The Economy
- Proposition 98 and the Education Budget
- SRCS Impacts and Operational Considerations

Overview of the State Budget and The Economy

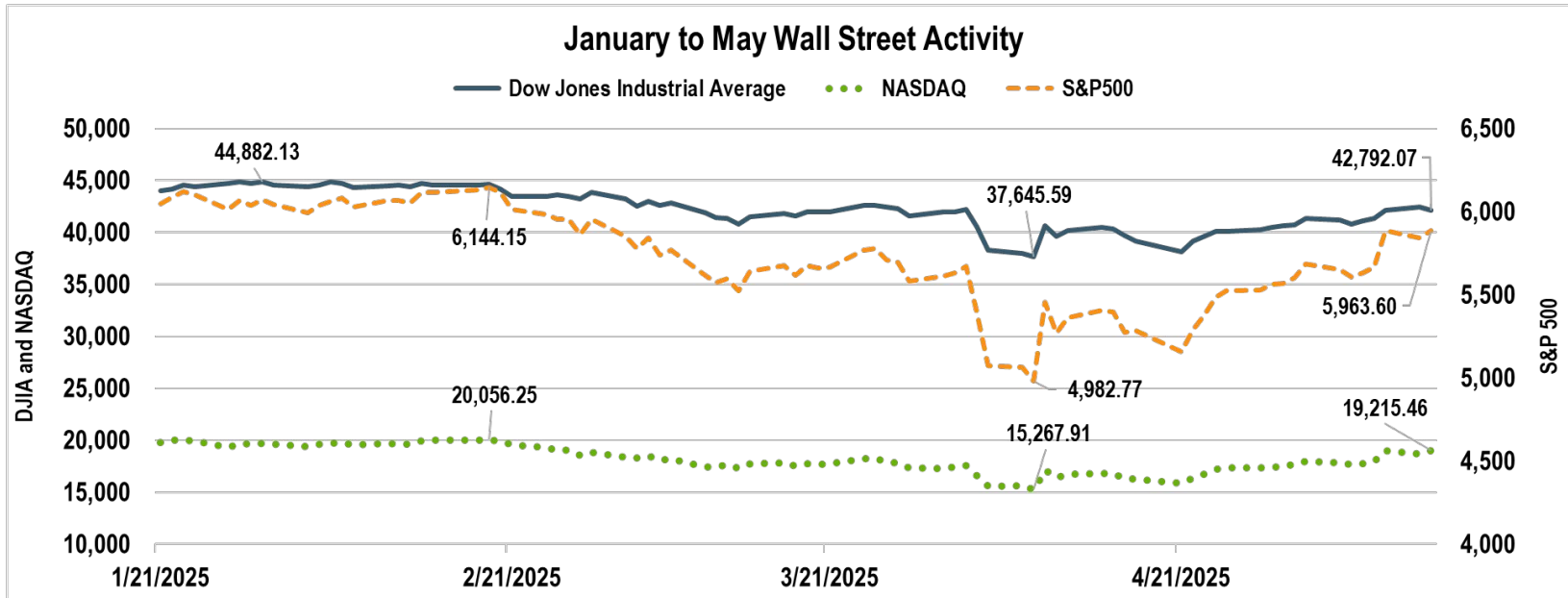
- In January, both the LAO and the Administration believed the budget to be roughly balanced. Since then, the fiscal outlook has weakened.
- The May Revision lowers personal income and corporation tax revenue estimates by \$11 billion for the budget year. Coupled with higher baseline spending, in large part due to increasing costs in Medi-Cal and healthcare, the **budget deficit is estimated to be \$14 billion.**
- The May Revision proposes \$9.5 billion in spending solutions made up of \$4.9 billion in spending reductions, most significantly, the Governor proposes cuts to Medi-Cal and In-Home Supportive Services, \$3.2 billion in fund shifts, and \$1.3 billion in funding delays.
- The LAO recommends the Legislature maintain the Governor's overall May Revision structure to put the state in a stronger fiscal position. Multi Year budget deficits are projected to continue in future years, with operating deficits of \$15 billion to \$20 billion annually, reaching \$42 billion by 2028-29.
- With regard to major economic indicators, the May Revision forecasts a "growth recession" due to a slowdown in gross domestic product (GDP) growth, lower job growth, and higher unemployment. After the "growth recession" ends in the third quarter of 2025, a slow growth period, with an average GDP growth of 1.7%, is anticipated from 2026 through 2028.

Overview of the State Budget and The Economy

	“Big Three” Revenue Sources (In Millions)		
	2025-26		
	Governor’s Budget	May Revision	Difference
Personal Income Tax	\$133,815	\$126,107	-\$7,708
Corporation Tax	\$37,377	\$35,293	-\$2,084
Sales Tax	\$35,125	\$34,866	-\$259
Total	\$206,317	\$196,266	-\$10,051

Overview of the State Budget and The Economy

- The Governor addresses actual and anticipated impacts of federal policy, specifically, tariffs imposed by President Donald Trump.
- All major indexes have been notably volatile in response to federal policy changes since January, each index hit a low point for the year in early April.
- The May Revise includes less anticipated Personal Income Tax due to a less than optimal selling price in the stock market.



Overview of the State Budget and The Economy

Major State Budget Issues and Considerations

Projected growth and deficits in budget areas outside of TK-14 education place pressure on resources needed to fulfill education funding obligations



State Budget assumptions may not fully account for the impact of unpredictable federal policy changes and the need to backfill potential federal funding cuts to California

The tax filing extensions for Los Angeles County due to the January 2025 wildfires have delayed revenue collections and complicate budget projections

Overview of the State Budget and The Economy

Risks to the Economy and the State Budget

Stock market volatility in response to federal policy changes can impact projected state revenue

California's unemployment rate is projected to increase in the budget year

California's GDP is projected to decrease in a similar pattern to U.S. GDP in the budget year



Anticipated cuts to key federal programs will increase pressure to backfill losses in federal funding with state dollars

California has several lawsuits pending against the federal government, the outcome of which could affect the California economy

The “Big Three” revenues are projected to be lower by \$4.8 billion over the three-year budget window when compared to January

Proposition 98 and the Education Budget

Thankfully for K-12 education, Proposition 98 is largely insulated from these problems, with minimal disruptions to the proposals from the Governor’s Budget in early January 2025, despite all that has come to pass since then.

The minimum guarantee in 2024-25 and 2025-26 continues to be determined by Test 1, or roughly 40% of General Fund revenue.

Proposition 98 Tests

1

Guarantee is at least equal to education’s share of state General Fund revenue in 1986-87—approximately 40%

2

Guarantee is based on prior-year funding plus changes in student attendance and per capita personal income

3

Guarantee is based on prior-year funding plus changes in student attendance and per capita General Fund revenue + 0.5%

Proposition 98 Suspension

The Legislature can appropriate less than the constitutional guarantee with a two-thirds vote and approval of the Governor, which it has done three times

- ❖ 2004-05
- ❖ 2010-11
- ❖ 2023-24

.....
MAINTENANCE FACTOR OBLIGATION
.....

When the guarantee is suspended, the state is required to restore Proposition 98 to the higher of Test 1 or Test 2



Proposition 98 and the Education Budget

- The Proposition 98 minimum guarantee, due to California’s deteriorated budget condition, is \$4.6 billion lower than in the January Governor’s Budget proposal across 2024-25 and 2025-26. The May Revision fully funds the cost-of-living adjustment at 2.30%, despite the decrease in funding. In order to cover the drop in the Proposition 98 minimum guarantee, the Governor proposes:
 - Deferring \$1.8 billion in payments to TK-12 schools and \$531.6 million to community colleges from the end of 2025-26 to the beginning of 2026-27
 - Utilizing the entirety of the Proposition 98 reserve
 - Withdrawing and reducing several community college proposals by \$400 million
 - Maintaining the January proposal to under-appropriate the Proposition 98 minimum guarantee by \$1.3 billion, delaying the payment to an unspecified out-year

Proposition 98 Minimum Guarantee (In Billions)

2023-24			2024-25			2025-26		
Governor’s Budget	May Revision	Difference	Governor’s Budget	May Revision	Difference	Governor’s Budget	May Revision	Difference
\$98.50	\$98.50	-	\$119.20	\$118.90	-\$0.30	\$118.90	\$114.60	-\$4.30

Proposition 98 and the Education Budget

In January, the Governor proposed delaying \$1.6 billion of the 2024-25 guarantee. At the May Revision (due a revised downward adjustment to the guarantee), the delayed amount is now proposed at \$1.3 billion.

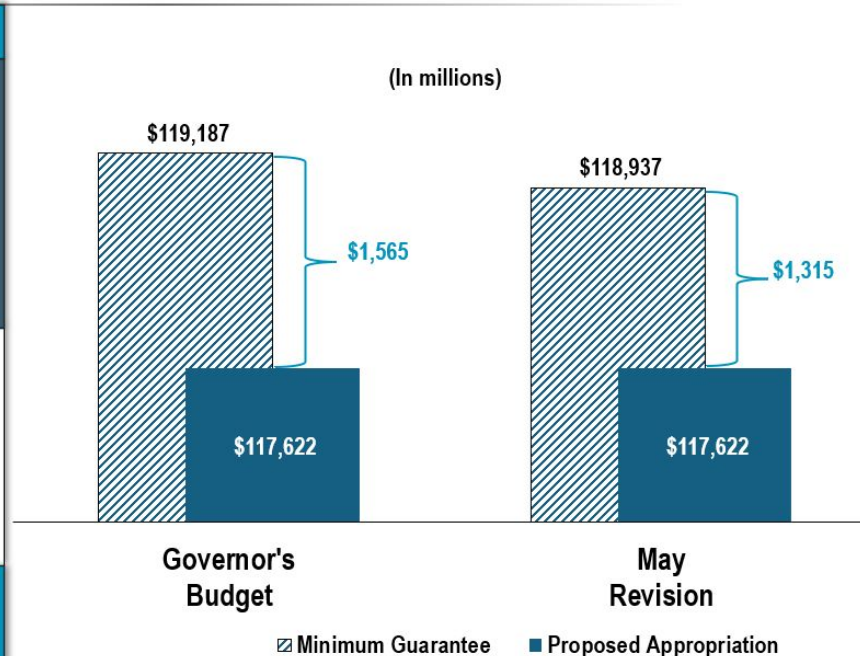
Proposition 98 Settle Up—The New Frontier

SETTLE UP

Reconciliation of the Proposition 98 minimum guarantee from initial budget estimates to the calculated constitutional minimum guarantee based on *actual* state revenues and other factors

The May Revision maintains the Governor's January proposal to appropriate *less* than the 2024-25 minimum guarantee to TK-12 and community college agencies, referring to it as "settle up"

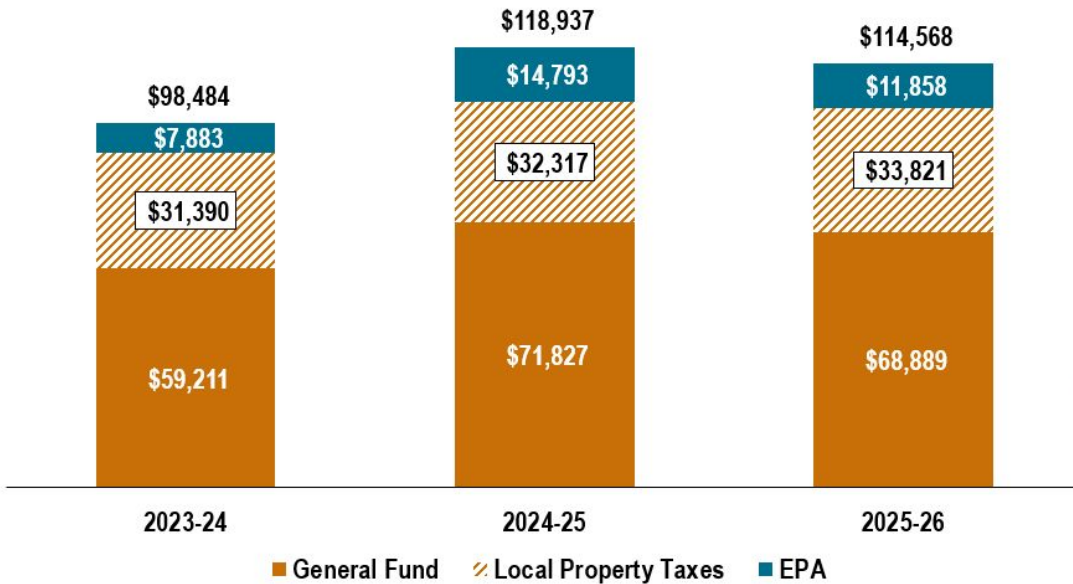
If appropriated equally
additional \$214 per TK-12 ADA



Proposition 98 and the Education Budget

Proposition 98 and the Education Protection Account

Proposition 98 Minimum Guarantee Revenue Sources
(In millions)



- Proposition 30 (2012)¹ established the Education Protection Account (EPA)
 - Personal income taxes are deposited into the EPA
 - EPA revenues constitute a sizeable share of the minimum guarantee and local apportionments each year
- Expires in 2030 and extending the tax rates requires voter approval
 - Expiration would create pressure for the state General Fund

¹Proposition 55 (2016) extended the PIT rate provisions of Proposition 30

SRCS Impacts and Operational Considerations

Local Control Funding Formula (LCFF) Entitlements:

- The May Revision fully funds the statutory cost-of-living adjustment (COLA) of 2.30% for the LCFF, which is slightly lower than the January estimate of 2.43%.
- State one-time monies from the State Rainy Day Fund are proposed to be used to support LCFF costs in 2025-26.

Grade Span	2024-25 Base Grant per ADA	2.30% COLA	2025-26 Base Grant per ADA
TK-3	\$10,025	\$231	\$10,256
4-6	\$10,177	\$234	\$10,411
7-8	\$10,478	\$241	\$10,719
9-12	\$12,144	\$279	\$12,423

SRCS Impacts and Operational Considerations

Learning Recovery Emergency Block Grant (LREBG):

- The Governor proposed no changes to his proposal to restore the Learning Recovery Emergency Block Grant (LREBG) to support learning recovery initiatives through the 2027-28 school year.
- Originally established in the 2022-23 Budget Act, the 2023-24 Budget Act, the following year, the state faced a revenue downturn and, in order to balance the budget, made cuts to the LREBG.
- Wait until the funds are included in the Enacted Budget and include the funds and actions in the 2026-27 budget and LCAP, conduct the needs assessment, but wait until the midyear update or the annual update process for the LCAP to add the funds and associated actions in the 2025-26 LCAP and budget, or Incorporate the proposed funds in the 2025-26 LCAP, but clearly state that the funds and associated actions are contingent on the Enacted Budget

	2021-22 ADA x UPP	Revised Allocation in 2023-24	2022-23 Prior Apportionments	Difference
Santa Rosa City Schools	5,953	\$12,222,556	\$14,264,335	\$2,041,779
Santa Rosa Charter School for the Arts	139	\$285,096	\$332,720	\$47,624
Santa Rosa French-American Charter	99	\$204,017	\$238,099	\$34,082
Cesar Chavez Language Academy	547	\$1,123,749	\$1,311,472	\$187,723
Santa Rosa Accelerated Charter	14	\$29,154	\$34,024	\$4,870

SRCS Impacts and Operational Considerations

Transitional Kindergarten Ratio LCFF Add-on:

- The per-pupil amount is reduced from \$6,404 in January to \$5,545 in the May Revision. However, this includes the proposed TK Ratio LCFF Add-on.

\$3,148	Per pupil for current 12:1 student-to-adult ratio requirement
+\$2,397	Additional per pupil for 10:1 student-to-adult ratio requirement in 2025-26
\$5,545	Total per-pupil add-on

SRCS 2025-26 Projected TK ADA	Transitional Kindergarten Add-on	Add-on: Transitional Kindergarten Amount
169.98	\$3,148 (used in 3rd Interim)	\$535,097
169.98	\$2,397 (May Revise proposed)	\$407,442

SRCS Impacts and Operational Considerations

Student Support and Professional Development Discretionary Block Grant:

- The May Revision reduces the one-time block grant from \$1.8 to \$1.7 billion, but largely retains its original design.
- Funds are fully flexible to address rising costs although state priorities are highlighted as professional development for teachers, teacher recruitment and retention efforts, and career pathways and dual enrollment.
- Allocation method is on an equal per-ADA basis, approximately ~\$323 per ADA.
- Funds are available for expenditure through June 30, 2029. The May Revision adds a final expenditure report to the CDE by September 30, 2029

	2024-25 P2 - ADA	~\$323 per ADA	Potential Proceeds
Santa Rosa City Schools	11,500	\$323	\$3,714,368
Santa Rosa Charter School for the Arts	353	\$323	\$114,006
Santa Rosa French-American Charter	498	\$323	\$160,835
Cesar Chavez Language Academy	725	\$323	\$234,307
Santa Rosa Accelerated Charter	124	\$323	\$39,923

SRCS Impacts and Operational Considerations

Educator Investments:

- The Governor modifies the investment in supporting teachers and the educator pipeline by repurposing the \$150 million in one-time funds for the Teacher Recruitment Incentive Grant Program proposed in January to instead provide \$100 million in one-time funds for the Student Teacher Stipend Program.
- \$10,000 stipend, on a first come, first served basis, for prospective educators.
- Eligibility:
 - Completed 500 or more hours of student teaching
 - Enrolled in a program of professional preparation for a preliminary multiple subject, single subject, education specialist, or PK-3 early childhood education specialist instruction credential.

SRCS Impacts and Operational Considerations

Expanded Learning Opportunities Program (ELOP):

		Current Law	May Revision
Total Funding		\$4.0 billion ongoing	\$4.5 billion ongoing
Requirement to offer the program and provide access for grades TK-6	Rate 1	UPP \geq 75% must offer and provide access to <u>all</u> students	UPP \geq 55% must offer and provide access to <u>all</u> students
	Rate 2	UPP < 75% must offer and provide access to all <u>unduplicated</u> students	UPP < 55% must offer and provide access to all <u>unduplicated</u> students
Per-Pupil Amount	Rate 1	UPP \geq 75%: \$2,750 in 2024-25	UPP \geq 55%: \$2,750 in 2025-26
	Rate 2	UPP < 75%: \$2,000 ¹ in 2024-25	UPP < 55%: TBD in 2025-26
Minimum Amount per LEA		\$50,000	\$100,000

Starting in 2025-26, when LEAs transition from Rate 2 to Rate 1, for one year only, they will be audited for compliance based on their prior-year requirements

¹Subject to change at Second Principal Apportionment

SRCS Impacts and Operational Considerations

Next Steps for 2025-26 Budget Development

- The only proposal codified in Education Code is the statutory COLA—OK to include in local budget
 - The following are still subject to negotiations between the Governor and Legislature

Proposal	SSC Advice	Risk Level	Risk of Including in Your Adopted Budget
2.30% COLA	Yes	Very Little	Statutory COLA is a known number as of April 2025
LREBG Additional Funding	No	Lower	Lower than others, but still subject to negotiation
TK Ratio LCFF Add-On	No	High	Amount decreased from January
Discretionary Block Grant	No	High	Amount decreased and the allocation method, allowable uses, and amount may change again before the budget is enacted
Teacher Preparation and Professional Development	No	High	Amounts have been reduced and repurposed since January
Universal ELO-P 55% Threshold	No	Lower	Lower than others, but still subject to negotiation

SRCS Impacts and Operational Considerations

Deferrals

- The May Revision proposes a TK-12 deferral of \$1.8 billion from June 2026 to July 2026
 - Given the short time frame—a matter of weeks—it should be of minimal impact
 - However, if the deferral would result in an LEA not being able to meet its financial obligations, there are exemptions available for school districts and charter schools

- Allows the state to record a budget cut in one year and move the expense to the next year



- Shifts the obligation for the appropriated Proposition 98 amount from one fiscal year to the following fiscal year

- Changes in law to delay the schedule of apportionments allowing the state to retain cash for a period of time

- Burden of borrowing lies with the LEA to ensure adequate cash for operations

SRCS Impacts and Operational Considerations

Federal Education Budget

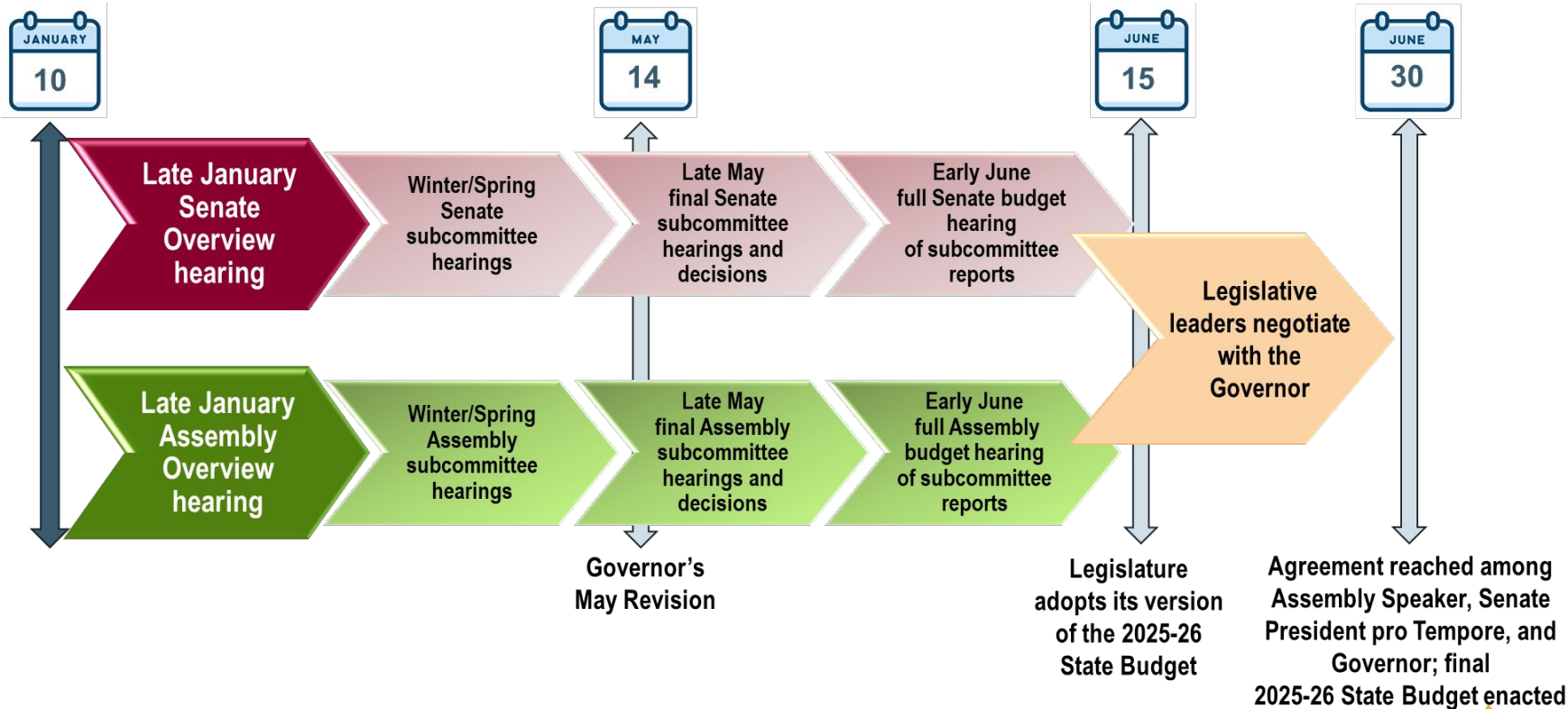
President Donald Trump's Proposed 2026 Budget

Non-Defense Spending

Reduced by
\$163 billion from
2025 levels, including
education spending

- Maintains Title I and Special Education Funding
- K-12 Simplified Funding Program
\$2 billion for 18 consolidated formula and competitive grants
- Eliminates Adult Education
- Eliminates Title III and Migrant Education

SRCS Impacts and Operational Considerations



SRCS Impacts and Operational Considerations

Federal Education Policies—What's on the Horizon?

- Will Trump be successful in eliminating the ED?
- Will the ED layoffs stand, or will the courts reverse the 50% reduction?
- Will there be significant education cuts in the fiscal year 2026 federal budget and subsequent years?
- What EOs will survive the legal challenges?
- What new EOs will be signed?
- What's on the horizon?
 - A lot of uncertainty and a lot of court cases!



SRCS 2024-25 Third Interim

Overview SRCS 2024-25 Third Interim

Education Code Section 42130: Requires that school districts certify to the State the fiscal stability of the District. Districts must demonstrate they can meet their fiscal obligations for the current year and two years out. The reports must be presented to and approved by the District's Governing Board no later than 45 days after the close of the report period.

- 1st Interim, covers actual expenditures and actual revenues from July 1 through October 31, and updates projections for the balance of the year
- 2nd Interim, covers actual expenditures and actual revenues from July 1 through January 31, and updates projections for the balance of the year
- If needed due to Qualified Certification at 2nd Interim, 3rd Interim, covers actual expenditures and actual revenues from July 1 through April 30, and updates projects for the balance of the year
 - A Third Interim is a more condensed version of the First or Second Interim and does not include a certification

2024-25 Third Interim Assumptions

District Enrollment and Average Daily Attendance (ADA) Data Assumptions used in Third Interim
(Does not include Charter Schools):

	2024-25 CALPADs	2025-26 Projection	2026-27 Projection
District Enrollment 3rd Interim	12,559	11,970	11,696
District Enrollment 2nd Interim	12,559	12,297	12,166
Difference	0	-327	-470
District ADA 3rd Interim - P2	11,499.59	11,069.06	10,818.39
District ADA 2nd Interim - P1	11,567.47	11,405.91	11,406.15
Difference	-68	-337	-588
ADA to Enrollment Ratio % 3rd Interim	91.56%	92.47%	92.50%
ADA to Enrollment Ratio % 2nd Interim	92.11%	92.75%	93.75%
Difference	-0.54%	-0.28%	-1.26%

2024-25 Third Interim Assumptions

District Budget Planning Factor Assumptions used in Third Interim:

	2024-25	2025-26	2026-27
Statutory COLA & Augmentation/Suspension (as calculated by the Department of Finance, DOF)	May 1.07% (Jan. 1.07%)	May 2.30% (Jan. 2.43%)	May 3.02% (Jan. 3.52%)
Statutory COLA	May 1.07% (Jan. 1.07%)	May 2.30% (Jan. 2.43%)	May 3.02% (Jan. 3.52%)
COLA Augmentation/Suspension	May 0% (Jan. 0%)	May 0% (Jan. 0%)	May 0% (Jan. 0%)
CalSTRS Employer Rate	19.10%	19.10%	19.10%
CalPERS Employer Rate	27.05%	26.81%	26.90%

*Fund 01 2024-25 Revenues:

REVENUES	2024-25 Second Interim	2024-25 Third Interim	Difference
LCFF Sources	\$169,064,277	\$169,254,962	\$190,685
Federal Revenue	\$9,715,861	\$9,706,427	-\$9,434
Other State Revenue	\$25,151,272	\$25,981,691	\$830,418
Other Local Revenue	\$26,991,031	\$25,038,316	-\$1,952,715
Other Financing Sources / Uses	\$1,085,739	\$1,085,739	\$0
TOTAL REVENUES & OTHER FINANCING SOURCES/USES	\$232,008,180	\$231,067,134	-\$941,046

*Includes both unrestricted and restricted revenues

*Fund 01 2024-25 Expenditures:

EXPENDITURES	2024-25 Second Interim	2024-25 Third Interim	Difference
Certificated Salaries	\$98,585,487	\$98,611,328	\$25,841
Classified Salaries	\$34,424,503	\$34,765,327	\$340,824
Employee Benefits	\$59,465,003	\$59,511,171	\$46,168
Books and Supplies	\$5,438,045	\$5,462,132	\$24,087
Services and Other Operating Expenditures	\$62,130,591	\$63,865,358	\$1,734,767
Capital Outlay	\$670,989	\$722,344	\$51,355
Other Outgo (excluding Transfers of Indirect Costs)	\$83,412	\$83,412	\$0
Other Outgo/Transfers of Indirect Costs/Transfers Out	-\$825,202	-\$825,202	\$0
TOTAL EXPENDITURES	\$259,972,827	\$262,195,871	\$2,223,044

*Includes both unrestricted and restricted expenditures

2024-25 Third Interim Assumptions

Multi Year Projection (MYP) Assumptions:

2025-26

- SELPA Funding Model 50% implementation
- Board Approved Fiscal Stabilization Measures
- HR final count certificated reduction of particular kinds of services (PKS) and classified reduction in force (RIF)
- Does not include items covered in the Governor's May Revise
- Expenditures from one-time 2024-25 restricted sources into unrestricted in the subsequent year

2026-27

- SELPA Funding Model 100% implementation
- Board Approved Fiscal Stabilization Measures

2024-25 3rd Interim Multi Year Projection (MYP) General Fund 01

REVENUES	2024-25	2025-26	2026-27
LCFF Sources	169,254,962	173,270,652	177,522,871
Remaining Revenues	60,726,433	57,486,149	55,819,827
Total Revenues	229,981,395	230,756,801	233,342,698
EXPENDITURES			
Salaries & Benefits	192,887,827	177,904,893	176,805,460
Books/Supplies & Outlay	6,184,476	6,485,051	6,594,142
Services & Operating Expenses & Other Adjustments	63,865,358	57,958,060	57,821,249
Other Outgo & Indirect Costs & Transfers Out	-741,790	-441,194	-459,047
Other Adjustments:	0	0	0
Total Expenditures	262,195,871	241,906,809	240,761,804
Operating Net Increase/Decrease	-32,214,476	-11,150,008	-7,419,105
Transfers In and Other Sources & Transfers Out and Other Uses	1,085,739	1,085,739	1,085,739
Current Year Increase/Decrease In Fund Balance	-31,128,737	-10,064,269	-6,333,366
Beginning Balance	37,212,858	6,084,121	-3,980,148
Ending Balance	6,084,121	-3,980,148	-10,313,514

*Summary includes both unrestricted and restricted

2024-25 Third Interim Multi Year Projection (MYP) General Fund 01

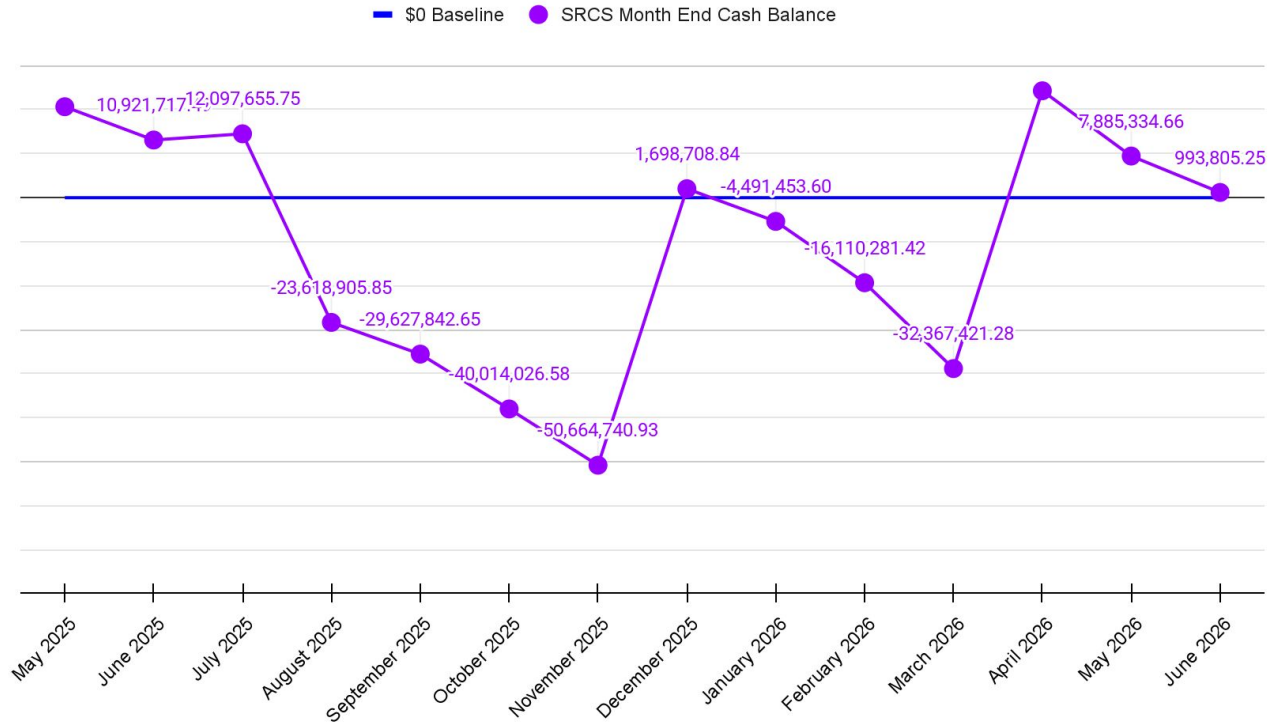
Components of the Ending Fund Balance:

Components of Ending Balance, Reserves	2024-25	2025-26	2026-27
Ending Balance	6,084,121	-3,980,148	-10,313,514
Restricted Ending Balance	9,021,185	7,011,320	5,831,386
Unrestricted Ending Balance	-2,937,063	-10,991,468	-16,144,901
Minimum 3% Reserve for Economic Uncertainty	7,865,876	7,257,204	7,222,854
Special Reserve Fund - Non Capital Outlay (Fund 17) Reserve for Economic Uncertainty	595,571	611,571	628,571
Amount below minimum 3% Reserve for Economic Uncertainty	-10,207,368	-17,637,101	-22,739,183

2024-25 Third Interim Multi Year Projection (MYP) General Fund 01 Cash Flow: Unrestricted Ending Fund Balance can be negative, cash balance can not

Monthly Cash Balances

- SRCS will have positive cash balances in both Fiscal Year Ends 2024-25 and 2025-26
- This includes utilizing our County Treasury Line of Credit and Inter Fund borrowing we use each year
- No special financing is projected



Fiscal Stabilization Advisory Committee (FSAC)



- The FSAC is charged with reviewing SRCS financial information and information regarding programs and services.
- The FSAC makes recommendations to the Superintendent for possible revenue enhancements and expenditure reductions.
- The Superintendent can accept, not accept, modify, or add new recommendations to submit to the Board for consideration.
- The Board can act on all recommendations, none, or some.

Areas to Monitor

- Federal Programs and Funding
- Collective Bargaining
- Economic Trends
- Enrollment vs. ADA Funding Legislation
- Implementation and Continued Fiscal Stabilization Work
- Special Education Study and Implementation Plan
- State Enacted Budget
- LCAP & Prioritization
- School Consolidation/Closure/Restructure Implementation
- Changes in Charter Practices, Authorizations, and Renewals
- Intra and Inter District Transfers
- Support for Students, Staff, and Community

Next Steps

June 2025

- 2024-25 Estimated Actuals
- 2025-26 LCAP and Budget Public Hearings and Adoptions
- State Enacted Budget
- Board Finance Subcommittee continues work

July 2025

- Close the 2024-25 Books
- Solicit Participation in Fiscal Stabilization Advisory Committee (FSAC)

August 2025

- 45 Day Budget Update
- FSAC Reconvenes
- Board Finance Subcommittee continues work

Board Member Questions

