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The 2025-26 Budget: Analysis of the May Revision K-14 Education Plan



LEGISLATIVE ANALYST'S OFFICE

Changes in the Proposition 98 Guarantee Since January

Estimates of the Guarantee Revised Down \$4.6 Billion Across the Budget Period

General Fund Portion of the Guarantee Is Down \$3.9 Billion

- The primary factor is lower General Fund revenue estimates in 2025-26, which reduce the guarantee by \$3.6 billion.
- Lower estimates of transitional kindergarten (TK) attendance reduce the guarantee by \$411 million across 2024-25 and 2025-26. (The state is adjusting the General Fund portion of the guarantee for the attendance of newly eligible TK students.)
- The Governor proposes to “rebench” the guarantee upward to offset the property tax reductions attributable to the January 2025 fires in Los Angeles. This adjustment increases the General Fund portion of the guarantee by \$172 million across 2024-25 and 2025-26.

Local Property Tax Portion of the Guarantee Is Down \$753 Million

Comparing Estimates of the Proposition 98 Guarantee (In Millions)

	2023-24	2024-25	2025-26	Three-Year Totals
Governor’s Budget				
General Fund	\$67,093	\$86,619	\$84,603	\$238,314
Local property tax	31,392	32,569	34,321	98,282
Totals	\$98,484^a	\$119,188	\$118,923	\$336,595
May Revision				
General Fund	\$67,094	\$86,620	\$80,747	\$234,461
Local property tax	31,390	32,317	33,821	97,528
Totals	\$98,484^a	\$118,938	\$114,568	\$331,990
Change				
General Fund	\$1	\$2	-\$3,855	-\$3,852
Local property tax	-1	-252	-500	-753
Totals	—	-\$250	-\$4,355	-\$4,606

^a The June 2024 budget suspended the guarantee and set forth this amount as the intended funding level.



Assessing Estimates of the Guarantee

General Fund Revenue Estimates Seem Reasonable—but Could Change Significantly Over the Coming Year

Guarantee Is Sensitive to Revenue Changes

- The 2025-26 guarantee is moderately sensitive. Holding other factors constant, it would change about 40 cents for each \$1 of higher or lower revenue.
- The 2024-25 guarantee is highly sensitive. Holding other factors constant, it would change nearly dollar for dollar with changes in revenue. This high sensitivity exists because the state is paying maintenance factor (an obligation it created by suspending Proposition 98 in the previous year).

Property Tax Estimates Seem Slightly Low

- The May Revision estimate is \$382 million lower than our estimate in 2024-25 and \$422 million lower in 2025-26 (\$804 million over the two years).
- The main difference involves property tax revenue from former redevelopment agencies. The Department of Finance assumes this revenue will stagnate in 2024-25 and grow moderately in 2025-26, whereas our outlook anticipates faster growth in line with historical trends.



Overview of May Revision K-14 Plan

Adjusts Spending to Reflect Lower Estimates of the Guarantee

- The May Revision reduces spending primarily through deferrals, reserves, and other one-time solutions.
- Most of the January budget proposals for schools remain in place, though the Governor reduces several community college proposals.

Implements Payment Deferrals (\$2.4 Billion)

- For schools, the state would defer more than \$1.8 billion from June 2026 to July 2026. This deferral equates to 2.2 percent of the Local Control Funding Formula.
- For community colleges, the state would defer \$532 million from May and June 2026 to July 2026. This deferral equates to 5.3 percent of the Student Centered Funding Formula.

Eliminates Proposition 98 Reserve Deposits (\$1.5 Billion)

- The Governor's budget deposited \$1.5 billion into the reserve—\$1.2 billion for a required deposit and \$376 million for a discretionary deposit.
- Lower revenue estimates reverse the required deposit through automatic adjustments in 2024-25 and 2025-26, and the Governor rescinds his discretionary deposit proposal. These actions reduce the balance in the reserve to zero.

Withdraws or Reduces Several Community College Proposals (\$394 million)

- The May Revision withdraws the Collaborative Enterprise Resource Planning Project proposal (\$168 million).
- The May Revision reduces funding for the Common Cloud Data Platform (\$150.5 million), Career Passport proposal (\$25 million), Credit for Prior Learning proposal (\$30 million), and Rising Scholars Network (\$20 million).



Overview of May Revision K-14 Plan

(Continued)

Modifies Settle-Up Payment (\$250 Million)

- The Governor's budget proposed delaying a settle-up payment of nearly \$1.6 billion related to meeting the estimated guarantee in 2024-25.
- The May Revision reduces the delayed amount to \$1.3 billion, increasing the funding available for programs in 2024-25 by \$250 million.

Reduces Statutory Cost-of-Living Adjustment (COLA) (\$149 Million)

- Revised federal data show the statutory COLA rate for 2025-26 is 2.30 percent (down from 2.43 percent under the Governor's budget).
- The associated spending reduction is \$136 million for schools and \$13 million for community colleges. (The school reduction includes a proposal to eliminate the COLA for State Preschool.)

Shifts Funding From Community Colleges to Schools

- The May Revision shifts \$492 million from community colleges to schools as part of a plan to recalibrate the distribution of Proposition 98 funding. (The ongoing portion of this shift is \$233 million.)
- We analyze this shift in a companion handout.



Other Notable Spending Changes

Makes Several Changes to School Spending Proposals

- ***Expanded Learning Opportunities Program.*** Maintains the Governor's budget proposal to expand the program but increases the augmentation to \$526 million (up \$91 million from the Governor's budget). The increase mainly reflects updated costs of implementing the changes proposed in January. (It also includes \$10 million to increase the minimum grant amount from \$50,000 to \$100,000.)
- ***Staffing Requirements for TK Classrooms.*** Maintains the requirement for a 10:1 staffing ratio in 2025-26, but reduces the associated funding to \$517 million (down \$229 million from the Governor's budget). The decrease reflects lower attendance estimates and a lower funding rate per student.
- ***Literacy Initiative.*** Provides a new one-time allocation of \$200 million to support literacy training for elementary school teachers. Funded activities are to align with criteria and guidance the State Board of Education must approve by September 30, 2026.
- ***Student Teacher Stipends.*** Replaces the Governor's budget proposal to provide \$150 million for a teacher loan repayment program with a proposal to provide \$100 million in stipends for student teachers.

Funds Two Increases for Community Colleges

- ***Enrollment Growth.*** Provides \$140 million to cover a 2.35 percent enrollment increase (up \$110 million from the 0.5 percent increase in the Governor's budget).
- ***Apportionment Increases.*** Adds \$105 million ongoing above the Governor's budget to fund higher projected costs in 2025-26. Provides a \$210 million one-time backfill to cover shortfalls in 2024-25.



Concerns With Governor's K-14 Plan

Expands Programs Despite Weaker Revenues and Uncertain Economy

- The state historically has tried to contain spending during tight times to protect funding for core programs. The May Revision instead maintains most of the Governor's budget proposals that would expand programs and increase spending.
- The May Revision would task districts with hiring staff and expanding local programs based on funding levels that the state might be unable to sustain.

Creates a Structural Deficit in the Proposition 98 Budget

- The May Revision uses \$1.6 billion in one-time funds to cover ongoing spending.
- This budgeting approach creates a structural deficit—the one-time funds expire in 2026-27 but the ongoing program costs continue. The state would have to address this deficit before funding COLA or other priorities in 2026-27.
- The May Revision anticipates growth of \$3.5 billion (3.1 percent) in the guarantee for 2026-27. This relatively slow growth rate would likely be insufficient to cover the shortfall and fund the 2026-27 COLA.

Uses Deferrals to Support New Spending

- Payment deferrals create debts that reduce funding available in the future and weaken district cash flow. Given these downsides, the state has tended to limit deferrals to severe downturns when few alternatives exist.
- The May Revision uses deferrals to free up funding for new proposals and augmentations to existing programs. This approach reduces the state's capacity to address a sharper downturn that could emerge before the deferrals are repaid.



Overview of the LAO Alternative Plan

Core Features of the Alternative Plan

- Eliminate the deficit by aligning ongoing spending with the Proposition 98 guarantee.
- Avoid payment deferrals and apportionment shortfalls.
- Maintain funding for the COLA and enrollment-related increases.
- Provide more one-time discretionary funding for schools.

Funding the Alternative Plan

- Delay or reject a few ongoing spending increases and reduce a few ongoing programs (\$1.6 billion).
- Reject most of the Governor's one-time spending proposals (\$1.2 billion).
- Provide \$458 million more for the community colleges (and correspondingly less for schools) than the Governor proposes. (This allocation would reverse most of the \$492 million shift reflected in the May Revision.)

Advantages of the Alternative Plan

- Takes proactive steps to manage economic uncertainty and revenue volatility. Though not risk-free, the alternative plan is less risky than the May Revision.
- Preserves core programs and services across 2024-25 and 2025-26.
- Reduces budget pressure and sets up better choices in 2026-27 and beyond.



LAO Alternative Plan—Ongoing Actions Affecting Schools

Reject Increase in Expanded Learning Opportunities Program (\$526 million)

- The state could fund the proposed increase to the minimum grant amount within the existing funding levels.

Delay 10:1 Staffing Requirement for TK Classrooms (\$517 million)

- The state would continue to fund the current 12:1 staffing ratio in 2025-26.
- The lower ratio could be implemented in the future when revenues improve.

Reduce Funding for the California State Preschool Program (\$336 Million)

- The reduction would align funding with program costs. The cost of recent rate increases came in lower than budgeted, but the state has not made ongoing downward adjustments to align funding with anticipated ongoing costs.

Delay Implementation of School Attendance Recovery Program (\$200 Million)

- The June 2024 budget adopted a mechanism for schools to recover funding when absent students participate in an attendance recovery program, beginning in 2025-26.
- Implementing this program could increase attendance-related costs beyond the levels included in the May Revision, whereas delaying the program could save at least \$200 million relative to the May Revision.
- Existing formulas provide strong incentives for districts to prioritize attendance.



LAO Alternative Plan—Ongoing Actions Affecting Community Colleges

Reduce Community College Part-Time Faculty Health Insurance (\$150 million)

- In 2022-23, the state increased program funding to \$200 million ongoing (up from \$490,000 in previous years). Districts claimed only \$23 million of this amount in 2022-23 and \$38 million in 2023-24.
- The reduction would better align program funding with costs while allowing for some increased uptake.

Increase Funding for Community College Apportionments (\$143 million)

- We estimate ongoing costs for the Student Centered Funding Formula are \$143 million above the May Revision level. Providing additional funding would reduce the risk of a shortfall in 2025-26.
- The largest factor driving our higher cost estimate is higher assumed growth in the supplemental allocation, which provides districts funding based on their low-income student counts, including their Pell Grant and California College Promise Grant recipients. Whereas the May Revision assumes no growth in supplemental counts, we assume growth in line with recent enrollment trends and financial aid eligibility expansions.



LAO Alternative Plan—One-Time Actions Affecting Schools

Reject Several Budget Proposals

- ***Literacy and Math Coaches (\$500 Million).*** This proposal would involve adding staff who districts might be unable to retain. The May Revision also makes the portion of the grant for math coaches less well targeted. The Legislature could consider revisiting the proposal when school funding is growing.
- ***Literacy Training Proposal (\$200 Million).*** The Legislature could consider providing funds next year. This delay likely would not affect program implementation, as the criteria and guidance for training activities would not be approved until September 2026.
- ***Kitchen Infrastructure Grant Program (\$150 million).*** The state does not yet have information about the effects of the funding it previously provided for this program.
- ***National Board Certification Incentive Program (\$100 Million).*** Previous funding is likely sufficient to cover costs through 2025-26.
- ***Student Teacher Stipends (\$100 million).*** This proposal does not target the subject areas and schools with the most significant teacher shortages.
- ***Other Proposals (\$78 Million).*** Notable actions include reducing funding for literacy screenings (\$25 million), rejecting a proposal for the statewide system of support (\$25 million), and rejecting the secondary school redesign pilot (\$15 million).

Increase Funding for Discretionary Block Grant

- Provide \$410 million more than the amount in the May Revision (bringing total funding to \$2.1 billion).
- Districts could use their discretionary grants to (1) undertake any of the May Revision proposals that would no longer receive funding, (2) implement their local priorities, and (3) cover one-time and other temporary costs.



LAO Alternative Plan—One-Time Actions Affecting Community Colleges

Reject Remaining Funds for Community College Career Education and Technology Projects

- **Career Passports (\$25 Million).** This proposal lacks clear justification, including evidence that it would improve upon existing tools for job seekers to communicate with employers.
- **Credit for Prior Learning (\$15 Million).** Previous funding provided in 2024-25 remains unspent, and the state does not yet know the outcomes of those efforts.
- **Common Cloud Data Platform (\$12 Million).** The state does not yet have outcomes from the demonstration project, which is scheduled for completion in June 2026.



Appendix I: Comparing January Budget, May Revision, and the LAO Alternative

(In Millions)

	January Budget	May Revision	Change From January	LAO Alternative	Change From May Revision
K-12 Education					
Ongoing					
COLA for LCFF	\$1,858	\$1,753	-\$105	\$1,753	—
TK expansion (attendance-related costs)	1,065	927	-138	927	—
Expanded Learning Opportunities Program	435	526	91	—	-\$526
TK lower student to adult ratios	746	517	-229	—	-517
COLA for select categorical programs	206	176	-30	176	—
Universal school meals	84	100	-16	100	—
Statewide System of Support: literacy	5	—	-5	—	—
Attendance recovery program	—	—	—	-200	-200
California State Preschool Program	—	—	—	-336	-336
Other ongoing proposals	9	9	—	9	—
Subtotals	(\$4,408)	(\$4,007)	(-\$433)	(\$2,429)	(-\$1,578)
One Time					
Discretionary block grant	\$1,776	\$1,708	-\$68	\$2,118	\$410
Literacy and math coaches	500	500	—	—	-500
Learning Recovery Emergency Block Grant	379	379	—	379	—
June 2024 deferral repayment	247	247	—	247	—
Literacy instruction training	—	200	200	—	-200
Kitchen infrastructure grant program	150	150	—	—	-150
Teacher loan repayment/stipend program	150	100	-50	—	-100
National Board Incentive Program	100	100	—	—	-100
Training for literacy screenings	40	40	—	15	-25
SUN Bucks administration	—	22	22	22	—
Statewide System of Support: literacy	5	25	20	—	-25
Secondary school redesign pilot	—	15	15	—	-15
Reading difficulties screener support	—	10	10	—	-10
TK English language proficiency screeners	10	10	—	10	—
K-12 basic aid fire property tax backfill	—	10	10	10	—
Supplement for TK multilingual learners	—	8	8	8	—
Regional English learner lead agencies	—	2	2	—	-2
New payment deferral (2025-26)	—	-1,838	-1,838	—	1,838
Other one-time proposals	3	5	2	5	-1
Subtotals	(\$3,359)	(\$1,692)	(-\$1,668)	(\$2,812)	(\$1,120)
Total K-12 Education	\$7,768	\$5,699	-\$2,100	\$5,241	-\$458



Appendix I: Comparing January Budget, May Revision, and the LAO Alternative

(Continued)

	January Budget	May Revision	Change From January	LAO Alternative	Change From May Revision
California Community Colleges					
Ongoing					
COLA for apportionments	\$230	\$217	-\$13	\$217	—
Enrollment growth	30	140	110	140	—
COLA for select categorical programs	30	30	— ^a	30	—
Rising Scholars Network	30	10	-20	—	-\$10
Credit for prior learning	7	5	-2	—	-5
Common Cloud Data Platform	29	—	-29	—	—
Higher apportionment cost estimate	—	—	—	143	143
Part-Time Faculty Health Insurance	—	—	—	-150	-150
Subtotals	(\$357)	(\$402)	(\$45)	(\$381)	(\$22)
One Time					
June 2024 deferral repayment	\$244	\$244	—	\$244	—
2024-25 apportionment backfill	—	210	\$210	210	—
Career passports	50	25	-25	—	-\$25
Credit for prior learning	43	15	-28	—	-15
Common Cloud Data Platform	134	12	-122	—	-12
eTranscript backfill	—	7	7	7	—
Enterprise Resource Planning System	168	—	-168	—	—
New payment deferral (2025-26)	—	-532	-532	—	532
Subtotals	(\$638)	(\$19)	(\$657)	(\$460)	(\$480)
Total California Community Colleges	\$995	\$383	-\$612	\$841	\$458
Set-Asides					
Proposition 98 Reserve deposits	\$1,533	—	-\$1,533	—	—
Settle up (unallocated one-time funds)	1,565	\$1,315	-250	\$1,315	—
Total Set-Asides	\$3,098	\$1,315	-\$1,783	\$1,315	—
Grand Total Spending Proposals	\$11,861	\$7,397	-\$4,496	\$7,397	—

^a Decrease of \$122,000.

Notes:

May Revision amounts reflect initial scoring based on documentation provided by the Department of Finance on May 14 and are subject to change.

This chart displays policy proposals and excludes \$109 million in lower spending from various baseline and technical adjustments (primarily lower attendance-related costs for the Local Control Funding Formula). These technical adjustments account for the difference between the \$4.6 billion reduction in the Proposition 98 guarantee from January to May and the \$4.5 billion reduction in spending displayed in this chart.

COLA = cost-of-living adjustment (2.43 percent in January and 2.30 percent in May); LCFF = Local Control Funding Formula; and TK = transitional kindergarten.



Appendix II: Proposition 98 Funding Totals Across 2023-24, 2024-25, and 2025-26

Three-Year Totals (In Millions)

	January Budget	May Revision	Change From January	LAO Alternative	Change From May Revision
K-12 Education	\$302,712	\$300,692	-\$2,020	\$300,234	-\$458
California Community Colleges	39,198	38,396	-802	38,854	458
Proposition 98 Reserve	-6,880	-8,413	-1,533	-8,413	—
Settle Up (unallocated)	1,565	1,315	-250	1,315	—
Totals	\$336,595	\$331,990	-\$4,606	\$331,990	—



Appendix III: Changes in Funding by Segment From January Budget to May Revision

(In Millions)			
	January Budget	May Revision	Change
2023-24	\$98,484	\$98,484	—
K-12 Education			
General Fund ^a	\$67,308	\$67,421	\$113
Local property tax	27,322	27,317	-5
Subtotals	(\$94,630)	(\$94,738)	(\$108)
California Community Colleges			
General Fund	\$8,198	\$8,086	-\$112
Local property tax	4,070	4,073	4
Subtotals	(\$12,267)	(\$12,159)	(\$108)
Proposition 98 Reserve^b	-\$8,413	-\$8,413	—
2024-25	\$119,188	\$118,938	-\$250
K-12 Education			
General Fund ^a	\$74,849	\$75,729	\$880
Local property tax	28,265	28,086	-179
Subtotals	(\$103,114)	(\$103,815)	(\$701)
California Community Colleges			
General Fund	\$9,048	\$9,036	-\$12
Local property tax	4,304	4,232	-73
Subtotals	(\$13,352)	(\$13,268)	(\$84)
Proposition 98 Reserve^b	\$1,157	\$540	-\$617
Settle Up (Unallocated Funds)	\$1,565	\$1,315	-\$250
2025-26	\$118,923	\$114,568	-\$4,355
K-12 Education			
General Fund ^a	\$75,185	\$72,757	-\$2,428
Local property tax	29,783	29,382	-401
Subtotals	(\$104,968)	(\$102,139)	(\$2,829)
California Community Colleges			
General Fund	\$9,041	\$8,531	-\$511
Local property tax	4,538	4,438	-99
Subtotals	(\$13,579)	(\$12,969)	(\$610)
Proposition 98 Reserve^b	\$376	-\$540	-\$916
^a Includes the portion of State Preschool funded through Proposition 98 and direct instructional services provided by state agencies. ^b Reflects the size of the deposit (+) or withdrawal (-) from the Proposition 98 Reserve established by Proposition 2 (2014). Amounts consist entirely of General Fund.			

