

MAY 19, 2026

# **The 2026-27 Budget: May Revision Proposition 98 Estimates and K-14 Spending Plan**

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LEGISLATIVE ANALYST'S OFFICE

# Changes in Proposition 98 Guarantee Since January

## Estimates of the Guarantee Revised Up \$6.4 Billion Over the 2024-25 Through 2026-27 Period

- The General Fund portion of the guarantee is revised up by \$7.3 billion due to higher state revenue estimates.
- The local property tax portion is revised down by \$860 million due to lower projected growth in assessed property values.
- Most of the increase in the guarantee is attributable to 2025-26, with smaller increases in 2024-25 and 2026-27.

### Comparing Estimates of the Proposition 98 Guarantee

(In Millions)

	2024-25	2025-26	2026-27	Three-Year Totals
<b>Governor's Budget</b>				
General Fund	\$91,197	\$87,473	\$89,877	\$268,546
Local property tax	32,636	33,947	35,604	102,187
<b>Totals</b>	<b>\$123,833</b>	<b>\$121,420</b>	<b>\$125,480</b>	<b>\$370,733</b>
<b>May Revision</b>				
General Fund	\$92,316	\$91,541	\$91,997	\$275,853
Local property tax	32,614	33,574	35,140	101,327
<b>Totals</b>	<b>\$124,929</b>	<b>\$125,114</b>	<b>\$127,136</b>	<b>\$377,180</b>
<b>Change</b>				
General Fund	\$1,119	\$4,068	\$2,120	\$7,307
Local property tax	-23	-373	-464	-860
<b>Totals</b>	<b>\$1,096</b>	<b>\$3,695</b>	<b>\$1,656</b>	<b>\$6,447</b>



## **Other Key Adjustments Free Up Additional Funding**

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### **Lower Local Control Funding Formula (LCFF) Cost Estimates (\$3.8 Billion)**

- Relative to the Governor’s budget, the May Revision reflects baseline cost estimates that are around \$3.8 billion lower over the 2024-25 through 2026-27 period.
- These lower cost estimates align with recent data from the California Department of Education and free up a corresponding amount for other school purposes.

### **Larger Share of Settle-Up Obligation Paid in This Year’s Budget (\$1.6 Billion)**

- The Governor’s budget proposed delaying a settle-up payment of nearly \$5.6 billion associated with its higher estimate of the Proposition 98 guarantee in 2025-26.
- The May Revision reduces the delayed amount to \$3.9 billion, making about \$1.6 billion more available for schools and community colleges in this year’s budget.

### **Additional Reappropriated Funds From Previous Years (\$807 Million)**

- Data from the California Department of Education and Community College Chancellor’s Office show that \$807 million appropriated for various programs in previous budgets will go unspent.
- The May Revision repurposes these funds for new priorities.



# **Assessing the Governor’s Funding Estimates**

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## **Administration’s Estimates of the Proposition 98 Guarantee Seem Reasonable**

### **General Fund Revenue Assumptions Align With Recent Trends— but the Risk of a Reversal Is High**

- State revenue collections have been strong over the past several months, reflecting investor enthusiasm for artificial intelligence, a booming stock market, and significant growth in tax payments on business and investment income. The higher revenue estimates in the May Revision are consistent with these trends.
- Several indicators suggest the stock market is overvalued and could be due for a correction. The state cannot predict the timing of a stock market drop, but a significant decline most likely would reduce revenues by at least tens of billions of dollars.

### **Proposition 98 Guarantee Is Moderately Sensitive to Revenue Changes**

- “Test 1” is operative for calculating the guarantee over the 2024-25 through 2026-27 period. For each \$1 change in state revenues, the Proposition 98 guarantee would change by nearly 40 cents.
- The state pays off its entire “maintenance factor” obligation in 2024-25. Paying off this obligation means the guarantee is less sensitive to subsequent revenue changes.
- Changes in student attendance would not affect the guarantee.

### **LCFF Baseline Costs Seem Reasonable and Align With LAO Estimates**



# **Assessing Changes to the Settle-Up Proposal**

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## **Revised Proposal Raises the Same Key Concerns as the January Proposal...**

- The proposal addresses a reasonable concern about short-term forecasting risk, but it will likely worsen future deficits by adding pressure to the non-Proposition 98 side of the budget.
- If revenue estimates meet the May Revision projections, the state will owe schools additional payments for which no funding is currently set aside.

## **...But the Smaller Amount Somewhat Improves the Proposal**

- Having a smaller settle-up obligation eases some future budget pressure.
- The lower amount in the May Revision is better aligned with the revenue uncertainty and potential drops in the guarantee that could occur in 2025-26.

## **Recommend an Alternative Approach That Makes Difficult Decisions Now but Reduces Future Budget Challenges**

- Set aside enough funding to cover the full cost of the guarantee under the state's adopted revenue estimates.
- Use the additional funding to build resiliency for school programs (we review a few options later in this publication).
- Adopt more solutions for the non-Proposition 98 side of the budget that address the state's underlying deficit.



# Overview of May Revision Spending Plan

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## May Revision Contains \$17.8 Billion in School and Community College Spending Proposals

- This spending increase consists of \$10.9 billion in proposals from the Governor's budget and \$6.9 billion in new proposals from the May Revision.
- Of the total amount, \$10.3 billion is for one-time activities and \$7.5 billion is for ongoing augmentations.
- Disaggregated by segment, school spending proposals account for more than \$16.3 billion of the increase, and community college proposals account for the other \$1.4 billion.

## One-Time Discretionary Block Grant for Schools (\$5.1 Billion)

- Provides an additional \$2.3 billion for the Student Support and Professional Development Discretionary Block Grant, bringing the total amount to \$5.1 billion.
- Based on current attendance estimates, school districts would receive \$946 per student.

## Ongoing Cost-of-Living Adjustments (COLA) and Base Increases (\$3.8 Billion)

- Provides a 4.31 percent base increase for the K-12 LCFF and the community college Student Centered Funding Formula (SCFF). This increase consists of two parts—a statutory COLA of 2.87 percent (up from 2.41 percent under the Governor's budget) and an additional 1.44 percent base augmentation.
- The portion of the increase beyond COLA is intended, in part, to fund a new requirement for schools and community colleges to provide up to 14 weeks of pregnancy disability leave at full pay.
- Also provides a 2.87 percent COLA for select school and community college categorical programs.



# Overview of May Revision Spending Plan

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## **Ongoing Increase in Special Education Base Rates (\$2.4 Billion)**

- Provides an increase of \$1.8 billion on top of the \$509 million included in the Governor's budget.
- The new base rate would be \$1,340 per student, an increase of \$396 per student (42 percent) beyond the current rate adjusted for COLA.

## **One-Time Deferral Paydown (\$2.3 Billion)**

- Maintains the Governor's budget proposal to eliminate all school and community college payment deferrals.
- Districts would receive payments on the regular schedule beginning in 2026-27.

## **Ongoing Funding for Community Schools (\$1 Billion)**

- Maintains the Governor's budget proposal to establish an ongoing program to support new and existing community schools.

## **One-Time Learning Recovery Emergency Block Grant (\$757 Million)**

- Maintains the Governor's budget proposal to restore the grant to its original funding level one year ahead of schedule.
- School districts could use their funds through June 30, 2028.

## **One-Time Funding for Community Schools Implementation (\$485 Million)**

- Reappropriates unspent funding from the existing one-time community schools grant program and allocates this funding for planning and implementation, middle and high school redesign, technical assistance, and other purposes.
- These funds would supplement the \$1 billion ongoing proposal.



# Overview of May Revision Spending Plan

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## **One-Time Funding for Literacy Coaches (\$440 Million)**

- Previous budgets have provided grants for school districts to hire literacy coaches and reading specialists. These grants are targeted to districts with high concentrations of low-income students and English learners.
- The May Revision provides additional funding to support existing grant recipients through 2030-31.



# **Update on Proposition 98 Reserve Deposits**

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## **Proposition 98 Reserve Intended to Stabilize School Funding**

- The State Constitution establishes a statewide reserve account for schools and community colleges formally known as the Public School System Stabilization Account.
- The Constitution requires the state to deposit funds into this reserve when (1) it receives significant tax revenue from capital gains and (2) the guarantee is growing quickly relative to inflation. The state can also make discretionary deposits.

## **May Revision Deposits \$10.3 Billion Into the Proposition 98 Reserve**

- The Governor's budget contained \$4.1 billion in Proposition 98 Reserve deposits. The May Revision adds \$6.2 billion to this amount.
- Of the total amount, \$8.7 billion is for mandatory deposits triggered by significant capital gains revenue in 2024-25 and 2025-26. The remaining \$1.6 billion is a discretionary deposit.

## **Local Cap on School District Reserves Becomes Operative**

- The balance in the Proposition 98 Reserve triggers a cap on the local reserves held by medium and large school districts. These districts could respond by seeking an exemption, redesignating reserves to avoid the cap, and/or spending down reserves.
- Smaller districts (those with 2,500 or fewer students) are automatically exempt.



# **Assessing the Structure of the Governor's Plan**

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## **School Districts Have Received Large Funding Increases Since 2019-20 but Are Still Navigating Several Budget Challenges**

- Addressing inflationary pressures, including pressure to raise salaries.
- Adjusting programs and staff to account for the expiration of one-time federal funds.
- Aligning budgets and programs with lower enrollment levels.
- Funding higher special education costs linked with the growing number of students qualifying for services.
- Covering large increases in non-personnel costs, including insurance, utilities, and legal settlements.

## **Community College Districts Also Received Large Funding Increases but Still Face Certain Cost Pressures**

- Like school districts, community college districts are facing inflationary pressures, including pressure to raise salaries. Community college districts are also facing increases in non-personnel costs, including insurance and utilities.
- In contrast to school districts, most community college districts are also facing cost increases due to enrollment growth.

## **Plan Prioritizes Discretionary Funding, Support for District Cost Pressures, and Increases to Existing Programs**

- The May Revision allocates about 70 percent of the new spending to discretionary increases that generally benefit all districts similarly.
  - These allocations would help districts address their cost pressures, balance their budgets, and support local programs.
  - Districts could direct their funding toward programs that address their individual circumstances and local priorities.
- About 30 percent of the new spending consists of targeted grants that require districts to perform specific activities. Nearly all of this amount expands or extends existing categorical programs.



# **Assessing the Structure of the Governor's Plan**

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## **Allocating Funds Through COLA and Special Education Rates Has Advantages**

- These mechanisms are efficient ways of distributing funding to a broad swath of districts, and districts could incorporate these increases into their budgets relatively easily.
- Other amounts could also be reasonable, depending on the Legislature's priorities.

## **Ongoing Costs Likely Slightly Higher Than the May Revision Estimates**

- For schools, we estimate that the funding set aside for LCFF could cover a 4 percent increase. Funding a 4.31 percent increase would likely cost \$211 million more than the May Revision estimates.
- For community colleges, we estimate ongoing apportionment costs are at least \$50 million higher than the May Revision estimates. Based on recent trends, we assume several SCFF inputs are higher than the administration estimates.



# Assessing the Structure of the Governor's Plan

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## **Plan Contains a Cushion That Would Help Protect Ongoing Programs**

- The May Revision dedicates about \$4.5 billion in ongoing (2026-27) Proposition 98 funds for one-time activities. This budgeting approach is prudent because it creates a cushion to protect ongoing programs.
  - If the guarantee drops in the future, the state can accommodate the reduction by allowing the one-time spending to expire instead of turning to program cuts or payment deferrals.
  - If the guarantee does not drop, the cushion still helps the state cover COLA or address other emerging priorities next year.
- The cushion equates to 3.6 percent of all Proposition 98 spending in 2026-27, but is proportionately larger for schools than community colleges.
  - The cushion for schools is \$4.4 billion, or 3.9 percent of school spending.
  - The cushion for community colleges is only \$127 million, or 0.9 percent of college spending.

## **Proposition 98 Reserve Deposit Is Prudent**

- The \$10.3 billion reserve deposit is relatively modest compared with the overall level of Proposition 98 funding—equivalent to 8.3 percent of the guarantee in 2026-27—but it would be a vital tool if a downturn occurs. The reserve allows the state to supplement the guarantee without disrupting district cash flow (unlike a payment deferral) or worsening future state budget deficits.
- We recommend depositing at least as much funding into the Proposition 98 Reserve as the Governor proposes, given the significant revenue risks for the coming year.



# Assessing the Structure of the Governor's Plan

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## **Plan Would Help Prepare for an Economic Downturn**

- The Governor's plan might not fully insulate school and community college programs from the next downturn, but it represents significant progress compared with the previous three budgets.
- Adopting the Governor's plan likely would allow the state to weather a mild slowdown or the first year of a more severe revenue drop without significant disruption to school and community college programs.
- The state took a similar approach to building the June 2022 budget, which included a \$9.5 billion reserve balance and a \$3.5 billion cushion. These tools did not fully protect schools and community colleges from the large revenue drop that materialized a year later (the state still had to reduce previous appropriations), but schools and community colleges fared better than most other state programs.

## **State Has Additional Options for Building Budget Resiliency**

- The state could provide districts with an advance payment—a 13<sup>th</sup> payment at the end of 2026-27 that would count toward their funding allotments in 2027-28. The advance payment would function like the opposite of a traditional payment deferral. As we described in our November 2025 outlook for schools and community colleges, an advance payment would give the state a tool to help address future budget challenges within Proposition 98—including potential drops in 2026-27—and improve district cash flow.
- The state could help districts with pension-related costs. This relief could be structured to reduce costs over many years or to provide targeted relief during a downturn. The state could allocate the funds to California State Teachers' Retirement System and California Public Employees' Retirement System to reduce district liabilities, or it could allocate them to districts to fund future cost increases.



# **Assessing the Structure of the Governor's Plan**

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## **Overall, the May Revision Is a Reasonable Starting Point for Building the Budget**

- The Legislature could consider many adjustments to the May Revision, ranging from the size of the ongoing base increase and special education increases to the amount for one-time discretionary grants.
- Building budget resiliency is key. Unexpectedly strong revenues have created an opportunity for the Legislature to advance its school and community college priorities, but the positive trend could reverse quickly if the stock market falters.



# Comparing School and Community College Allocations

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## May Revision Allocates Funding Based on Historical Percentages—Except in 2024-25

- For 2025-26 and 2026-27, the May Revision allocates 89 percent of total Proposition 98 funding for schools and 11 percent for community colleges, with certain programs excluded from this split (following the same methodology as the June 2025 budget).
- For 2024-25, the May Revision maintains the Governor’s budget proposal to provide \$392 million more for community colleges (and less for schools) than the 11 percent split would provide.

## Notable Differences in Fiscal Outcomes Across Schools and Community Colleges

- For schools, the combination of growth in the guarantee and savings from declining attendance makes a significant amount of funding available for new proposals.
- For community colleges, enrollment growth and higher apportionment costs are absorbing some of the increase in Proposition 98 funding, leaving proportionately less available for new proposals. This difference from schools has a few important consequences:
  - The May Revision has a relatively small amount for new community college spending (\$1.4 billion) compared with the amount for school spending (\$16.3 billion), despite allocating community colleges \$392 million more than the historical split.
  - Nearly all of the ongoing funding available for community colleges in 2026-27 is dedicated to covering enrollment growth and base increases, leaving relatively little funding available to build a one-time budget cushion. If the Proposition 98 guarantee were to decline significantly and the state continued allocating 89 percent to schools and 11 percent to community colleges, the state would likely need reductions or deferrals that were proportionately much larger for community colleges than for schools.



# Appendix I: K-12 Proposition 98 Spending Proposals

(In Millions)

	January	May	Change
<b>Ongoing Increases</b>			
Special education base rate	\$509	\$2,357	\$1,848
Statutory COLA for LCFF (2.87 percent)	1,872	2,230	357
Community schools	1,000	1,000	—
LCFF increase above COLA (1.44 percent)	—	927	927
COLA for categorical programs (2.87 percent)	184	215	32
Expanded Learning Opportunities Program	62	62	—
State Preschool cost of care plus increase	46	33	-13
Necessary Small Schools	31	31	1
County office of education increase above COLA	—	20	20
Preschool Quality Rating and Improvement System	—	20	20
Other	24	42	18
Subtotals	(\$3,729)	(\$6,938)	(\$3,209)
<b>One-Time Activities</b>			
Discretionary block grant	\$2,764	\$5,109	\$2,345
Deferral paydown	1,875	1,875	—
Learning Recovery Emergency Block Grant	757	757	—
Community schools implementation	—	485	485
Literacy coaches	—	440	440
Teacher Residency Grant Program	250	250	—
Dual enrollment	100	100	—
Kitchen infrastructure and training	100	100	—
Mathematics Professional Learning Partnership	—	60	60
Multi-tiered systems of support	—	50	50
Reading difficulties screening	40	40	—
Students experiencing homelessness	—	30	30
Statewide residency technical assistance center	—	30	30
Inclusive college technical assistance center	—	25	25
Wildfire-related support for schools	23	23	—
21 <sup>st</sup> Century California School Leadership Academy	—	15	15
Holocaust and Genocide Education Grant Program	—	10	10
Teacher candidate transcript review platform	—	5	5
Subtotals	(\$5,909)	(\$9,404)	(\$3,495)
<b>Total K-12 Education</b>	<b>\$9,638</b>	<b>\$16,342</b>	<b>\$6,705</b>

COLA = cost-of-living adjustment and LCFF = Local Control Funding Formula.



# Appendix II: Community College Proposition 98 Spending Proposals

(In Millions)

	January	May	Change
<b>Ongoing Increases</b>			
Regular apportionment COLA (2.87 percent)	\$241	\$292	\$51
Apportionments increase above COLA (1.44 percent)	—	146	146
Calbright College	38	38	—
Enrollment growth (0.5 percent)	32	34	2
COLA for select categorical programs	31	36	6
Healthy School Foods Pathway program	14	14	—
Common Cloud Data Platform	5	5	—
Credit for prior learning	2	2	—
Subtotals	(\$363)	(\$568)	(\$205)
<b>One-Time Activities</b>			
Deferral paydown	\$408	\$408	—
Deferred maintenance	121	121	—
Student support block grant	100	101	\$1
Higher 2025-26 apportionments costs	89	89	—
Additional 2025-26 enrollment growth (1.0 percent) <sup>a</sup>	55	55	—
Common Cloud Data Platform	36	36	—
Credit for prior learning	35	35	—
Higher apprenticeship costs <sup>b</sup>	13	16	3
Adult learner demonstration project	—	10	10
Subtotals	(\$857)	(\$870)	(\$13)
<b>Total Community Colleges</b>	<b>\$1,220</b>	<b>\$1,438</b>	<b>\$218</b>

<sup>a</sup> Increases budgeted growth from the enacted 2025-26 level of 0.57 percent to 1.57 percent. The associated ongoing cost is built into apportionments in 2026-27.

<sup>b</sup> Related and supplemental instruction costs for apprenticeship programs in 2024-25 and 2025-26 are higher than budgeted.

COLA = cost-of-living adjustment.



## Appendix III: Proposition 98 Funding Changes by Segment and Source

(In Millions)

	January	May	Change
<b>2024-25</b>	<b>\$123,833</b>	<b>\$124,929</b>	<b>\$1,096</b>
<b>K-12 Education</b>			
General Fund <sup>a</sup>	\$77,558	\$77,248	-\$309
Local property tax	28,302	28,270	-32
Subtotals	(\$105,859)	(\$105,518)	(-\$341)
<b>California Community Colleges</b>			
General Fund	\$9,794	\$9,744	-\$50
Local property tax	4,335	4,343	9
Subtotals	(\$14,129)	(\$14,087)	(-\$42)
<b>Proposition 98 Reserve<sup>b</sup></b>	\$3,845	\$5,324	\$1,479
<b>2025-26</b>	<b>\$121,420</b>	<b>\$125,114</b>	<b>\$3,695</b>
<b>K-12 Education</b>			
General Fund <sup>a</sup>	\$72,807	\$73,935	\$1,127
Local property tax	29,389	29,130	-259
Subtotals	(\$102,197)	(\$103,065)	(\$868)
<b>California Community Colleges</b>			
General Fund	\$8,441	\$8,665	\$224
Local property tax	4,558	4,444	-114
Subtotals	(\$12,999)	(\$13,109)	(\$110)
<b>Proposition 98 Reserve<sup>b</sup></b>	\$664	\$5,001	\$4,336
<b>Settle Up (Unallocated)<sup>c</sup></b>	\$5,560	\$3,940	-\$1,620
<b>2026-27</b>	<b>\$125,480</b>	<b>\$127,136</b>	<b>\$1,656</b>
<b>K-12 Education</b>			
General Fund <sup>a</sup>	\$80,913	\$82,368	\$1,455
Local property tax	30,819	30,478	-341
Subtotals	(\$111,732)	(\$112,846)	(\$1,114)
<b>California Community Colleges</b>			
General Fund	\$9,371	\$9,629	\$258
Local property tax	4,785	4,661	-123
Subtotals	\$14,156	\$14,290	\$135
<b>Proposition 98 Reserve<sup>b</sup></b>	-\$407	—	\$407

<sup>a</sup> Includes the portion of State Preschool funded through Proposition 98 and direct instructional services provided by state agencies.

<sup>b</sup> Accounts for mandatory and discretionary deposits. Amounts consist entirely of General Fund.

<sup>c</sup> The state would be required to provide this funding in the future, assuming no decreases to the estimate of the Proposition 98 guarantee.

