2025-26
45-Day Revise
Budget Report

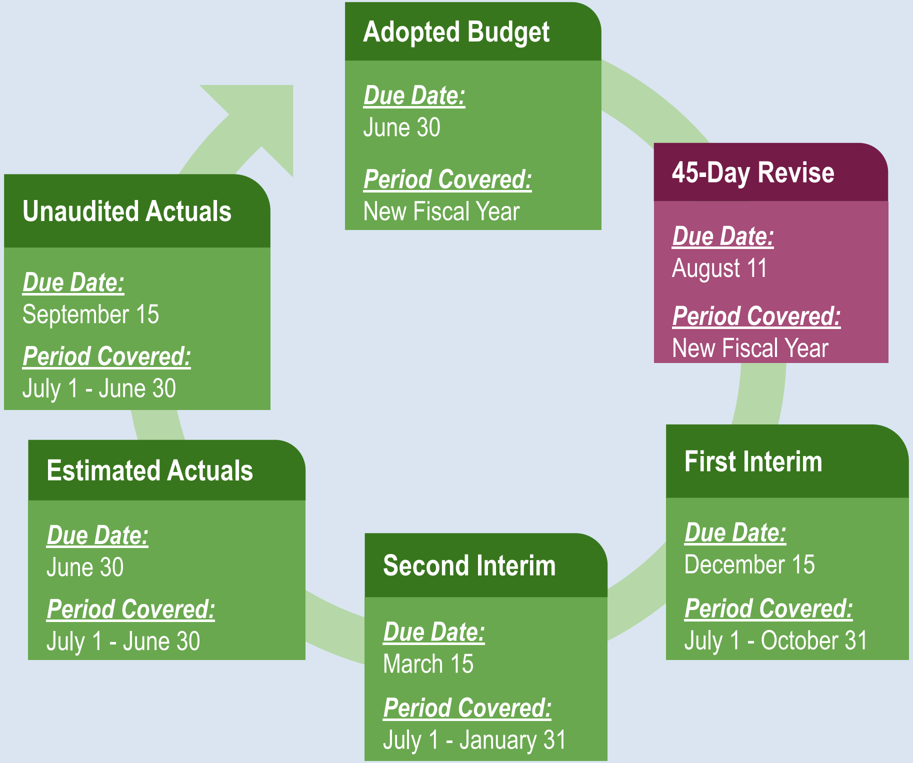
July 29, 2025

Agenda

- Budget Timelines
- 2025-2026 Fiscal Year
  - Economic Outlook
  - Federal Actions
  - State Budget Highlights & Proposition 98
  - 45-Day Update to SRVUSD Budget
- Next Steps
- Appendix

Public Education Budget Cycle

2025-26 Fiscal Year



Economic Outlook

The California Economy

Labor Market

- Unemployment is holding steady at 5.3%
- 50,000 jobs were lost in the first four months of 2025
- Federal immigration policy is constraining the labor supply

Growth

- California's GDP is expected to continue trending down in the short term

Domestic Migration

- California net domestic migration has moderated
- State population is expected to increase slightly in 2025, 2026, and future years

Inflation

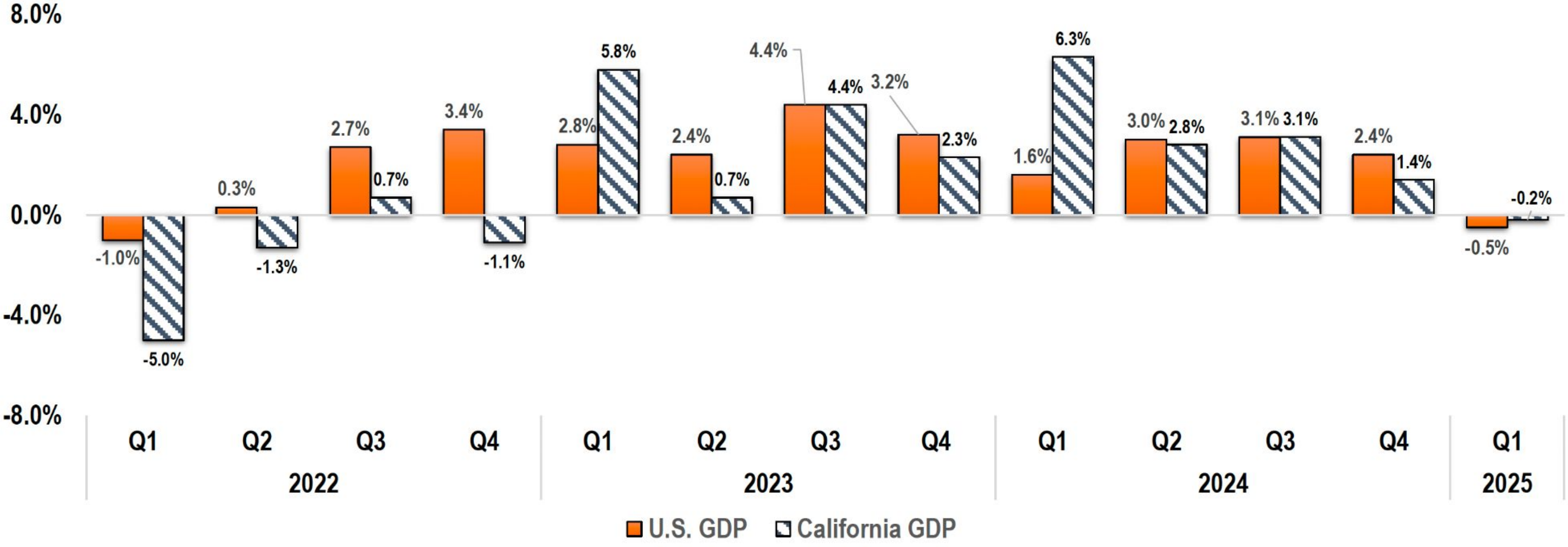
- California CPI is projected to peak at 4.2% by the end of 2025

Housing

- New permits for housing remain flat, despite policy changes to ease construction permitting
- Deportations, high interest rates, tariffs on materials, and rebuilding of homes damaged and destroyed by Los Angeles County wildfires are expected to constrain the housing supply
- Elevated long-term interest rates and high housing costs make housing affordability challenging

U.S. and California Gross Domestic Product

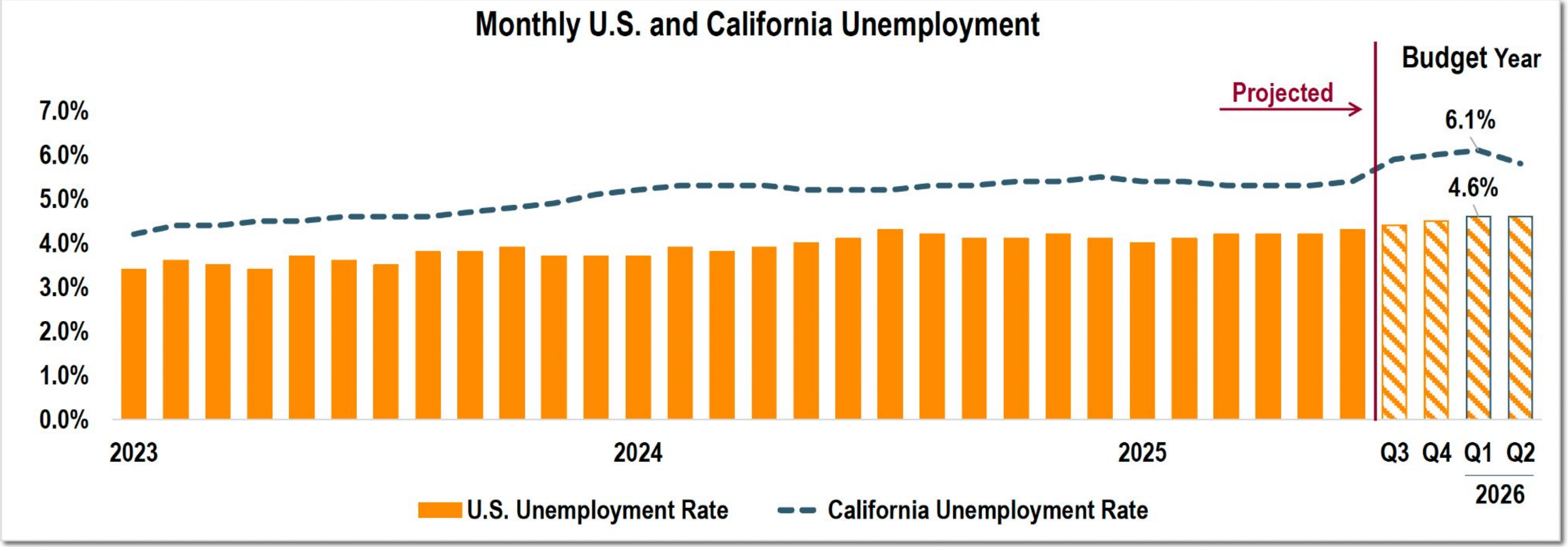
- Weak consumption is expected to continue due to elevated and rising delinquency rates on personal debt
- A national recession is considered unlikely over the coming year, per leading economists



Source: Bureau of Economic Analysis (BEA) and California Department of Finance (DOF) [1]Gross Domestic Product (GDP)

The Labor Market

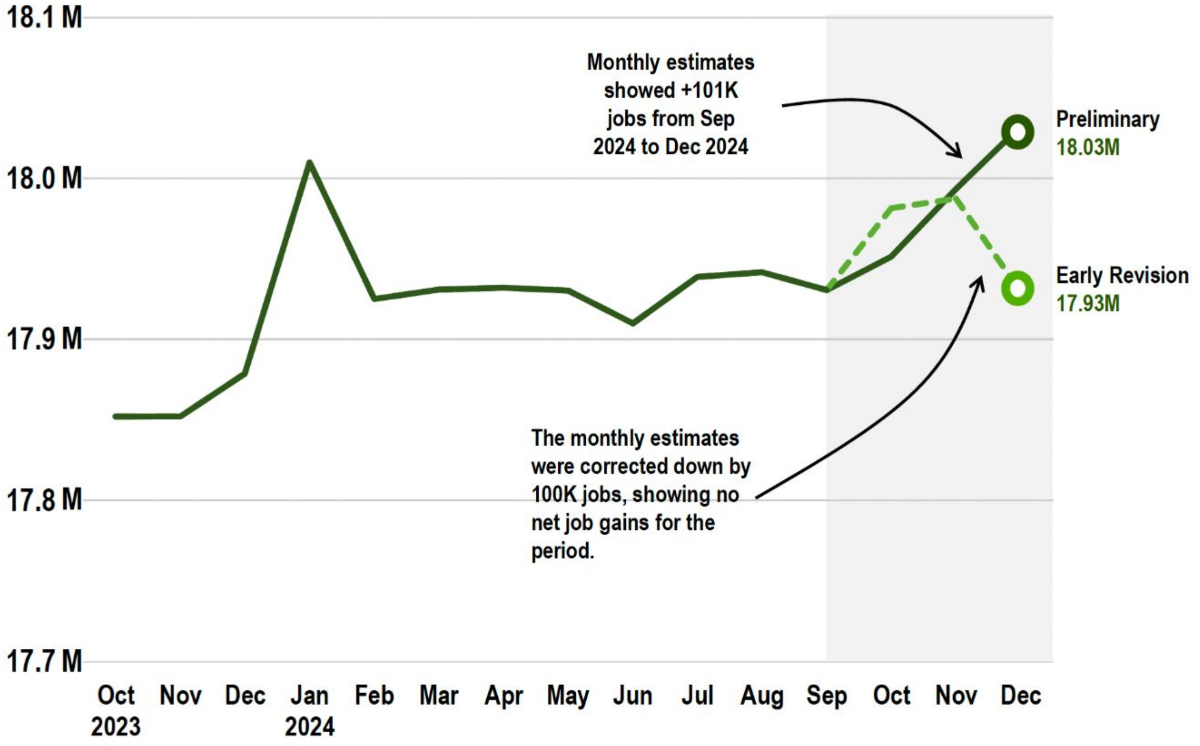
- Unemployment is projected to peak in 2026 Q1, due to the headwinds facing the economy
- The gap between U.S. and California unemployment rates is projected to grow



Source: Bureau of Labor Statistics (BLS), California Employment Development Department, and UCLA Anderson Forecast

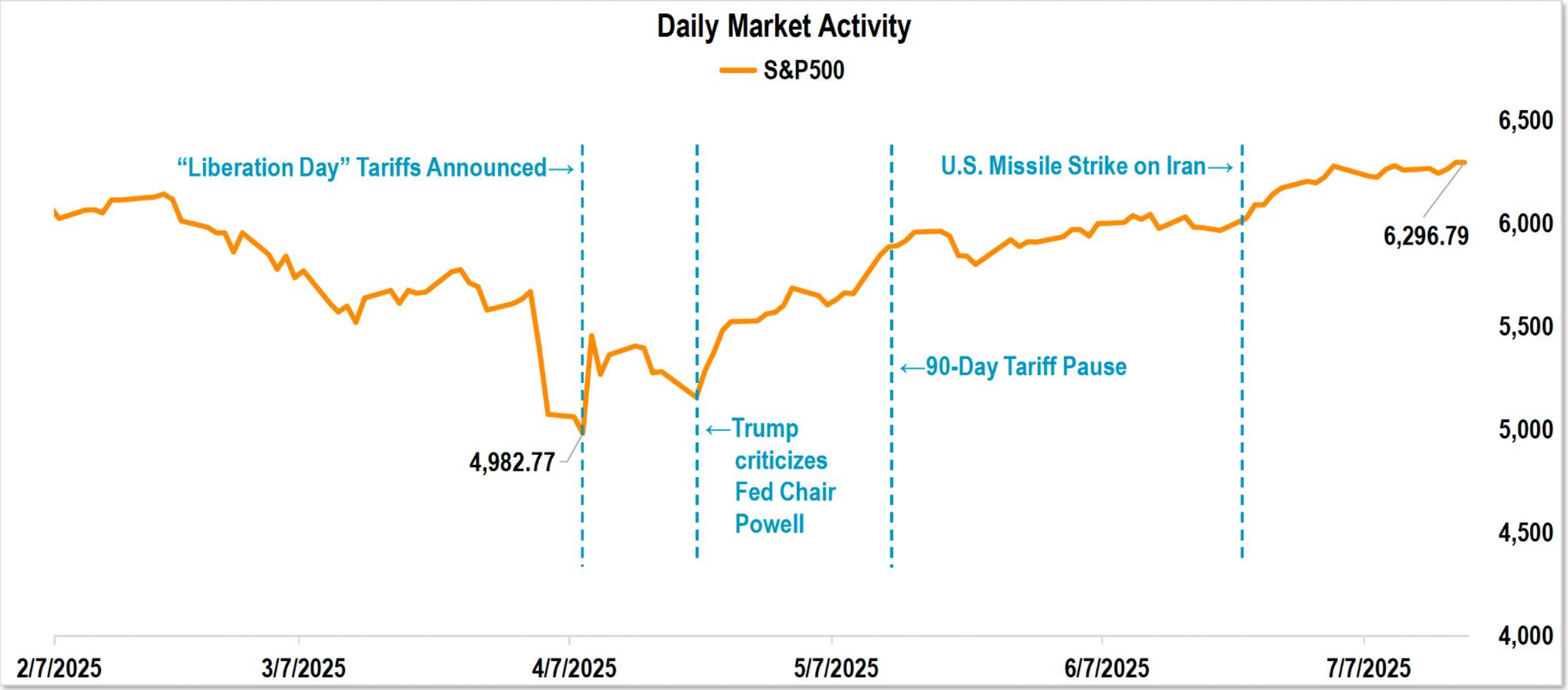
California Labor Market Drag

- The Legislative Analyst's Office (LAO) recently published corrected California jobs numbers
  - Job growth was preliminarily estimated for the last quarter of 2024
  - Monthly state employment figures show California produced net no new jobs at the end of last year



Source: LAO, "Early Data Revision Shows No Job Creation During 2024 Q4," June 24, 2025

The Stock Market



Risks to the State Budget

California's General Fund Deteriorating Conditions

- State structural deficits through 2028-29
- Tariffs can reduce state revenue by over $15 billion
- Sensitive to federal fiscal and monetary policy changes
- Cost shifts from Washington D.C. to states will pressurize the budget

Key Risk Factors for the California Economy

As a global economic competitor, geopolitical tension and uncertainty create risk for California

Unpredictable tariff and trade policies will have a similar impact on the state economy as it does on the national economy

The labor market continues to slump, with the California unemployment rate rising to the fourth highest in the nation and projected to rise above 6% in 2025

Housing affordability and persistent limited inventory continues to be an economic headwind

Federal Government Actions

Federal Education Funding In Context

- Since the start of 2025, there has been a flurry of federal activity that impacts federal education programs and funding
- Understanding each action is important for contextualizing its impact on local programs

Executive Orders

- English as the national language
- School discipline
- Higher education reform
- Closing the U.S. Department of Education (ED)

2026 Budget Proposal

- Maintains Title I and special education funding
- Proposes other funding cuts and to eliminate many federal programs, including Title III
- Proposes creation of block grants

One Big Beautiful Bill

- Enactment of H.R. 1 that changes student financial aid, Medicaid, subsidized meal programs, and establishes a school voucher program

Review of 2025 Funds

- Withholding federal fiscal year (FFY) 2025 funds for specified programs to review alignment with presidential priorities

Federal Executive Orders

Ongoing efforts to dismantle the ED

Executive Order 14242 directed ED Secretary Linda McMahon to facilitate the department's closure

- Officially closing the ED would take an act of Congress

Starting in March, the ED reduced its workforce by 50% and continues to focus efforts on reducing the role of the ED and increasing state decision-making and parental authority

On June 4, 2025, in the case of *New York v. McMahon,* a preliminary injunction halted the layoffs and returned the ED to "status quo" is in place

On July 14, the Supreme Court ruled that the layoffs could resume, lifting the lower court's injunction against the layoffs as the litigation proceeds in the lower courts.

In reaction, Secretary McMahon stated: "We will carry out the reduction in force to promote efficiency and accountability and to ensure resources are directed where they matter most—to students, parents, and teachers."

This is not a final decision.

2026 Federal Education Budget Update

- **President Trump's non-defense spending proposal would reduce spending by $163 billion from 2025 levels, including education spending**

Maintains Title I and Individuals with Disabilities Education Act Funding

K-12 Simplified Funding Program consolidates $2 billion for 18 formula and competitive grants

Eliminates Adult Education

Eliminates Title III for English Language Acquision and Migrant Education

H.R. 1—One Big Beautiful Bill

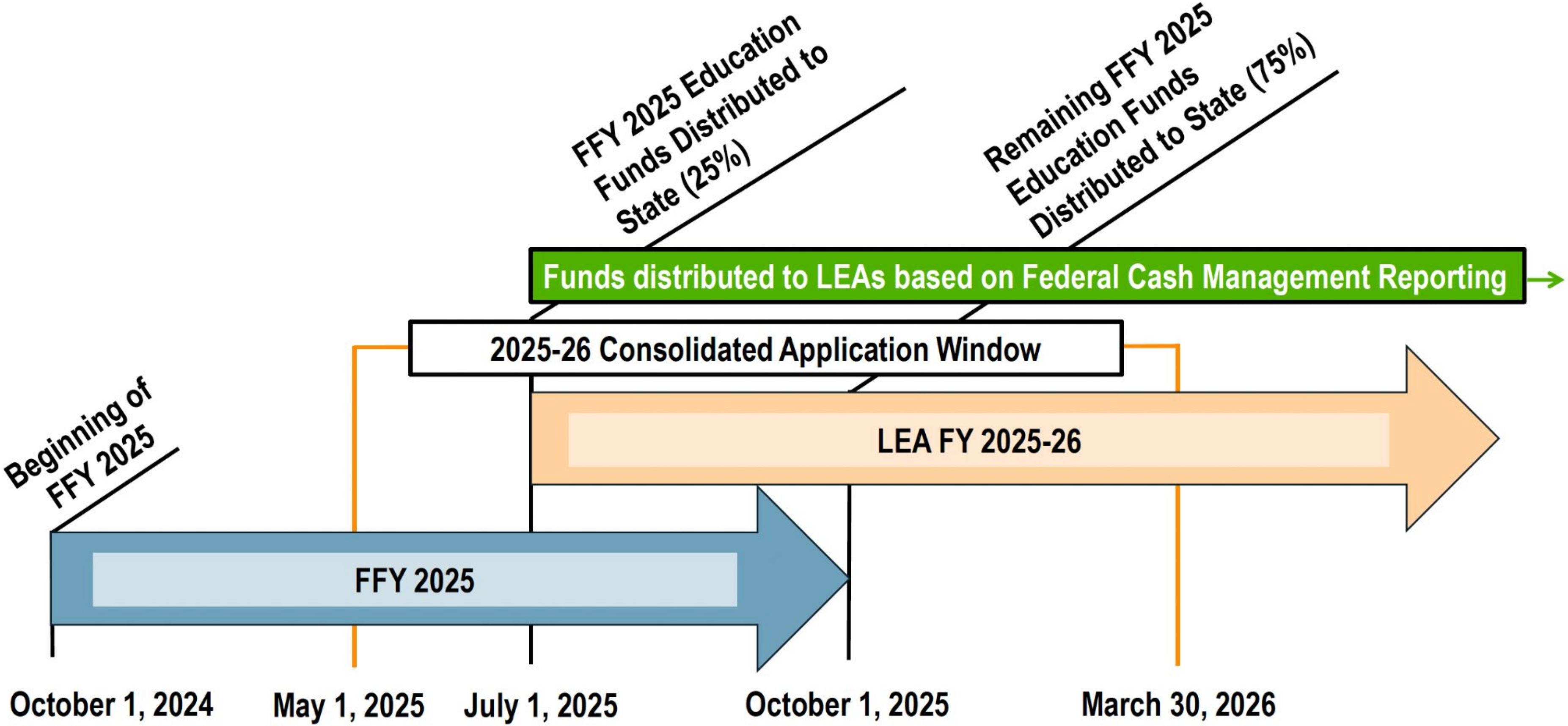
- Congress used a budget reconciliation bill to enact an array of fiscal, regulatory, and administrative reforms, some affecting public TK-12 and higher education
- H.R. 1 is distinct from President Trump’s FFY 2026 budget proposal and does not eliminate the ED nor reduce education funding as proposed in the President’s budget
- H.R. 1 also is not the measure or mechanism used to withhold FFY 2025 education funds

TK-12 Education

- In addition to establishing a tax credit for scholarships supporting a federal school voucher program, the bill makes changes to eligibility for Medicaid and the Supplemental Nutrition Assistance Program (SNAP)

Directly affects eligibility for school-based medical services and meal programs	Will likely impact other state and federal programs that use Medicaid and SNAP eligibility

Review of FFY 2025 Funds



Potential Impact of Federal Actions on Budget

- **In order to avoid negatively affecting programs and staffing mid-year, approximately $550,000 in funding will needed in case the Federal Freeze is not lifted.**
- **Staff intends to earmark a portion of the recent State approved LCFF funds ($2,100,000) from the Ending Fund Balance of the General Fund to cover these expenses.**

State Budget Highlights and Prop 98

Student Support and Professional Development Discretionary Block Grant

- $1.7 billion for the Student Support and Professional Development Discretionary Block Grant
  - Allocated on an equal per-ADA basis
    - Estimated at $315 per ADA
- Allowable spending uses are discretionary, although state priorities are highlighted:
  - Professional development for teachers on the English Language Arts (ELA) and English Language Development Framework, Literacy Roadmap, and Mathematics Framework
  - Teacher recruitment and retention efforts
  - Career pathways and dual enrollment
- Funds are available for expenditure through June 30, 2029
- Final expenditure report is due to the CDE by September 30, 2029

Approximately $8.5m for SRVUSD

Learning Recovery Emergency Block Grant

The Enacted Budget restored
$378.6 million
to the LREBG, which supports
learning recovery initiatives
through the 2027-28 school year

$114 per ADA
based on 2021-22 ADA and UPP

Approximately $300,000 for SRVUSD

Beginning with the 2025-26 school year, LEAs must meet additional requirements to utilize the funds, and two new allowable uses of LREBG funds are added:

To utilize funds, LEAs must conduct a new student needs assessment

Expenditures and actions must be included in the LCAP

Training on mathematics and ELA frameworks are new allowable uses

Transitional Kindergarten

Approximately $2m for SRVUSD

Universal Transitional Kindergarten

- Combined with previous investments, the Enacted Budget includes a total of $2.1 billion to support universal transitional kindergarten
- Starting in 2025-26 and thereafter, all children whose fourth birthday occurs by September 1 are eligible for Transitional Kindergarten (TK)

TK Ratio LCFF Add-on

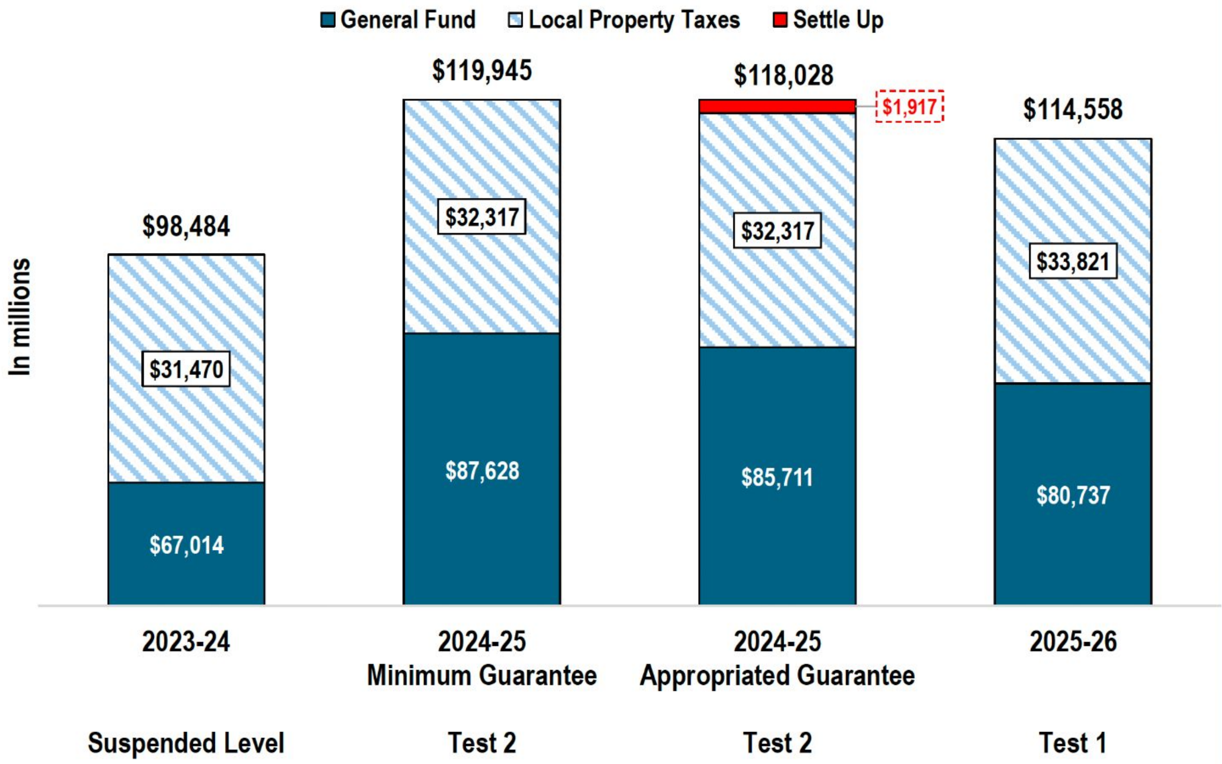
- Additional investment is included to increase the TK ratio LCFF add-on

$3,148 Per pupil for previous 12:1 student-to-adult ratio requirement

\+ $2,397 Additional per pupil for 10:1 student-to-adult ratio requirement effective in 2025-26

$5,545 Total per-pupil add-on beginning in 2025-26

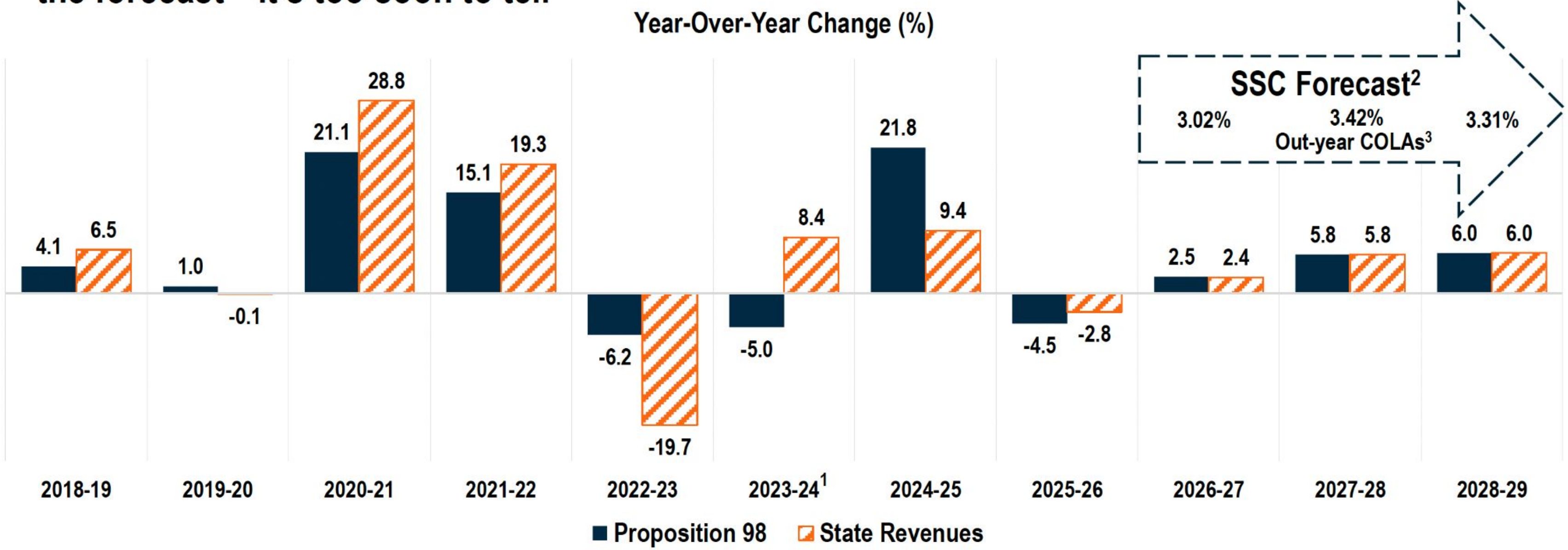
Proposition 98 Minimum Guarantee—2023-24 Through 2025-26



- From the suspended level in 2023-24, the minimum guarantee increased by nearly $21.5 billion in 2024-25
- But the projected deterioration of the state General Fund decreases the minimum guarantee by almost $5.4 billion in 2025-26

Risks to Proposition 98 and Local Budgets

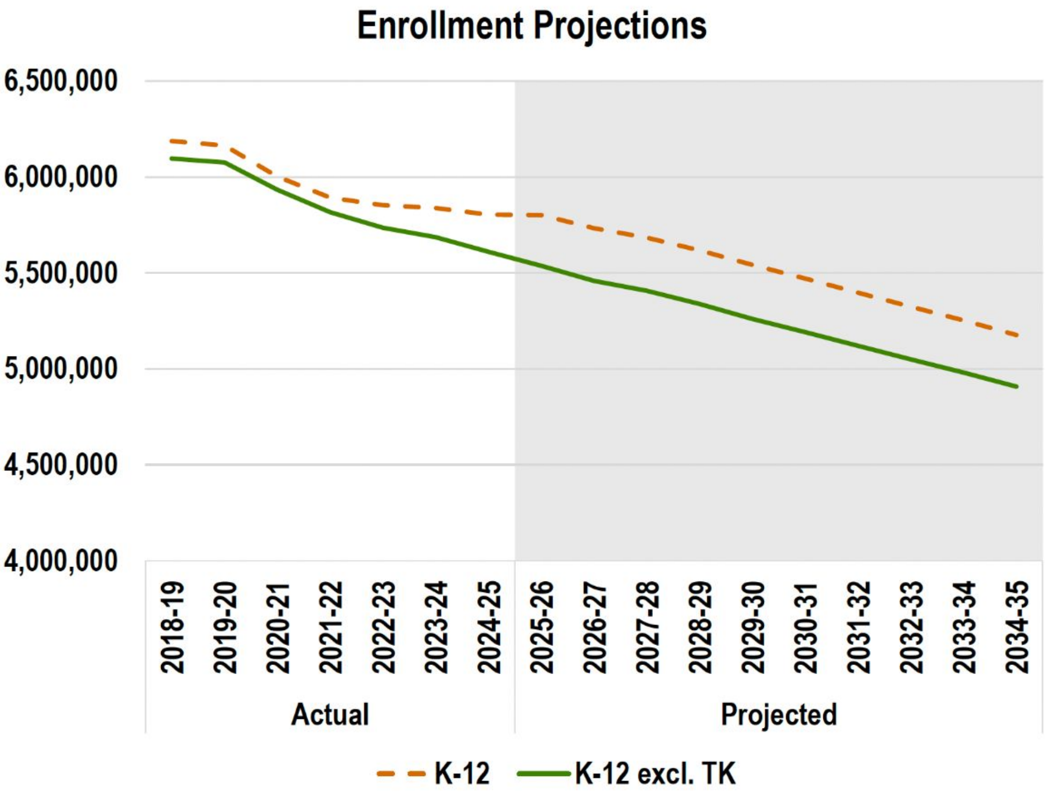
- Forecasted General Fund and Proposition 98 growth stabilizes but remains slow
- Out-year state revenue estimates made <u>prior</u> to recent congressional action, which could change the forecast—it's too soon to tell



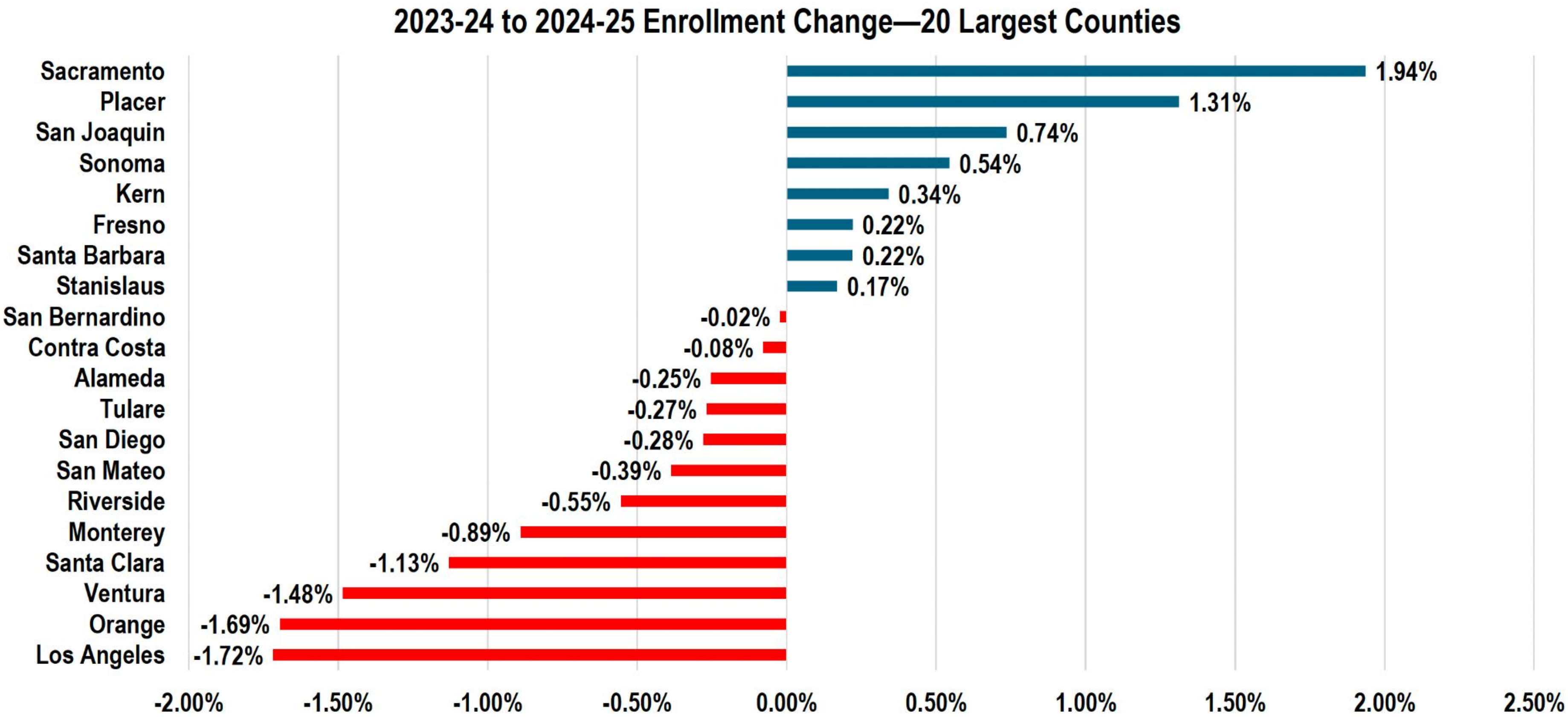
[1]Suspended Level; [2]Minimum guarantee computed based on historical share of General Fund revenues; [3]Enacted Budget assumptions

Student Enrollment Forecast

- Statewide enrollment continues to decline
- Since 2018-19, statewide enrollment has dropped 6.1%
  - By 2034-35, it is projected to decrease by 16.3%
- Implementation of TK has helped slow down the decline
  - But once TK is fully implemented in 2025-26, the annual 1% decline is forecasted to return for the next ten years



Student Enrollment—Twenty Largest Counties



45-Day Revision
to the
2025-26 SRVUSD Budget

2025-26 Combined Summary of Changes

Revenues	*Adopted Budget*	*45-Day Revision*	*Change*	*%*
LCFF Sources	$333,428,493	$335,593,008	$2,164,515	0.65%
Federal Revenue	$7,268,460	$7,268,460	$0	0.00%
Other State Revenue	$67,636,981	$76,557,507	$8,920,526	13.19%
Other Local Revenue	$34,179,338	$34,179,338	$0	0.00%
Transfers In	$0	$0	$0	0.00%
Total	**$442,513,272**	**$453,598,313**	**$11,085,041**	**2.51%**

Expenditures	*Adopted Budget*	*45-Day Revision*	*Change*	*%*
Certificated Salaries	$183,899,680	$187,609,136	$3,709,456	2.02%
Classified Salaries	$71,800,505	$72,208,561	$408,056	0.57%
Employee Benefits	$132,672,018	$133,515,365	$843,347	0.64%
Books and Supplies	$10,940,854	$10,940,854	$0	0.00%
Services	$46,061,369	$46,061,369	$0	0.00%
Capital Outlay	$101,150	$101,150	$0	0.00%
Other Outgo/Indirect Costs	$704,146	$704,146	$0	0.00%
Transfers Out/Contributions	$2,367,808	$2,367,808	$0	0.00%
Total	**$448,547,530**	**$453,508,389**	**$4,960,859**	**1.11%**
Net Increase (Decrease) in Fund Balance	**($6,034,258)**	**$89,924**	**$6,124,182**	

2025-26 Budget Detail

Revenues	***Unrestricted***	***Restricted***	***Combined***
LCFF Sources	$335,593,008	$0	$335,593,008
Federal Revenue	$0	$7,268,460	$7,268,460
Other State Revenue	$12,094,823	$64,462,684	$76,557,507
Other Local Revenue	$12,541,993	$21,637,345	$34,179,338
Transfers In	$0	0$	$0
Total	**$360,229,824**	**$93,368,489**	**$453,598,313**

Expenditures	***Unrestricted***	***Restricted***	***Combined***
Certificated Salaries	$143,777,598	$43,831,538	$187,609,136
Classified Salaries	$38,181,985	$34,026,576	$72,208,561
Employee Benefits	$81,997,907	$51,517,458	$133,515,365
Books and Supplies	$3,485,567	$7,455,287	$10,940,854
Services	$20,523,302	$25,538,067	$46,061,369
Capital Outlay	$0	$101,150	$101,150
Other Outgo/Indirect Costs	($1,030,303)	$1,734,449	$704,146
Transfers Out/Contributions	$71,363,456	($68,995,648)	$2,367,808
Total	**$358,299,512**	**$95,208,877**	**$453,508,389**
Net Increase (Decrease) in Fund Balance	**$1,930,312**	**($1,840,388)**	**$89,924**

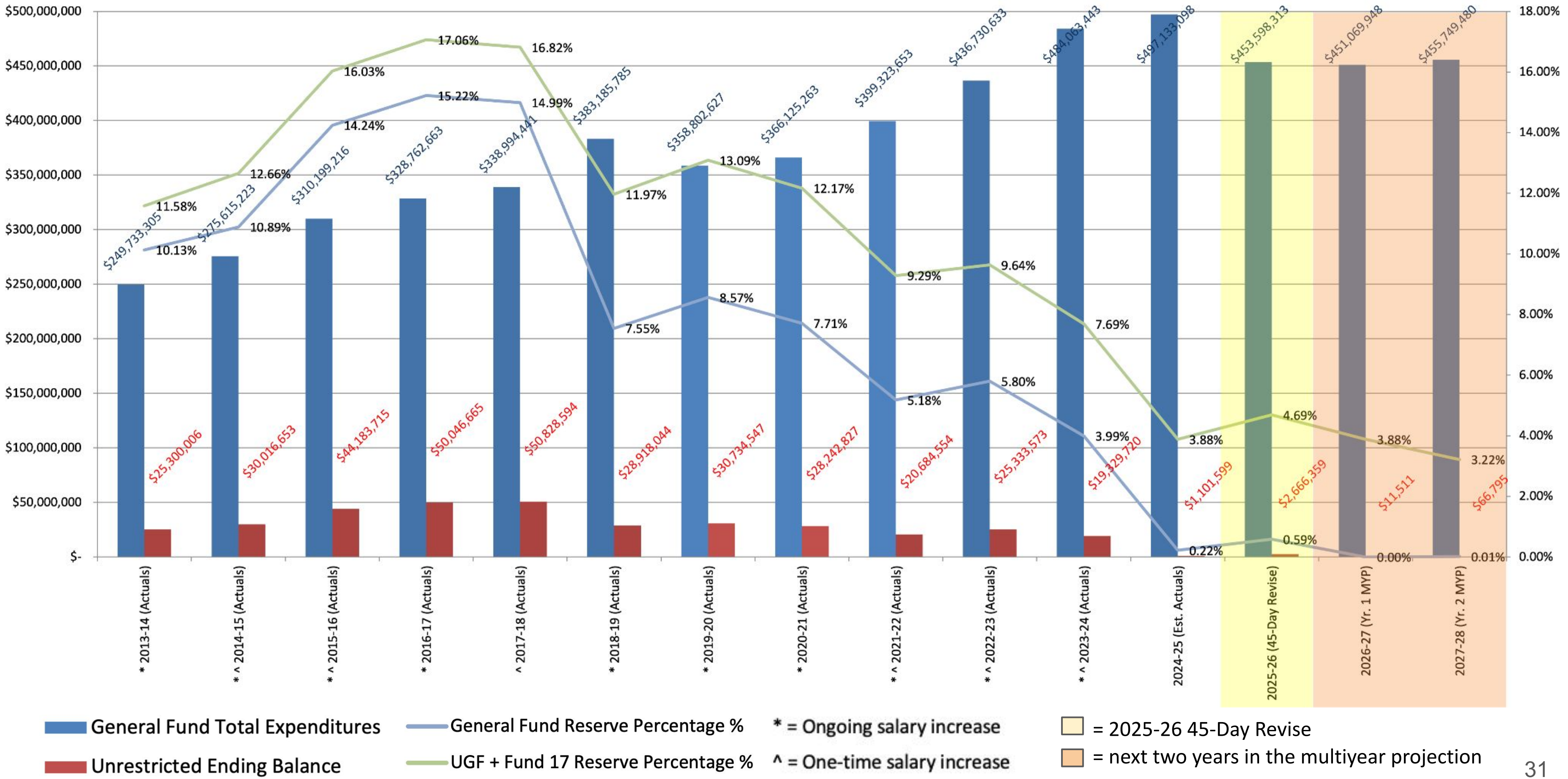
2025-26 Budget Detail

	Unrestricted	Restricted	Combined
Beginning Fund Balance	$1,101,599	$17,277,134	$18,378,733
Increase (Decrease) in Fund Balance (from previous slide)	$1,930,312	($1,840,388)	$89,924
Ending Fund Balance	$3,031,911	$15,436,746	$18,468,657
Components of Ending Fund Balance			
-Non-spendable: Revolving Cash, Stores, Prepaid Items	*$365,552*	*$0*	*$365,552*
-Legally Restricted	*$0*	*$15,436,746*	*$15,436,746*
-Committed	*$0*	*$0*	*$0*
-Assigned	*$2,666,359*	*$0*	*$2,666,359*
-Undesignated/Unappropriated	*$0*	*$0*	*$0*
Total Ending Fund Balance	*$3,031,911*	*$15,436,746*	*$18,468,657*

Fund 17 Balance ****(District is legally required to maintain a reserve in the amount of 3% of expenditures)***	
Reserve for Economic Uncertainties (REU)	$13,456,427
Declining Enrollment (Assigned)	$5,139,651

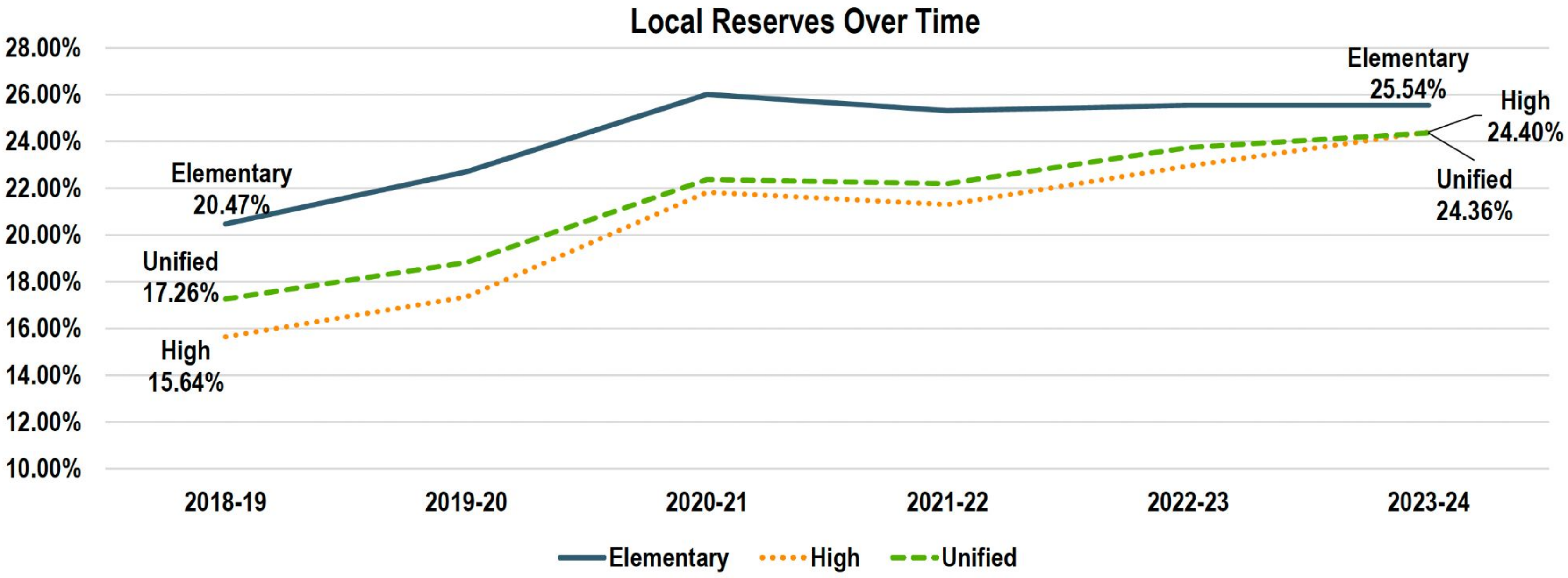
Reserve Percentage (Fund 01 EFB Assigned + Fund 17) ***4.69%***

SRVUSD Historical Reserve Balance



Statewide School District Average Reserve Balances

- Reserve balances significantly increased during COVID-19
- Increase is largely due to one-time COVID-19 and other one-time emergency funds



Reserves - Looking Forward

- **Given the low level of SRVUSD reserves currently, the significant amount of uncertainty in the economy and volatility in areas out of the District's control, Staff recommend saving beyond the minimum Reserve for Economic Uncertainty (REU) required by the State to enhance the District's financial picture.**
- **Create a Board Policy that establishes a "Strategic Reserve" in alignment with the Strategic Directions of *Stewardship of Resources*.**
- **Build back reserves over time by enhancing revenues and lowering expenditures.**
- **Begin right away by not spending the fund balance and assigning it to the Reserve.**
- **Based on data from around the state, SRVUSD needs to take action to improve its financial standing by intentionally saving more than the minimum.**

State Required 3% Reserve + **Local 4% Strategic Reserve** = **Combined 7% Reserve**

Summary

- The Board approved budget reductions helped decrease the district's deficit spending.
  - Dropping from $35.8 million in 2024-25 to just $6 million in 2025-26.
  - With the addition of new TK funding and the block grants, the budget is mostly balanced for this fiscal year.

- Further action will be necessary to maintain a balanced budget beyond 2025-26:
  - Brainstorming new ongoing revenue sources, identifying additional budget reductions, or a combination of both, will be needed.
  - A reserve policy should be explored.

- Declining enrollment is projected to continue.

- Future Federal actions and the State economy will be key items to watch throughout the school year.

Next Steps and Upcoming Milestones

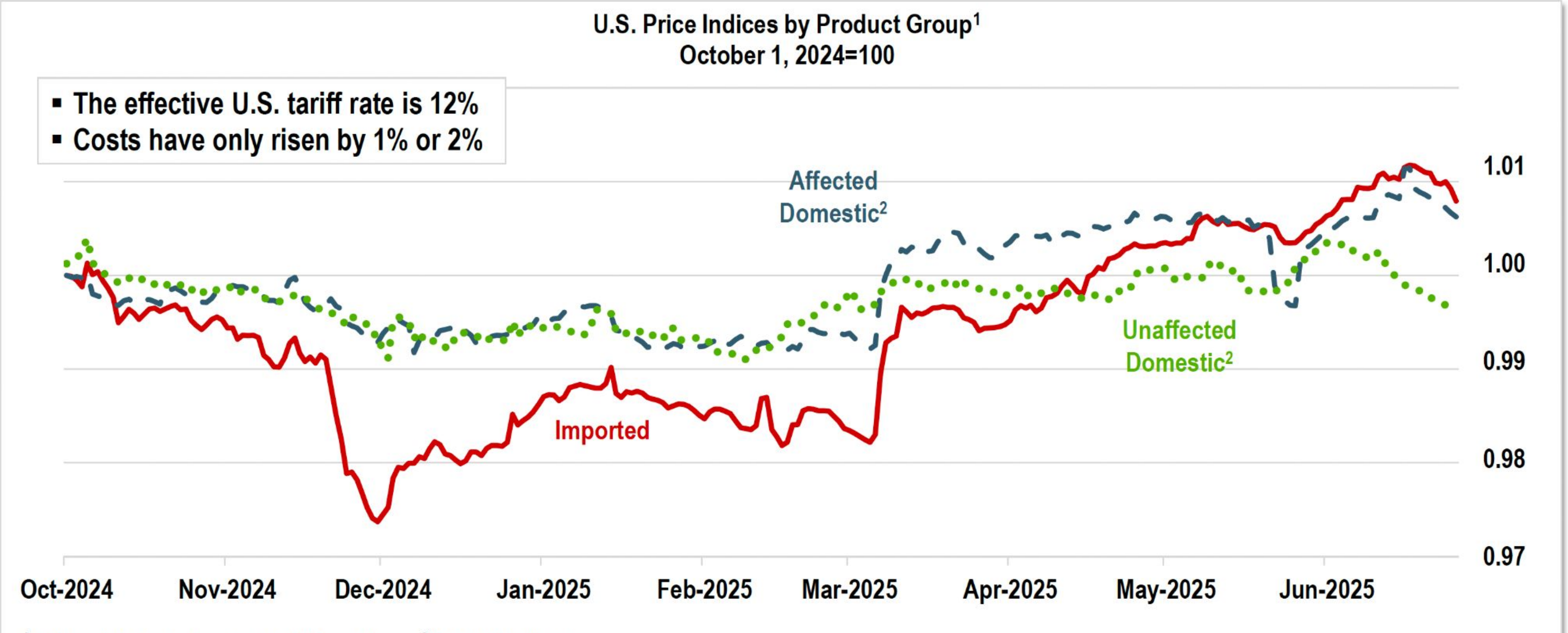
- *July: State Budget Trailer Bill language is released (includes additional description of the budget)*
- July 29: BOE Meeting, 45-Day Revision Budget Update
- August 19: BOE Meeting
- September 16: Unaudited Actuals Financial Report for previous fiscal year 2024-25
- October 14: BOE Meeting, FCMAT Report on Multiyear Projection
- December 15: BOE Meeting, 1st Interim Financial Report

= SRVUSD Budget Events   = State Budget Events

Questions and Board Discussion

Appendix of Economic Indicators

Inflation—A Deeper Dive



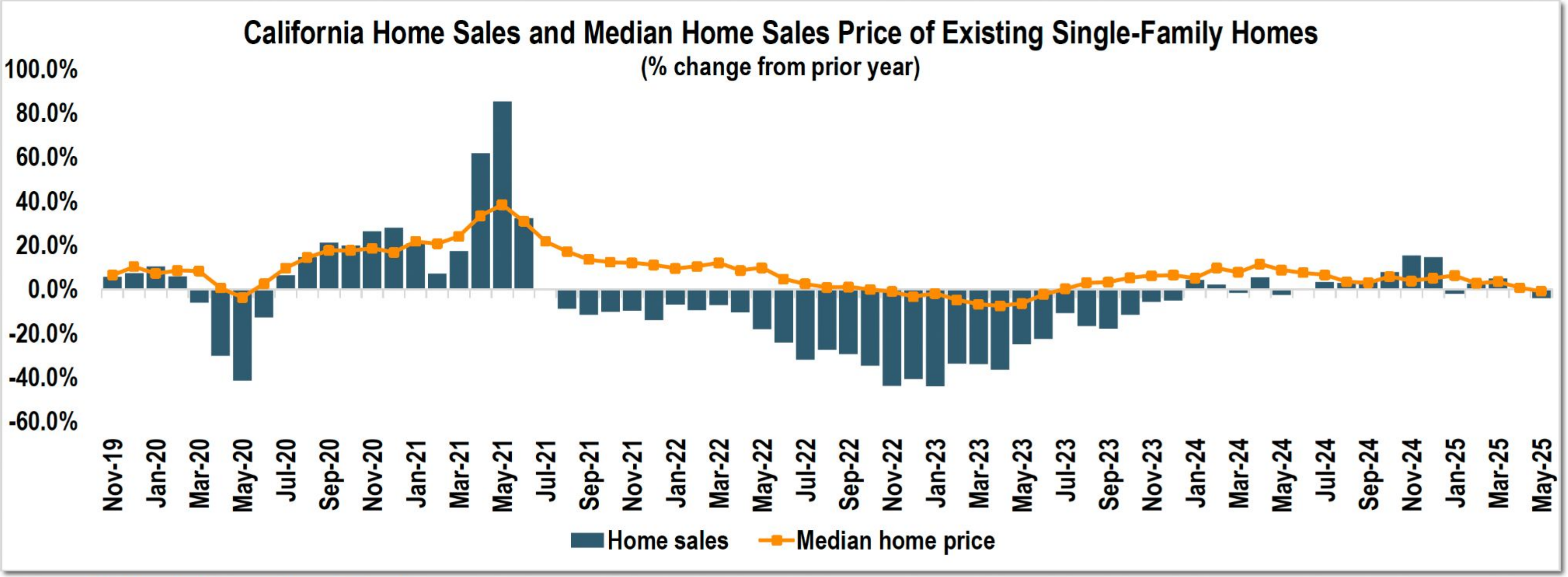
[1]Online data from four major U.S. retailers; [2]By tariff policies

Source: "Tracking the short-run price impact of US tariffs," by A. Cavallo, P. Llamas, and F. Vasquez; Havard Business School working paper, 2025

Source: The Economist

California Housing Numbers

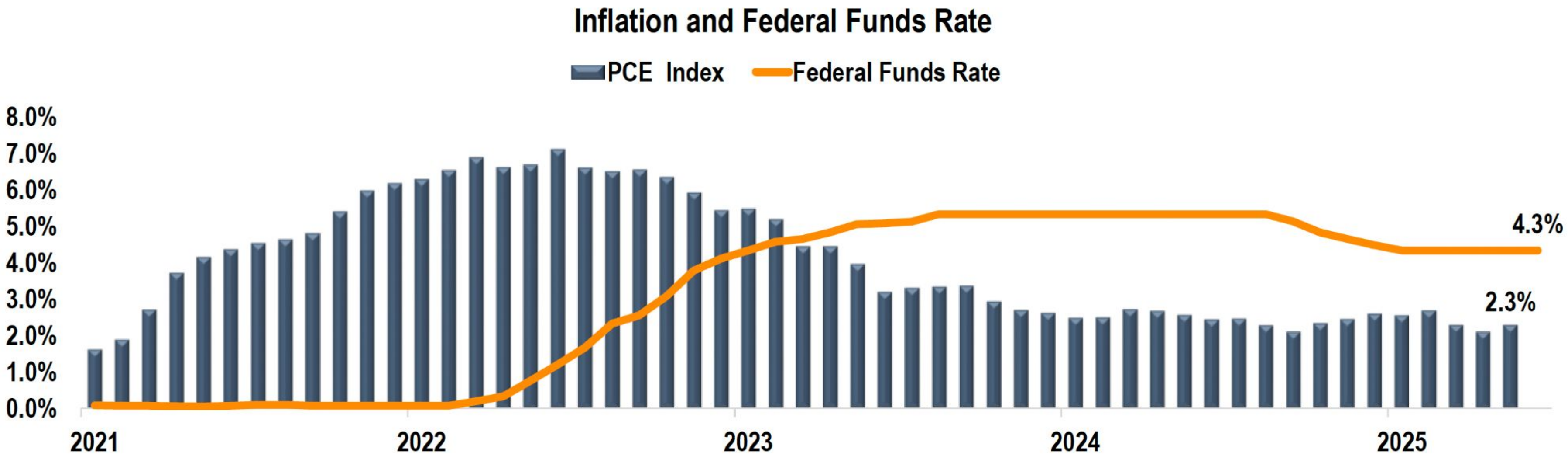
- The median housing price in California is $900,170—a reduction of 0.9% year over year
- Single-family home sales are down 4.0%, year over year



Source: California Association of Realtors

How Monetary Policy Regulates the Economy

- The Federal Reserve (Fed) works to control inflation, manage unemployment, and stabilize growth through influencing interest rates and the money supply
- The Personal Consumption Expenditures (PCE) Index is the inflationary index used by the Fed, rather than the Consumer Price Index (CPI)



Source: BEA and BLS