

Navigating the 2026-27 May Revise: Build Your Fiscal Toolbox

CSBA and PARS Webinar

June 4, 2026



Housekeeping

- At the end of the presentation, we will have a Question-and-Answer segment where we will try our best to answer your questions
- Please, use the Q & A feature of Zoom to type your questions. This is located on ribbon below the speaker.



- Your questions will be answered either in the Q & A panel or live by our presenters
- All attendees will receive a link to the **video** of this webinar as well as **the slide deck**





Today's Presenters

- ▶ **Chris Reeve**, CSBA Legislative Director
- ▶ **Rachael Sanders**, PARS Vice President - Consulting

Moderator:

- ▶ **James Collins**, CSBA Senior Director Business Development

What is the May Revise?

- The May Revise is the formal presentation of updated general fund revenues received due to the annual April 15 income tax filing deadline.
- Required by law to be presented on or before May 14, it is an opportunity for the Governor to provide an update on:
 - ❖ State general fund revenues for the current year and coming budget year.
 - ❖ Governor's proposals to expand or reduce programs and expenditures.
- State law also requires the May Revise to include an update on Proposition 98 funding and the state's efforts to meet the constitutional guarantee.





The State Budget

State Budget

- Governor Newsom's last May Revise
- State's non-partisan Legislative Analyst's Office projected an \$18 billion deficit last November
- Growth in personal incomes and capital gains revenues largely driven by AI has led to state revenues surpassing projections - \$58 billion beyond LAO estimates
- However, caution remains as concern about sustainability of AI continues
- Governor proposing a balanced budget over the next two fiscal years – after that operational deficits reappear



The numbers

- Overall state budget is \$349.9 billion – Includes all federal, state and special funding
- State revenues are up by \$16.5 billion
- The General Fund share of the budget is estimated at \$246.6 billion – a decrease of \$1.8 billion compared to the January Budget
- Budget includes increase in deposits to state reserves to \$29.9 billion:
 1. \$15.1 billion – general fund reserve
 2. \$4.5 billion – special fund for economic uncertainties
 3. \$10.3 billion – Prop 98 rainy day fund

Risks remain

- State operational budget deficits remain
- Federal actions continue to threaten public education funding
- State's volatile revenue structure heavily dependent on top 1 percent of income earners
- In response, Governor continues call for doubling of Prop 2 state general fund reserve cap from 10% and 20%



Proposition 98

Proposition 98 Overview

- Revised *minimum* guarantee for the current year is \$125.1 billion – \$3.7 billion above the January Budget estimate.
- For 2026–27, the minimum guarantee is estimated to be \$127.1 billion
- When accounting for adult education, Proposition 28 and other agencies, the Prop 98 total for the split is approximately \$122.9 billion
 - ❖ TK–12 share: \$109.47 billion – 89.07%
 - ❖ Community College share: \$13.4 billion – 10.93%
- The revised three-year estimate for Prop 98 is:
 - ❖ \$124.9 billion in 2024-25 (reflects an \$8.3 billion maintenance factor repayment)
 - ❖ \$125.1 billion in 2025-26
 - ❖ \$127.1 billion in 2026-27



Proposition 98 Overview Continued

- According to the Department of Finance, revised estimates of Prop 98 over the three-year period spanning 2024–25, 2025–26 and 2026–27 represent an approximate increase of \$28 billion compared 2025 Budget
- In comparison to last year, which reflected a \$300 million decrease in the growth of Prop 98 over the three-year budget period – Prop 98 continues to grow but at a slower rate on a year-over-year basis
- In January Prop 98 was projected to see an increase of \$21.7 billion over the three-year period – it has increased by \$6.4 billion in the May Revise for the three-year estimate
- Prop 98 continues operating under Test 1 in the current year and budget year, i.e., current year funding adjusted for increases in property tax revenue.
- Test 1 is estimated to be 39.3% of the overall state budget



Prop 98 Reserve



- The January budget estimated a reserve of \$4.1 billion – last year’s budget zeroed out the reserve – what a difference a year makes
- Due to growth in revenues, it is increasing mandatory deposits into the Prop 98 Reserve
- Gov is also proposing a discretionary deposit
- In sum, this will increase the reserve to \$10.3 billion
- This will trigger the 10% local reserve cap for 2027-28

Full repayment of Prop 98 Maintenance Factor

- State suspended Prop 98 in 2023-24 creating a maintenance factor (debt) owed to public schools of \$8.3 billion
- Prop 98 repayment if formula driven – when state general fund revenues grow repayment amount also grows
- Due to improving revenue picture, repayment increases to \$8.3 billion, retiring full amount
- Maintenance factor is what makes the guarantee the guarantee – mandatory repayment

Cost-of-Living Adjustment (COLA)

Super COLA proposed for the LCFF

- Statutory COLA estimated to be 2.87% for 2026-27, up from 2.41% as estimated in January Budget
- Governor is proposing an additional 1.4% for the LCFF, creating a “super COLA”
- Super COLA will not apply to statutory programs
- Equates to \$2.2 billion increase in LCFF
- Comes with a caveat – mandatory paid pregnancy leave

COLA continued

2.87% COLA proposed categorical programs - Modified 2.01% COLA proposed for State Preschool

- LCFF Equity Multiplier
- Special Education
- Child Nutrition
- Youth in Foster Care
- Mandates Block Grant
- Adults in Correctional Facilities Program
- Charter School Facility Grant Program
- American Indian Education Centers and the American Indian Early Childhood Education Program

School Employer Pension Costs

CalSTRS

Fiscal Year	Contribution Rate**
2022-23	19.1%
2023-24	19.1%
2024-25	19.1%
2025-26	19.1%
2026-27	19.1%

CalPERS

Fiscal Year	Contribution Rate
2025-26	26.8%
2026-27	26.4%
2027-28	26.8%*
2028-29	25.9%*
2029-30	25.1%*
2030-31	24.0%*
2031-32	23.8%*

* Latest projected rates based on most recent projections

** CalSTRS Board now allowed to adjust employer contribution rate up or down by up to 1% each year, but no higher than 20.25% and no lower than 8.25%

Source: Capitol Advisors



The Proposition 98 Third Manipulation



Third manipulation

- Governor is doubling down on his proposed withholding of Proposition 98 funding
- Proposed to be \$5.6 billion in the January Budget it has been reduced to \$3.9 billion
- Withholding as a manipulation threatens the minimum funding guarantee
- Operates as an amount owed to Prop 98 in the following year but **only if** the state has the funding to repay the withholding
- Amount of the \$3.9 withholding amounts to \$643 per student

Concerning precedent

- This represents the third manipulation of the Prop 98 funding guarantee is calculated.
- This is not how the guarantee is calculated – public education funding cannot be withheld arbitrarily.
- CSBA is opposed to this and urges all board members to respond to its action alert to send a message to the Governor and their legislators opposing the withholding





Governor's Budget Proposals

Two block grants

- 1) Increases the second proposed Student Support and Professional Development (SSPD) Discretionary Block Grant block grant from \$2.8 billion in January to \$5 billion and will go out on an ADA basis.
 - ❖ Professional development for teachers ELA/ELD Framework
 - ❖ Professional development for teachers on the Mathematics Framework
 - ❖ Teacher recruitment and retention strategies
 - ❖ Career pathways and dual enrollment expansion efforts
- 2) Maintains the restoration of \$757.3 million in prior cuts to the Learning Recovery Emergency Block Grant.
 - ❖ This will trigger existing LCAP assessment requirements



County offices of education

- Includes \$48.3 million in additional LCFF funding for COEs due to changes in ADA
 - ❖ This includes the proposed super COLA of 4.31 percent.
- Continues the proposed increase of \$13.3 million for a total of \$131.9 million in universal and targeted assistance funding
 - ❖ CSBA is in strong support of this proposal





Necessary small school districts

- Retained in the budget is the proposal from January to provide \$30.7 million to increase Necessary Small School funding rates by 20 percent
- Necessary small schools are elementary schools with 97 ADA or less and high schools with 286 ADA or less and face specific significant geographic factors
- This reflects CSBA's continued effort to push for increased funding for small school districts

Special Education

- Increases the proposal to increase special education base funding from \$509 million in the January Budget by \$1.9 billion for a total of \$2.4 billion
- Increases the base rate to \$1,340 per student – a 43% over the 2025 budget
- \$25 million one-time increase for Inclusive College Technical Assistance Centers to expand inclusive postsecondary education opportunities for students receiving special needs services



Paid pregnancy disability leave

- Similar to AB 65 by Assemblymember Aguiar-Curry from last year, which failed passage, requires LEAs provide all staff 14 weeks of paid pregnancy disability leave
- Estimated costs, according to the Department of Finance is \$218 million statewide
- Noted in the May Revise that the super COLA would be required to be used to fund these costs
- According to the Department of Finance, funding from the super COLA must be first be directed to cover costs associated with this leave





Themes and takeaways

Significant cost pressures facing LEAs

- Declining enrollment
 - ❖ 1.3 percent drop in 2025-26
 - ❖ Not unique to California but population moving within California
 - ❖ 62 percent of LEAs experiencing declines
- AB 218 (2019) claims continue to grow both in settlement size and number
- Federal funding threats
- Inflation and operational costs surpassing base (per pupil) LCFF funding
- Pension costs heavily market dependent



Major Takeaways

- AI has had a significant impact on state revenues in a short period of time but concerns remain about the “AI bubble”
- Budget is largely balanced but operational deficits are on the horizon
- Manipulation of Prop 98 remains
- Fragmented governance remains – CSBA continues its SOS for Student Achievement campaign

PARS Solutions: Tools for the Journey Ahead



Today's Agenda



- ⚙️ OPEB Background
- ⚙️ OPEB Solutions Program / Section 115 Trust Overview
- ⚙️ Case Studies
- ⚙️ Other Fiscal Tools
 - ⚙️ Pension Prefunding
 - ⚙️ Early Retirement Incentives
- ⚙️ Q & A

What is OPEB/GASB 75?

OPEB (Other Post-Employment Benefits)

All post-employment benefits, other than pension, that are provided to retirees by employers.

GASB 75 *is the required national standard*

Retiree healthcare accounting and financial reporting set by the Governmental Accounting Standards Board (GASB).



How Can Districts Fund OPEB Liabilities?

Currently, school districts have several options for dealing with their unfunded obligations:

1

Continue with
Pay-as-you-go

2

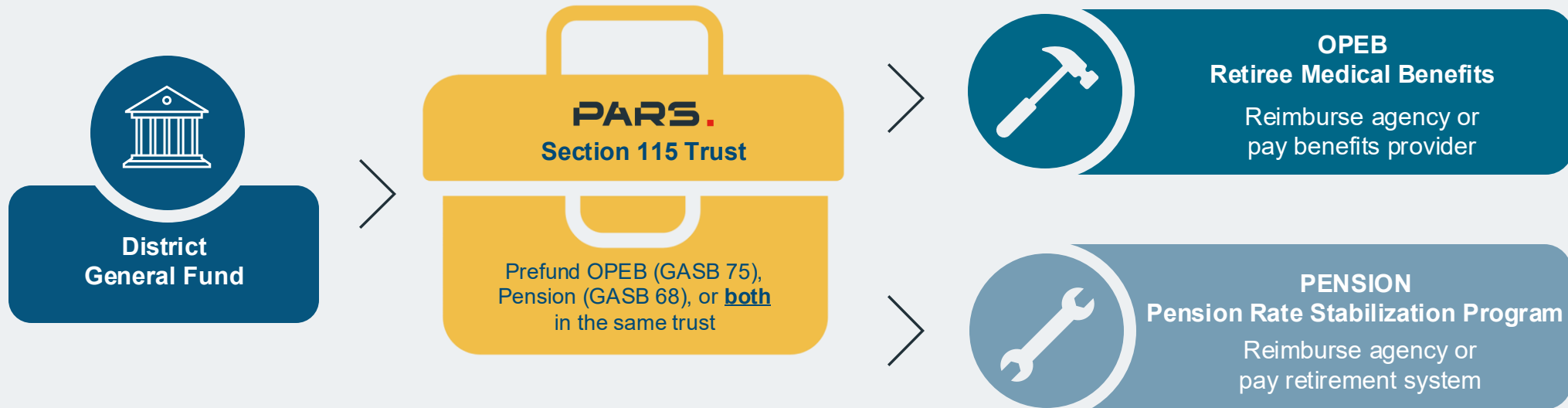
Set money
aside in
General Fund

3

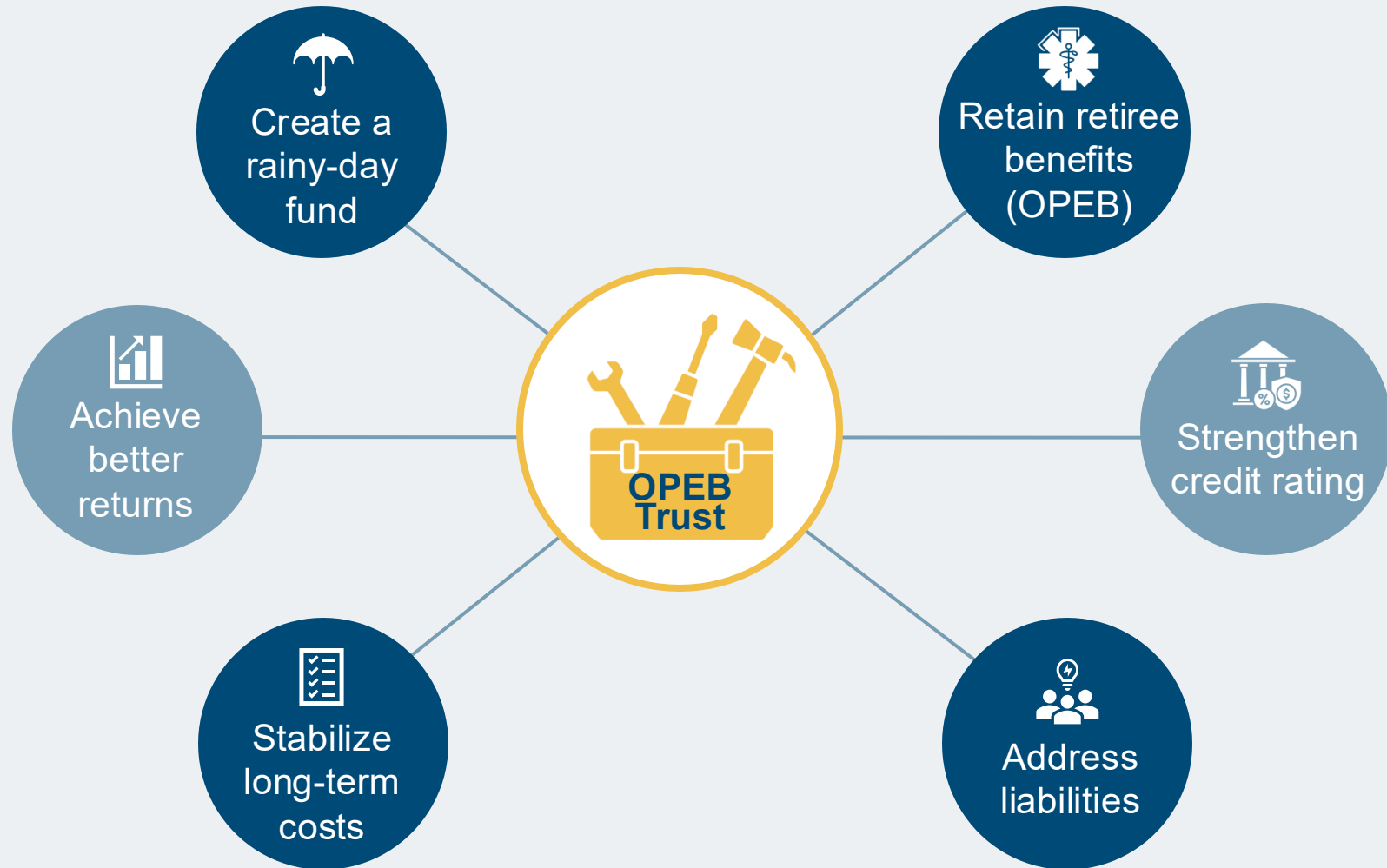
Prefund
using an
**IRC Section
115 Trust**



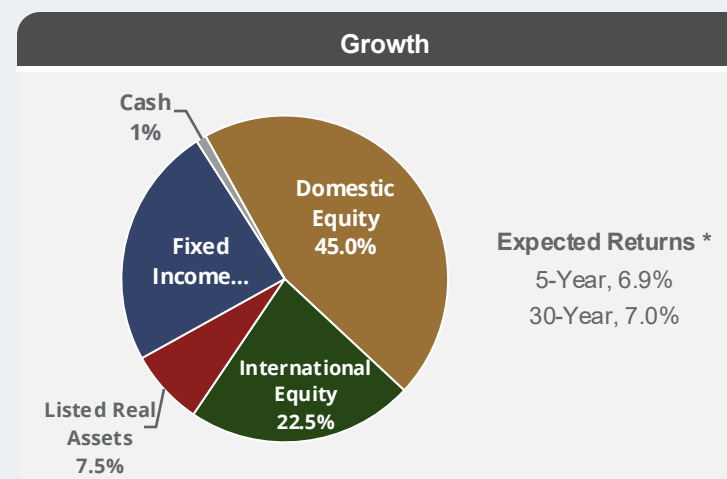
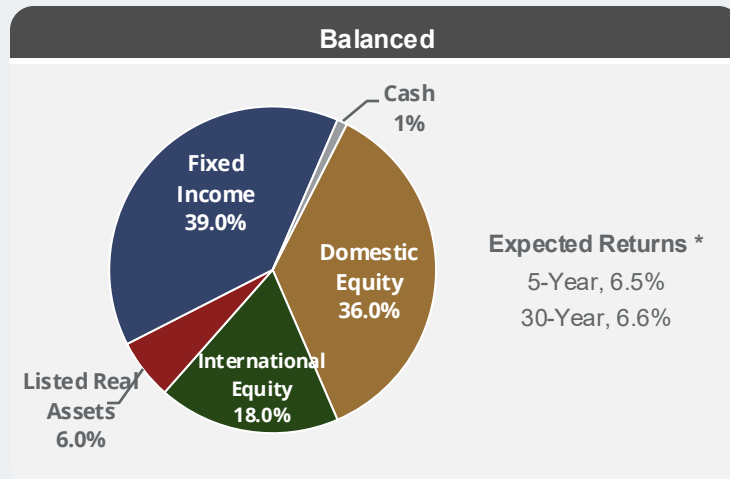
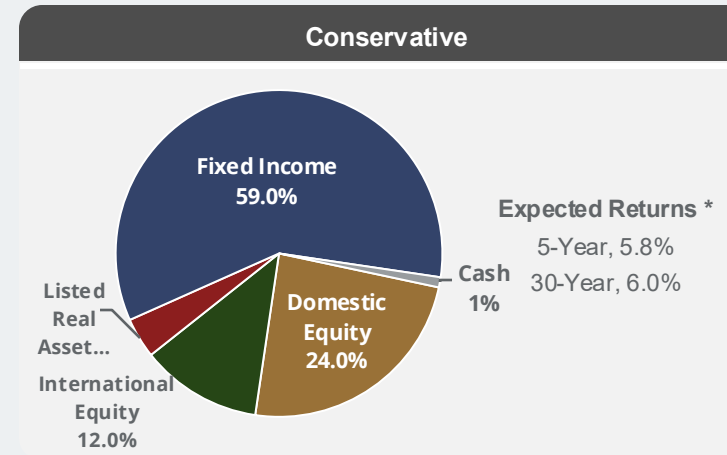
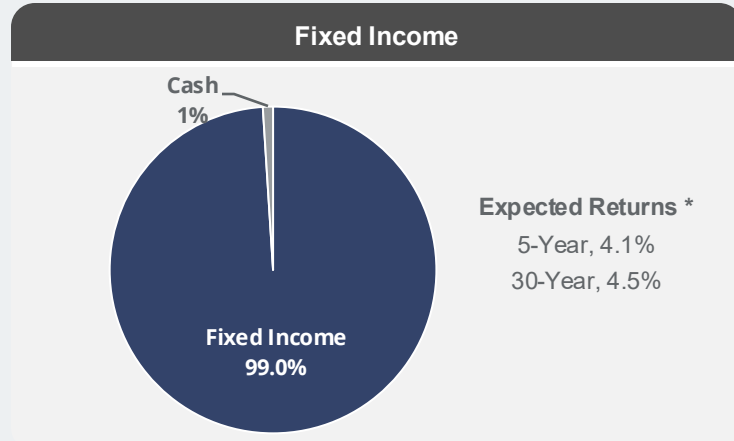
The Right Tool for Managing OPEB Liabilities: Powered by a Section 115 Trust



Why Prefund OPEB Liabilities?



Sample Investment Strategies



** Data from PFMAM Target Index Strategies: Asset Allocation Summary. Representative as of 2026. Asset allocations and assumptions are subject to change. Please see important disclosures at the end of this presentation for additional information.*



Historic Investment Returns

As of March 31, 2026

Strategy	Equity (%)	1 Year	3 Years	5 Years	10 Years
Growth	75%	16.60%	13.48%	7.22%	9.24%
Balanced	60%	14.14%	11.64%	6.00%	7.84%
Conservative	40%	10.87%	9.43%	4.40%	6.01%
Fixed Income	0%	4.67%	4.67%	1.04%	2.09%

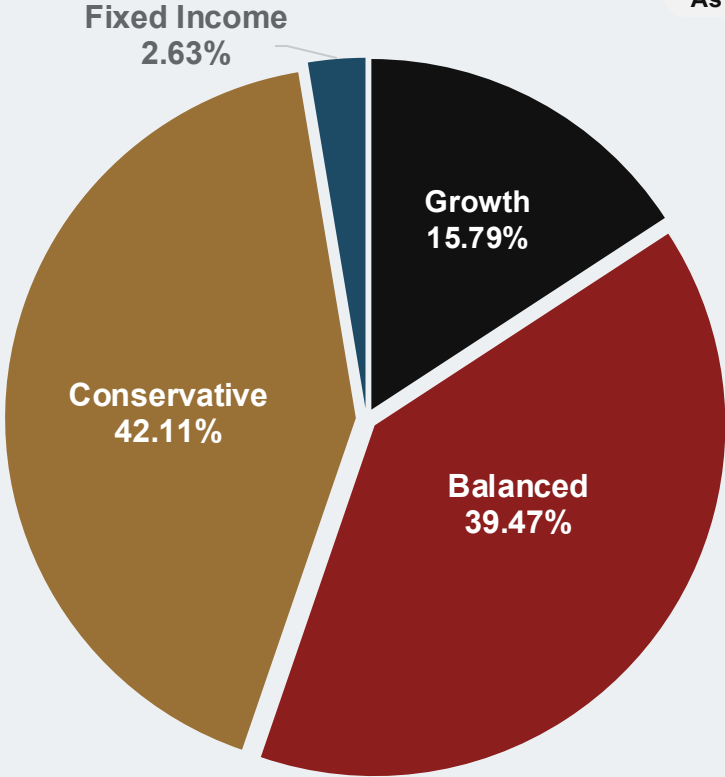
**Returns are calculated by U.S. Bank for the PARS 115/PRHCP Target Index portfolios as of March 31, 2026. The returns provided are gross of investment advisory fees and net of embedded fund fees. All performance data, while deemed obtained from reliable sources, is not guaranteed for accuracy. Please see important additional disclosures to the PARS portfolios included in the individual strategy fact sheets.*



OPEB Strategy Selection – CA Schools

As of March 31, 2026

Strategy	Allocation* (%)
Growth (75% Equity)	15.79%
Balanced (60% Equity)	39.47%
Conservative (40% Equity)	42.11%
Fixed Income (0% Equity)	2.63%
TOTAL	100.00%



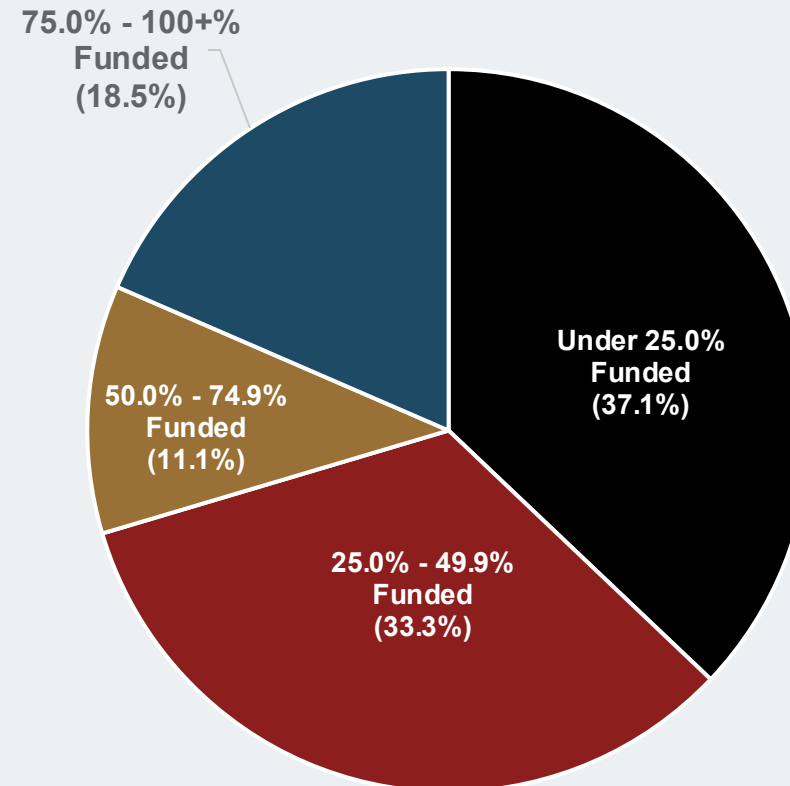
*Allocations are based on agencies who have funded



Case Studies

OPEB Funding Status

OPEB Funding Status*	% of K-12 Clients
Under 25.0% Funded	37.1%
25.0% - 49.9% Funded	33.3%
50.0% - 74.9% Funded	11.1%
75.0% - 100+% Funded	18.5%
TOTAL	100.0%



Average: 40.64% Funded

**Data based on Districts that have funded and is sourced from actuarial reports and/or District financials; OPEB actuarial measurement dates range from June 30, 2023 to June 30, 2025.*



About School District 1



Located in **Santa Barbara County**



A **School District** with **8 schools** covering grades preschool through eighth;
Serving close to **5,200 students** for the **2025-26** school year



Established a **Section 115 Trust** in 2019 and began with a **\$3.4M** initial contribution.
After continued funding, the District is **now fully funded** as of its last Actuarial Valuation



Summary of District's OPEB Plan Activity

History of contributions, disbursements, and total assets as of April 30, 2026:



Year	Contributions	Disbursements	Total Assets
Jun-19*	\$3,414,402	\$0	\$3,424,973
Jun-20	\$850,000	\$0	\$4,488,865
Jun-21	\$0	\$0	\$5,190,368
Jun-22	\$2,170,000	\$0	\$6,417,522
Jun-23	\$0	\$0	\$6,774,721
Jun-24	\$2,950,000	\$0	\$10,533,030
Jun-25	\$0	\$0	\$11,621,031
Jun-26**	\$0	\$0	\$12,675,084

*Plan Year Ending June 2019 is based on 1 month of activity.

**Plan Year Ending June 2026 is based on 10 months of activity.



OPEB Actuarial Results

	Measurement Date: June 30, 2018 <u>Pay-As-You-Go</u> Discount Rate: 3.80%	Measurement Date: June 30, 2024 <u>Prefunding</u> Discount Rate: 4.75%
Total OPEB Liability (TOL) <i>Actuarial Accrued Liability (AAL)</i>	\$11,159,578	\$10,184,517
Fiduciary Net Position <i>Actuarial Value of Assets</i>	\$0	\$10,533,030*
Net OPEB Liability (NOL) <i>Unfunded Actuarial Accrued Liability (UAAL)</i>	\$11,159,578	(\$348,513)
Funded Ratio (%)	0%	103.42%
Annual Benefit Payments (Pay-as-you-Go)	\$637,429 <i>for FY 2017-18</i>	\$1,192,138 <i>for FY 2024-25</i>

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.

About School District 2



Located in **San Diego County**



A **Union School District** with **13 schools** covering grades preschool through eighth; Serving close to **6,300 students** for the **2025-26** school year

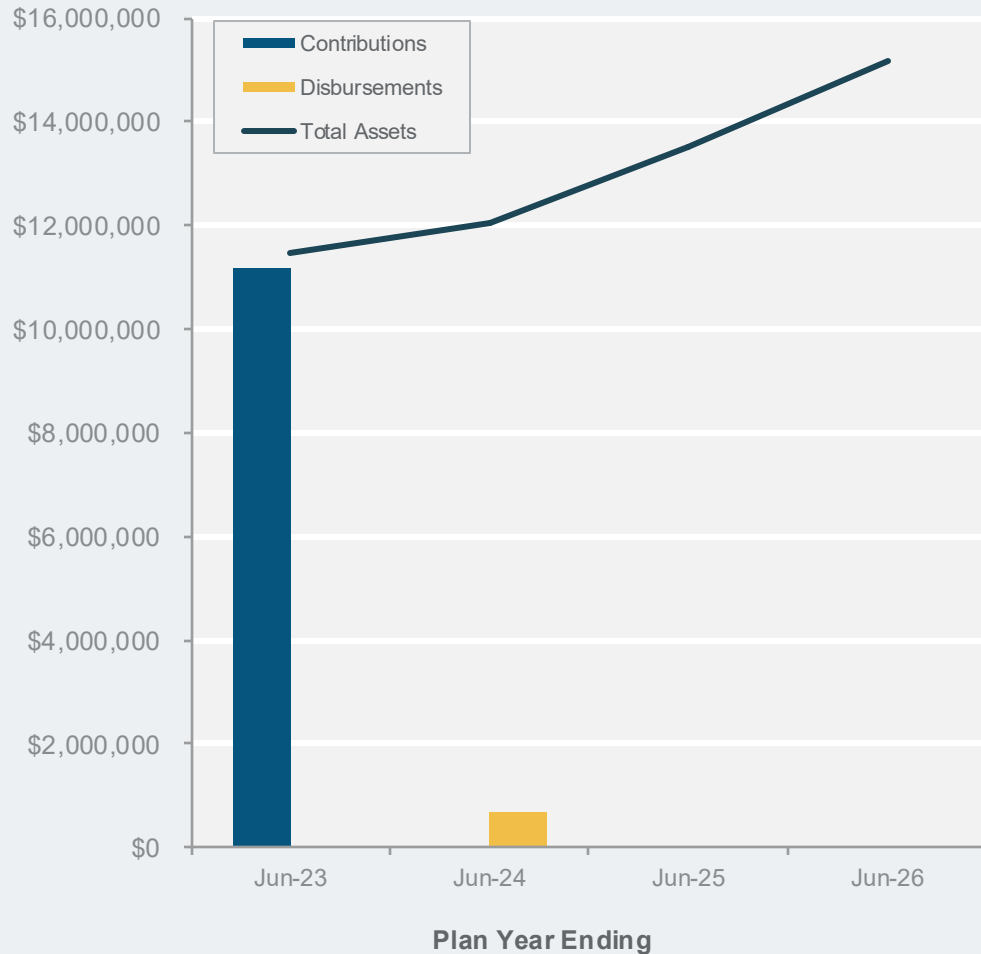


Established a **Section 115 Trust** in 2023 with a one-time contribution of **\$11.2M** and uses the investment earnings to **offset Pay-as-you-Go costs**.



Summary of District's OPEB Plan Activity

History of contributions, disbursements, and total assets as of April 30, 2026:



Year	Contributions	Disbursements	Total Assets
Jun-23*	\$11,200,000	\$0	\$11,483,962
Jun-24	\$0	\$694,970	\$12,035,027
Jun-25	\$0	\$0	\$13,510,603
Jun-26**	\$0	\$0	\$15,168,993

*Plan Year Ending June 2023 is based on 2 months of activity

**Plan Year Ending June 2026 is based on 10 months of activity



OPEB Actuarial Results

	2022 Actuarial Report Valuation Date: June 30, 2021 <u>Pay-as-you-Go</u> Discount Rate: 2.16%	2024 Actuarial Report Valuation Date: June 30, 2023 <u>Prefunding</u> Discount Rate: 6.00%
Total OPEB Liability (TOL)	\$19,894,379	\$17,523,305
Fiduciary Net Position	\$0	\$12,035,027*
Net OPEB Liability (NOL)	\$19,894,379	\$5,488,278
Funded Ratio (%)	0.0%	68.7%
Annual Benefit Payments (Pay-as-you-Go)	\$906,782 For FY 2021-22	\$1,139,062 For FY 2025-26

Rule of thumb: For every one percent increase in the discount rate, the unfunded liability is lowered by 10-12%.



Sample OPEB Funding Policies

1



Annually identify any one-time general-purpose funds appropriated to district through the state budget and recommend portion to be allocated to trust.

2



Transfer (all or partial) assets from an Internal Reserve Fund currently earmarked specifically for OPEB to Trust.

3



Contribute the ADC, “Actuarially Determined Contribution,” as suggested by the District’s Actuary.

4



Contribute predetermined percentage each fiscal year based on certain budget, unrestricted fund balance, or reserve thresholds.

5



Make an initial contribution as the delta from a reduction in General Fund “reserve levels” (e.g. 15% to 10%); Consideration of “10% Local Reserve Cap.”

6



Contribute one-time revenue source and set forth by policy to draw down only on investment earnings in short-term time horizon, preserving principal.

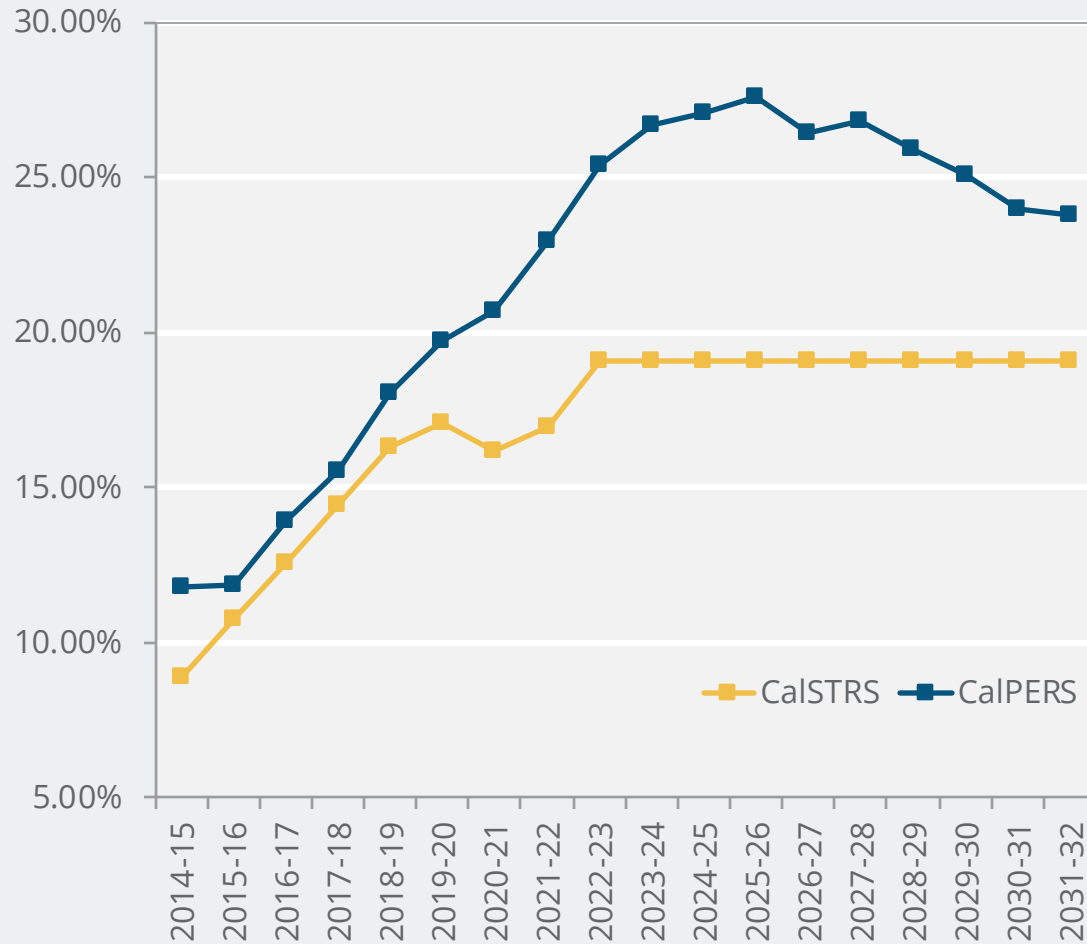


Other Fiscal Tools

Pension Rate Stabilization Program (PRSP)
Supplementary Retirement Plan (SRP)

How Much Have Pension Costs Grown?

CalSTRS/CalPERS rate increases through 2031-32:

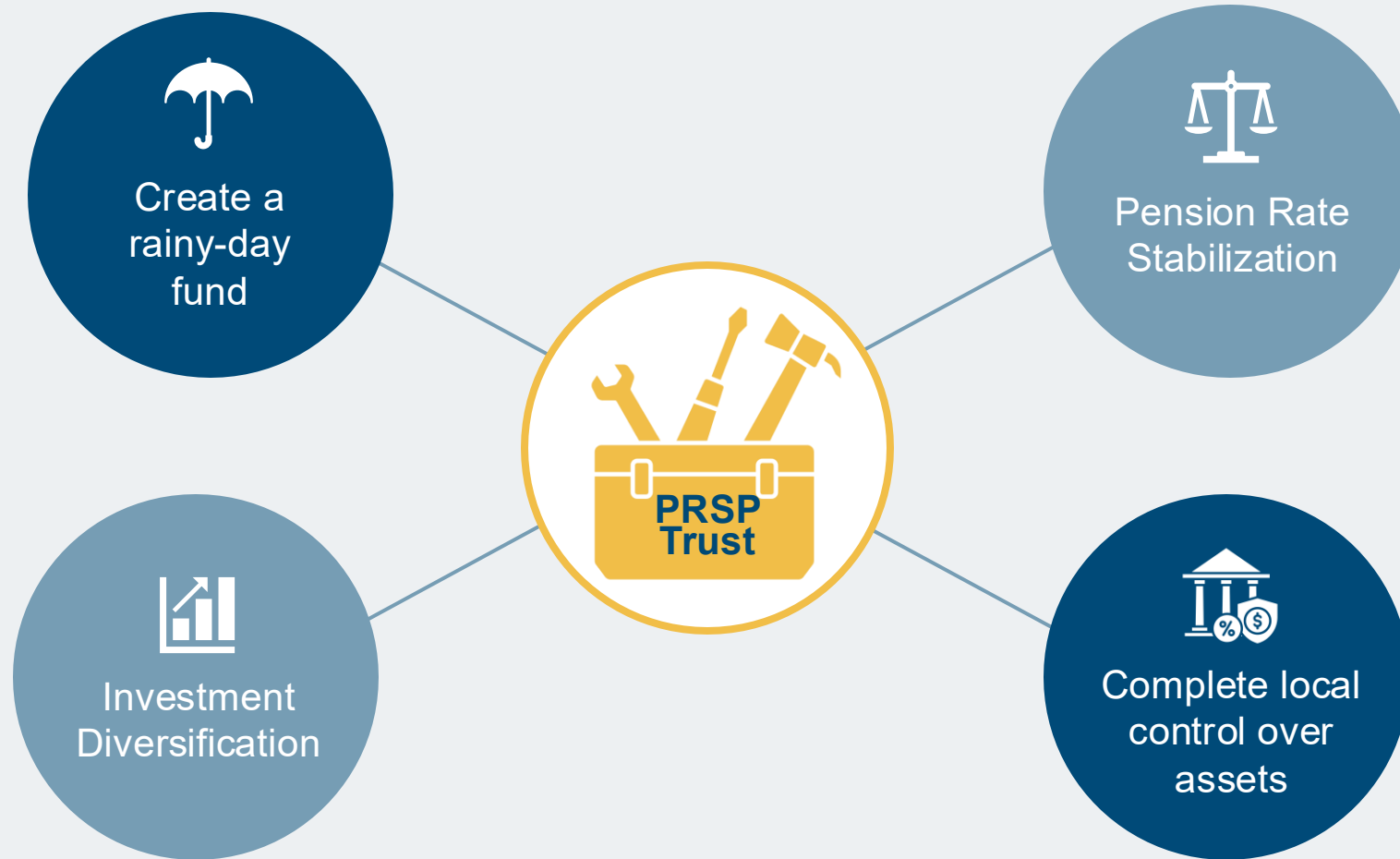


Fiscal Year	CalSTRS*	CalPERS
2014-2015	8.88%	11.77%
2015-2016	10.73%	11.85%
2016-2017	12.58%	13.89%
2017-2018	14.43%	15.53%
2018-2019	16.28%	18.06%
2019-2020	17.10%	19.72%
2020-2021	16.15%	20.70%
2021-2022	16.92%	22.91%
2022-2023	19.10%	25.37%
2023-2024	19.10%	26.68%
2024-2025	19.10%	27.05%
2025-2026	19.10%	26.81%
2026-2027	19.10%	26.40%
2027-2028	19.10%	26.80%
2028-2029	19.10%	25.90%
2029-2030	19.10%	25.10%
2030-2031	19.10%	24.00%
2031-2032	19.10%	23.80%

*CalSTRS Board now allowed to adjust employer contribution rate up or down by up to 1% each year, but no higher than 20.25% and no lower than 8.25%







Why Prefund Pension Liabilities?



Cost Cutting vs. Cost Saving



Traditional Cost Cutting

-  Layoffs & Furloughs
-  Position Elimination
-  Reorganization/ Reassignment
-  Step and Column Freeze
-  Salary Schedule Reductions
-  Increased Class Size

Shift from
**REACTIVE
CUTS**



**STRATEGIC
SAVINGS**



Cost Saving

Strategically save
by offering a
**Supplementary
Retirement Plan (SRP)**



What Are Early Retirement Incentives (SRPs)?

Financial incentives to encourage employees to resign or retire from service earlier than normal to achieve fiscal savings for the district.

⚙️ Savings created by:

1

Accelerating rate of natural retirement attrition

2

Replacing departing employee with lower salaried employees

3


Evaluating potential “non-replacement” of certain positions

⚙️ SRPs are locally-controlled plans, customized to meet districts’ fiscal and operational objectives.



Why Offer an Incentive?



PARS offers a  **complimentary analysis** to assess the fiscal/operational feasibility of a SRP





Questions

For More Information, Contact:

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Thank you



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