TwinRivers
UNIFIED SCHOOL DISTRICT

Budget Update: Governor's 2026-27 State Budget Proposal

PRESENTED TO THE BOARD OF TRUSTEES

February 11, 2026

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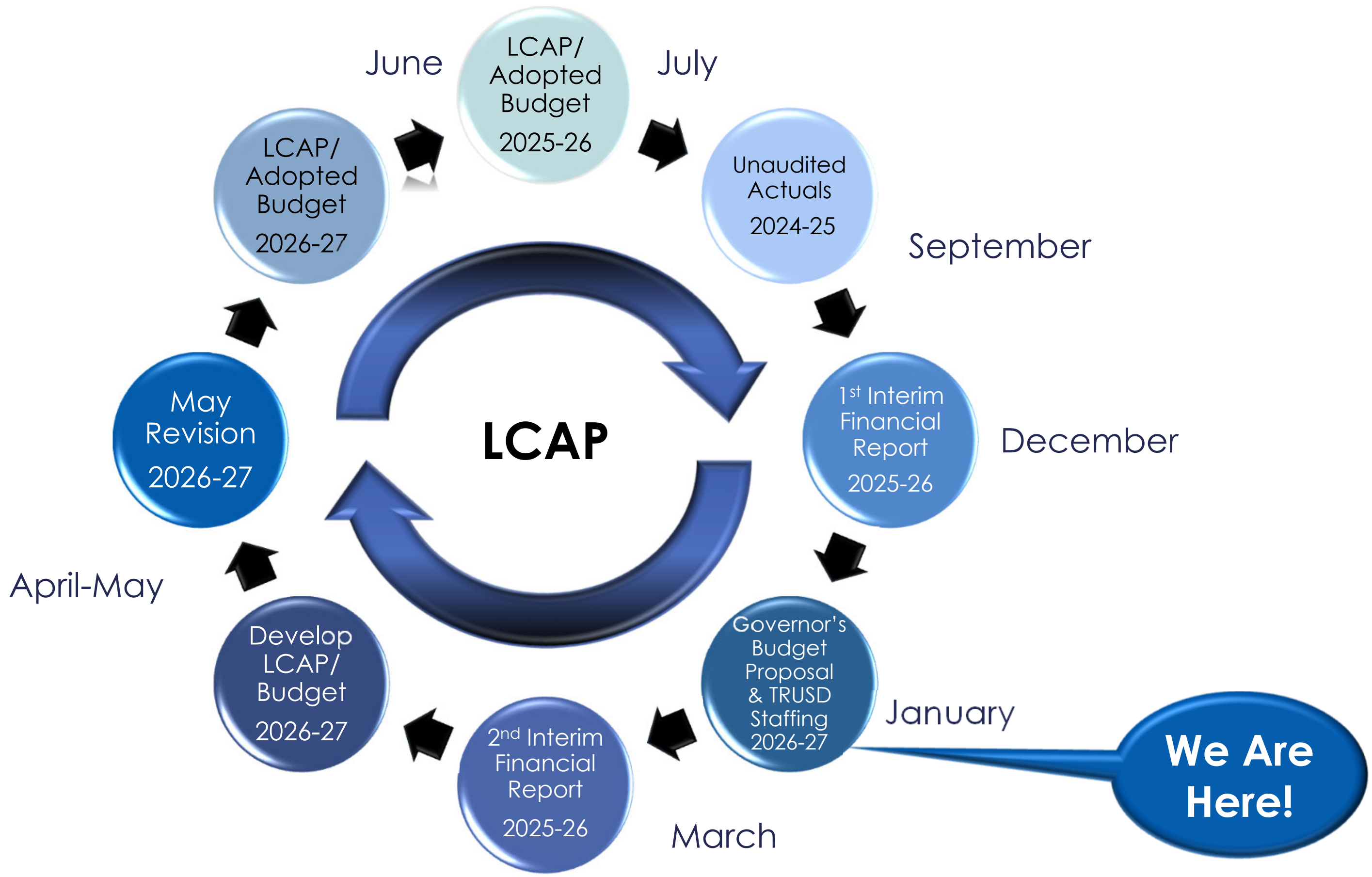
The Budget Reporting Cycle



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Agenda

- The Governor's 2026-27 Budget Proposal – January 2026
- Impact to TRUSD's Budget
- The Road Ahead and Next Steps

Twin Rivers Unified School District

The Governor's 2026-27 Budget Proposal

2026-27 Governor's Budget Proposal

Theme for the 2026-27 Governor's Budget: Legacy

- Governor Gavin Newsom touts accomplishments:
  - Environmental resilience
  - A robust global economic competitor and engine of innovation
  - Pre-K for All – TK for all four-year-olds
  - Affordable housing
- Other significant investments in TK-12 education under Governor Newsom include:
  - ELO-P
  - Universal Meals
  - Special education equalization
  - Community schools
  - A focus on early literacy
  - Significant investments in the educator pipeline
- But his accomplishments have been accompanied by mounting state deficits as budget makers outspend state revenues—leading to innovative and concerning budget approaches, directly affecting public education

The Governor's Budget and the Economy

- **The U.S. and California economies continue to grow**

The U.S. gross domestic product (GDP) is preliminarily over 4%, the equities market is at new all-time highs, inflation is slowing, and consumer confidence is up slightly

Economic uncertainty remains, as stock market gains are driven by a few technology companies, along with uncertainty in federal policy related to immigration and foreign trade

The Governor's Budget is balanced in the 2026-27 fiscal year, but projects a deficit of $22 billion in 2027-28 with shortfalls in the following two years

California tax collections are outperforming projections

Governor's Budget State revenue projections assume no economic recession, nor a stock market downturn in 2026-27 as occurred in 2022

California Economy

Growth

- Investment in AI is masking weakness in other industry sectors
- Income trend is positive
- A rebound in durable manufacturing is projected in 2026 and 2027

Inflation

California Consumer Price Index (CPI) is following the same trend as U.S. inflation and is projected to continue to climb in 2026 before easing up in 2027

Labor Market

California's unemployment rate is projected to peak at 5.9% and average 5.5% for 2026

Housing

- Relatively flat prices
- Low levels of new construction
- High borrowing costs
- Slow growth in construction jobs

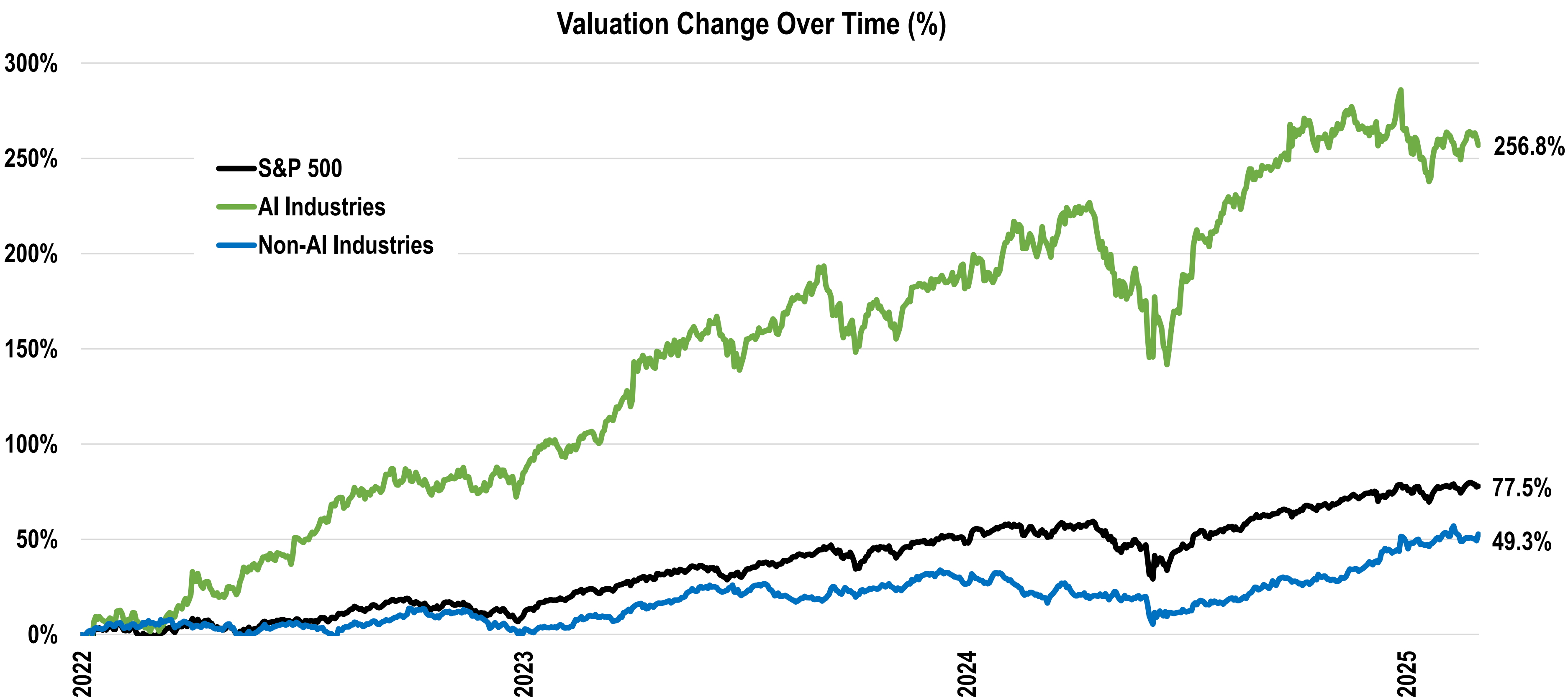
Uncertainty

- Pending Supreme Court rulings on tariffs and the Federal Reserve's (Fed) independence
- Limited and delayed economic data
- Federal policy and regulatory uncertainty

Risks

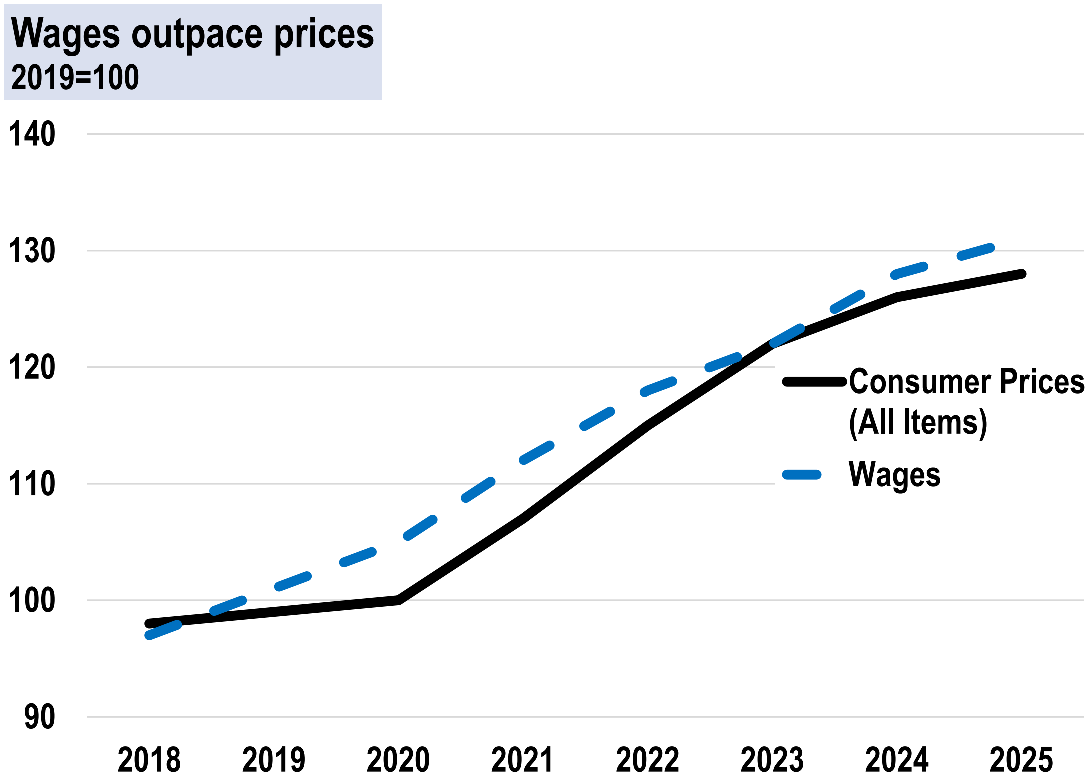
- Revenue volatility from capital gains dependence
- Geopolitical conflict
- Industry sector imbalances
- Labor shortages due to immigration enforcement policies

Artificial Intelligence (AI) and the Stock Market



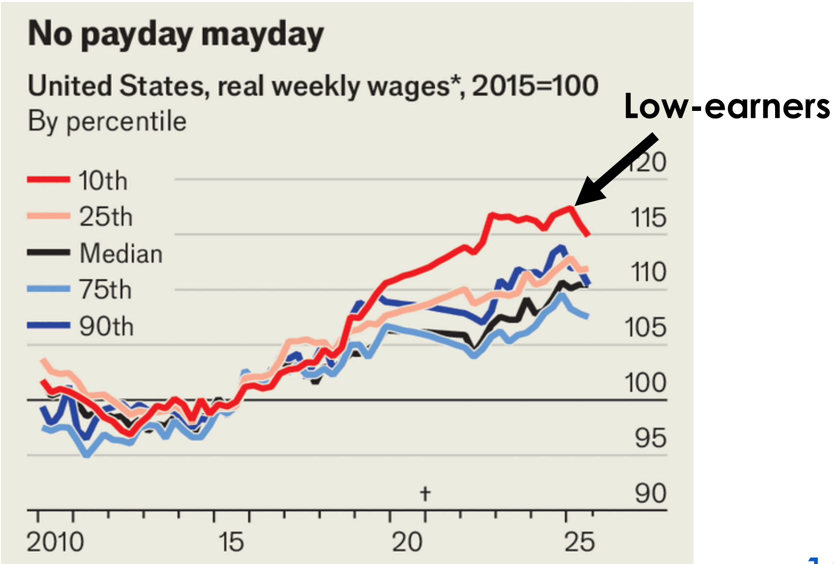
Source: FRED and Stooq

The Affordability Crisis—A Mirage?

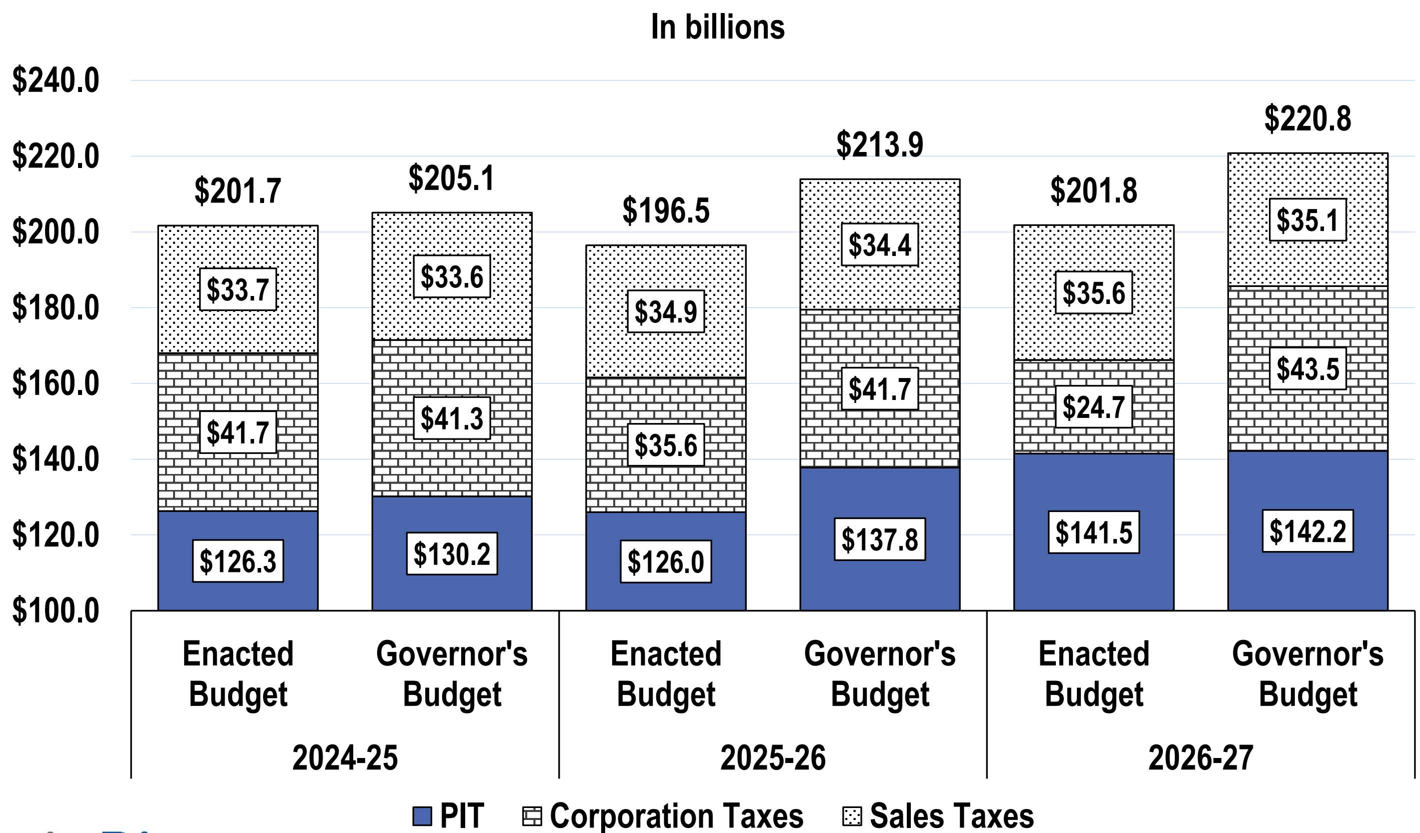


Source: Adapted from *The Economist*, "America's affordability crisis is (mostly) a mirage," December 30, 2025

- While consumer prices skyrocketed after the COVID-19 pandemic, growth in real wages outpaced inflation, which is especially true for low-earners
  - Nevertheless, consumers are feeling cost pressures



"Big Three" Taxes

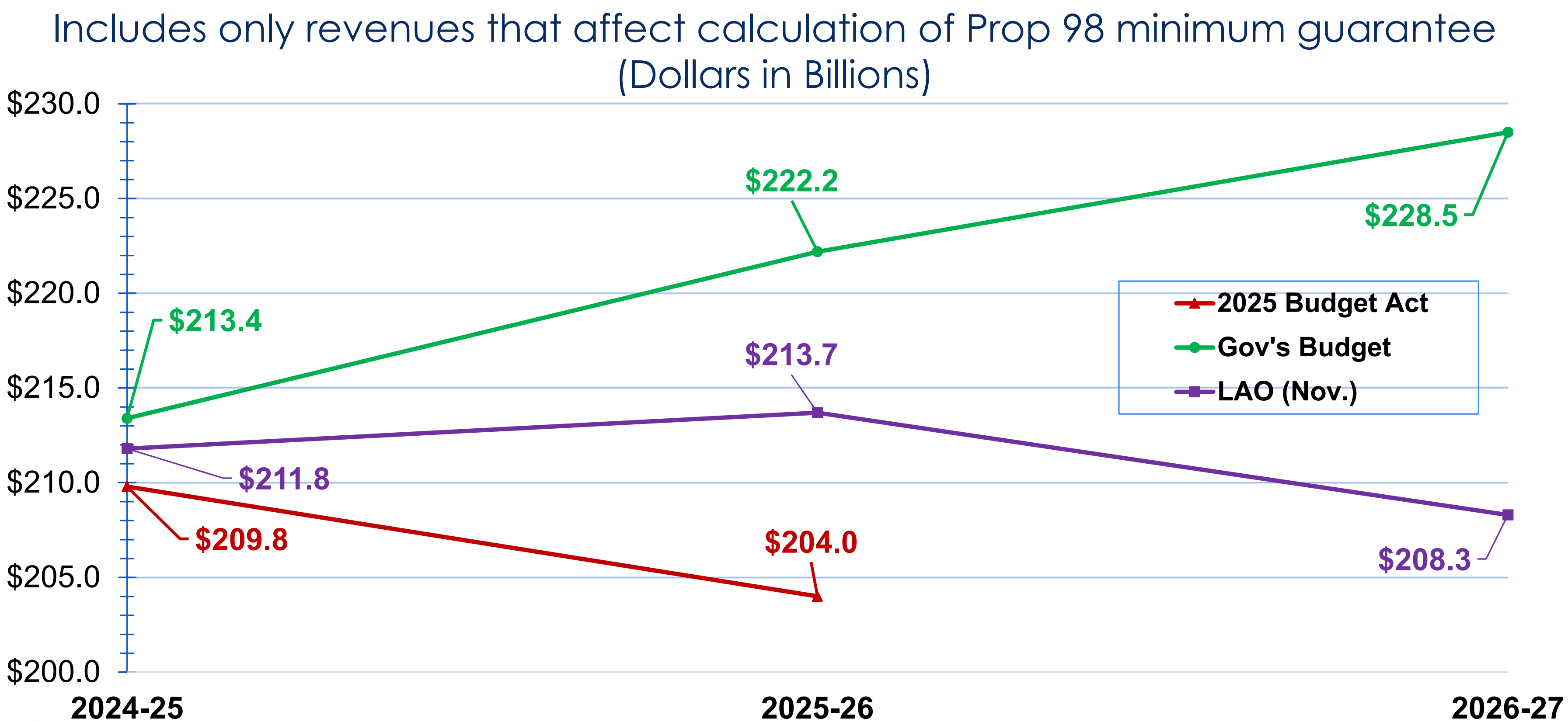


Compared to the Enacted Budget, the Governor assumes "Big Three" tax revenues are higher by $20.8 billion for 2024-25 and 2025-26 combined

- Personal income taxes (PIT) increase by $15.7 billion
- Corporation taxes increase by $5.7 billion

In the budget year, "Big Three" revenue is up $19.0 billion from June estimates

State General Fund Revenues



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Multiyear State Budget Condition

- Although the Governor's Budget uses healthier state revenue assumptions than the Legislative Analyst's Office (LAO) in its November 2025 *Fiscal Outlook*, the state still faces a modest $2.9 billion shortfall in 2026-27

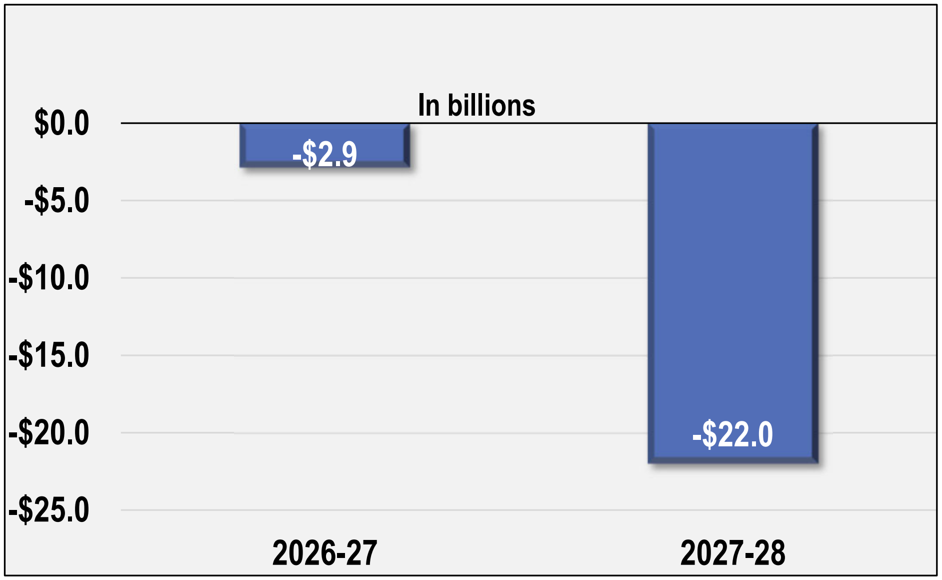
"If a [stock] market downturn of more than 20 percent—comparable to the decline of 2022—were to occur in 2026 and be sustained through the end of the year, revenue could be $25 billion to $30 billion below forecast within the budget window."

~ 2026-27 Governor's Budget Summary

Worsening Budget Conditions

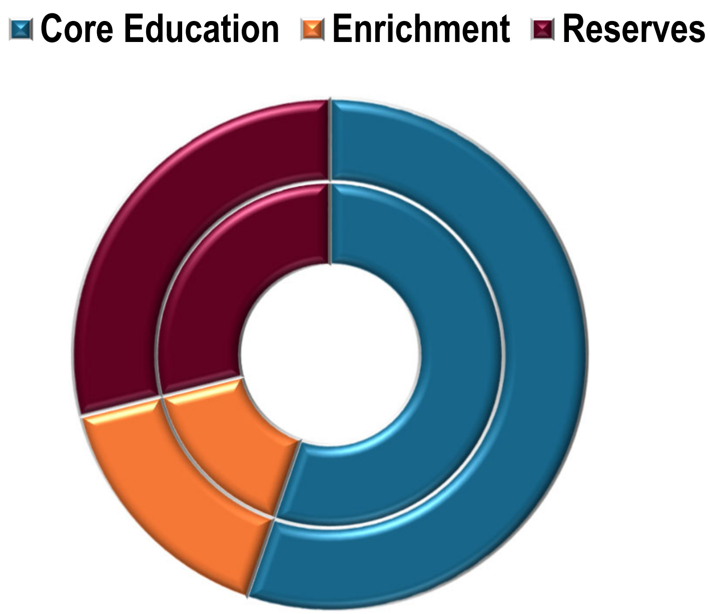
$22 billion

with continued deficits in 2028-29 and 2029-30



Proposition 98

Governor Newsom's 2026-27 Education Priorities



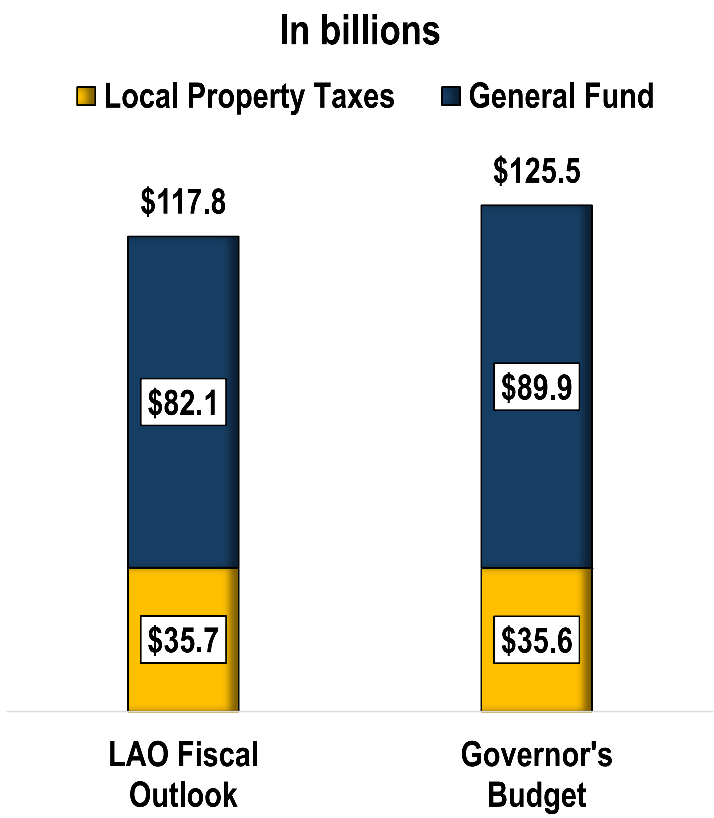
The Governor revisits key education priorities in his California for All Kids campaign

71% **Over 70% of new spending is proposed for core education and key enrichment programs**

29% **Nearly one-third of available funding used to replenish the Rainy Day Fund**

Unfortunately, he also draws from last year's playbook with a **proposed $5.56 billion settle-up—26% of new education funding—to address the state deficit**

2026-27 Minimum Guarantee



- The Governor's estimate of the 2026-27 minimum guarantee is $7.7 billion *higher* than the LAO's November estimate, which is attributable to differences in their "Big Three" tax revenue estimates

2026-27 "Big Three" Taxes (in billions)		
	LAO *Fiscal Outlook*	**Governor's Budget**
Personal Income Taxes	**$125.2**	**$142.2**
Corporation Taxes	**$41.7**	**$43.5**
Sales Taxes	**$34.3**	**$35.1**
Total	**$201.2**	**$220.8**

- The Governor's personal income tax assumptions alone are $17 billion higher

2025-26 Settle-Up Proposal

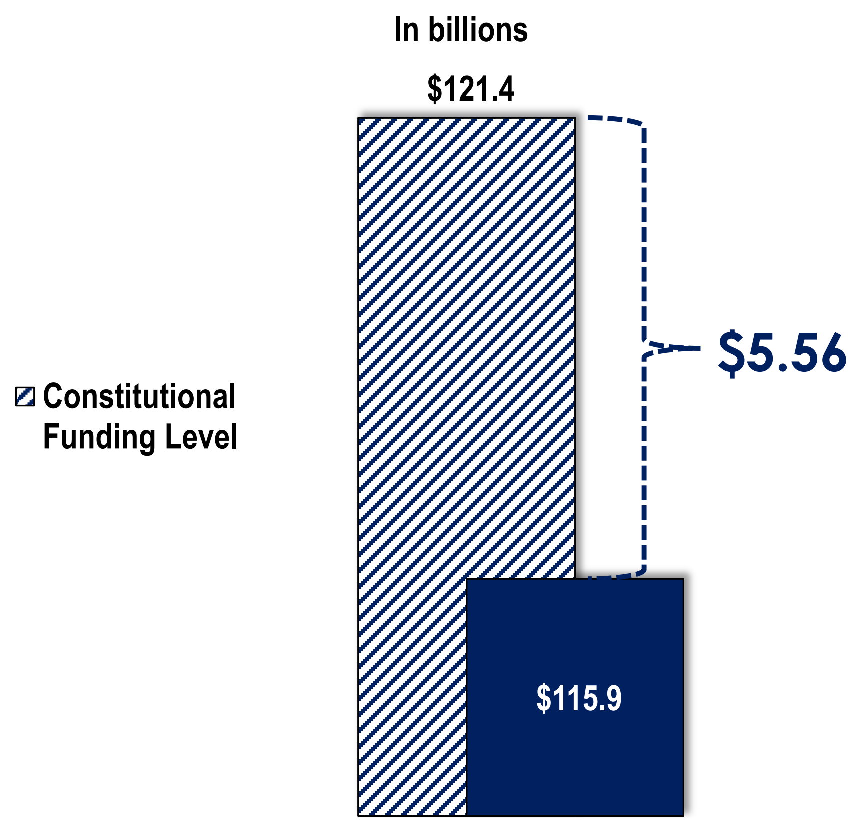
- The Governor's Budget proposes the same withholding strategy used last year, but at a much higher amount (of future debt)

If the 2025-26 minimum guarantee is fully appropriated and allocated to TK-12 agencies on an equal per-ADA basis, LEAs would receive approximately

$909

per ADA

The Governor and Legislature determine how Proposition 98 funds are allocated to LEAs



2026-27 School District and Charter School LCFF

01

Local Control Funding Formula (LCFF) base grants are increased by the 2.41% estimated statutory COLA—*an increase in funding per student, NOT total funding*

02

Base grants are provided by grade span: TK-3, 4-6, 7-8, and 9-12

03

Two grade span adjustments (GSAs) are applied as percentage increases to the base grants:
TK-3—10.4% and 9-12—2.6%

04

Supplemental and concentration (S/C) grants calculated based on the unduplicated pupil percentage (UPP)

05

UPP—LEA's enrolled students who are English learners, free or reduced-price meal program eligible, or foster youth

2026-27 Categorical Programs COLA

- **COLA is provided for the LCFF Equity Multiplier and the following categorical programs:**

- Youth in Foster Care
- Child Nutrition
- Mandate Block Grant (MBG)
- Special Education
- State Preschool

$228.2 million is included to fund the 2.41% estimated statutory COLA

- Adults in Correctional Facilities Program[1]
- American Indian Early Childhood Education Program
- American Indian Education Centers
- Charter School Facility Grant Program
- LCFF Equity Multiplier

[1] 2025-26 statutory COLA

LCFF Equity Multiplier

Eligibility

Schools with prior-year non-stability rates greater than 25% and prior-year socioeconomically disadvantaged pupil rates greater than 70%

- In 2024-25, there were 1,008 eligible schools
- In 2025-26, School Services of California Inc. (SSC) projects there will be 982 eligible schools[2]

$317.7 million[1]
for 2026-27

Equity Multiplier funds must be used for evidence-based services and supports for students at LCFF Equity Multiplier schools and the funds must be included in the LCAP

Allocation

Funding allocated on a per-student basis, using school's total prior-year adjusted cumulative enrollment

- In 2024-25, the per-pupil rate was $939.05
- In 2025-26, SSC projects the per-pupil rate will be $1,110[2]

Minimum of $51,697 per eligible school in 2025-26 and $52,943 in 2026-27

[1]The 2025-26 statewide amount of $310.2 million adjusted for the 2.41% estimated statutory COLA
[2]The CDE is expected to publish the list of LCFF Equity Multiplier schools and the per-pupil rate for 2025-26 in February 2026

Special Education Funding Projection for 2026-27

- Special education funding proposed to receive the estimated 2.41% COLA
- Proposal for an additional $509 million to equalize the base rate

$85.32

State Mental Health Services
Per 2019 SELPA[1] Census ADA

$20.95

Program Specialist/Regionalized Services
Per 2026-27 P-2 ADA

$4,022.57

Low Incidence Funding
Per 2025-26 eligible pupil

$999.00

AB 602 Special Education Base Rate for Base Grant
Per Funded ADA

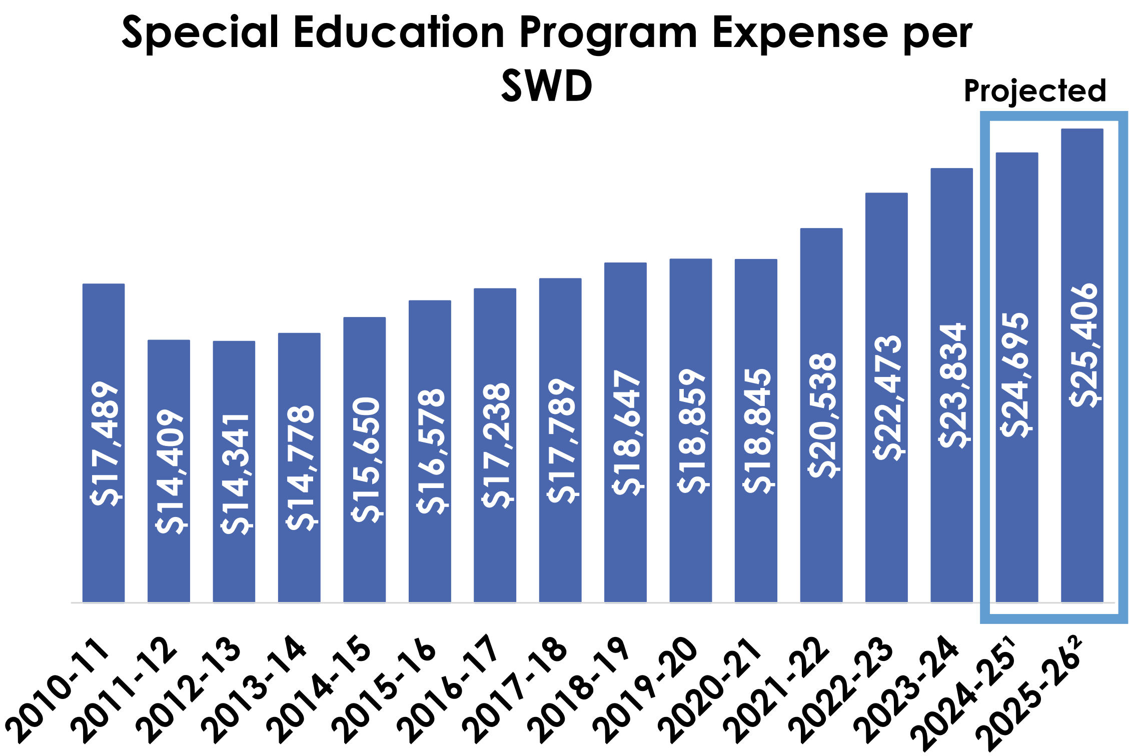
[1]Special Education Local Plan Area

Historical Special Education Funding Trajectory

In billions	Per ADA
2019-20 $3.41	Statewide target rate—$557.27 Rates ranged from $493.51 to $942.06
2020-21 $3.76	Statewide base rate—$625.00 Highest rate $959.71
2021-22 $4.30	Statewide base rate—$715 Highest rate $998.57—no COLA until rates equalize
2022-23 $4.89	Statewide base rate—$820.00
2023-26 $5.00-$5.17	Statewide base rate increases by COLA annually Base rate rises over three years from $887.40 to $917.53
2026-27 $5.65	Statewide equalized funding rate—$999.00 per funded ADA

Between 2019-20 and 2026-27, the statewide base rate will have increased by 179%

Special Education Annual Expenditures Continue to Rise

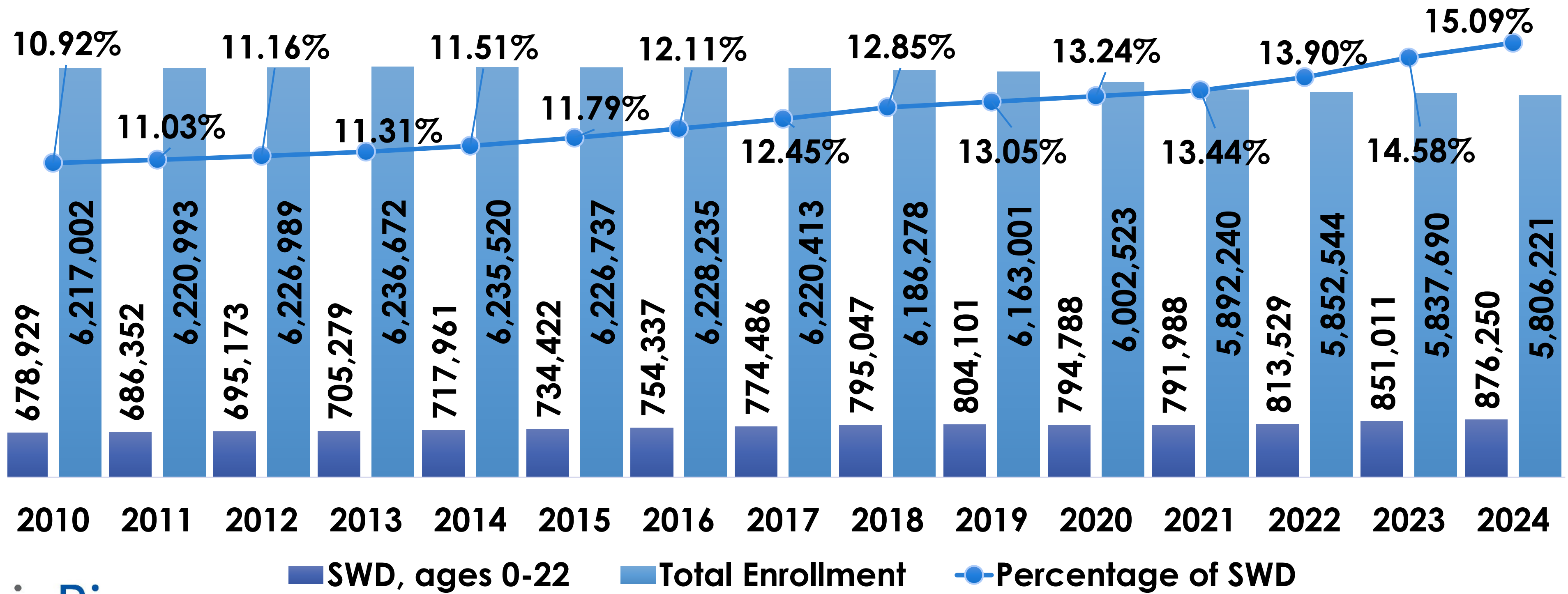


- State special education funding increased only by COLA in most years
- Federal funding impact continues to decrease
- General Fund contribution is an intended part of funding special education
- Local contribution rates are increasing in alignment with growing SWD pupil counts

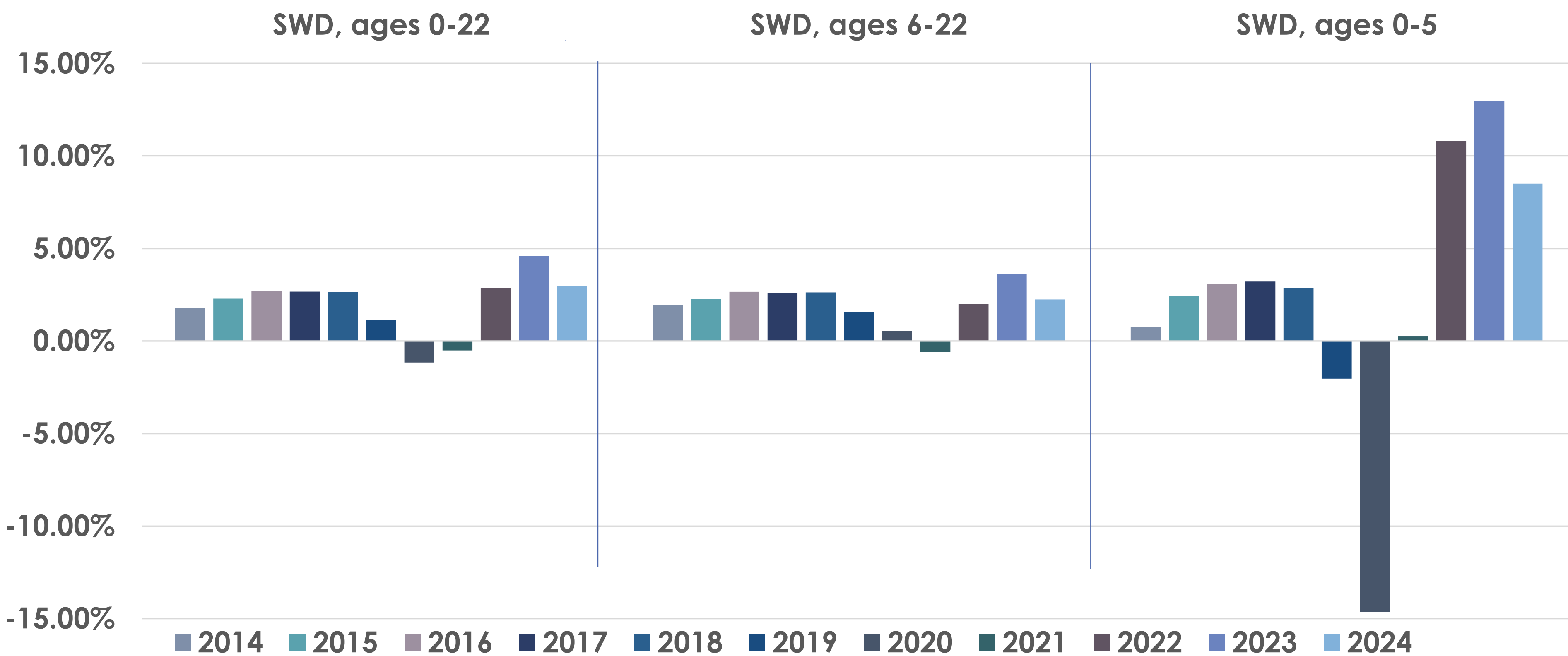
General Fund 01; Objects 1000-7999; Goals 5001-5770
[1]2024-25 expenditures estimated
[2]2025-26 SWD and expenditures estimated

Statewide Enrollment and Incidence of SWD

- Statewide and local trends for enrollment can support projections for program and expenditure adjustments to meet the needs of students served by special education



Trending Growth of SWD by Year and by Age Group



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Charter Schools

Accountability

In 2025, there were legislative attempts to improve the oversight, auditing, and funding systems for nonclassroom-based charter schools in the wake of several high-profile cases of fraud

In his veto message of SB 414 (Ashby, D-Sacramento), Governor Newsom called for legislation in 2026 that ensures

"public funds are properly utilized, address fraud and malfeasance, improve accountability and oversight, and acknowledge our fiscal reality to allow for successful implementation"

Solution

The Governor's Budget proposes creating new requirements for charter schools to increase oversight and accountability, proposal details are forthcoming in February

Verified Data

- In addition, the Governor's Budget proposes to allow the use of verified data in the charter school renewal process until June 30, 2028
- The use of verified data in the renewal process for charter schools expired on January 1, 2026

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Impact to TRUSD's Budget

SSC Financial Projection Dartboard

Revenue Planning Factors						
		2025-26	2026-27	2027-28	2028-29	2029-30
DOF Planning COLA		2.30%	2.41%	3.06%	3.34%	3.14%
California Lottery	Unrestricted per ADA	$190.00	$190.00	$190.00	$190.00	$190.00
	Restricted per ADA	$82.00	$82.00	$82.00	$82.00	$82.00
MBG (District)	Grades K-8 per ADA	$39.09	$40.03	$41.25	$42.63	$43.97
	Grades 9-12 per ADA	$76.48	$78.32	$80.72	$83.42	$86.04
MBG (Charter)	Grades K-8 per ADA	$20.52	$21.01	$21.65	$22.37	$23.07
	Grades 9-12 per ADA	$58.21	$59.61	$61.43	$63.48	$65.47
Expenditure Planning Factors						
California CPI		3.37%	3.08%	2.75%	2.68%	2.74%
CalSTRS Employer Rate		19.10%	19.10%	19.10%	19.10%	19.10%
CalPERS Employer Rate		26.81%	26.40%	26.90%	26.10%	25.30%
Minimum Wage[1]		$16.90	$17.40	$17.90	$18.40	$18.90

[1]Minimum wage rates are effective January 1 of the respective year

2026-27 LCFF Funding Factors

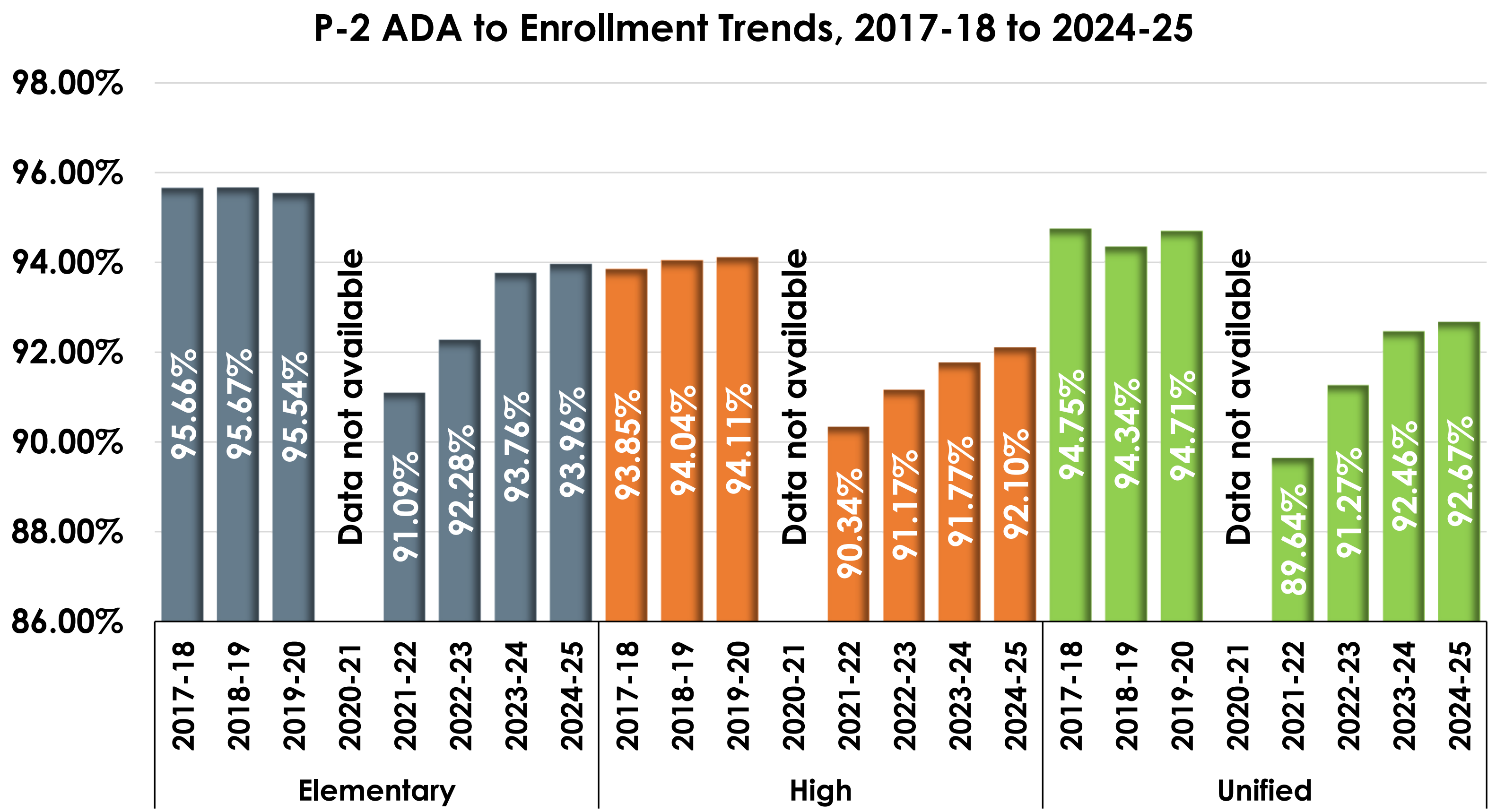
Grade Span	TK-3	4-6	7-8	9-12
2025-26 Base Grant per ADA	$10,256	$10,411	$10,719	$12,423
2.41% COLA	$247	$251	$258	$299
2026-27 Base Grant per ADA	$10,503	$10,662	$10,977	$12,722
GSA	$1,092	-	-	$331
2026-27 Adjusted Base Grant per ADA	$11,595	$10,662	$10,977	$13,053
20% Supplemental Grant per ADA[1]	$2,319	$2,132	$2,195	$2,611
65% Concentration Grant per ADA[2]	$3,392	$3,119	$3,211	$3,818

TK Add-On per ADA (inclusive of COLA)	$5,679	–	–	–

[1]Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 20% and UPP
[2]Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 65% and UPP above 55%

State ADA-to-Enrollment Trends

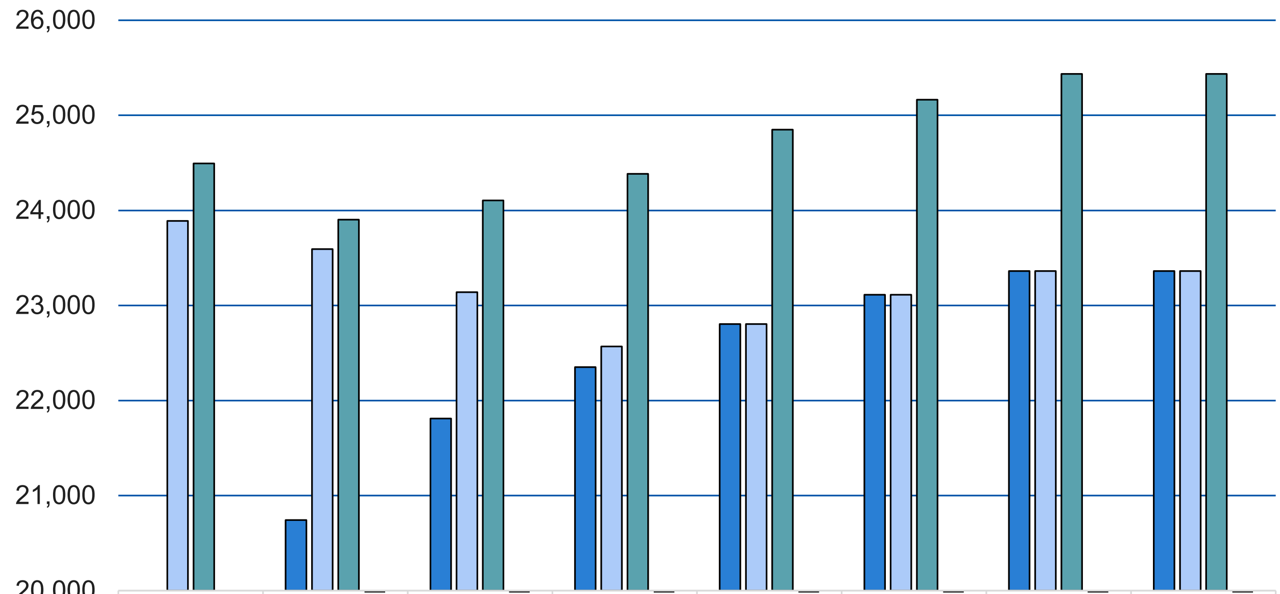
While gains have been made in student attendance, rates still lag about two percentage points from pre-COVID levels



Note: Second Principal (P-2) Apportionment data

TRUSD LCFF "Funded" ADA vs P-2 ADA

(Includes Charters)



	2020-21 Actual	2021-22 Actual	2022-23 Actual	2023-24 Actual	2024-25 Actual	2025-26 Projected	2026-27 Projected	2027-28 Projected
P-2 ADA (Not Including SCOE)	**N/A**	20,742	21,811	22,351	22,805	23,113	23,363	23,363
LCFF ADA (Not Including SCOE)	23,891	23,593	23,140	22,569	22,805	23,113	23,363	23,363
Enrollment (CALPADS date)	24,494	23,904	24,106	24,385	24,849	25,164	25,436	25,436
Attendance Yield	**N/A**	86.8%	90.5%	91.7%	91.8%	91.8%	91.9%	91.9%

Revenue Change

- 2026-27 LCFF revenue is a decrease of $2.2M compared to the multiyear projections for 2026-27 on the 2025-26 First Interim
  - COLA decrease from 3.02% to 2.41%
  - LCFF revenue increase of $13.6M instead of $15.8M
- The following programs will also receive a 2.41% COLA increase:
  - Special Education
  - Mandate Block Grant
  - Equity Multiplier
  - Home-to-School Transportation
  - Child Nutrition
  - State Preschool

Major Cost Drivers for Local Budgets

- School districts continue to feel cost pressures well ***before any consideration for negotiated compensation increases***
  - Step and column
  - Health benefit caps
  - Utilities
  - Insurance premiums
  - Contracted services
- Each of these categories gets first call on new, ongoing LCFF dollars as there are no dedicated, restricted funding sources to cover these cost increases

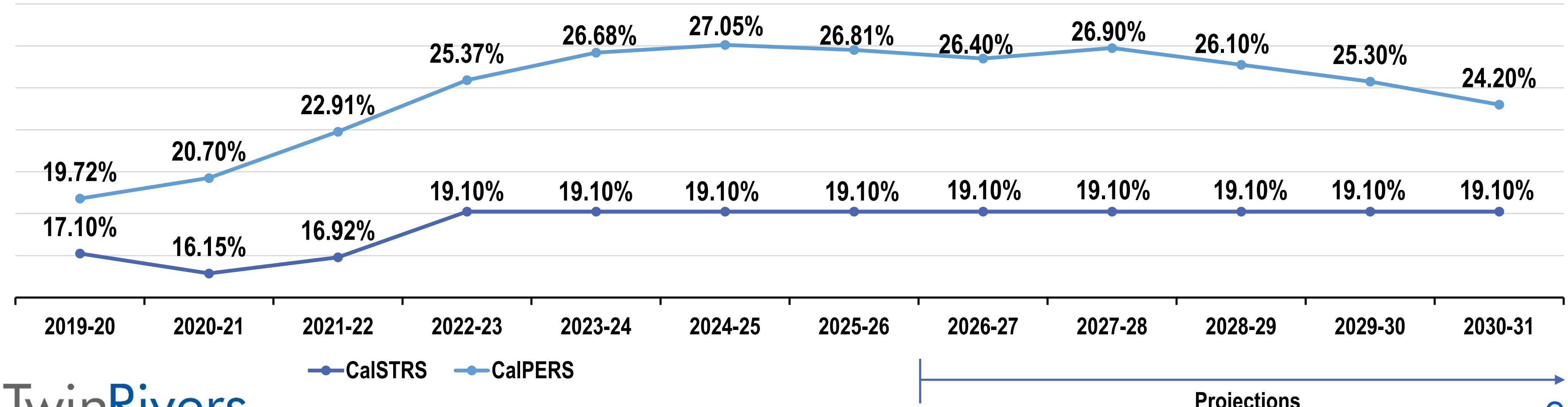
Increased Cost Step/Column

Unrestricted General Fund

Increase in salaries	2026-27 Step/ Column	2026-27 Unrestricted	2026-27 less subs & stipends	2026-27 Net Unrestricted Salary	Increase x Salary
Certificated	1.40%	$149,777,289	$ 8,500,000	$141,277,289	$ 1,977,882
Classified	1.85%	$ 56,427,019	$ 1.200,000	$ 55,227,019	$ 1,021,700
Statutory Benefits (no health)					$ 816,274
Total		$206,204,308			**$ 3,815,856**

Employer Retirement Contribution Rates—Projections

- The California State Teachers' Retirement System (CalSTRS) employer contribution rate has leveled off
  - According to CalSTRS, an annual employer contribution rate of 19.10% would eliminate the employer's unfunded liability three years ahead of schedule based on the CalSTRS full funding plan
- After years of steady increases, California Public Employees' Retirement System (CalPERS) rates are projected to gradually decline from their highwater mark in 2024-25, according to revised projections released in fall 2025



Decreased Cost STRS & PERS

Unrestricted General Fund

Change in STRS/PERS	2025-26 Rate	2026-27 Proposed Rate	Change	2026-27 Unrestricted Salary	Change x Salary
STRS	19.10%	19.10%	0.00%	$149,777,289	$ 0
PERS	26.81%	26.40%	(0.41)%	$ 56,427,019	$ (231,351)
Total				$206,204,308	**$ (231,351)**

Salary Increases

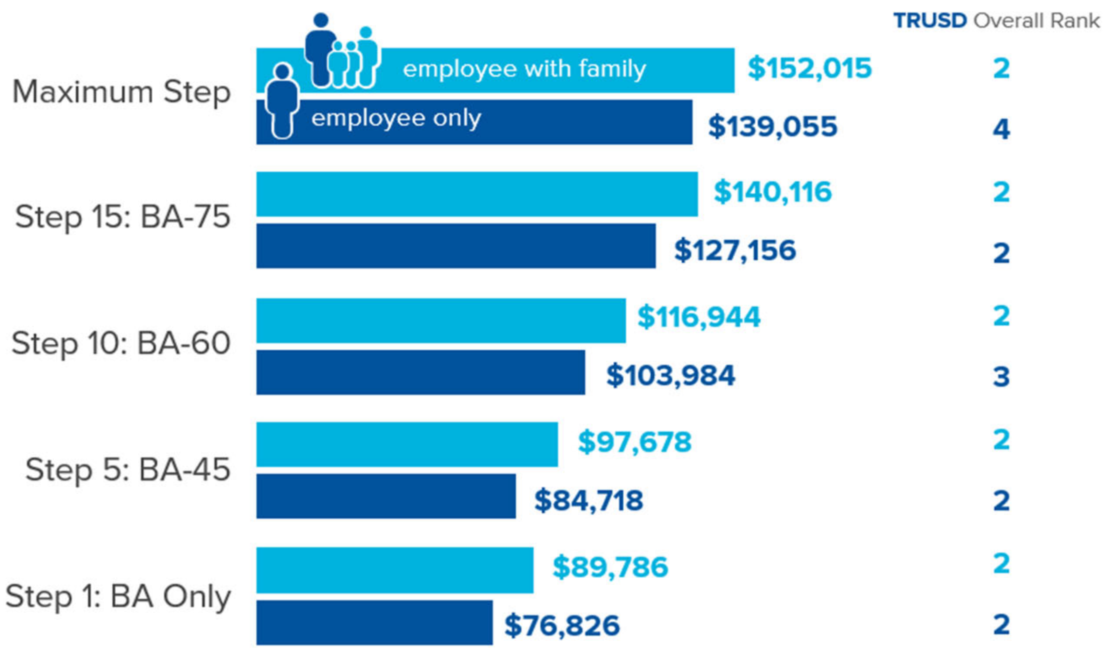
- 2022-23 10% on salary schedule
- 2023-24 5% on salary schedule
- 2024-25 3% on salary schedule
- Total of all negotiated increases for all funds over the three years **= $55.7M**

Proposed to TRUE and negotiated for all other employees:

- 2025-26 2.5% on salary schedule & 5% health contribution increase based on the Kaiser premiums
- 2026-27 2% on salary schedule & 5% health contribution increase based on the Kaiser premiums
- Total cost of two years **= $19.8M**

Certificated Compensation Comparison*

TRUSD teachers can receive over $150,000 per year in salary and benefits at the maximum step with the proposed 2.5% increase



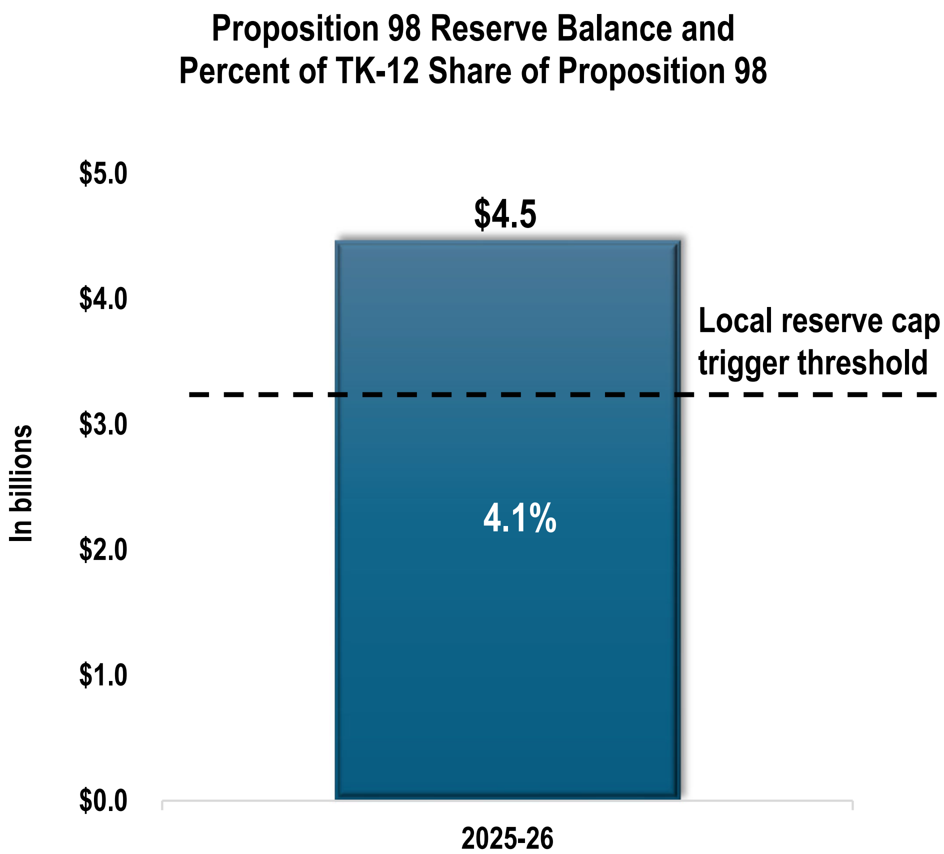
*Comparison with 11 local, similar demographic school districts as of October 2025

Local Reserve Cap

The Governor's Budget triggers the reserve cap in 2025-26

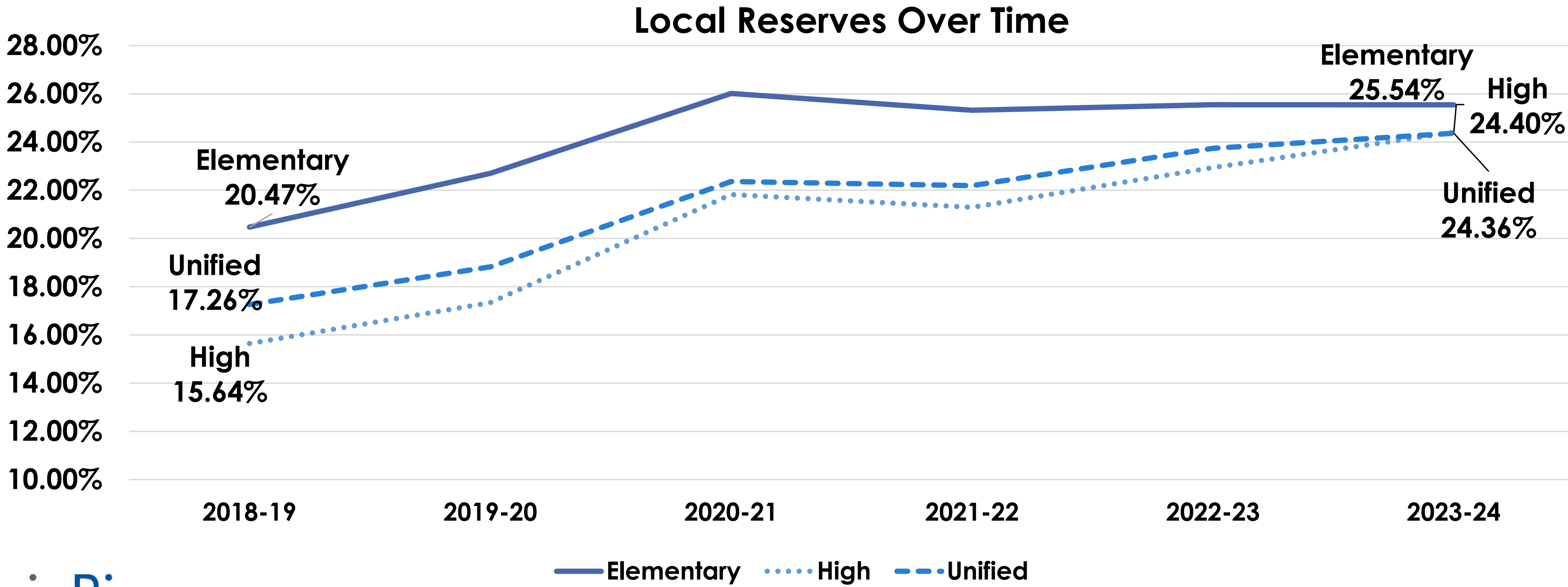
- Importantly, 2025-26 budget adoption and 45-day revision windows have passed; therefore, the reserve cap becoming operative will not impact local 2025-26 budgets

The Proposition 98 reserve balance of $4.5 billion at the end of 2025-26 is 4.1% of TK-12 agencies' share of the minimum guarantee and **will trigger the local reserve cap in 2026-27**



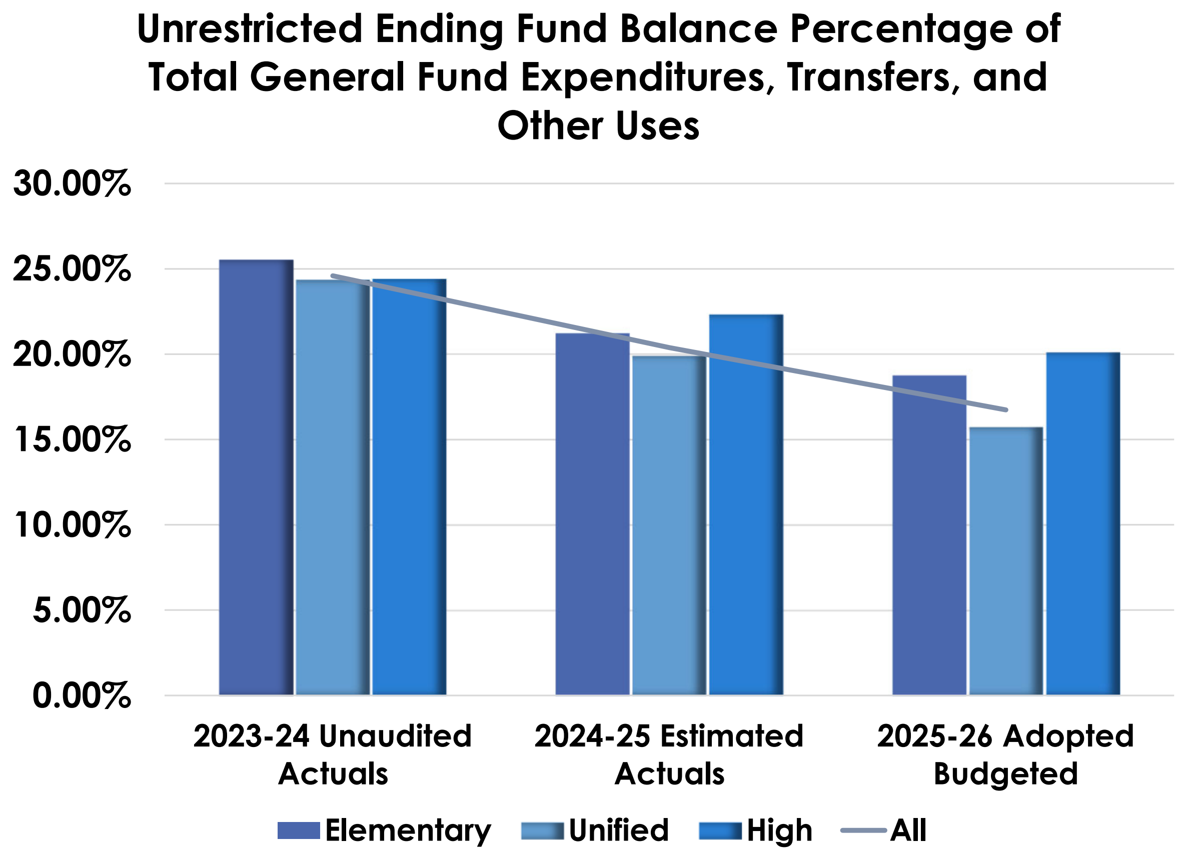
2023-24 Statewide Reserve Levels

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



Conditions of Local Reserves

- In 2023-24, nearly 40% of all school districts were deficit spending, with a shortfall of about 3% of total expenditures
- The loss of one-time dollars as well as rising employee and operational costs have had a detrimental impact on local reserves
- Declining enrollment has only exacerbated this impact
- Across all districts, reserves are estimated to decrease by nearly 8% between 2023-24 and 2025-26



TRUSD Reserves - 2025-26 Adopted General Fund

	Unrestricted	Restricted	Total Fund	
Revenues	$ 345,647,167	$ 189,352,795	$534,999,962	
Expenditures	$ 346,385,657	$ 217,432,107	$563,817,764	
Net Increase/(Decrease) Fund Balance	$ (738,490)	$ (28,079,312)	$ (28,817,802)	
Beginning Fund Balance Restricted and Designated Carryovers	$ 71,214,042	$ 103,174,336	$174,388,378	
Ending Fund Balance Before Reserves	$ 70,475,552	$ 75,095,024	$145,570,576	
Components of Ending Fund Balance:				
Nonspendable	$ 2,347,569	$ -	$ 2,347,569	
Restricted	$ -	$ 75,095,024	$ 75,095,024	
Committed	$ 20,660,502	$ -	$ 20,660,502	
Assigned	$ 531,923	$ -	$ 531,923	
Unassigned - Economic Uncertainties	$ 46,935,557	$ -	$ 46,935,557	8.32%
Unassigned (Available Balance)	$ -	$ -	$ -	

NOTE: Meets Board Policy intent for Economic Uncertainties.
No structural deficit; using carryover funds and one-time facility projects.

Reserve Cap
= 8.84%

Existing One-Time Funding

- One-time Art, Music and Instructional Materials Discretionary Block Grant Funds are available through 06/30/2026
- One-time Learning Recovery Emergency Block Grant funds are available through 06/30/2028
- One-time 25-26 Student Support and Prof. Dev. Discretionary Block Grant funds are available through 06/30/2029
- The $9.1M of positions paid by one-time block grant funds (providing a surplus to unrestricted funds) will shift to unrestricted funds in future years ($5.6M in 2026-27, $0 in 2027-28 and $3.5M in 2028-29).
- $3.7M in service agreements paid by one-time block grant funds; $2M to be eliminated over three years and $1.7M in 2028-29 shift to unrestricted funds.

Additional One-Time Money:
26-27 Student Support and Prof. Dev. Discretionary Block Grant

The Governor proposes $2.8 billion in one-time funds for a new round of discretionary block grant funding

- Use of the block grant is intended to be fully discretionary, but with certain statewide priorities highlighted
- Trailer bill language will include the allocation methodology, expenditure deadline, and other details
- SSC estimates $512.48 per ADA, if distributed per ADA
- Equates to $11.8M one-time funds for TRUSD.

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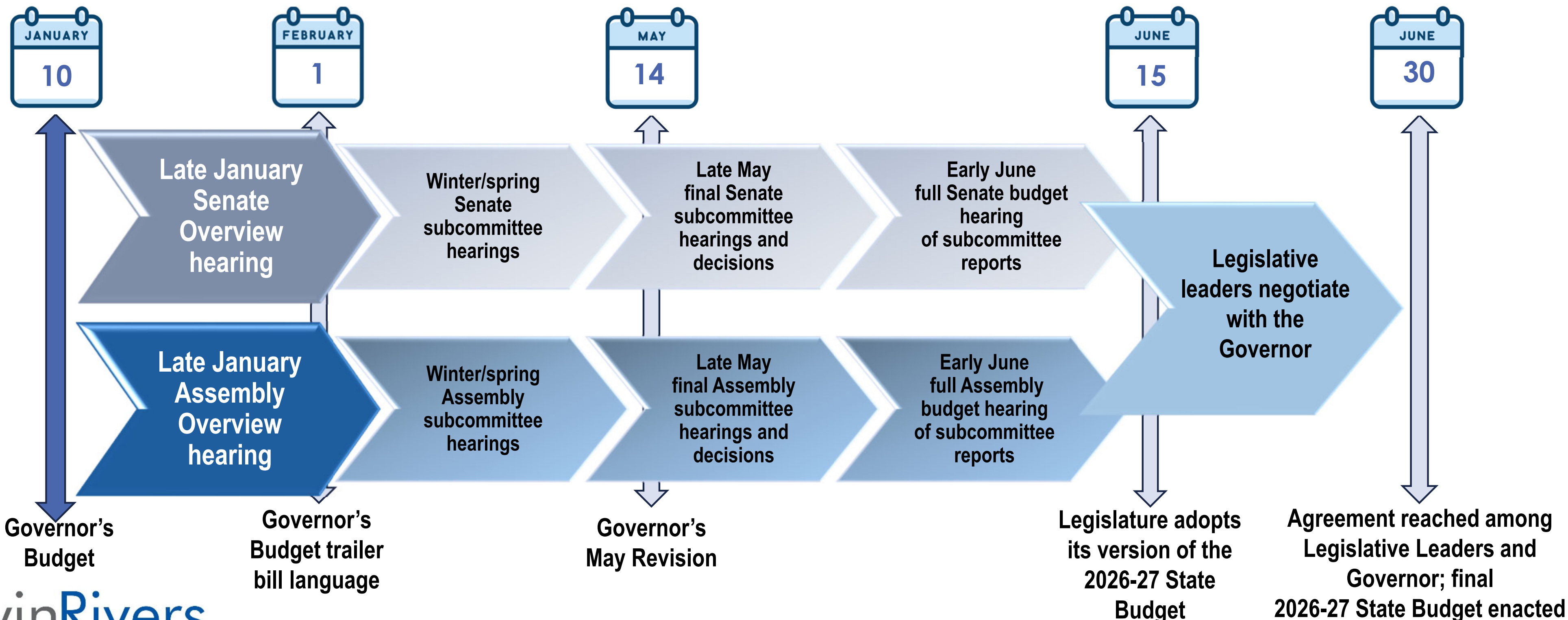
The Road Ahead and Next Steps

The Road Ahead—From January to June

The next steps in the State Budget process are controlled by the Legislature, which has the responsibility to examine the Governor's proposals during budget hearings



The Road Ahead—The May Revision

- Furthering this discussion are the details on the Governor's Budget proposals included in trailer bill language
  - This winter's initial vetting prepares legislators to respond quickly after the next official State Budget checkpoint—the May Revision
    - **Discussion Point: the Governor's proposal to once again delay funding to our schools while costs continue to increase locally in real time**
- After years of implementing significant new programs during Governor Newsom's tenure, the education community may find some comfort in the proposal's focus on continued implementation of previous investments

Next Steps in Budget Development for 2026-27

- Finish staffing meetings with the sites and departments
- Update the multi-year projections (2025-26 Second Interim Report) to include the key items from The Governor's January Budget Proposal
- Obtain sites' and departments' detailed budgets
- Incorporation of the LCAP
- Updates from the Governor's May Revise Budget
- 2026-27 TRUSD Adopted Budget (June)