CALIFORNIA COUNTY SUPERINTENDENTS

The Common Message

2026-27 First Interim Report

BASC

Business and Administration Services Committee

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Sources

Association of California School Administrators
Ball/Frost Group, LLC
California Association of School Business Officials
California Collaborative for Educational Excellence
California Department of Education
California Department of Finance
California Public Employees' Retirement System
California State Teachers' Retirement System
California State Board of Education
California School Boards Association
California School Information Services
Capitol Advisors
Fiscal Crisis and Management Assistance Team
K-12 High Speed Network
National Forest Counties and Schools Coalition
School Services of California
Small School Districts' Association
Statewide Local Educational Consortium Co-Chairs
WestEd

First Interim Key Guidance on State Budget and Enacted Bills

Governor Gavin Newsom recently acted on a large batch of bills in time for the September 30 deadline to sign or veto. Some of the bills related to budgets and compliance details are highlighted below in addition to some highlights on the enacted state budget for 2026-27.

- Assembly Bill (AB) 2440 (Chapter 606, Statutes of 2026) is the Proposition 28, Arts and Music in Schools Funding Guarantee and Accountability Act (Prop 28), cleanup bill and is effective January 1, 2027. Some of the changes include: the supplement-not-supplant language now has a statutory calculation, LEAs may pool school site allocations, the definition for allowable uses is expanded, posting of expenditure plan is required for every school site, and the annual report is due September 30.

- AB 2490 (Chapter 614, Statutes of 2026) allows emergency substitute teachers to work in a single classroom for up to 70 cumulative days.

- The reserve cap is in effect for 2026-27 and will be triggered for 2027-28 as well.

- The 14 weeks of paid pregnancy disability leave begins January 1, 2027. To pay for the cost of providing the new benefit to employees, the 2026 Budget Act provided a 1.44% LCFF base grant adjustment in addition to the statutory COLA.

- The Student Support and Professional Development Discretionary Block Grant provides $5 billion in one-time funding, allocated to LEAs at $935.17 per ADA as reported at the 2025-26 Second Principal Apportionment. Two conditions of apportionment apply and are described in the Discretionary Block Grant section.

- For special education, the enacted budget added ongoing funding of $40 million toward the extraordinary cost pool and $40 million toward low-incidence disability services in addition to increasing the special education base rates to $1,340 per ADA.

- Pursuant to AB 1997 (Chapter 690, Statutes of 2024), positions not included in a collective bargaining agreement (CBA) or Public Employment Relations Board (PERB) decision must be listed in a board resolution by July 1, 2027, to qualify as positions subject to CalSTRS membership.

Planning Factors for 2026-27 and Multiyear Projections

Following are key planning factors for LEAs to include in the 2026-27 first interim and multiyear projections based on the latest information available at the time of writing.

Planning Factor	2026-27	2027-28	2028-29
Cost-of-Living Adjustment (COLA)			
Local Control Funding Formula (LCFF) COLA	2.87%	3.30%	3.09%
Additional Base Grant Adjustment	1.44%	N/A	N/A
Special Education Base Rate per ADA / COLA	$1,340	3.30%	3.09%
Employer Benefit Rates			
CalSTRS	19.1%	19.1%	19.1%
CalPERS	26.4%	26.8%	25.9%
State Unemployment Insurance	0.05%	0.05%	0.05%
Lottery			
Unrestricted per ADA	$190	$190	$190
Proposition 20 per ADA	$84	$84	$84
Minimum Wage	$17.40[1]	$18.00[2]	$18.50[3]
Universal TK ADA LCFF add-on	$5,704	$5,892	$6,074
Mandate Block Grant			
School Districts			
Grades TK-8 per ADA	$40.41	$41.74	$43.03
Grades 9-12 per ADA	$79.27	$81.89	$84.42
Charter Schools			
Grades TK-8 per ADA	$21.31	$22.01	$22.69
Grades 9-12 per ADA	$60.48	$62.48	$64.41

[1]Effective January 1, 2027, [2]Estimate and effective January 1, 2028, [3]Estimate and effective January 1, 2029.

Discretionary Block Grant Requirements

The Student Support and Professional Development Discretionary Block Grant (SSPDBG) provides $5 billion in one-time funding to LEAs, estimated by the CDE to be $935.17 per ADA based on 2025-26 P-2. While these funds are discretionary, giving LEAs flexibility to address local needs, the state has highlighted priorities including professional development, dual enrollment and career pathways, teacher recruitment and retention, community school partnerships, deferred maintenance, and rising costs.

Grant requirements include a public hearing requirement for school districts and charter schools experiencing declining enrollment or projected declining enrollment in the next five years. The public hearing must be held in conjunction with the Local Control and Accountability Plan (LCAP) hearing and must address the declining enrollment's impacts on the LEA, including but not limited to attracting and retaining pupils, strengthening course offerings, new program opportunities, class size reduction, facilities management (including potential school site consolidations and closures), and local revenue options.

LEAs that receive SSPDBG funds must also ensure none of their employees are charged a fee for professional services, including but not limited to beginning teacher induction program costs and professional development costs, during the grant period (until June 30, 2032).

LEAs should identify local needs and document how these expenses align with the grant's intent and allowable purposes. As with all one-time funding, LEAs should avoid ongoing commitments that cannot be sustained after the funding ends, including permanent positions, salary commitments, and recurring programs. Any such use should be accompanied by a clear plan addressing how the expenditure will be sustained, reduced, or discontinued after the grant funds are exhausted.

SSPDBG funds must be spent by June 30, 2032, with a final expenditure report due to the CDE by September 30, 2032. Any unexpended funds will be collected. Funds must be recorded in SACS Resource Code 6021.

Community Schools Update

The budget includes $1 billion for new, ongoing grants to support existing community schools and to expand the community school model to more school sites that have large concentrations of students from low-income families, English learners, and youth in foster care. Schools eligible for the ongoing grants include existing community schools and new schools with an unduplicated pupil percentage of equal to or greater than 65% and 10 or more pupils.

The grant amount each school is eligible to receive will be determined by the number of students at the school, with statutory COLA added starting in 2027-28.

School Site Enrollment	Annual Grant Amount
10-24	$75,000
25-150	$115,000
151-400	$190,000
401-1,000	$230,000
1,001-2,000	$305,000
2,001+	$400,000

For community schools currently receiving implementation funding, their annual grant amount will be adjusted to the greater of their existing annual amount or the new grant level for the remaining period of their implementation grant.

To receive funds, LEAs must opt in by November 1, 2026, or thereafter through an annual June 1 opt-in period.

The budget also includes the following augmentations to complement the new ongoing community school grants:

- $50 million to expand the state's recent work to redesign middle and high schools, in the context of community schools.
- $28 million for the State Transformational Assistance Center and Regional Transformational Assistance Centers to develop and implement a certification process and long-term accountability structure for community schools and to support new community schools.
- $6 million for the continued implementation of Transforming Together, an initiative supported by the Children and Youth Behavioral Health Initiative and California Community Schools Partnership Program that aims to strengthen collaboration between county offices of education and community partners to better meet the behavioral health needs of students and families.

Finally, the budget included intent language to provide $20 million ongoing beginning in 2030-31 for county offices of education to coordinate county-level government, nonprofit community-based organizations, and other external partnerships to support community school implementation in their county.

Charter School Authorizer New Requirements

AB 126 and AB 2467 expand existing charter school authorizer responsibilities related to fiscal monitoring, audit reviews, governance, site visits, and attendance verification. The changes establish more specific oversight activities, reporting requirements, and deadlines.

Effective July 1, 2026, charter school audits must be reviewed, and authorizers must certify completion of required oversight activities by May 15 for school district authorizers or June 15 for county board of education authorizers (Education Code section 41020(m)(2)(A) and (B)). The certification to the county superintendent must confirm that the authorizer has:

- Reviewed all audits of charter schools under its jurisdiction.
- Ensured charter schools have corrected audit exceptions or submitted an acceptable plan of correction.
- Identified attendance-related audit exceptions involving state funds and required appropriate reporting forms to be submitted to the state superintendent of public instruction.

By July 1 each year, authorizers must identify material concerns arising from oversight and monitoring during the preceding 12 months that could lead to nonrenewal or revocation and provide timely written notification to the charter school's governing body (Education Code section 47604.32(a)(8)(A) and (B)).

In addition, authorizers must monitor enrollment and attendance data, make periodic checks of credit and debit card transactions, communicate fiscal concerns, report suspected financial crimes, and visit each approved school site annually (Education Code section 47604.32 (a)(4)-(6)). Charter schools must secure audit contracts by May 1, with reports generally due January 31, or the authorizer must arrange the audit and recover its cost (Education Code section 41020 (a)(2)(A) and (k)(1)). Contracts exceeding $100,000 in annual compensation to an individual contractor must be approved by the governing body at a meeting (Education Code section 47605 (e)(6)), and verified-data requirements for specified renewals are applicable through June 30, 2028 (Education Code section 47607.2(a)(4)).

Effective July 1, 2027, there are increased site and governance oversight requirements. In addition to each school site, authorizers must visit each approved and established resource center, meeting space, and satellite facility upon opening and at least once every two years thereafter. Authorizers must also attend at least one governing body meeting in person annually and review all board meeting agendas and minutes (Education Code section 47604.32 (b)).

Authorizers will be accountable to provide documentation to their external auditors regarding their oversight procedures of the authorized charters. The annual audits will include procedures to verify that authorizers have documented completion of required oversight activities, including fiscal monitoring, site visits, audit reviews, and teacher-assignment monitoring (Education Code section 41020.6(b)(9)). For non-classroom-based charter school attendance, authorizers must annually review ADA (Education Code section 47604.32(c)(1)).

The legislation does not increase the statutory charter school oversight fee to fund the expanded responsibilities.

Deficit Spending

Deficit spending continues to be a concern for many school districts due to declining enrollment, reduced ADA, rising compensation and benefit costs, inflationary pressures, and the expiration of one-time funding that has supported ongoing expenditures. Districts should distinguish between one-time shortfalls and ongoing structural deficits. While one-time deficits may be addressed through available fund balance or other one-time resources, structural deficits require ongoing solutions that align recurring expenditures with recurring revenues.

As districts work to balance their budgets, significant expenditure reductions reflected in multiyear financial projections should be supported by clearly identified and achievable spending reduction plans. If the specific actions necessary to achieve those reductions have not

yet been fully identified, districts should promptly develop a realistic fiscal stabilization plan that establishes a timeline for identifying and implementing the actions necessary to restore structural balance. When corrective actions have not yet been fully identified, districts should consider adopting a fiscal solvency statement that acknowledges the need for future action and outlines the governing board's commitment to restoring structural balance.

Districts should exercise caution when using one-time funding sources to support ongoing expenditures. While one-time resources may provide temporary budget relief, reliance on these funds for recurring costs can create or exacerbate future structural deficits when the funding is no longer available.

As fund balances decline, districts must carefully evaluate the long-term affordability of ongoing commitments, including negotiated salary and benefit increases. Although funding increases may provide additional resources, those gains may be offset by enrollment losses and rising operating costs. Each district's ability to sustain ongoing expenditures will depend on its unique fiscal circumstances and should be evaluated through realistic multiyear projections that include reasonable alternative budget scenarios.

Districts experiencing ongoing deficit spending should be able to demonstrate through their multiyear projections a credible and achievable path toward structural balance within a reasonable timeframe.

Considerations for Reductions in Force

The first interim report provides critical financial information for determining the expenditure reductions that may be necessary for the following fiscal year. Because salaries and employee benefits typically are an LEA’s largest expenditure, addressing a structural deficit may require considering staffing reductions. The total number of reductions needed should be identified early, particularly when reductions must be implemented by the beginning of the next fiscal year.

Timing is especially important because statutory layoff requirements establish firm notification deadlines. Education Code section 44949 governs certificated layoffs, while Education Code section 45117 governs classified layoffs. Both processes generally require affected employees to receive notice by March 15. Consequently, governing boards and district staff must have enough time before that deadline to evaluate alternatives, determine appropriate staffing levels, and complete the necessary actions.

Before proceeding with layoffs, an LEA should evaluate collective bargaining obligations, contractual requirements, restrictions associated with specific funding sources, existing vacancies, anticipated attrition, retirement incentives, reassignment opportunities, and other available measures that could reduce or avoid employee layoffs. These considerations should be incorporated into a coordinated fiscal and operational review rather than be treated as separate decisions.

Final staffing decisions may also be affected by credentialing requirements, employee seniority, bumping rights, school-level enrollment projections, master schedules, and program needs. Because these factors can limit which positions may ultimately be eliminated, the positions included in preliminary layoff notices may need to exceed the reductions projected for the following fiscal year. This gives an LEA sufficient flexibility to achieve the required savings after statutory, contractual, and operational considerations have been fully evaluated.

A reduction in force should be part of a broader multiyear fiscal stabilization strategy rather than solely a solution to a one-year budget shortfall. When a structural deficit exists, expenditure reductions should be sufficient to restore ongoing general fund balance throughout the multiyear projection period while maintaining required reserve levels. Reductions that address only the immediate shortfall may lead to recurring deficits, additional staffing reductions in future years, disruption to educational programs, and an increased risk of state fiscal intervention.

Prudent fiscal planning may require reductions that exceed the immediate projected shortfall. This approach can help account for uncertainty related to enrollment, revenue assumptions, negotiated salary increases, pension costs, and other expenditure pressures reflected in the multiyear projection. Although these decisions are difficult, timely and appropriately sized reductions give a governing board greater flexibility to protect their LEA's long-term financial health and preserve local decision-making authority.

If a reduction in force becomes necessary, an LEA should consult its legal counsel to ensure compliance with all applicable statutory, contractual and procedural requirements. The LEA should also develop a coordinated implementation and communication plan that provides clear, timely information to affected employees, labor partners, administrators, and other education partners throughout the process.

Fiscal Stabilization Plan

A fiscal stabilization plan serves as a roadmap to restore fiscal solvency when a district's reserves are projected to fall below the state-required minimum (3% for most districts). Under AB 1200 (Chapter 1213, Statutes of 1991) and subsequent legislation, county offices of education have heightened fiscal oversight responsibilities for districts with qualified or negative budget certifications, including ensuring appropriate corrective actions are taken to maintain fiscal solvency. A written fiscal stabilization plan is an important oversight and management tool for these districts and is also a best practice for districts experiencing structural deficits despite meeting minimum reserve requirements. An effective plan outlines how the district will eliminate structural deficits, rebuild and maintain adequate reserves, and achieve fiscal stability in the current and two subsequent fiscal years.

Proactive multiyear planning helps:

- Identify and address structural deficits early, before reserves are depleted.

- Establish clear deadlines so administrators can schedule budget-saving actions around compliance, stakeholder engagement, and reporting requirements.
- Avoid sudden, severe budget cuts by phasing in adjustments over time.
- Demonstrate fiscal responsibility to the board, staff, bargaining units, and the community.
- Strengthen credibility with oversight agencies.

Elements of a Fiscal Stabilization Plan

An effective fiscal stabilization plan should be based on realistic financial assumptions and should identify the specific actions, timelines and monitoring necessary to maintain fiscal stability. The plan should include the following elements:

- Assessment of current conditions: identify the factors leading to fiscal distress, including enrollment and ADA trends, rising costs, and structural budget imbalances.
- Expenditure reductions: outline cost-saving measures such as staffing adjustments, program realignment, and operational efficiencies.

Example: FTE Accounting by Employee Group			
Employee Group	**Current FTE**	**Target FTE**	**FTE Reduction**
Certificated	260.0	252.0	8.0
Classified	130.0	125.0	5.0
Management	30.0	28.0	2.0
Total	**420.0**	**405.0**	**15.0**
Estimated Savings			**$2,325,000**
Average Salary and Benefits per FTE			**$155,000**

- Revenue enhancements: evaluate sustainable revenue opportunities and improved attendance/ADA strategies; distinguish ongoing unrestricted revenues from one-time or restricted grants, which may not be available to address ongoing unrestricted general fund deficits.
- Timelines and milestones: establish clear deadlines for board approval, implementation of reductions, and progress benchmarks.

Example: Stabilization Plan Deadlines		
Deadline	**Milestone**	**Purpose**
January 15	Identify proposed reductions	Define actions early enough for analysis and consultation

February 15	Commit to expenditure reductions	Incorporate approved reductions into the second interim and multiyear projection
March 15	Obtain board approval of notices	Authorize required staffing notices by the statutory deadline
June 30	Incorporate approved reductions into the adopted budget	Align the plan with the start of the new fiscal year

Developing an effective fiscal stabilization plan requires thoughtful planning, difficult decisions, and ongoing communication with the board, staff, bargaining units, and other stakeholders. The plan should be reasonable, sufficiently detailed to allow the district and COE to evaluate progress, and regularly monitored against established timelines and targets. Ultimately, the plan should provide a clear and achievable path for implementing necessary corrective actions and restoring long-term fiscal stability.

Summary

This edition of the Common Message provides LEAs with data and guidance for first interim reporting, fiscal planning and related board presentations. While the state budget currently appears stable, LEAs continue to face both short-and long-term fiscal pressures, including potential volatility in state revenues, declining enrollment and attendance, rising pension and insurance costs, inflationary pressures, and the expiration of one-time funds.

The availability of one-time funding requires careful planning, particularly for LEAs experiencing declining enrollment or other pressures on ongoing revenue. One-time funds can temporarily mask the need to align ongoing expenditures with ongoing revenues, delaying necessary budget adjustments. At the same time, these funds provide an opportunity to address infrastructure, technology, facilities, and other non-recurring needs. If one-time funds are used for ongoing costs, LEAs should have a clear plan for how those costs will be sustained, reduced, or discontinued when the funding ends.

Because each LEA's circumstances are unique, including its funding structure, enrollment trends, program needs, fiscal condition, LEAs should continually assess local conditions, collaborate closely with their respective COEs, and develop plans that support both short- and long-term fiscal stability while preserving the integrity of their educational programs.