

Implications of the Governor's May Revision for Budget Deliberations



Committee of the Whole
May 20, 2025

Independent Analysis Unit
Board of Education
Los Angeles Unified School District

Agenda

- I. Key Highlights of Governor's May Revision
- II. Issues Affecting State and Local Budgets
- III. State Education Funding
- IV. Strategic Considerations for Board
- V. Closing

Key Highlights from May Revision

**Most TK-12 Education
Funding Preserved**

\$12B in budget fixes

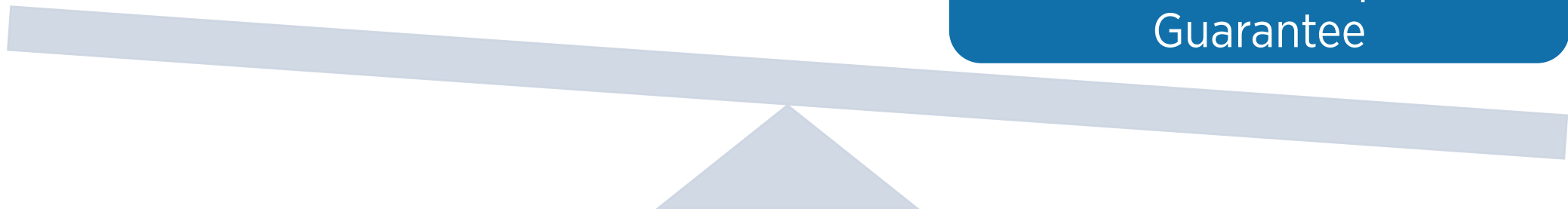
Current revenues up but...

**Forecast not
optimistic**

Future revenue estimates
down

Rough economic
headwinds

Decreased Prop. 98
Guarantee



Issue #1: Macro-Economic Trends

It's all about the revenue...



Personal Income Tax (PIT)

Slowing or stagnate
economy = lower
PIT



Sales tax

Inflation = higher
sales tax but lower
spending



Corporate tax

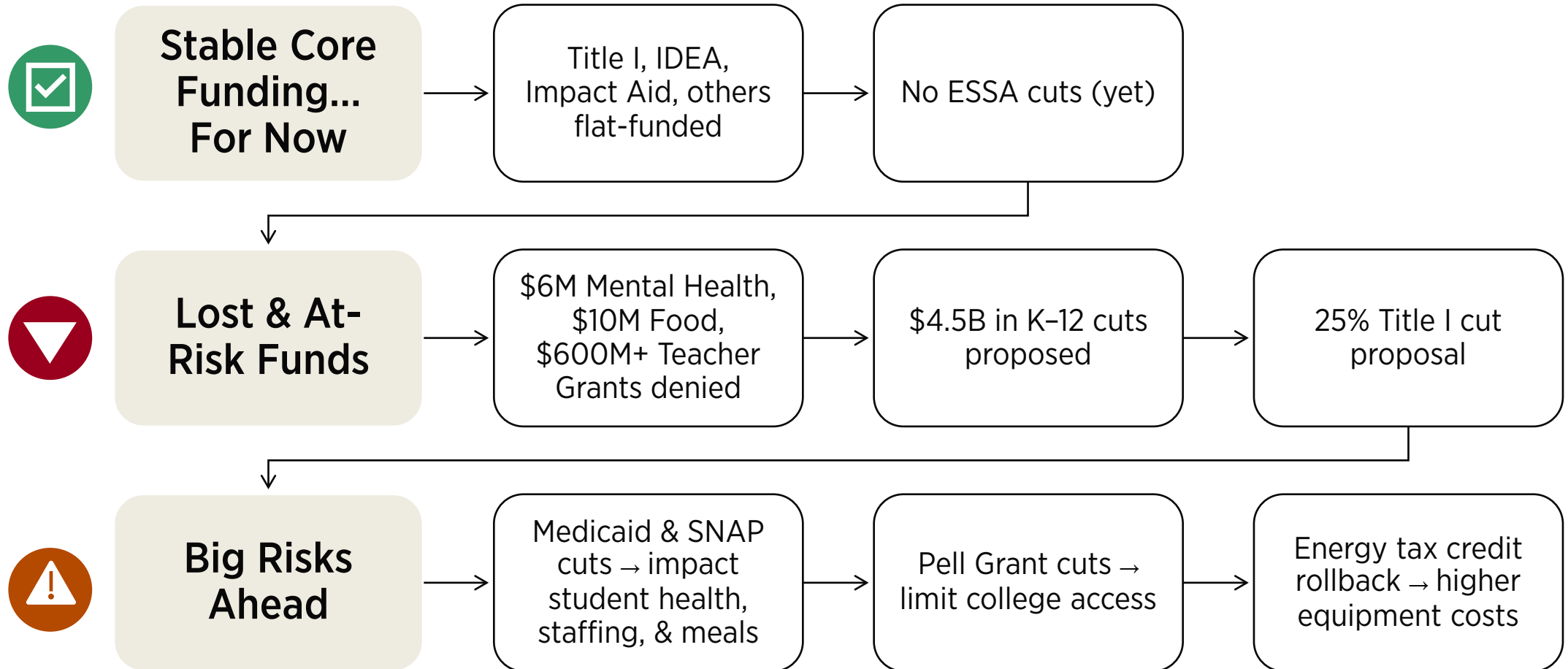
Decline in corporate
profits associated
with tariffs



Recession risk

Recession would
reduce all three
taxes

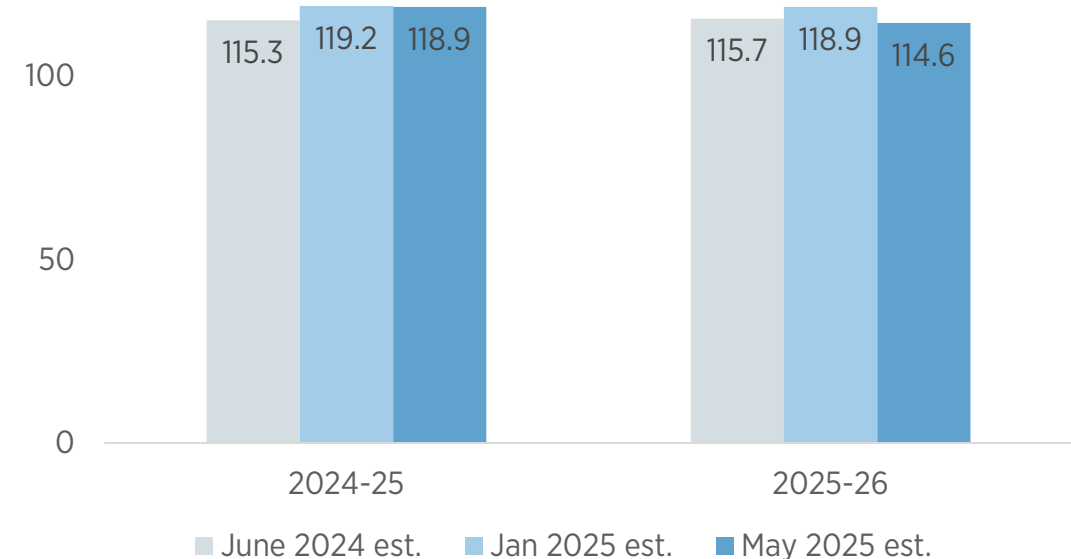
Issue #2: Federal Policy Changes



State TK-12 Funding: Pressures

- **Prop 98 down >\$4B from Jan**
- **~\$0.5B mandatory withdrawal** from rainy day fund
- **COLA at 2.3%** — could lag rising inflation
- **Cash deferrals** may impact cash flow

Prop 98 Budget Estimates Over Time
(Current and Next Fiscal Year)



Source: Graph modified from graph made by California Budget & Policy Center. Data from California Department of Finance, Legislative Analyst Office

State TK-12 Funding: Proposals

- **Targeted supports**
 - Universal meals fully funded, plus funds for summer meals
 - One-time funds for 12 special programs
- **Program Adjustments**
 - Universal TK down (less facility funding + teacher hiring)
 - ELOP funding up, but mostly for lower-needs districts
 - AB 602 up (special education), but IDEA flat: LAUSD's cross-subsidy from the General Fund may grow
 - Medi-Cal cuts uncertain – 51% of LAUSD students impacted

Implications for LAUSD

- **Universal TK**
 - Important to ensure staffing ratios (10:1) are met
- **LAUSD's cross-subsidy for special education may grow**
- **Medicaid/Medi-Cal uncertainty:**
 - Reduced benefits/coverage
 - Strains to services
 - Potential future cuts to staff

Strategic Considerations

- **Revenue Volatility:** Flat forecasts & recession risk call for fiscal caution; reserves should be preserved.
- **Federal Cuts Possible:** Programs may face reductions Oct 2025.
- **Next Budget Impact:** Deeper effects likely in FY 2026–27.
- **Rising Costs:** Salary & pension growth within revenue limits.
- **Declining Enrollment:** Right-sizing strategies for student loss.

Closing

- **Thank you**
- **Board discussion**