

COMMUNITY COLLEGE UPDATE

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Initial Impressions from Governor Newsom's 2025-26 State Budget Proposal



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After previewing the 2025-26 State Budget on Monday, January 6, 2025, Governor Gavin Newsom's proposed budget was released via a media briefing conducted by Department of Finance Director Joe Stephanshaw. (This untraditional approach was originally to accommodate Governor Newsom's trip to attend former President Jimmy Carter's funeral, which was cancelled in order to devote his attention to the fires in Los Angeles.)

The purpose of this article is to provide a quick overview of Governor Newsom's proposals regarding the 2025-26 State Budget. We address the community college topics highlighted in this morning's press conference, the budget press release, and the high-level State Budget summary, but reserve our commentary and in-depth details for inclusion in our comprehensive *Community College Update* article, to be released later today.

Economic Outlook

Governor Newsom's \$322.2 billion proposal is fully balanced with no budget deficits and state revenues exceeding 2024 State Budget Act projections by \$16.5 billion. The Governor said his proposal does not predict any shortfalls for the budget year and that there is a modest budget surplus but declined to give a number and said that the surplus is "within the margins."

Stephanshaw reiterated the importance of maintaining fiscal responsibility, including preserving healthy reserve balances. This is especially important with how volatile the state's revenue intake is due to the reliance on capital gain returns from the wealthiest Californians.

The Governor's Budget proposal includes a total of \$16.9 billion in reserves, including the Rainy Day Fund at \$10.9 billion and the Special Fund for Economic Uncertainties at \$4.5 billion.

Level of Proposition 98 Funding

The minimum guarantee is calculated to be \$98.5 billion in 2023-24, \$119.2 billion in 2024-25, and \$118.9 billion in 2025-26. These revised Proposition 98 levels represent an increase of approximately \$7.5 billion over the three-year period relative to the 2024 Budget Act.

Due to the inherent risk in revenue projections, the Governor's Budget proposes to fund the minimum guarantee at \$117.6 billion, instead of the currently calculated level of \$119.2 billion in 2024-25. The rationale to fund lower than the minimum guarantee in the fiscal year is to mitigate the risk of potentially appropriating more resources to Proposition 98 than are available in the final calculation for 2024-25. Potential adjustments will be evaluated at the May Revision and will not be final until the certification of the 2024-25 minimum guarantee level.

The Governor's Budget proposal puts the minimum guarantee in a Test 2 for 2023-24 (although suspended at \$98.5 billion) and continues to be in a Test 1 for 2024-25 and 2025-26. This means that the funding level of the guarantee for 2024-25 and 2025-26 is equal to roughly 40% of General Fund revenues, plus local property tax revenues.

PSSSA

The 2024 Budget Act projected a total balance of \$1.1 billion in the Public School System Stabilization Account (PSSSA), or Proposition 98 Rainy Day Fund, reflecting a discretionary payment of the same amount into the fund in 2024-25. The Governor's Budget proposal reflects a revised 2024-25 payment of roughly \$1.2 billion, which is a mandatory payment that replaces the discretionary payment, and an additional mandatory payment of \$376 million in 2025-26 into the account for a revised balance of \$1.5 billion at the end of 2025-26.

SCFF and COLA

Governor Newsom proposes \$230.4 million ongoing to provide a 2.43% cost-of-living adjustment (COLA) for the Student Centered Funding Formula (SCFF) apportionments and \$30.4 million ongoing for 0.50% enrollment growth for the California Community Colleges (CCC).

Categorical Programs

The Governor proposes \$16 million ongoing to provide a 2.43% COLA for select categorical programs and the Adult Education Program.

Additionally, the Governor's Budget proposal includes the following investments outside of the SCFF:

- \$168 million one-time for the completion of the Statewide Technology Transformation project
- \$162.5 million (\$29 million of which is ongoing) for scaling of a common cloud data platform across the CCC system
- \$51.5 million one-time Proposition 2 (2024) bond funds allocated for critical infrastructure, facility modernization, and enrollment growth projects for 28 community college facilities
- \$30 million ongoing to expand the Rising Scholars Network, which provides college educational opportunities to students who have been impacted by the criminal justice system

Master Plan for Career Education

In August 2023, the Governor called for a new Master Plan for Career Education (Master Plan) through the Freedom to Succeed Executive Order. Last month, the Administration released the executive summary of the Master Plan and is expected to release the full Master Plan this month.

The following new investments are proposed to implement key provisions of the Master Plan, with additional phases of implementation to be considered in future fiscal years:

- \$100 million one-time for the CCC to expand Credit for Prior Learning and begin building the infrastructure for the state's first "Career Passport"
- \$5 million ongoing (non-Proposition 98) for the Government Operations Agency to establish a state planning and coordinating body for TK-12 education, higher education, and state economic and labor agencies
- \$4 million one-time (non-Proposition 98) to support regional coordination for career education and training

Summary

This very broad extract of the 2025-26 Governor's Budget proposal is provided to keep you informed. Over the next few hours and days, we will be working to distill the information and make it actionable for community colleges. Stay tuned.