



COMMUNITY COLLEGE UPDATE

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

An Overview of the 2025-26 Governor's May Revision



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Overview of the Governor's May Revision Proposals

Leading up to May 14, 2025, Governor Gavin Newsom’s press office sought to set the tone of the May Revision, highlighting state spending and programs to address homeless encampments, behavioral health treatment facilities, and clean water while also sounding economic alarm bells.

When Governor Newsom’s press conference began, he kicked off his comments lauding the size of California’s economy and quickly pivoted to actual and anticipated impacts of federal policy, specifically, tariffs imposed by President Donald Trump. The Governor’s May Revision resolves the dual problems of lower revenues in 2025-26 and increased health care costs in the current and near term through a combination of reductions, borrowing, funding shifts, and expenditures that would only be activated if sufficient revenues materialize.

The Economy and Revenues

At the release of the May Revision, Governor Newsom noted that California has advanced from the fifth to the fourth largest economy in the world while highlighting the high level of uncertainty in both the California and national economies. Specifically, broad elevated tariffs, strict immigration policies, and cuts to the federal workforce are mentioned as a cause of a “significantly dampened outlook” since the release of the Governor’s Budget in January. Although cash receipts are estimated to have exceeded the Governor’s Budget forecast for the “Big Three” sources of state revenue (personal income, corporation, and sales and use taxes) through April 2025 by \$7.9 billion, overall, revenues of the “Big Three” are projected to be lower by \$4.8 billion over the budget window. When compared to the Governor’s Budget figures, personal income tax saw an increase in 2023-24 and 2024-25 and a significant decrease in 2025-26 projections. Corporation tax estimates and projections show an increase in 2023-24 and a decrease in 2024-25 and 2025-26. Sales and use tax shows a decrease in each of the three years.

“Big Three” Revenue Sources (In Millions)						
	2023-24		2024-25		2025-26	
	Governor’s Budget	May Revision	Governor’s Budget	May Revision	Governor’s Budget	May Revision
Personal Income Tax	\$113,380	\$115,166	\$121,106	\$125,706	\$133,815	\$126,107
Corporation Tax	\$34,318	\$35,456	\$43,199	\$41,296	\$37,377	\$35,293
Sales Tax	\$33,342	\$33,339	\$34,110	\$33,706	\$35,125	\$34,866
Total	\$181,040	\$183,961	\$198,415	\$200,708	\$206,317	\$196,266

Beyond the budget window, the long-term May Revision forecast projects cumulatively lower General Fund revenues attributed to the “Big Three” by \$22.7 in 2026-27 through 2028-29 with a peak yearly revenue downgrade of \$13.7 billion in 2026-27.

The May Revision, and what will become the 2025-26 Enacted Budget in late June, has some risks. The immediate risks noted by the Governor are changes to federal policy, notably tariffs to which the Governor attributes the downgrade in both the economic and revenue forecasts. In addition, expenditure growth above the Governor’s Budget has contributed to an estimated \$12 billion shortfall.

With regard to major economic indicators, the May Revision forecasts a “growth recession” due to a slowdown in gross domestic product (GDP) growth, lower job growth, and higher unemployment. After the “growth recession” ends in the third quarter of 2025, a slow growth period, with an average GDP growth of 1.7%, is anticipated from 2026 through 2028.

Proposition 98 Minimum Guarantee

Due to California’s deteriorated budget condition, the May Revision reduces the Proposition 98 minimum guarantee across 2023-24, 2024-25, and 2025-26 by a total of \$4.6 billion from the Governor’s Budget estimates.

Proposition 98 Minimum Guarantee (In Billions)								
2023-24			2024-25			2025-26		
Governor’s Budget	May Revision	Difference	Governor’s Budget	May Revision	Difference	Governor’s Budget	May Revision	Difference
\$98.50	\$98.50	-	\$119.20	\$118.90	-\$0.30	\$118.90	\$114.60	-\$4.30

The May Revision maintains (but marginally reduces) the Governor’s Budget proposal to delay fully appropriating the 2024-25 minimum guarantee to TK-12 and community college agencies to mitigate against the risk of providing more funding to education than the California Constitution requires. In January, the Governor proposed delaying \$1.6 billion of the 2024-25 guarantee. At the May Revision (due a revised downward adjustment to the guarantee), the delayed amount is now proposed at \$1.3 billion. The minimum guarantee in 2024-25 and 2025-26 continues to be determined by Test 1, or roughly 40% of General Fund revenue.

The May Revision also maintains the commitment to “rebench” the minimum guarantee for costs associated with implementing universal transitional kindergarten (TK) in 2025-26. Significantly, the May Revision proposes to change the share of Proposition 98 resources that go to TK-12 and community college districts (CCDs), increasing the TK-12 share by a proposed \$492.4 million and making an equal reduction for CCDs. The rationale is that the California Community Colleges (CCC) budget has benefited from the expansion of Proposition 98 revenues without a corresponding expansion of cost since the rebench is meant to address additional resources needed to educate TK students.

Proposition 98 Rainy Day Fund and Deferrals

The May Revision maintains the full withdrawal of the \$8.4 billion balance from 2023-24. Due to changes in capital gains revenues, the May Revision reduces the mandatory deposit into the Public School System Stabilization Account (PSSSA) in 2024-25 from \$1.2 billion to \$540 million. In 2025-26, rather than deposit an additional \$376 million, the drop in the Proposition 98 guarantee triggers a mandatory withdrawal from the PSSSA, which will completely deplete the PSSSA.

The May Revision uses \$59 million from the PSSSA to support Student Centered Funding Formula (SCFF) costs in 2025-26.

Finally, the May Revision continues to retire a total of \$490.3 million in Proposition 98 apportionment deferrals from the 2024-25 Enacted Budget but proposes to institute new deferrals. For the CCC, the May Revision proposes deferring \$531.6 million in SCFF apportionments from 2025-26 to 2026-27.

COLA

The May Revision fully funds the statutory cost-of-living adjustment (COLA) of 2.30% for the SCFF, which is slightly lower than the January estimate of 2.43%.

Other community college programs that are funded outside of the SCFF that are also proposed to receive the 2.3% COLA are: Adult Education, Extended Opportunity Programs and Services, Disabled Students Programs and Services, Apprenticeship, CalWORKs Student Services, Mandates Block Grant and reimbursements, Cooperative Agencies Resources for Education, and the childcare tax bailout.

The State Preschool Program rates are not adjusted by the statutory COLA (see Early Childhood Education section below).

SCFF and Enrollment Growth

In addition to applying the 2.30% COLA to the SCFF, the May Revision also proposes a one-time increase of \$210.2 million to fully fund the SCFF in 2024-25 and an ongoing increase of \$104.7 million in 2025-26.

The Governor is proposing an ongoing increase of \$109.5 million to fund 2.35% enrollment growth in the SCFF in 2025-26, which is an increase from the Governor's Budget proposal of 0.50%.

Modified Investments

In addition to the Master Plan for Career Education (Master Plan) modified investments (see Career Education section below), the Governor is also proposing the following modifications to his January State Budget investments outside of the SCFF:

- Withdraws the proposed one-time investment of \$168 million one-time for the Collaborative Enterprise Resource Planning Project
- Reduces the proposed \$162.5 million proposal for the Common Cloud Data Platform down to \$12 million one-time
- Reduces the proposed \$30 million ongoing augmentation for the Rising Scholars Network to \$10 million ongoing

Early Childhood Education

To help address the budget shortfall, the May Revision proposes to suspend the COLA in 2025-26 for the California State Preschool Program and child care but maintains funding for the Cost of Care Plus Rate to fund provider stipends. The May Revision includes \$7 billion (\$4.5 billion General Fund) for Department of Social Services administered child care and development programs and maintains prior commitments for the state to move to a single-rate system based on cost of care.

Career Education

In January, Governor Newsom touted the release of the Master Plan and proposed several significant investments for its implementation (see the article "[Governor Releases the Master Plan for Career Education](#)" in the April 2025 *Community College Update*).

However, the Governor proposes to pare down or eliminate those investments in his May Revision. The modifications to those investments are as follows:

- Withdraws the \$5 million (ongoing, non-Proposition 98) investment to establish the California Education Interagency Council (see the article "[Will California Establish an Education and Workforce Interagency Council?](#)" in the May 2025 *Community College Update*)
- Reduces the \$4 million one-time funds (non-Proposition 98) proposed for the Labor and Workforce Development Agency to evaluate the expansion of regional coordination models down to \$1 million (non-Proposition 98)

- Reduces the Career Passport proposal from \$50 million to \$25 million one-time
- Reduces the Credit for Prior Learning proposal from \$50 million to \$15 million one-time and from \$7 million to \$5 million ongoing

The Rest of Higher Education and K-12

In his January State Budget proposal, Governor Newsom proposed a 7.95% base funding reduction to both the University of California (UC) and California State University (CSU) systems. However, the Governor has revised the reductions for the UC and CSU systems from 7.95% to 3% for 2025-26.

The K-12 education budget is similar to the CCC budget. Governor Newsom is proposing to apply the COLA to the Local Control Funding Formula (LCFF) and select categorical programs but is also using one-time dollars and deferrals to fund the LCFF. The Governor also reduced the funding for the K-12 Student Support and Professional Development Discretionary Block Grant from \$1.8 billion to \$1.7 billion but maintains the flexibility of the grant to address rising costs and other state priorities.

Closing

In isolation, the 2025-26 May Revision proposals for K-14 education are lack luster. As in January, COLA is funded for the SCFF and select categorical programs. On the downside, one-time dollars and deferrals are needed to keep the SCFF funding stable and a sizeable amount of resources are shifting to the K-12 portion of the Proposition 98 split.

But taken in the context of an uncertain—and potentially contracting—state economy and significant reductions and budget solutions outside K-14 education, CCDs can be cautiously, mildly optimistic about the 2025-26 fiscal year, with an emphasis on *cautious*. That said, CCDs will need to be *cautious* in their planning until the Governor and Legislature come to an agreement on a final 2025-26 spending plan. And *cautious* when it comes to federal education funds. With continued uncertainty for the near term, we suggest you embrace the mild optimism when you can.