Los Angeles County
Office of Education

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Debra Duardo, M.S.W., Ed.D., *Superintendent*

INFORMATIONAL BULLETIN # 7099

February 17, 2026

TO: Business Administrators
Los Angeles County School Districts
Regional Occupational Centers/Programs (ROC/Ps)
Joint Powers Authorities (JPAs)

FROM: Dave Wilson, Financial Advisory Services Officer
Business Advisory Services

Steven Choi, Financial Advisory Services Officer
Business Advisory Services

SUBJECT: 2025-26 Second Interim Financial Reporting **- Bulletin and Guidance**

The Los Angeles County Office of Education (LACOE), the nation's largest regional education agency, serves 79 school districts and 9 Regional Occupational Centers/Programs (ROC/Ps) and Joint Powers Authorities (JPAs) across 4,084 square miles of L.A. County. Business Advisory Services (BAS) is responsible for reviewing and examining Budget and Interim Reports, Unaudited Actuals, Annual Audits, Non-Voter-Approved Debt, and Collective Bargaining Agreements prepared by local education agencies (LEAs), as required by law. Each of the 88 LEAs are assigned a Business Services Consultant (BSC) for support (see attached for assignments). The BSC also provides guidance and support to address fiscal solvency concerns, working collaboratively with LEAs to help ensure financial stability and compliance with reporting requirements.

Education Code (EC) Sections 35035(g), 42130 and 42131 require the Governing Board of each school district or LEA to certify at least twice a year to the district's ability to meet its financial obligations for the remainder of that fiscal year (FY) and for the subsequent two FYs.

The FY 2025-26 Second Interim Report must be approved by the Governing Board and submitted on or before **Monday, March 16, 2026.** Please email the documents listed below to both your assigned BAS BSC and to the BAS intake team at lacoe_sacs@lacoe.edu.

Education Code (EC) Section 42130 requires each LEA to prepare Interim Reports using the format or forms prescribed by the State Superintendent of Public Instruction (SSPI), based on Criteria and Standards for fiscal stability adopted by the State Board of Education. All required financial reports and data for budget, interim, and unaudited actuals reporting periods must be prepared and submitted electronically through the Standardized Account Code Structure (SACS) Web System. For assistance with new user registration or updating system access, please contact (562) 922-6136. The documents required for submission can be found in Attachment No. 3.

FCMAT CALCULATOR

LACOE ceased the operation of the LACOE LCFF Calculator, and it is no longer available for district use. **We are requesting districts utilize the FCMAT LCFF Calculator for their Second Interim submission and use current Version (26.2a), which can be found at:**

https://www.fcmat.org/lcff

SECOND INTERIM REPORT ASSUMPTIONS

The Business and Administration Services Committee (BASC) is a collaborative group of Chief Business Officials from county offices of education (COEs) across California. BASC develops a "Common Message" to guide districts in forming budget and interim report assumptions. The purpose is to ensure consistency and reliability in financial planning for LEAs throughout the state. Please refer to Attachment No. 1, "The Common Message," which outlines the detailed assumptions to be applied in the preparation of the 2025-26 Second Interim Report.

EVALUATING THE NEED FOR MARCH 15 NOTICES

In adherence to EC 44949, 44955, and 45117, all certificated and classified staff employees who may potentially be impacted by a reduction-in-force must receive preliminary layoff notifications by March 15. LEAs that utilized temporary funding to increase compensation or hired additional staff must either identify reliable, ongoing funding sources, or proactively prepare for workforce reductions to take effect in FY 2026-27. This is of particular concern for LEAs experiencing declining enrollment. To help manage potential staffing shortages, the LEA should consider reassigning existing staff members to fill critical roles.

COUNTY OFFICE SOLVENCY EVALUATION

The County Office will evaluate solvency against the State Criteria and Standards. Districts must demonstrate their ability to meet their cash commitments over the current and two subsequent fiscal years.

District budgets may have changed since the adoption of the FY 2025-26 Budget Act and trailer legislation. District budgets must be updated to account for these changes and included in their current and multiyear financial projections. Districts must continue to exercise "best fiscal practices" in addressing potential budget challenges. It is essential for districts to continue exercising prudent fiscal practices when addressing potential budget challenges, developing multiple best-case scenarios, and adopting a sensible approach in planning for the current and two subsequent FYs.

If your district was requested to submit a Board-approved fiscal stabilization plan (FSP) with the Second Interim Report, the FSP should include reasonable and implementable options that allow the district to meet its reserve levels and financial obligations. The FSP review will focus on each district's ability to meet its cash and other financial commitments over the current and two subsequent fiscal years.

The following link provides access to LACOEs FSP template, which can serve as a valuable resource for the development of your LEAs FSP: Fiscal Stabilization Plan Template

DEFICIT SPENDING

Declining enrollment, coupled with the expiration of federal one-time funds, may result in deficit spending for many school districts. It is essential to distinguish between ongoing structural deficits and one-time shortfalls. As districts work to balance their budgets, any significant reductions shown in multiyear financial projections should be supported by concrete spending reduction plans or accompanied by a fiscal solvency statement that outlines the governing board's commitment to future corrective actions. Below is sample language for a fiscal solvency statement, which may be used as a stand-alone resolution or included with the approval of the Second Interim Report:

- In preparing the 2025-26 Second Interim Report, the Board acknowledges its fiduciary responsibility to maintain fiscal solvency for the current year and two subsequent fiscal years.
- Based on the 2025-26 State Budget Act and anticipated increases in ongoing costs, the Board anticipates the need for $XX million in ongoing budget reductions in 2026-27 to maintain fiscal solvency.
- Furthermore, it is recognized that a Board-approved budget reduction list for 2026-27 and implementation timeline will be included with the 2025-26 Second Interim Report submission.

As fund balances potentially decline, districts must exercise caution when allocating resources for long-term commitments, including negotiated salary increases. Modest revenue gains from the cost-of-living adjustment (COLA) may be offset by declining enrollment and rising payroll costs, including increases in retirement and health benefit rates. Each district's capacity to implement and sustain salary increases will depend on its unique financial position. Economic trends also suggest that the LCFF COLA for FY 2026-27 could be lower than what is included in the LCFF planning factors. Districts should consider creating alternative scenarios that assume a lower COLA in the subsequent years.

Because deficit spending erodes fund balance reserves, it is critical to maintain substantial reserves to buffer against future economic downturns. The Government Finance Officers Association recommends reserves of at least 17% of General Fund operating expenditures, which typically equates to a little more than two months of payroll obligations. Although school districts may be subject to reserve cap limitations on assigned and unassigned fund balances during periods of strong state revenue, it remains prudent to regularly review overall reserves to ensure long-term fiscal stability. Note that the reserve cap is not applicable for FY 2025-26 but is projected to be in effect for FY 2026-27.

FEDERAL FUNDING UNCERTAINITIES

Federal funding for public education continues to evolve. The federal government is taking unprecedented and unpredictable actions that affect the education community. LEAs can view the latest guidance from the CDE at the following web page:

https://www.cde.ca.gov/nr/fa/

CONTINGENT REVENUES AND EXPENDITURES REDUCTIONS

Districts should not include revenue sources that are of contingent or speculative nature. Examples of speculative revenue include the continuation of one-time funds in future years, pre-election bond or parcel tax proceeds and non-contractual donations/contributions from foundations or cities. ***Districts that include speculative non-Board approved expenditure reductions pending the finalization of negotiations should include an alternative expenditure reduction plan. Also, districts utilizing B10 unallocated reductions should explain supporting their use. Please note, the use of B10 unallocated expenditure reductions in the Multi-Year Projections increases the likelihood that the FSP will be requested with the submission of the subsequent budget or interim report.***

SUPPORTING NARRATIVES AND EXPLANATIONS

All districts must submit written narratives, quantitative information to support the financial planning, and program assumptions used in projecting the district's fiscal position for FY 2025-26 through FY 2027-28. Submission of the financial and planning assumptions is critical for Second Interim Reporting. A recommended list of topics that should be covered by the written narrative is attached to this bulletin (Attachment No. 2).

STATE WEB-BASED STANDARDIZED ACCOUNT CODE STRUCTURE (SACS) FINANCIAL REPORTING SYSTEM

The SACS Web-based Financial Reporting System facilitates the preparation and contains the components to prepare the FY 2025-26 Second Interim Reports. For information about updates and other changes, please refer to the CDE website at:

www.cde.ca.gov/fg/sf/fr

You can also reference the online SACS Web System - Interim Training Tutorial on the LACOE Business Advisory Services website at:

https://www.lacoe.edu/services/business/bas

APPROVAL AND SUBMISSION OF SECOND INTERIM REPORTS

Districts must present the Second Interim Report and certified documents in the SACS format prescribed by the State Superintendent of Public Instruction to their Governing Board for approval before being submitted to the County Office. Attachment No. 3 provides a list of documents required to be filed with the County Office and includes additional detailed information about those forms.

STATE CRITERIA AND STANDARDS CERTIFICATION

EC Section 42130 requires each district superintendent to review and certify that their Interim Report was prepared in accordance with State-adopted Criteria and Standards. As provided in EC Section 33127, the Criteria and Standards must be used by districts in developing annual budgets, the management of subsequent expenditures from the budgets, and for the monitoring of the district's fiscal stability. **Districts must ensure the Criteria and Standards Review form is filled out completely and accurately, including detailed explanations for all items that do not meet the required standards.**

Form CI has summarized data from the Criteria and Standards Review form to provide additional support to the district Governing Board's certification process. The certification will be classified as positive, qualified, or negative, defined as follows:

Positive: A school district that, based on current projection, **will meet** its financial obligations for the current fiscal year and subsequent two fiscal years.

Qualified: A school district that, based on current projection, **may not meet** its financial obligations for the current fiscal year or subsequent two fiscal years.

Negative: A school district that, based on current projection, **will be unable to meet** its financial obligations for the current year or subsequent fiscal years.

FINANCIAL DATA REQUIRED OF CHARTER SCHOOLS

Attachment No. 4 provides information regarding the responsibility of authorizing districts for their charter schools.

ACCESSING DATA IN BEST FOR SECOND INTERIM REPORTS

The timelines for the BEST Advantage System – Financial (FIN) are set for the third Friday of the following month, except for the year-end closing. For more details see Attachment No. 5 or refer to Informational Bulletin No. 6995 which can be found at:

https://www.lacoe.edu/bulletins

COUNTY OFFICE ASSISTANCE

The staff member in Business Advisory Services assigned to your district (Attachment No. 6) is available to assist you in these areas:

- Revenue and Budget Projection
- LCFF revenue projections including impact of the K-3 Grade Span Adjustment (GSA) Augmentation Grant
- Other Federal, State or Local Revenues/Expenses
- Cash Flow Projections / External Borrowing / Cash Deferrals / Commitment of Funds
- Educational Protection Account (EPA)
- Supplemental and Concentration Augmentation Grants
- State/Federal Apportionments
- State Aid
- Special Education

Please ensure you are using the latest version (26.2a) of the FCMAT LCFF calculator to prepare your district's FY 2025-26, FY 2026-27 and FY 2027-28 LCFF calculations and email the Excel copy to lacoe_sacs@lacoe.edu and your Business Services Consultant. Please contact Diya Miao at (562) 922-6790 or at Miao_Diya@lacoe.edu if you need assistance.

Charter schools should contact their authorizer, not the County Office, with questions regarding apportionments, timelines, forms, Second Interim assumptions, or any other issues.

This bulletin and its attachments are posted on the County Office website at:

https://www.lacoe.edu/bulletins

Use the "Search" function to locate a specific bulletin by number or keyword.

If you have questions regarding this bulletin or the Interim Report process, please contact your Business Services Consultant at the phone number included in Attachment No. 6 or either Dave Wilson at (562) 922-7469, by e-mail at Wilson_David@lacoe.edu or Steven Choi at (562) 940-1768, by email at Choi_steven@lacoe.edu.

Approved:
Octavio Castelo
Interim Executive Director
Business Advisory Services

DW/SC:lm
Attachments

The Common Message

2025-26 Second Interim Report

BASC

Business and Administration
Services Committee

Attachment No. 1 to:
Informational Bulletin No. 7099

Writers and Contributors

Topic	Contributors	
Background	Committee	
Key Guidance/Governor's Budget Proposal	Peter Foggiato, San Joaquin	Scott Price, Riverside
Planning Factors for 2024-25 and Multiyear Projections (MYPs)	Roger Van Putten, Placer	Jamie Dial, Kings
Federal Funding Uncertainties	Misty Key, Ventura	Dean West, Orange
Deficit Spending/Fiscal Stabilization	Dean West, Orange	Maribel Paez, Imperial Shannon Hansen, San Benito
Reserve Cap	Peter Foggiato, San Joaquin	Misty Key, Ventura
LREBG /Local Control and Accountability Plan (LCAP)	Steve Torres, Santa Barbara	Peter Foggiato, San Joaquin
Summary	Peter Foggiato, San Joaquin	Scott Price, Riverside

Table of Contents

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

Background

The Business and Administration Services Committee (BASC) is a collaborative advisory group made up primarily of experienced business officials, such as Chief Business Officials from county offices of education. Its core purpose is to provide leadership, guidance, and support around business, financial, and administrative practices that affect local educational agencies. This includes developing shared recommendations on sound financial management, accountability, program operations, and administrative support to help strengthen school budgets and operations across districts.

BASC doesn't act as a governing body with decision-making authority; instead, it serves in a consultative and strategic role. For example, in the California County Superintendents Educational Services Association (CCSESA), BASC brings together county business officials to create common guidance on budgeting assumptions, coordinate responses to financial challenges, and recommend improvements in support services for school districts and charter schools. Its work often informs policy discussions and helps ensure consistency in business practices across multiple local education agencies.

BASC would like to thank the DOF, State Board of Education (SBE), California Department of Education (CDE), Fiscal Crisis and Management Assistance Team (FCMAT), and our colleagues listed in the "Sources" section of this message for providing BASC and our local educational agencies (LEAs) with the most up-to-date information at the time of writing.

The BASC Common Message is intended to provide guidance and recommendations to COEs, which then tailor this guidance to the unique circumstances of the LEAs in their respective counties. Even within a single county, the guidance may vary considerably based on each district's educational, fiscal and operational characteristics. Consequently, districts and other entities seeking to understand the guidance applicable to a specific LEA should refer to the information released by the COE in the county where that LEA is located.

Key Guidance Based on the Governor's Budget Proposal

On January 9, 2026, Governor Gavin Newsom released the proposed state budget for 2026-27. The Governor's Budget includes a $21.7 billion increase in the Proposition 98 guarantee over the three-year period (2024-25 through 2026-27) compared to the 2025 Budget Act. However, the budget proposes to provide only $115.9 billion for education programs in 2025-26 instead of the Proposition 98 level of $121.4 billion for that year. The budget refers to the approximately $5.6 billion difference as "settle-up." The rationale for creating this settle-up is to mitigate the risk of potentially appropriating more resources to the guarantee than are ultimately available in the final calculation for 2025-26 (if estimated revenues do not materialize).

The major TK-12 funding provisions in the 2026-27 Governor's Budget are as follows:

- The Proposition 98 minimum guarantee is calculated to be $123.8 billion in 2024–25, $121.4 billion in 2025–26, and $125.5 billion in 2026–27.

- Repays $1.9 billion in settle-up created with the enactment of the 2025-26 state budget (for the 2024-25 year) in addition to creating $5.6 billion in new settle-up for 2025–26.

- Fully repays the $1.9 billion deferral of the second principal apportionment (P2) payment in 2026-27. LEAs should still plan for the $1.9 billion deferral in June 2026.

- Estimates the Proposition 98 Rainy Day fund balance, after proposed deposits and withdrawals, to be $4.5 billion at the end of 2025-26, triggering the reserve cap in 2026-27 (see Reserve Cap section below). The estimated balance at the end of 2026-27 is estimated to be $4.1 billion.

- Includes a cost-of living adjustment (COLA) of 2.41 percent for the Local Control Funding Formula (LCFF) and other specified statutory programs.

- Provides $30.7 million in ongoing funds to increase the LCFF amount for Necessary Small Schools by 20% in addition to COLA. See Appendix A for the proposed rates.

- Increases special education base rates by $509 million, resulting in a new statewide base rate of $999 per ADA that is now equal for all Special Education Local Plan Areas.

- Provides $2.8 billion in one-time funds for the Student Support and Professional Development Discretionary Block Grant. LEAs may use the funds for discretionary purposes including, but not limited to, priorities identified by the state, such as professional development for teachers on the Mathematics Framework, expanding career pathways and dual enrollment efforts, or addressing rising costs. As a reminder, LEAs should be cautious about using these one-time funds to pay for ongoing costs. Funds will be allocated based on an equal amount per ADA as reported for the 2025-26 second principal apportionment.

- Appropriates $757.3 million to the Learning Recovery Emergency Block Grant as part of the state's final payment to the program.

- Proposes $1 billion in ongoing funding to expand on prior investments in community schools and to expand the model to more school sites with large concentrations of low-income, English learner and foster youth.

- Increases ongoing funding for the Expanded Learning Opportunities Program (ELOP) by $62.4 million. Provides that Tier 2 rates cannot be less than $1,800 per pupil. The proposal increases ongoing ELOP funding to $4.7 billion. The proposal does not include COLA for ELOP, as has been the case since the inception of the program.

- Continues to allocate $1.5 billion in Proposition 2 bond funds for school construction projects in 2026–27.

- Appropriates $100 million (one-time) to the Kitchen Infrastructure and Training program. Grants will be awarded on a competitive basis to support kitchen equipment, infrastructure, training, and continued implementation of universal school meals.

- Provides $40 million (one-time) funds for allocation to LEAs that administer literacy screening to pupils in kindergarten and grades 1 and 2 for risk of reading difficulties. Proposes statutory changes to ensure consistency and quality of results.

- Builds on the Master Plan for Career Education by proposing $100 million (one time) to expand dual enrollment and dual credit opportunities for high school students. These efforts are also highlighted as discretionary priorities in the Student Support and Professional Development Block Grant.

- Proposes $250 million (one-time) to continue educator residency programs through 2029–30.

In addition to these funding proposals, the budget package includes the following significant policy proposals:

- Amends the Education Code to "move oversight authority of the management of the California Department of Education and support of LEAs" from the State Superintendent of Public Instruction (SSPI) to the State Board of Education (SBE), and to provide the SSPI the "ability to strengthen coordination and alignment among the bodies setting policy from early childhood through postsecondary education."
- Introduces several new audit requirements to be incorporated into the annual audit guide, which will affect all LEAs.
- Proposes new requirements for charter schools to address fraud and improve accountability and oversight.

Given the risks associated with the state budget, LEAs should exercise caution before budgeting for any of the increases included in the Governor's Budget other than statutory COLA. These increases, especially the $2.8 billion for Student Support and Professional Development discretionary Block Grant, may change before the final state budget is enacted.

The Legislature will hold hearings on the Governor's Budget throughout the spring. By May 14, the Governor will release the May Revision, which updates state revenue assumptions and modifies proposals. The Legislature must pass a balanced budget by June 15. The enacted budget is signed into law by June 30 and may be followed by clean-up trailer bill in the subsequent months.

Planning Factors for 2025-26 and Multiyear Projections

Following are key planning factors for LEAs to include in their 2025-26 2nd Interim Reports and and multiyear projections (MYPs) based on the latest information available atthe time of writing.

Planning Factor	2025-26	2026-27	2027-28
Cost-of-Living Adjustment (COLA)			
Local Control Funding Formula (LCFF) COLA	2.30%	2.41%	3.06%
Special Education COLA	2.30%	New Base Rate	3.06%
Employer Benefit Rates			
CalSTRS	19.10%	19.10%	19.10%
CalPERS-Schools	26.81%	26.40%	26.90%
State Unemployment Insurance	0.05%	0.05%	0.05%
Lottery			
Unrestricted per ADA	$190.00	$190.00	$190.00
Proposition 20 per ADA	$82.00	$82.00	$82.00
Minimum Wage	$16.90[1]	$17.40[2]	$17.90[3]
Universal TK/ADA LCFF add-on	$5,545.00	$5,679.00	$5,853.00
Mandate Block Grant			
School Districts			
Grades K-8 per ADA	$39.09	$40.03	$41.25
Grades 9-12 per ADA	$76.48	$78.32	$80.72
Charter Schools			
Grades K-8 per ADA	$20.52	$21.01	$21.66
Grades 9-12 per ADA	$58.21	$59.61	$61.43

[1]Effective January 1, 2026, [2]Effective January 1, 2027, [3]Effective January 1, 2028.

Federal Funding

On February 3, 2026, the President signed into law the 2026 federal fiscal year funding bill for the U.S. Department of Education (ED) and federal education programs.

Most federal education programs were funded at last year's level, including Title I, Part A; Title I, Part C Migrant Education Program; Title II; Title III, Title IV A and B, TRIO, and GEAR-UP; IDEA; and McKinney-Vento. These appropriations are related to grants available for the 2026-27 school year.

The legislation also included a provision that prohibits the withholding of program funds from states, as happened last summer with Title I, Part C and five other programs.

Deficit Spending and Fiscal Stabilization

Many school districts are experiencing significant fiscal pressure due to declining enrollment, expiration of federal one-time funds, and constrained state revenue growth. As a result, many districts are projecting deficit spending during the multiyear projection period, increasing the importance of prudent fiscal planning and long-term sustainability.

Districts must clearly distinguish between one-time budget shortfalls and ongoing structural deficits, because any structural imbalance presents a significantly greater risk to fiscal solvency. Deficit spending that is driven by the loss of one-time federal funding or declining enrollment, without corresponding expenditure adjustments, is not sustainable over time and will continue to erode reserves.

When deficit spending is projected, especially when accompanied by significant expenditure reductions in future years, districts must support those projections with specific, actionable and realistic plans. If expenditure reductions are not yet fully defined, the governing board should adopt a fiscal solvency statement affirming its commitment to take corrective action to restore structural balance. Multiyear projections that rely on unspecified, delayed, or unrealistic future reductions may be deemed unreasonable for second interim reporting and fiscal certification purposes.

Given heightened cash flow risk in the current fiscal environment, districts should closely monitor cash flow through regular (at least monthly) cash flow analyses to identify emerging risks and avoid potential cash shortfalls. As fund balances decline, districts must exercise caution when making long-term financial commitments, including negotiated salary increases and benefit enhancements.

While cost-of-living adjustments may provide modest revenue growth, these increases may be offset by declining enrollment, salary schedule growth, increasing pension contribution rates, and rising health and welfare costs. Each district’s ability to sustain compensation increases must be evaluated within the context of its individual fiscal condition. Given the continued economic uncertainty at both the state and federal levels, districts are strongly encouraged to model alternative scenarios using more conservative revenue and enrollment assumptions in the outyears.

Because deficit spending directly erodes reserves, maintaining adequate fund balance levels is essential to withstand future fiscal volatility. While statutory reserve requirements establish minimum thresholds, districts should regularly assess whether their overall reserves are sufficient to support ongoing operations and absorb unforeseen fiscal disruptions. Even in years when statutory reserve caps do not apply, prudent reserve management remains an essential component of sound fiscal practice.

A fiscal stabilization plan serves as a roadmap for restoring and maintaining fiscal health when reserves are projected to approach or fall below required minimum levels, or when a district has an ongoing structural deficit. Under AB 1200 and related statutes, county offices of education must ensure that districts with qualified or negative certifications develop and implement such a plan. However, adoption of a stabilization plan is also considered a best practice for any district that has a positive certification but faces a structural imbalance.

At a minimum, a fiscal stabilization plan should clearly demonstrate how the district will:

- Eliminate ongoing structural deficits.
- Rebuild and maintain reserves at or above the state-required minimum.
- Remain solvent across the full multiyear projection period.

Effective stabilization plans include a clear assessment of the factors contributing to fiscal stress, realistic expenditure reduction strategies, consideration of available revenue options, and a thoughtful approach to the limited and temporary use of reserves or one-time funds. Assumptions about enrollment, revenues, compensation, and benefit costs must be clearly documented and reasonable. When staffing reductions or compensation adjustments are contemplated, early communication and collaboration with labor groups is often necessary.

The plan should also establish timelines, milestones, and monitoring mechanisms, with regular reporting to the governing board and COE. Transparency with education partners is essential to maintaining trust and credibility during periods of fiscal adjustment.

Although developing and implementing a fiscal stabilization plan often requires difficult decisions, early proactive, conservative planning helps districts avoid more disruptive actions in the future. Adopting a stabilization framework early — even when reserves remain above minimum levels — can strengthen long-term sustainability and demonstrate responsible fiscal stewardship.

Reserve Cap

The Governor’s January budget proposes to make deposits into the Public School System Stabilization Account (PSSSA), or Rainy Day Fund, that would provide for an account balance of $4.5 billion at the end of 2025-26. Because this amount is 4.1% of the TK-12 share of the Proposition 98 minimum guarantee based on current projections, the reserve cap is triggered in the 2026-27 fiscal year. Current law places a 10% cap on school district reserves in fiscal years immediately after those in which the balance in the PSSSA is equal to or greater than 3% of the total TK-12 share of the Proposition 98 guarantee.

When the reserve cap is triggered, the portions of fund balance that are subject to the cap are the assigned and unassigned reserves in the General Fund 01 and the Special Reserve for Other than Capital Outlay Fund 17. Any funds that are in the committed portion of the fund balance, meaning that the governing board took formal action to set aside the funds, are not included in the reserve cap calculation. Small districts (fewer than 2,501 units of ADA) and community-funded districts are excluded from the local reserve cap consideration.

Although the amount in the PSSSA at the end of 2024-25 is also projected to be large enough to trigger the reserve cap for 2025-26, there is no practical effect as the requirement applies to the adopted budget and the 45-day revision that have already passed.

Learning Recovery Emergency Block Grant

The 2024-25 state budget mandated revisions to the LCAP template instructions to implement the settlement agreement from the Cayla J. lawsuit. These changes imposed new requirements for the use of LREBG funds starting in 2025-26. LREBG funds expended between 2025-26 and 2027-28 must be supported by a needs assessment per Education Code 32526(d), with both planned and actual expenditures documented in the LEA's LCAP.

In addition, the Governor's 2026-27 budget proposal includes a $757.3 million appropriation to the LREBG, to be allocated to LEAs under the same method as the original LREBG. If adopted, this means LEAs will have additional funds that are subject to the LCAP incorporation requirements.

For LEAs that are already planning on carrying over LREBG funds to 2026-27 or beyond, any additional funds allocated through the 2026-27 adopted state budget could be incorporated into the 2026-27 budget and LCAP through a midyear update and the Annual Update in 2026-27. Other options might include the following:

- Incorporating the new allocation into their 2026-27 LCAP and budget adoption, but clearly stating in writing in the LCAP and budget assumptions that these dollars and actions are dependent on the new LREBG funds being included in the adopted state budget.
- Documenting the needs assessment in the LCAP summary sections but waiting to put the funds into the LCAP and budget. Then the dollars and actions could be added as part of the midyear update and Annual Update if the funds are approved in the state budget.
- Waiting until 2027-28 to incorporate any new funds into the budget and LCAP.

LCAP and the LCFF Equity Multiplier

As a reminder, because of the year-to-year volatility surrounding the receipt of Equity Multiplier funds for any particular school, LEAs may consider incorporating certified prior year funding allocations into their 2026-27 budget and LCAP (i.e., plan to use certified 2025-26 allocations in the 2026-27 budget and LCAP). The CDE will certify 2025-26 allocations at P1.

As a reminder, LEAs must present a midyear LCAP update annually by February 28.

Summary

This edition of the Common Message provides LEAs with data and guidance for the second interim and related information for board presentations. The state budget continues to face increased risk due to changes in federal policy and funding, which may affect both revenues and expenditures. LEAs must navigate short-and long-term challenges, including volatility in the state revenue forecast, declining enrollment and attendance, rising pension costs, inflationary pressures, and the expiration of one-time funds. Because each LEA's funding and program structure is unique, it remains essential for LEAs to continually assess local conditions, collaborate closely with their respective COEs, and develop comprehensive plans to maintain fiscal solvency while preserving the integrity of their educational programs.

APPENDIX A

Necessary Small School Funding Rates (Proposed January 2026 Governor's Budget)

Necessary Small Elementary Schools

Number of Teacher(s)	Average Daily Attendance	Funding Amount 2025–26	Funding Amount 2026-27 (with 2.41% COLA applied)
1	1 to 24	$277,457	$340,972
2	25 to 48	$549,072	$674,765
3	49 to 72	$820,926	$1,008,852
4	73 to 96	$1,092,539	$1,342,643

Necessary Small High Schools

Number of Certificated Employee(s)	Average Daily Attendance	Funding Amount 2025–26	Funding Amount 2026-27 (with 2.41% COLA applied)
1	1 to 19	$233,818	$287,344
2	1 to 19	$333,366	$409,680
3	1 to 19	$740,514	$910,033
4	20 to 38	$907,196	$1,114,871
5	39 to 57	$1,073,880	$1,319,713
6	58 to 71	$1,240,562	$1,524,551
7	72 to 86	$1,407,246	$1,729,393
8	87 to 100	$1,573,928	$1,934,232
9	101 to 114	$1,740,612	$2,139,072
10	115 to 129	$1,907,294	$2,343,912
11	130 to 143	$2,073,978	$2,548,753
12	144 to 171	$2,240,662	$2,753,594
13	172 to 210	$2,682,875	$3,297,039
14	211 to 248	$3,167,262	$3,892,311
15	249 to 286	$3,651,657	$4,487,594

LOS ANGELES COUNTY OFFICE OF EDUCATION
Business Advisory Services

Recommended List of Topics that should be Covered by a Written Narrative
(List Not All Inclusive)

The assumptions used in each of the following areas should include explanations for the multiyear projections, and the changes between the projections and the adopted budget with clear indications as to which years they apply.

- Projected growth/decline in actual Enrollment and Average Daily Attendance (ADA)
- Revenues (including increases/decreases since the adopted budget)
- Expenditures (including increases/decreases since the adopted budget)
- General Fund obligations for debt repayment (e.g., Certificates of Participation [COPs])
- Anticipated cash shortages, including impact of deferrals and plan to address
- Any new or anticipated Tax and Revenue Anticipation Notes (TRANs) (including the amount and dates of repayment)
- Any deficit spending, including any plan to address
- Reserve for Economic Uncertainties (REU) including plans to address any shortfall
- Use of Education Protection Account (EPA) Funds (see EPA FAQs)
- Status of K-3 Class Size of 24:1; Expanded TK; executed collective bargaining agreement or MOU which exempts district from requirement
- Board resolutions including inter-fund borrowing, County Treasurer borrowing, Changes in ending fund balances (including increases/decreases since the adopted budget); Committed Funds (including exceeding the 10 percent reserve cap)
- Status of negotiations (settled, not settled, me too provisions, impasse, fact-finding)
- Information regarding the status of all other funds (e.g., deferred maintenance and contribution to Routine Restricted Maintenance Account (RRMA); Funds received; Use of one-time Funds (Federal, State or Local) received

LOS ANGELES COUNTY OFFICE OF EDUCATION
Business Advisory Services

Documents Required to be Filed with the County Office

All districts, including Regional Occupational Centers/Programs (ROC/Ps) and Joint Powers Authorities (JPAs), must submit **one complete Interim Report package** electronically to their designated Business Advisory Services (BAS) Business Services Consultant and to the BAS intake team at lacoe_sacs@lacoe.edu, plus promote the Second Interim Report to "First Level LEA Review" in the web-based Standardized Account Code Structure (SACS) system. The Interim Report package should comprise an original set of the documents listed as follows.

- All LEAs, must:
  - LEAs may promote the SACS file to "First Level LEA Review" in the system as soon as they are confident the submission is complete; Board approval may follow this step.
  - Submit **one complete Interim Report package** electronically to their designated BSC and to the BAS intake team at lacoe_sacs@lacoe.edu.

- The Interim Report package comprises an electronic set of documents listed as follows:
  - Forms submitted via SACS reporting
    - The Board and the superintendent's/administrator's **signed certification of the Interim Report (**Form CI).
    - Interim Report (Form 01I).
    - In addition to the General Fund report, complete in the SACS web system **any other fund** that was requested in our budget or unaudited actual review letters, sent to Board President, Superintendent and Chief Business Official, for any fund projected to end FY 2025-26, FY 2026-27 or FY 2027-28 with a negative fund balance. If you require a copy of a previous budget, interim or unaudited actual letter, please contact your assigned BSC.
    - The Average Daily Attendance (ADA) form (Form AI), and ADA projections for FY 2025-26 and FY 2026-27.
    - Cash flow projections (Form CASH) for FY 2025-26 and FY 2026-27, which includes anticipated accruals that will be set up at the end of the current fiscal year. Districts utilizing inter-fund borrowing must submit cash flows for each fund it is borrowing from, to substantiate that cash will be available to meet anticipated expenditures in those funds.
    - Multi-Year Projections (Form MYP) -- Financial projections of the restricted, unrestricted, and the combined General Fund, for FY 2025-26, FY 2026-27, and FY 2027-28, which serve as the basis for the district's Interim Report certification in the SACS State software.

    - The Criteria and Standards Review (Form 01CSI), which now comprises these sections: Criteria and Standards, Supplemental Information, and Additional Fiscal Indicators. Please thoroughly complete the form and provide sufficient explanations when required, (i.e., "not met").

  - Non-SACS Forms/ Documents that must be submitted
    - District LCFF Calculator aligning with revenue projections. We are requesting districts utilize the FCMAT LCFF Calculator for their Second Interim submission and use current Version (26.2), which can be found at: https://www.fcmat.org/lcff.
    - Written discussions, narratives, and planning assumptions, including supporting quantitative data and any relevant Board documents that explains the financial projections for FY 2025-26, FY 2026-27 and FY 2027-28.
    - Supporting documentation and summaries for any outstanding prior year Budget Revision and Audit Adjustments reflected in the Adopted Budget or 45 Day Revise Budget, and representing changes to the Board approved FY 2025-26 Budget (Column B).
    - Additional reports and supporting documentation, as applicable, required resolving any concerns and issues raised by the County Office in the FY 2025-26 budget approval or FY 2024-25 Unaudited Actuals certification letters.

The governing board's certification and the accompanying three years of financial information (e.g., the complete Interim Report package listed above) must be submitted to the County Office within 45 days after the close of the reporting period, as shown below for 2025-26:

	Closing date[i]	Filed on or before [2]
First Interim	October 31, 2025	December 15, 2025
Second Interim	January 31, 2026	March 16, 2026
Financial Statement[2]	April 30, 2026	June 3, 2026

The Interim Report Form

Data for each of the Interim Report columns (original budget, Board approved budget, actuals to date, and projected year totals) must be imported into the SACS software (or the User Data Input/Review screen in the software). ***Note: Only changes to imported projected year totals data will be allowed in the User Data Input/Review screen.*** Changes to imported data other than projected year totals will need to be made in the district's general ledger.

Column A – The Original Budget

This is the adopted budget approved by the Los Angeles County Superintendent of Schools (County Superintendent) and should be frozen in the BEST accounting systems. Districts with initial budget disapproval must import the Revised Budget approved by the County Superintendent.

Column B – Board Approved Operating Budget

For the First Interim Report, this is the district's current budget as of October 31, 2025. For the Second Interim Report, it is the district's current budget as of January 31, 2026. Please submit original Budget Summary Revisions or copies of these revisions with the Interim Report. For the End of Year Financial Projection (Third Interim), the district's current budget is as of April 30, 2026.

Column C – Actuals to Date

For the First Interim Report, this is actual revenues and expenditures as reported in the BEST accounting systems for October 31, 2025. For the Second Interim Report, use the runs dated January 31, 2026. **Do not use data from runs prior to or after the January 31, 2026, cutoff date.** For the End of Year Financial Projection (Third Interim), use the runs dated April 30, 2026.

Column D – Projected Year Totals

This is the district's most current estimate of year end Unaudited Actuals for 2025-26. While this data is initially imported into the software, districts can manually make changes to the totals data in the User Data Input/Review screen.

Column E – Difference

This column calculates the difference between Columns B and D.

Column F – Percent Difference

This column represents the differences calculated in Column E as a percentage.

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[i]If the statutory due date occurs on a Saturday, Sunday, or holiday, the reporting due date shall be on the following workday.

[2]Pursuant to EC Section 42131(e), any district that files a qualified or negative certification for the Second Interim, or whose certification is classified as qualified or negative by the County Superintendent of Schools (County Superintendent), must submit to the County Superintendent, the State Controller, and the CDE, no later than June 1, a financial statement that projects the fund and cash balances of the district as of June 30, for the period ending April 30.

LOS ANGELES COUNTY OFFICE OF EDUCATION
Business Advisory Services

Responsibilities of Authorizing Agencies for their Charter Schools

Authorizing districts are required by Education Code (EC) Section 47604.32, to ensure each charter school under its authority complies with all reports required by law of charter schools, and to monitor the fiscal solvency of that charter school. Furthermore, EC Section 47604(c) specifies that failure to comply with all oversight responsibility could result in a district losing its protection against liability for any nonprofit public benefit corporation charter school that the district has authorized.

It is critical charter schools' budgets and interim reports contain sufficient fiscal information to enable their authorizing districts to perform adequate review and analysis of the report as part of their fiscal oversight responsibilities. Although the California Department of Education (CDE) does not prescribe any format for budgets or interim reports, the Standardized Account Code Structure (SACS) software contains reports that may be used by charter schools. If the SACS software budget forms are not used, the format should be similar in format and content to district budgets. Authorizing districts are urged to collect supporting data, in addition to the budget, from their charter school similar to what districts submit to the Los Angeles County Office of Education (County Office), including detailed assumptions and multiyear projections.

Authorizing districts must include a copy of each of their charter school's interim reports with the district interim report submitted to the County Office. School district budgets must continue to include the following charter school-related data:

- **Average Daily Attendance (ADA) (Form A) –** Use the section at the end of Form A to separately account for total district charter school ADA. Please do not include charter school ADA in the K-12 ADA portion of this form.
- **Impact on Declining Enrollment Districts –** Declining enrollment districts must consider the effect of the movement of district ADA to district authorized charter schools. ADA for students who attended a district non-charter the previous year and who now attend a district authorized charter is deducted from prior year ADA for purposes of calculating declining enrollment ADA.
- **In lieu of Property Tax Transfer –** Districts must reflect the In lieu of Property Tax Transfer transactions appropriately.

FINANCIAL DATA REQUIRED OF CHARTER SCHOOLS

Charter schools are required by EC Section 47604.33, to submit the following fiscal reports to their authorizing agency and to the county superintendent of schools:

Report	Due Date (to authorizing agency and county superintendent)
Budget/LCAP	On or before July 1
First Interim	On or before December 15 (reflecting changes through October 31)
Second Interim	On or before March 16 (reflecting changes through January 31)
Unaudited Actuals	On or before September 15

LOS ANGELES COUNTY OFFICE OF EDUCATION
Business Advisory Services

Accessing Data in BEST Financial System for the Second Interim Reports
BEST Closing and Schedule of Reports

The timelines for closing the month of January and obtaining reports from the BEST Advantage System – Financial (FIN):

Preliminary closing date	January 31, 2026
Preliminary Report available online	After February 1, 2026
Last district input date for HRS Errors, Journal Error corrections for January 2026: • Interface Districts • Online Districts	 February 19, 2026 February 19, 2026
Month-end close for January	February 20, 2026

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Attachment No. 6 to:
Informational Bulletin No. 7099