



May 14, 2025

Dear Colleagues,

The Governor's May Revision of the 2025-26 California State Budget provides important updates affecting education, with particularly notable changes to **Proposition 98 allocations and California Community Colleges (CCCs)**. Below is a comprehensive and easy-to-follow summary, including **multi-year implications for Cerritos College**.

State Budget Overview

California faces a **\$12 billion deficit** for 2025-26. This is driven by:

- A **slowing economy** influenced by federal tariffs and reduced consumer activity,
- A drop in **personal income tax revenues** tied to lower capital gains and equity compensation,
- Rising **Medi-Cal costs** that are crowding out discretionary state spending.

To address the shortfall, the budget relies on:

- Spending reductions,
- Payment deferrals,
- Strategic use of emergency reserves,
- And a rollback or delay of previously funded initiatives.

Proposition 98 Overview – What It Is and Where It Stands

Proposition 98 ensures a guaranteed level of funding for **TK-12 schools and community colleges**, typically about **40% of the state's General Fund**. The guarantee amount is based on formulas tied to state revenue, inflation, and school attendance.

Prop 98 Funding Levels:

| Fiscal Year | January Proposal | May Revision | Change |
|-------------|------------------|--------------|----------|
| 2024-25 | \$122.3 billion | \$118.9B | – \$3.4B |
| 2025-26 | \$115.8 billion | \$114.6B | – \$1.2B |

Explanation: These reductions reflect weaker-than-expected state revenues. Although the Prop 98 totals remain historically high, **they are lower than what was forecasted earlier in the year**, requiring the state to **tap reserves** and **delay payments** to meet the guarantee.

Use of the Prop 98 Rainy Day Fund (PSSSA)

To prevent deeper cuts to education, the state is drawing heavily on the **Public School System Stabilization Account (PSSSA)**—the Prop 98 Rainy Day Fund.

| Fiscal Year | Withdrawal | Purpose | Remaining Balance |
|-------------|---------------|---|--------------------------|
| 2023-24 | \$8.4 billion | To meet the Prop 98 minimum funding level amid revenue shortfalls | ↓ from ~\$14.4B to ~\$6B |
| 2025-26 | \$540 million | Further support to avoid midyear cuts | ↓ to ~\$5.4B |

Implications:

- These are the largest draws in the fund's history.
- While they stabilize funding now, they **significantly reduce the state's flexibility** to protect schools and colleges in future downturns.

Community College Funding – Key Changes

The **Student Centered Funding Formula (SCFF)** remains in place and funds CCCs based on enrollment, student demographics, and outcomes.

Increases:

- **\$210.2 million** to fully fund SCFF base in 2024-25.
- **\$104.7 million** to sustain it in 2025-26.
- **\$109.5 million** for 2.35% enrollment growth.
- A **2.3% COLA** (reduced from 2.43%).

Reductions and Deferrals:

- **\$531.6 million in deferrals** from June 2026 to July 2026.
- **\$59 million drawn from the PSSSA** to cover CCC costs in 2025-26.

Major program cuts or scale-backs, including:

| Program | Original | Revised |
|---------------------------|----------------------|--------------|
| Collaborative ERP | \$168M | Eliminated |
| Common Cloud Platform | \$162.5M | \$12M |
| Rising Scholars | \$30M ongoing | \$10M |
| Credit for Prior Learning | \$50M + \$7M ongoing | \$15M + \$5M |
| Career Passport | \$50M | \$25M |

Key Shift: TK Expansion Reallocation

Previously, community colleges received a share (10.93%) of Proposition 98 funds allocated for **Transitional Kindergarten (TK) expansion**.

In 2025-26:

- The state is **redirecting 100% of TK expansion funds to TK-12 schools**.
- CCCs lose **\$492.4 million over three years** as a result.

Impact: This significantly reduces the amount of Prop 98 growth funding available to the CCC system overall, including Cerritos College.

Implications for Cerritos College**Challenges:**

- **Systemwide funding pressure** from the TK reallocation.
- **Cash flow strain** due to SCFF deferrals.
- **Limited access to innovation grants and infrastructure funds**.
- **COLA increase below inflation** creates structural cost pressures.

Opportunities:

- **Enrollment growth is funded**—strong FTES growth could yield new resources.
- Continued reward for **student success outcomes** via SCFF metrics.
- Local innovation and grant strategies can help offset state reductions.

Multi-Year Outlook

| Year | Key Budget Pressure | Cerritos College Impact |
|---------|------------------------------------|--|
| 2025-26 | SCFF fully funded, major deferral | Stable operations, needs cash management |
| 2026-27 | Deferred payments arrive | Planning must adjust for timing of funds |
| 2027-28 | If Prop 98 Rainy Day Fund depleted | Increased risk of midyear cuts |
| 2028-29 | Growing state budget gap | Limited Prop 98 growth potential, cost constraints |

Final Thoughts

While the state is maintaining its education commitment through Proposition 98, **community colleges are bearing a disproportionate share of the tradeoffs**—particularly through the TK funding reallocation, payment deferrals, and program eliminations. We need to remain strategically **focused on enrollment, student outcomes, and fiscal stewardship** while preparing for a more constrained funding environment in the next budget cycle.

Please let me know if you have any questions,

Jose

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