



2024-25 Preliminary Budget

June 5, 2024





OPTIMIZED FINANCIAL RESOURCES

A critical measure of the Department's performance is the effectiveness with which it utilizes and generates resources. Our goal is to ensure that all fiscal and capital resources maximize educational opportunities for students

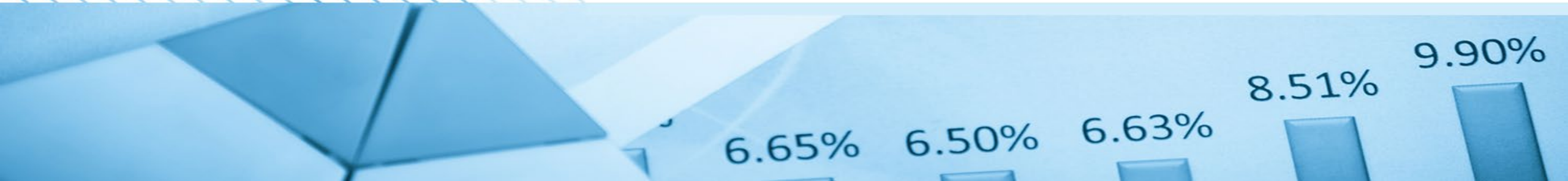


Topics of Discussion

- State Fiscal Outlook
- Governor's 2024-25 May Revision
- Preliminary Budget for 2024-25
- Budget Challenges
- Next Steps



State Fiscal Outlook



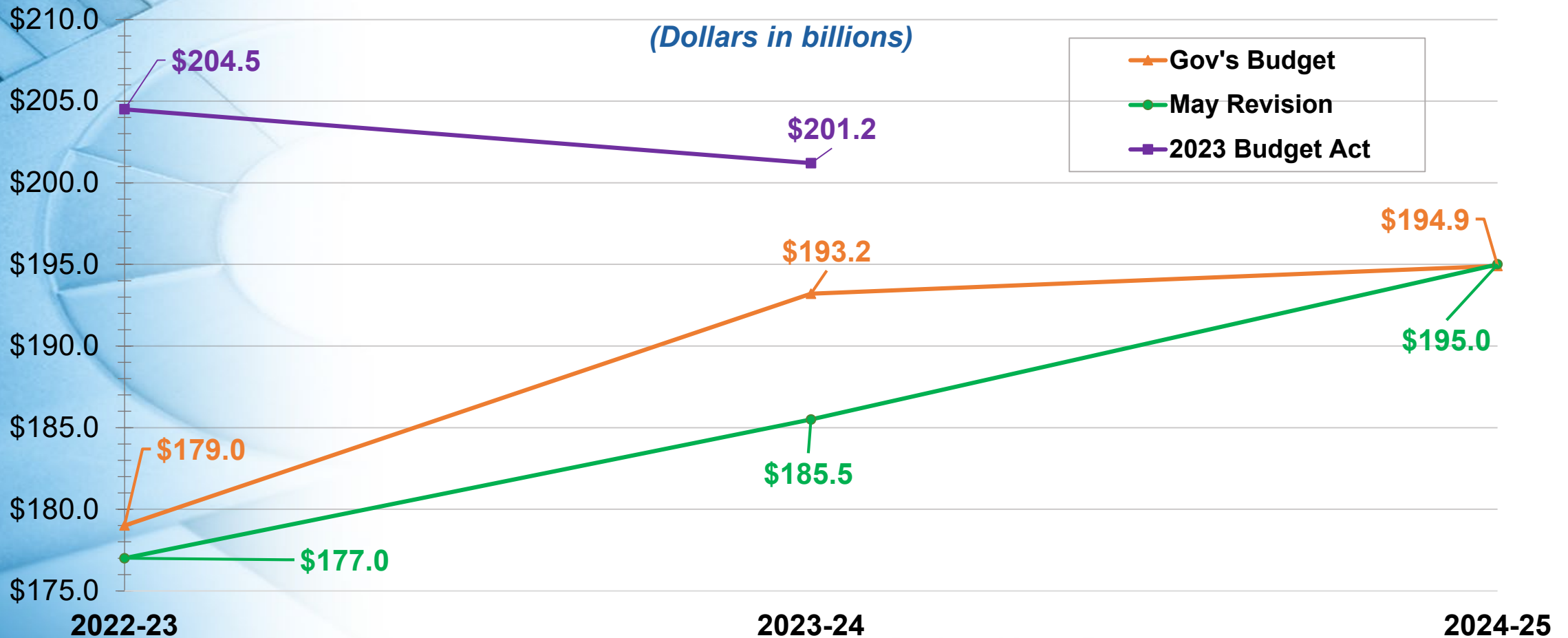


State Fiscal Outlook

- Big-three state tax revenues are down approximately **\$10.5 billion** over the three-year budget window, when compared to the Governor's January Budget
- In January, the Governor had forecast a **\$37.9 billion** budget shortfall for 2024-25, due largely to 2022-23 tax collections coming in \$26 billion below the State's budget assumptions. At May Revision, the Governor estimates the shortfall has grown an additional **\$7 billion**
- Due to early action on the state budget, the Governor and Legislature identified **\$17.3 billion** in budget solutions, which reduces the total shortfall next year to approximately **\$27.6 billion**
- Large budget deficits usually happen when a period of economic growth is followed by a recession, but that is not what is happening now. We are feeling the effects of risky revenue assumptions used during state budget development

State General Fund Revenues

(Includes only revenues that affect the Proposition 98 Minimum Guarantee)



Risks to the State Budget

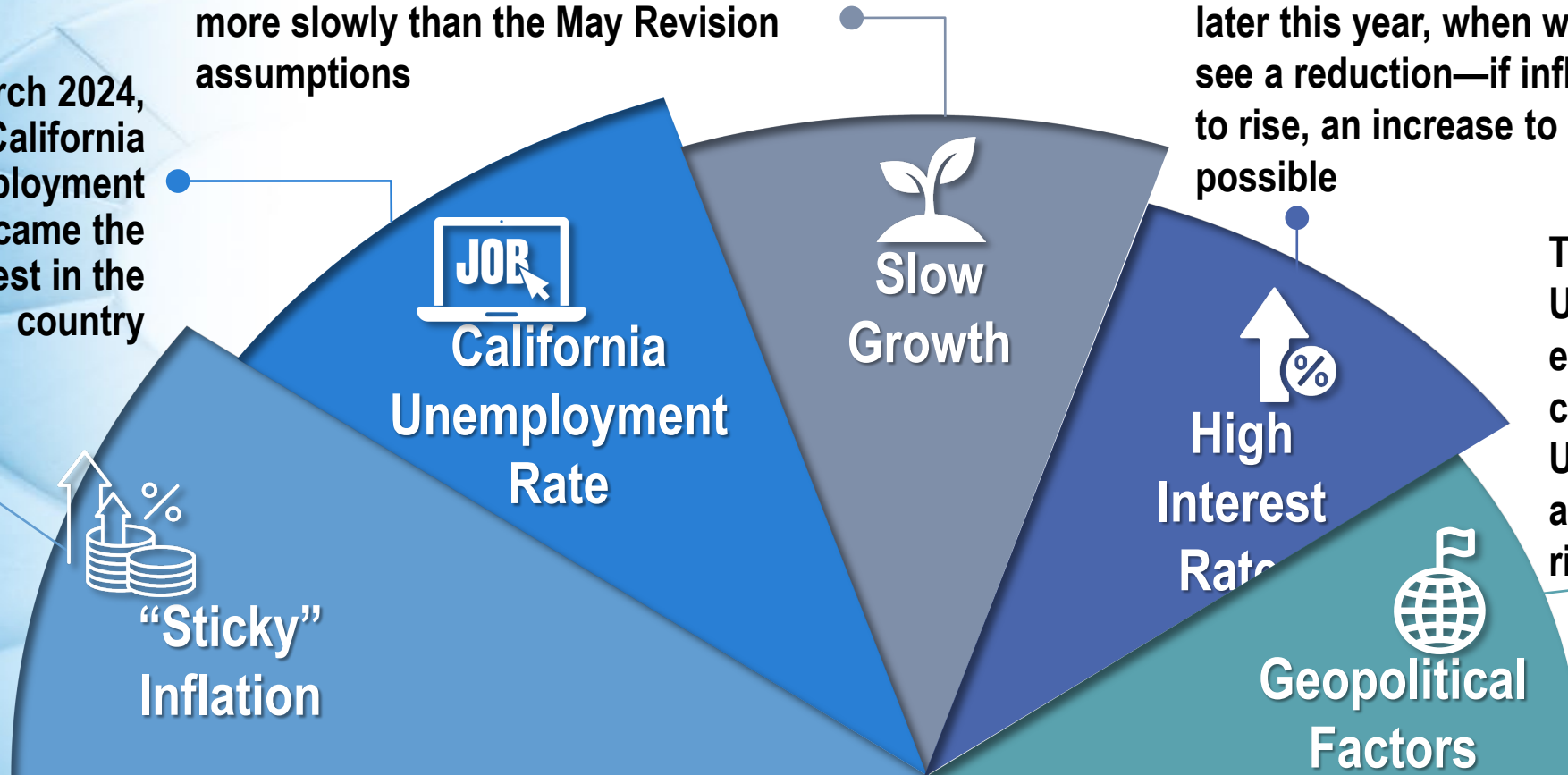
The state and national economies are in a slow growth pattern and may grow more slowly than the May Revision assumptions

Elevated rates curtail growth. The Fed rate is anticipated to hold steady until later this year, when we are hoping to see a reduction—if inflation continues to rise, an increase to rates is even possible

The Russia-Ukraine and middle east conflicts, cyber-attacks, and US/China relations all pose economic risks

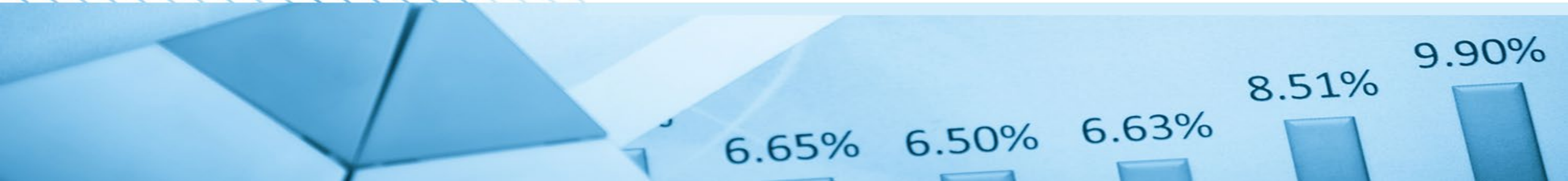
In March 2024, California unemployment became the highest in the country

Inflation is showing persistence





Governor's 2024-25 May Revision

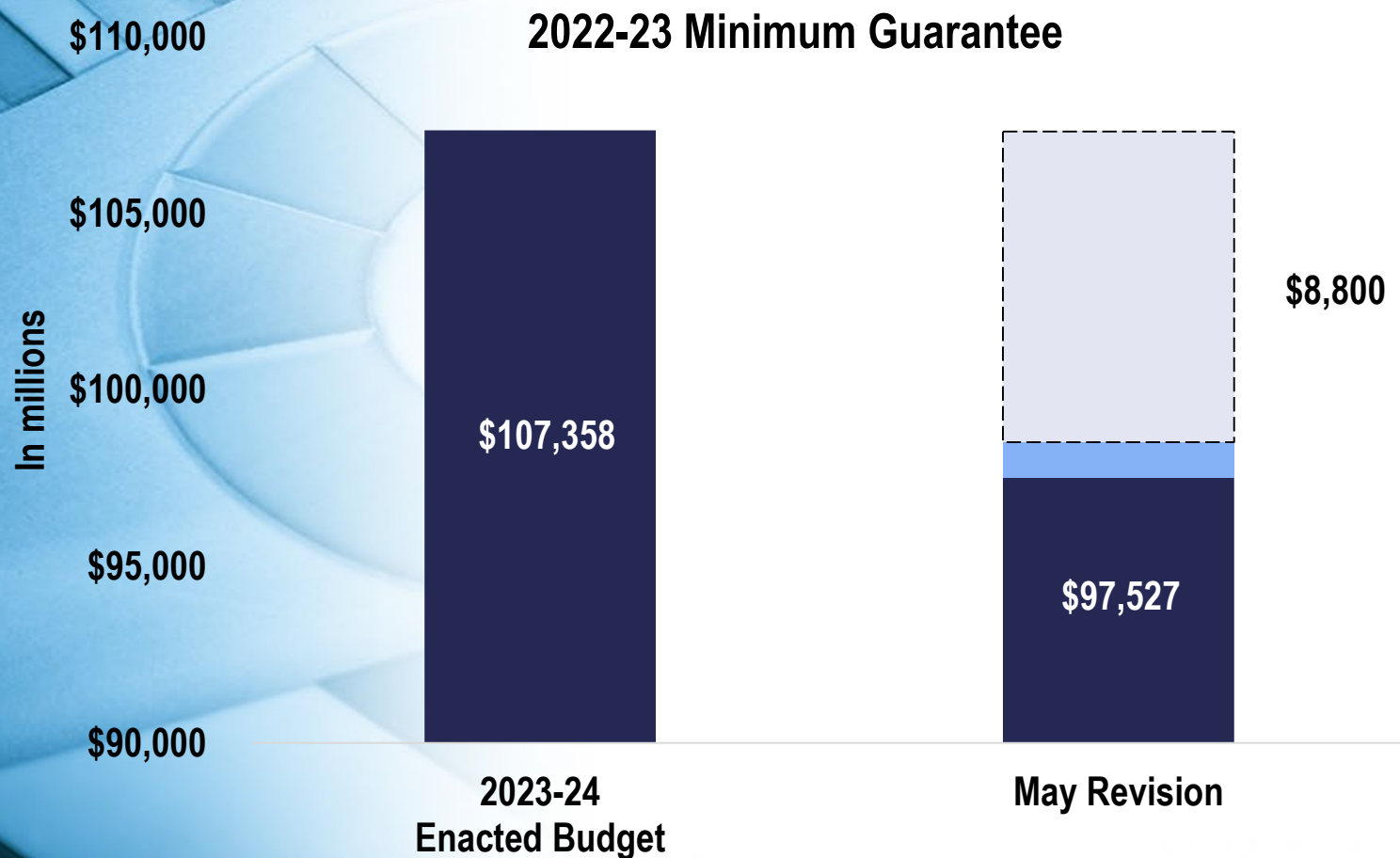




May Revision Highlights

- Despite the dramatic decline in state revenues over the past two years, and additional drop in the Prop. 98 Guarantee since January of **\$3.8 billion**, the Governor is proposing to protect, existing, ongoing K-14 programs and provide a **1.07%** Statutory COLA on LCFF funding and certain categorical programs
- Governor is proposing significant reductions to the non-Proposition 98 side of the state budget, particularly programs related to climate change, housing and homelessness, and some health and human services
- Proposition 98 spending is also reduced to the minimum over the budget period through what the LAO's office has termed the Proposition 98 Maneuver
- For schools, the 2022-23 Proposition 98 Maneuver is the biggest issue to be resolved and represents the largest reduction, **\$8.8 billion** to the Guarantee

The Governor's 2022-23 Prop. 98 Maneuver



- From January to May, the amount appropriated to LEAs in 2022-23 above the revised minimum guarantee increased by \$800 million, totaling \$8.8 billion
- State Budget resources in 2022-23 cannot absorb the overpayment to education
- The May Revision maintains the Governor's proposal to accrue the budget impact of the excess funding over five years, beginning in 2025-26 with annual payments of \$1.8 billion

Impact of the 2022-23 Maneuver

The estimated impact of *excluding* the \$8.8 billion in 2023-24 and 2024-25 is \$12 billion to \$14 billion total

—Maneuver —No Maneuver

2022-23

2023-24

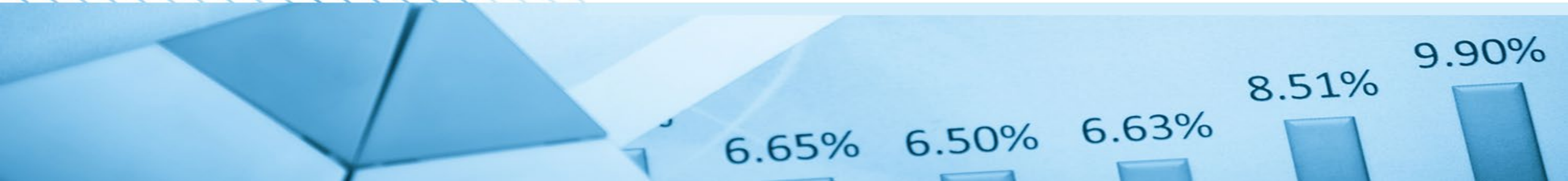
2024-25

Governor's January Budget Versus May Revision

Item	January Budget	May Revision
Proposition 98 Minimum Guarantee		
2022-23	\$ 98.3 billion	\$ 97.5 billion
2023-24	\$ 105.6 billion	\$ 102.6 billion
2024-25	\$ 109.1 billion	\$ 109.1 billion
2023-24 Statutory COLA	0.76 %	1.07 %
Proposition 98 Reserve (PSSSA)		
2023-24	\$ 3.04 billion	\$ 5.80 billion
2024-25	\$ 2.63 billion	\$ 2.60 billion
General Fund Reserves		
2024-25	\$ 13.1 billion	\$ 3.3 billion
2025-26	-	\$ 9.8 billion



Changes Since Second Interim



Key Changes Since Second Interim

COLA Percentages

	2023-24	2024-25	2025-26
Second Interim Statutory COLA	8.22 %	0.76 %	2.73 %
May Revision Statutory COLA	8.22 %	1.07 %	2.93 %

CalPERS Employer Rates

	2023-24	2024-25	2025-26
Second Interim	26.68 %	27.80 %	28.50 %
May Revision	26.68 %	27.05 %	27.60 %

Note, there are no changes to the CalSTRS Employer Contribution Rate Estimates, which are forecast to remain at 19.10 % over the three-year forecast period



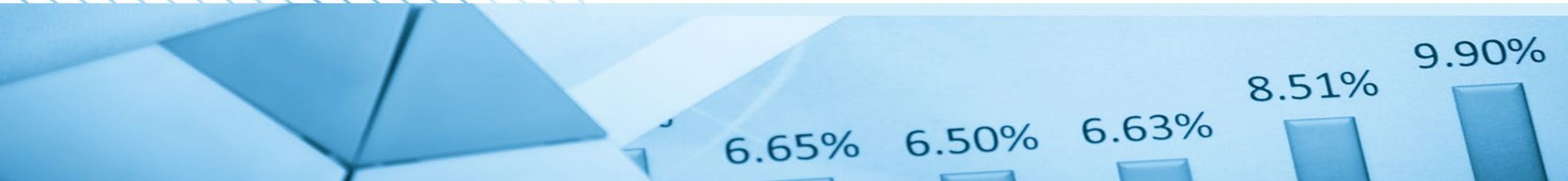
Key Changes Since Second Interim *(cont.)*

Average Daily Attendance (ADA) Estimates

	2023-24	2024-25	2025-26
Second Interim ADA	4,608	4,617	4,621
Preliminary Budget ADA	4,659	4,695	4,717
Estimated ADA Increase	51	78	96



2024-25 Budget Assumptions



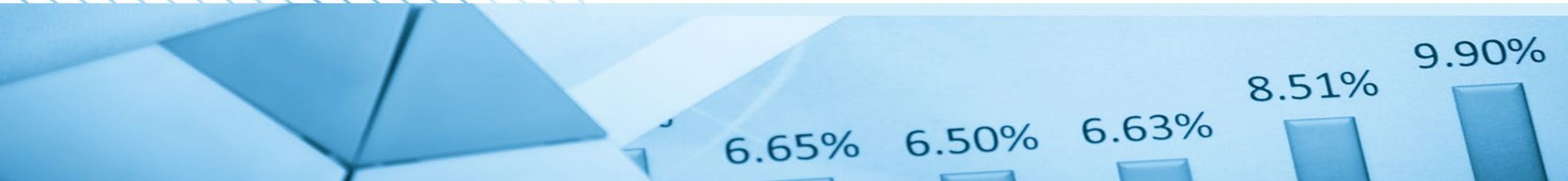


Multi-Year Projection (MYP) Assumptions

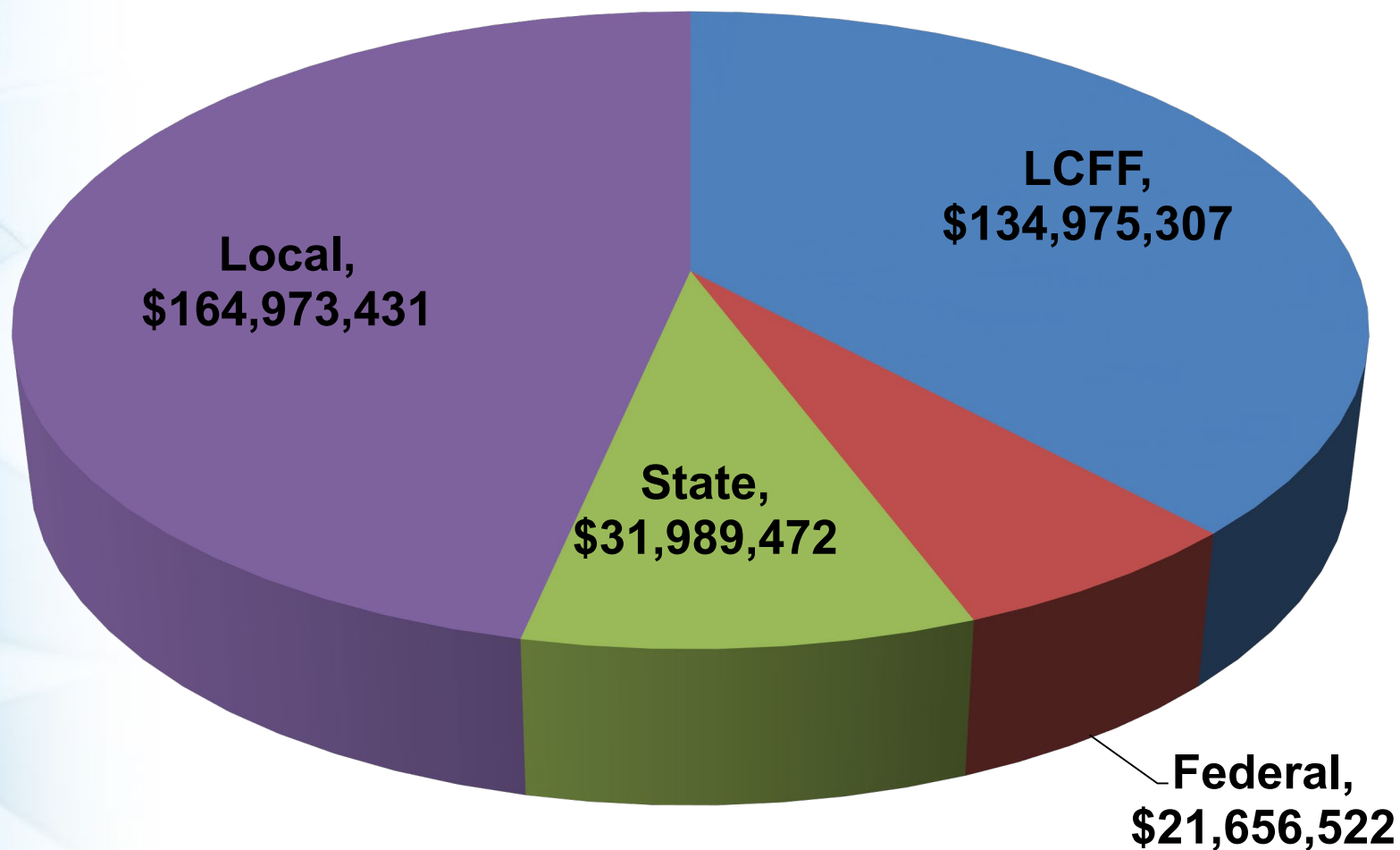
	2023-24	2024-25	2025-26
Salaries	Negotiations Completed (OCSEA & CSEA)	Pending Negotiations	Pending Negotiations
Statutory COLA	8.22%	1.07%	2.93%
Average Daily Attendance (ADA)	4,659	4,695	4,717
LCFF Revenue Projections	\$108,189,959	\$106,151,498	\$108,624,072
Tuition (ACCESS / Special Schools)	\$ 45,538,392	\$ 46,201,320	\$47,413,017



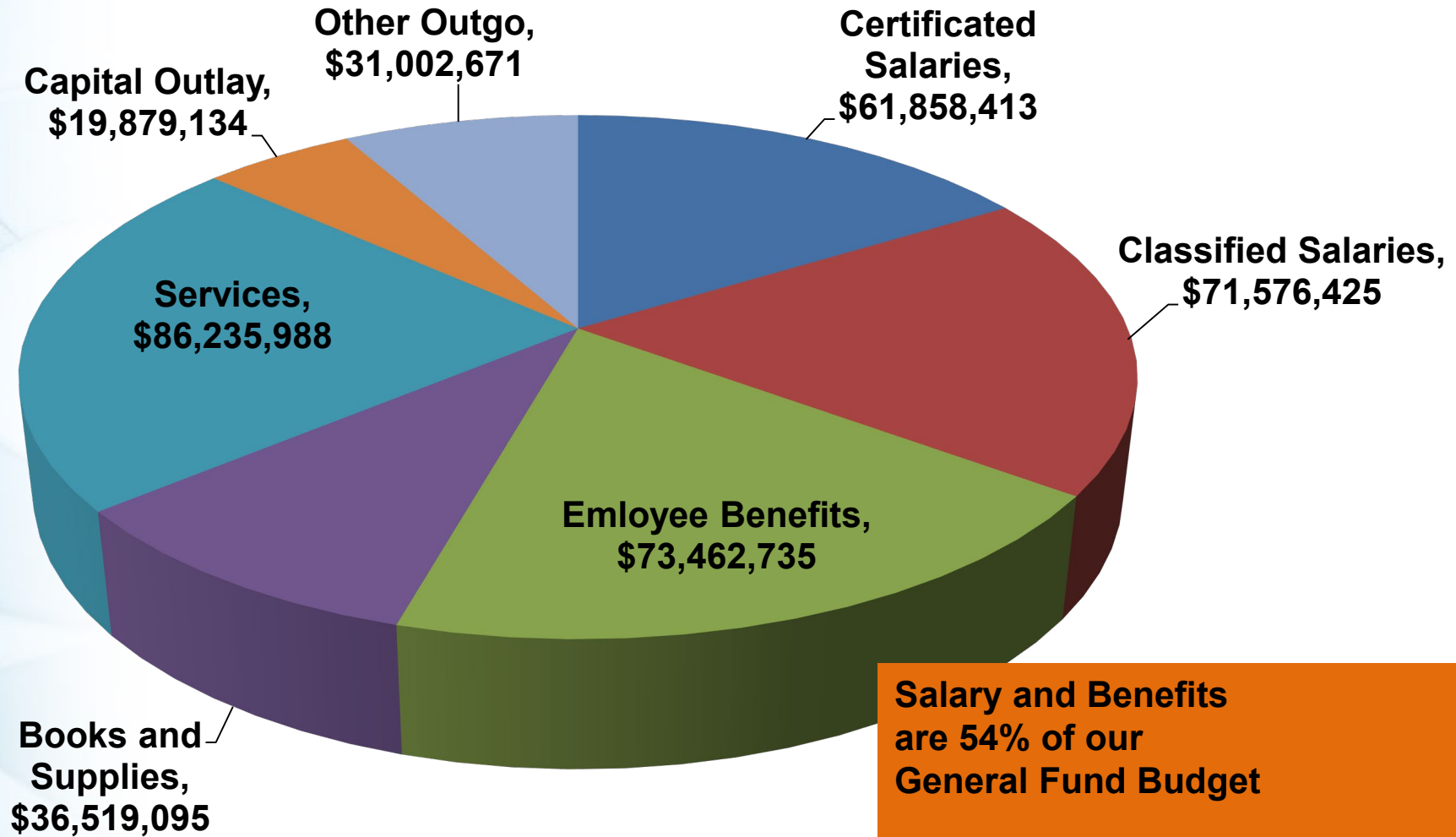
Revenue & Expenditure Summary Charts



2024-25 Revenue Projections

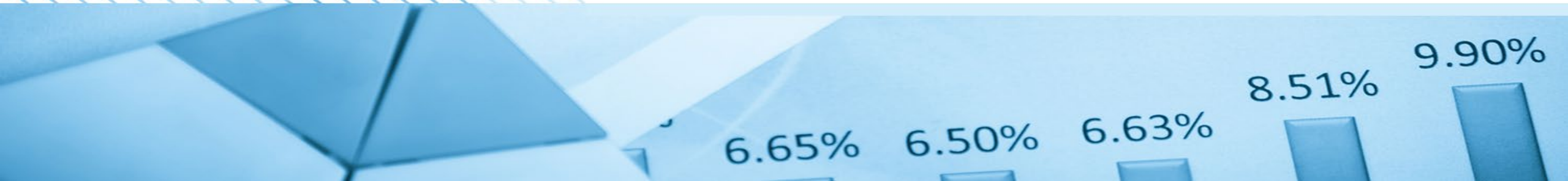


2024-25 Expenditure Projections





Multi-Year Projection (MYP)



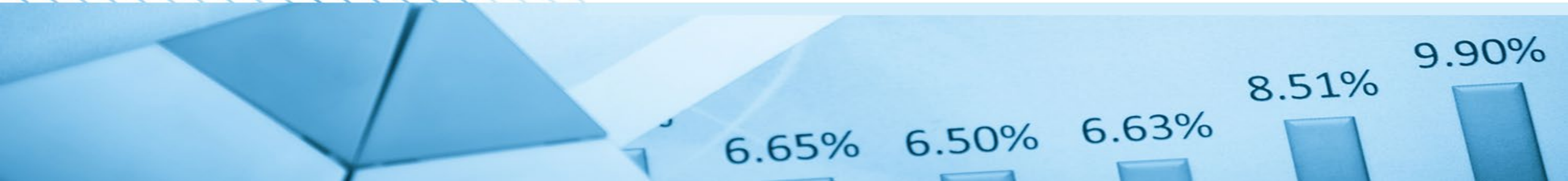


Multi-Year Projections (MYP) – Combined General Fund

	2023-24 Estimated	2024-25 Preliminary	2025-26 Projected	2026-27 Projected
Revenues, and Other Financing Sources	\$360,854,530	\$353,594,732	\$347,863,171	\$355,012,270
Expenditures, and Other Financing Uses	\$342,390,994	\$382,296,192	\$343,964,892	\$344,251,166
Surplus/(Deficit) - Revenues Minus Expenditures	\$18,463,536	(\$28,701,460)	\$3,898,279	\$10,761,104
Beginning Balance	\$376,091,981	\$394,555,517	\$365,854,057	\$369,752,336
Ending Balance	\$394,555,517	\$365,854,057	\$369,752,336	\$380,513,440



Budget Challenges



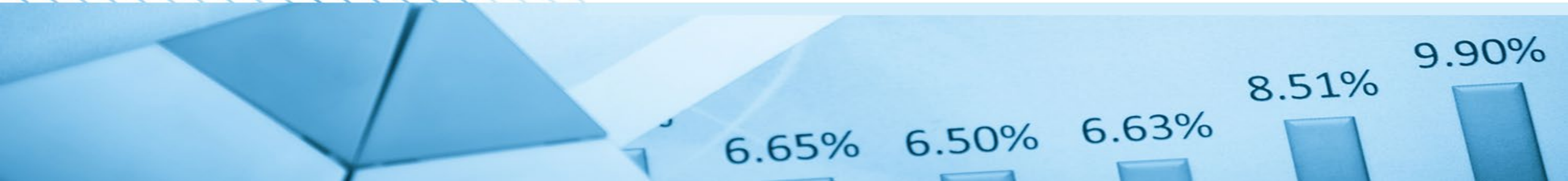


Challenges Ahead

- Costs for Step and Column, CalPERS and CalSTRS Pensions, and Health and Welfare Benefits Premiums Continue to Rise
- Inflationary Cost Pressures for Other Items Such as Supplies, Services and Equipment Remain Persistent
- Expiration of One-time Federal and State COVID-19 Relief Funding
- Minimum State Aid / Excess Tax Status
- Governor's 2022-23 Proposition 98 Maneuver



Budget Timeline



Budget Timeline

1

June 15, 2024 – Constitutional Deadline for Legislature to Pass the State Budget

2

June 18, 2024 – OCDE Adopted Budget Approval

3

June 30, 2024 - Governor Approves Final State Budget

4

Budget Revisions will be incorporated in OCDE's budget



QUESTIONS ?