

**2024-25
First Interim**

December 4, 2024

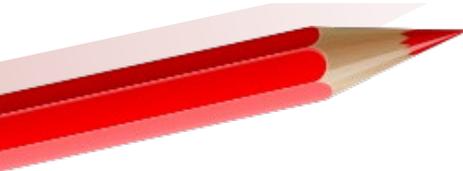


OPTIMIZED FINANCIAL RESOURCES

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

- LAO's Fiscal Outlook for K-12 Education
 - Changes Since Budget Adoption
 - First Interim Financial Report
 - First Interim Multi-Year Projection (MYP)
 - Budget Timeline and Next Steps
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Legislative Analysts Office (LAO) 2025-26 Annual Fiscal Outlook

- LAO is a non-partisan fiscal advisor to the Legislature
- Outlook is based on consensus economic forecasts from major U.S. institutions and professional economists
- Annual outlook provides assessment of economy and includes current and four subsequent years
 - ✓ Outlook covers 2024-25 through 2028-29
 - ✓ Provided to assist in development of 2024-25 State Budget
- The LAO has typically provided one “main” projection with several caveats, or warnings

Legislative Analysts Office (LAO)

2025-26 Annual Fiscal Outlook

Overall Economic Assessment:

- State economy has been in an extended slowdown for almost two years due to the soft labor market and weak consumer spending
 - ✓ Slowdown has been gradual and the severity milder than a recession
 - ✓ And yet, incomes are growing rapidly for high-income Californians
 - ✓ Booming stock market growth is driving income growth
 - ✓ Without broader economic improvements, recent income gains are on shaky ground
- Possible Path to a Broader Economic Recovery
 - ✓ A key driver of the State's recent economic slump has been the Federal Reserve's efforts to tamp down inflation by raising interest rates
 - ✓ Should inflation remain subdued and the Federal Reserve continue down its path of looser money, California's economy could improve

Legislative Analysts Office (LAO) 2025-26 Annual Fiscal Outlook

Revenues Exceed Budget Act Estimates by \$7 Billion:

- Collections data reflect stronger than anticipated revenue growth across 2023-24 and 2024-25, although the forecast for 2025-26 is mostly flat
 - ✓ Overall, revenue projections are up by about **\$7 billion** relative to the June 2024 Budget Act estimates
 - ✓ More than half of the total revenue increase is attributable to the current year, 2024-25
 - ✓ Proposition 98 Guarantee is revised up by **\$3 billion** for 2024-25 due to the higher revenue collections
 - ✓ Additionally, the required maintenance factor payment in 2024-25 increases by **\$761 million** due to faster year-over-year growth in state revenue

Legislative Analysts Office (LAO) 2025-26 Annual Fiscal Outlook

Ongoing Funds Available in 2025-26

Changes From 2024-25 Enacted Budget (In Billions)

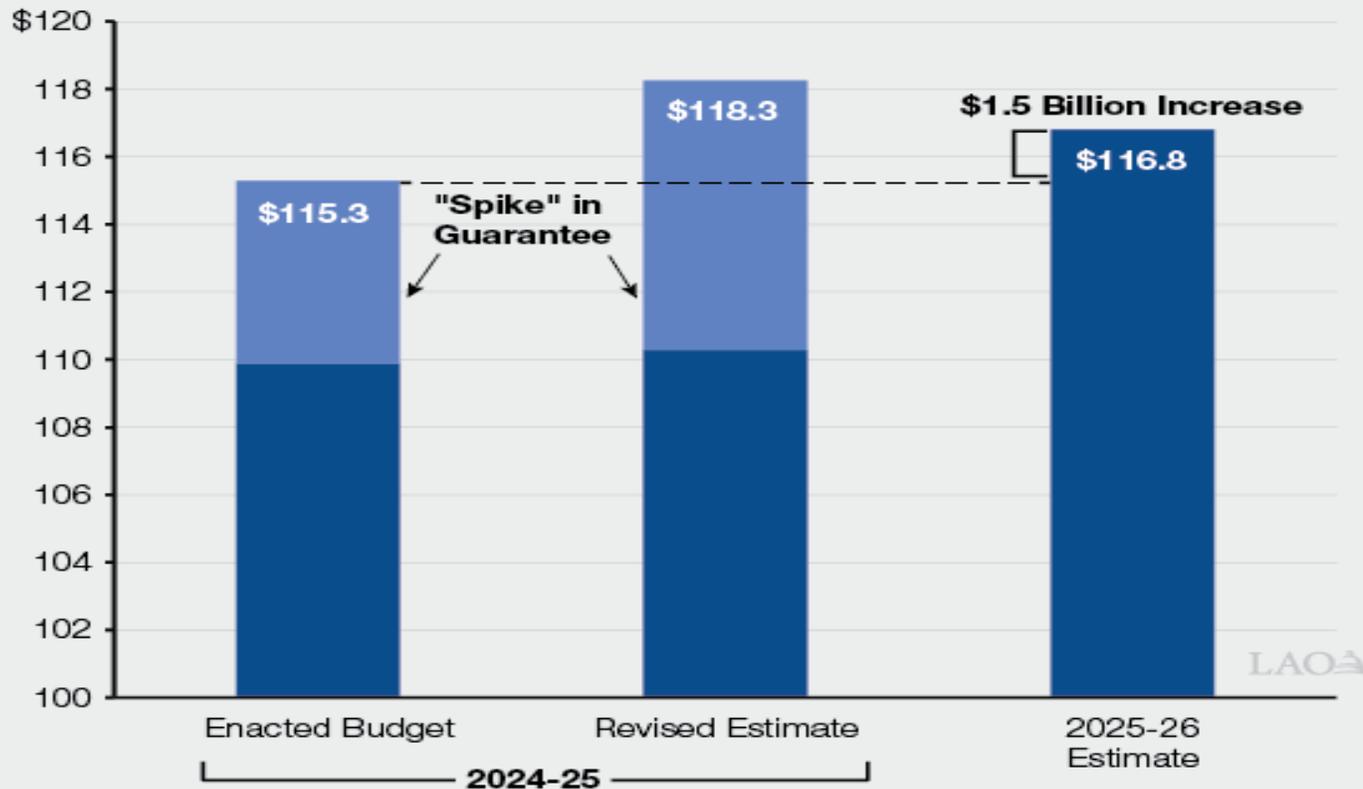


COLA = cost-of-living adjustment.

Legislative Analysts Office (LAO) 2025-26 Annual Fiscal Outlook

Figure 5

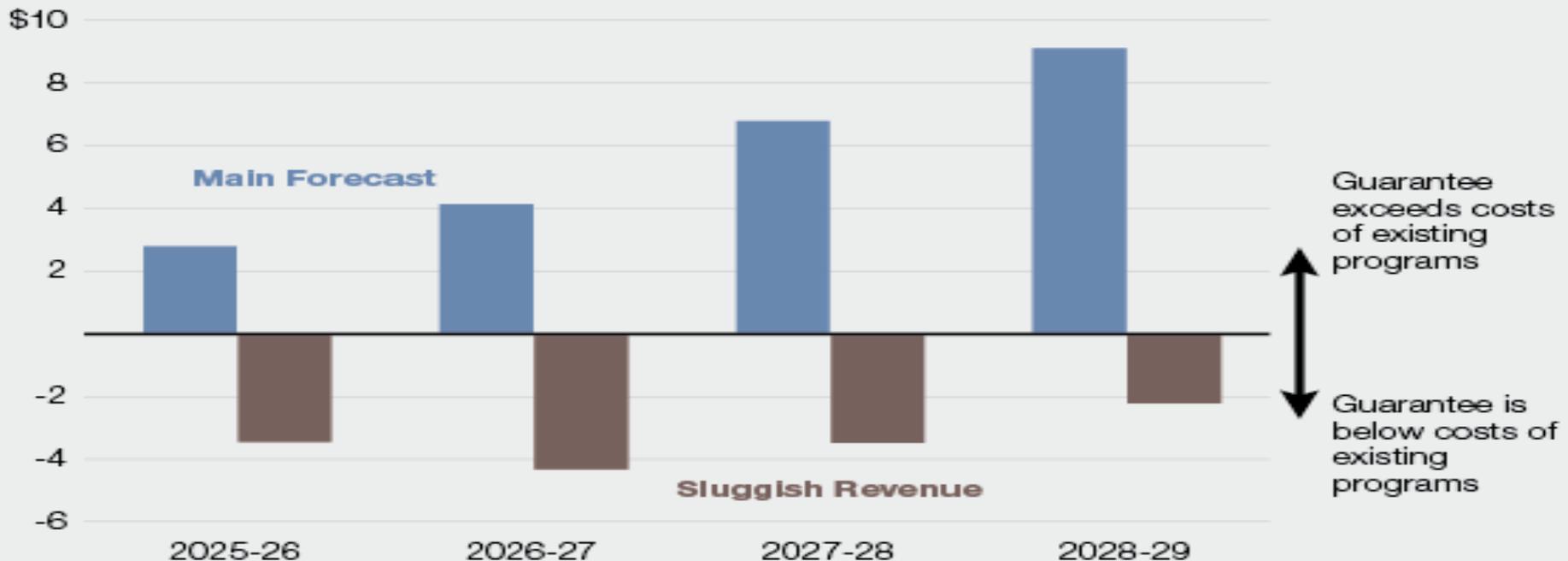
Proposition 98 Guarantee in 2025-26 Would Exceed Previous Budget Level (In Billions)



Legislative Analysts Office (LAO) 2025-26 Annual Fiscal Outlook

Figure 11

State Has Funding for New Commitments Under Main Forecast, Shortfalls if Revenue Grows Slowly (In Billions)



Legislative Analysts Office (LAO) 2025-26 Annual Fiscal Outlook

Figure 5

State Faces Growing Multiyear Deficits

(In Billions)



Key Changes Since Budget Adoption

- The Department of Health Care Services (DHCS) recently allocated funds to County Offices of Education (COEs) and LEAs for the School Linked Partnership and Capacity Program
 - ✓ OCDE will receive approximately **\$25 million** in one-time funding to support LEAs implementing the Children and Youth Behavioral Health Initiative (CYBHI)
 - ✓ The majority of funding will be passed-through to LEAs to support operational readiness needed to access to the behavioral health provider network, and utilize the fee schedule
- The 2023-24 Enacted State Budget included additional ongoing funding for COEs with Alternative Grant ADA to provide Student Support and Enrichment Opportunities
 - ✓ Guidance from CDE was issued in mid-June 2024 after budget development
 - ✓ COE's will receive **\$3,000 per Alternative Grant ADA** in ongoing funding to provide student support and enrichment opportunities
 - ✓ The funding is based on the higher of current year, prior year or the average of the three most recent prior years Alternative Grant ADA
 - ✓ OCDE anticipates receiving approximately **\$4.7 million** in ongoing funding

First Interim

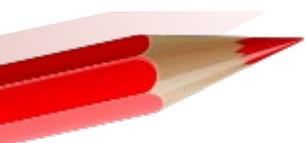


First Interim Report Purpose

- The First Interim Report represents the first official revision to the Department's 2024-25 Adopted Budget
- The First Interim Report includes actual financial information through October 31, 2024 and revised projections for the remainder of the fiscal year
- County offices of education are required to certify their financial condition twice during the fiscal year. This certification addresses the Department's ability to meet its financial obligations for the current year and two subsequent years

2023-24 State Budget ADA Provisions



- Beginning in 2023-24, County Office of Education (COE) LCFF Alternative Education funding is based on the sum of:
 - ✓ The greater of current year Average Daily Attendance (ADA),
 - ✓ prior year ADA, or
 - ✓ the average of the three most recent prior fiscal years ADA
 - ✓ This ADA calculation for COEs is consistent with the school district LCFF ADA calculation introduced with the 2022-23 Enacted State Budget
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First Interim Multi-Year Projection (MYP) Assumptions

	2024-25	2025-26	2026-27
Salaries	Negotiations Completed (OCSEA & CSEA)	Pending Negotiations	Pending Negotiations
Statutory COLA	1.07%	2.93%	3.08%
Average Daily Attendance (ADA)	4,385	4,324	4,268
LCFF Revenue Projections	\$103,657,988	\$103,186,058	\$103,868,114
Tuition (ACCESS / Special Schools)	\$46,088,359	\$47,298,863	\$48,608,621

Multi-Year Projections – Combined General Fund

	2024-25 First Interim	2025-26 Projected	2026-27 Projected
Revenues, and Other Financing Sources	\$381,443,241	\$367,397,372	\$375,204,689
Expenditures, and Other Financing Uses	\$402,771,646	\$362,767,749	\$356,127,651
Surplus/(Deficit) - Revenues Minus Expenditures	(\$21,328,405)	\$4,629,623	\$19,077,038
Beginning Balance	\$452,290,329	\$430,961,924	\$435,591,547
Ending Balance	\$430,961,924	\$435,591,547	\$454,668,585

2024-25 First Interim Certification Options

- **Positive Certification** *

Based on current projections, a school district **will be able** to meet its Financial obligations for the current and two subsequent fiscal years

- **Qualified Certification**

Based on current projections, a school district **may not** be able to meet its financial obligations for the current or two subsequent fiscal years

- **Negative Certification**

Based on current projections, a school district **will be unable** to meet its financial obligations for the remainder of the current year, or subsequent year

* *Staff recommends a **Positive Certification***

Budget Challenges



Local Control Funding Formula
State Policy Deliberation & Local Community Engagement

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

Budget Timeline and Next Steps



Next Steps

First Interim Report

Dec. 2024

Midyear LCAP Update

Feb. 2025

Second Interim Report

March 2025

Public Hearings: LCAP and Budget

Early June 2025

Adopt LCAP and Budget

Late June 2025

Develop LCAP



Thank You!

**Administrative Services
Department**