

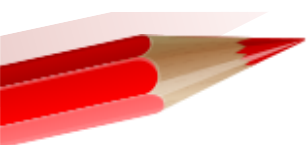


**2023-24
First Interim**

December 6, 2023



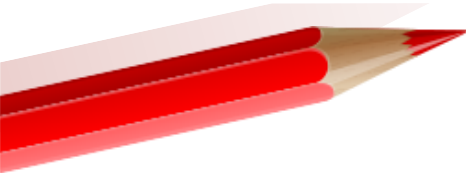
OPTIMIZED FINANCIAL RESOURCES



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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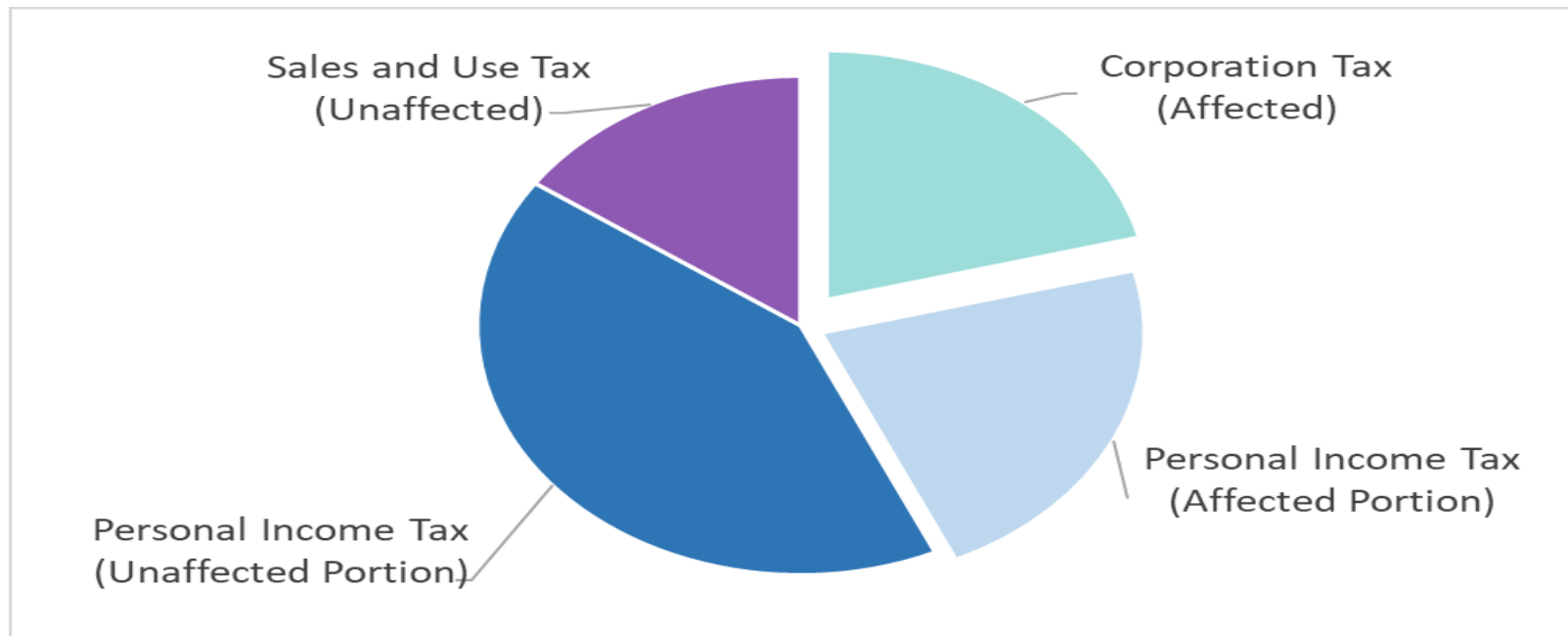
Legislative Analysts Office (LAO)

December 2023 Fiscal Update for K-12 Ed.

- 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 will cover 2023-24 through 2027-28
 - ✓ 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) December 2023 Fiscal Update for K-12 Ed.

- State receives most of its revenue from three main taxes, including personal income, sales & use, and corporate taxes
- Unfortunately, more than 40 percent of major tax revenue is affected by the November 16 tax extension



Legislative Analysts Office (LAO)

December 2023 Fiscal Update for K-12 Ed.

Overall Economic Assessment:

- State economy currently in mild downturn
 - ✓ Federal Reserve setting monetary policy to bring down inflation
 - ✓ Higher borrowing costs and reduced investment have cooled the state economy
 - ✓ Cooling trends are evident in a variety of economic indicators, including jobs data, consumer spending, and income tax withholdings
- Historically, economic conditions like the ones we observe now have implied weakness in the year ahead

Legislative Analysts Office (LAO)

December 2023 Fiscal Update for K-12 Ed.

Tax Data Impact on State Revenue Outlook:

- Data from delayed tax payments indicate the revenue picture is much weaker than the State anticipated in June
 - ✓ For the prior fiscal year (2022-23), state tax revenues appear to be about **\$26 billion** below the June estimates
 - ✓ LAO expects some of this weakness to continue:
 - Latest revenue estimates are **\$32 billion** lower across 2023-24 and 2024-25
 - Overall, revenues are tracking **\$58 billion** lower over the three years
- The economy is not significantly worse than anticipated in June, but the tax payment extension obscured how much the current weakness has affected State revenues

Legislative Analysts Office (LAO)

December 2023 Fiscal Update for K-12 Ed.

Proposition 98 Guarantee Linked to General Fund Revenue Estimates:

- The Proposition 98 Guarantee is expected to decrease nearly 40 cents for each dollar of lower General Fund revenue under Test 1
 - ✓ If the revenue reduction is **\$58 billion** over the three years, then a reasonable estimate of the reduction in the Guarantee would be approximately **\$22 billion**
 - ✓ Reductions are likely to affect the guarantee in the prior year, current year, and budget year

Legislative Analysts Office (LAO)

December 2023 Fiscal Update for K-12 Ed.

Key Issues for Upcoming State Budget Cycle:

- Addressing drops in current- and prior-year Guarantee
 - ✓ State likely to face key decision about whether to reduce spending down to lower guarantee or leave spending at enacted budget levels
 - ✓ Decision has implications for schools and the rest of the State budget
- Relative tight fiscal picture for schools likely in 2024-25
- Latest Statutory COLA estimate revised down to 1.27%
- Rest of the State budget Facing Large Deficit

Key Changes Since Budget Adoption

- The 2023-24 State Budget reduced the Arts, Music and Instructional Materials Discretionary funding by **\$200 million**, or approx. 6 percent, as compared to the \$1.8 billion reduction proposed under the May Revision
 - ✓ For OCDE, this translates into a reduction of roughly **\$98 thousand** as compared to a reduction of \$1.4 million proposed under the May Revision, or **\$2.7 million** in available funding
- The 2023-24 State Budget also reduced the Learning Recovery Emergency funding by **\$1.1 billion**, or approx. 14 percent, as compared to the \$2.5 billion reduction proposed under the May Revision
 - ✓ For OCDE, this translates into a reduction of roughly **\$900 thousand** as compared to a reduction of \$2.0 million proposed under the May Revision, or **\$5.4 million** in available funding

Key Changes Since Budget Adoption (*cont.*)

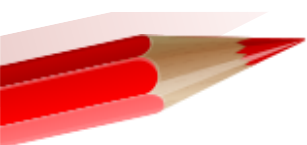
- Beginning in 2023-24, County Office of Education (COE) LCFF Alternative Education funding is based on the sum of:
 - ✓ The greater of current year Average Daily Attendance (ADA),
 - ✓ prior year ADA, or
 - ✓ the average of the three most recent prior fiscal years ADA
 - ✓ This ADA calculation for COEs is consistent with the school district LCFF ADA calculation introduced with the 2022-23 Enacted State Budget
- Based on current information provided by the LAO, the 2024-25 estimated COLA has been revised down from 3.94 % at Budget Adoption to 1.27 %

First Interim



First Interim Report Purpose



- The First Interim Report represents the first official revision to the Department's 2023-24 Adopted Budget
 - The First Interim Report includes actual financial information through October 31, 2023 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
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First Interim Multi-Year Projection (MYP) Assumptions

	2023-24	2024-25	2025-26
Salaries	Negotiations Completed (OCSEA & CSEA)	Pending Negotiations	Pending Negotiations
Statutory COLA	8.22%	1.27%	3.29%
Average Daily Attendance (ADA)	4,654	4,666	4,682
LCFF Revenue Projections	\$108,440,885	\$108,190,605	\$112,091,495
Tuition (ACCESS / Special Schools)	\$ 43,801,908	\$ 44,194,642	\$ 45,499,656

Multi-Year Projections – Combined General Fund

	2023-24 First Interim	2024-25 Projected	2025-26 Projected
Revenues, and Other Financing Sources	\$ 350,886,073	\$ 327,029,098	\$ 331,138,905
Expenditures, and Other Financing Uses	\$ 335,642,095	\$ 329,466,503	\$ 331,003,814
Surplus/(Deficit) - Revenues Minus Expenditures	\$ 15,243,978	(\$ 2,437,405)	\$ 135,091

2023-24 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

Budget



Next Steps

First Interim Report

Dec. 2023

Midyear LCAP Update

Feb. 2024

Second Interim Report

March 2024

Public Hearings: LCAP and Budget

Early June 2024

Adopt LCAP and Budget

Late June 2024





Thank You!

**Administrative Services
Department**