



March 6, 2024

2023-24 Second Interim Report





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

- Governor's January Budget Proposal
- Changes Since First Interim
- Second Interim Financial Report
- Budget Challenges
- Next Steps in the Budgeting Process



Governor's January Budget Proposal

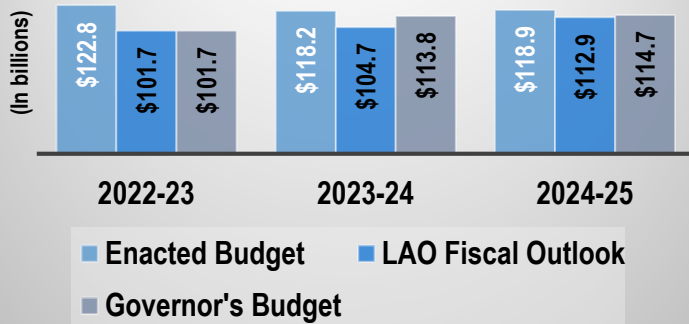


Governor's Budget Proposal

- Governor Newsom measures 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
- Budget deficit is significant, but the State is better prepared to weather a financial downturn due to record reserve levels
- The Governor's Budget proposal protects education against the local impact of a nearly \$12 billion reduction in Prop. 98
- Governor also attempts to maintain funding for existing, ongoing K-12 programs, but the .76% COLA is insufficient to cover actual cost increases
- The Governor's Budget uses more optimistic revenue assumptions than the LAO, which poses significant risks

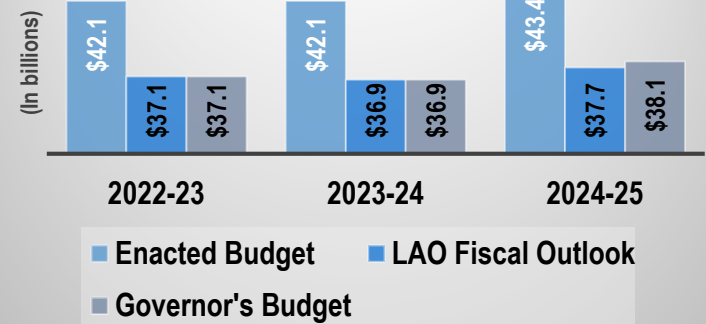
Big Three Taxes - Governor's Budget vs. LAO's Outlook

Personal Income Tax (PIT)

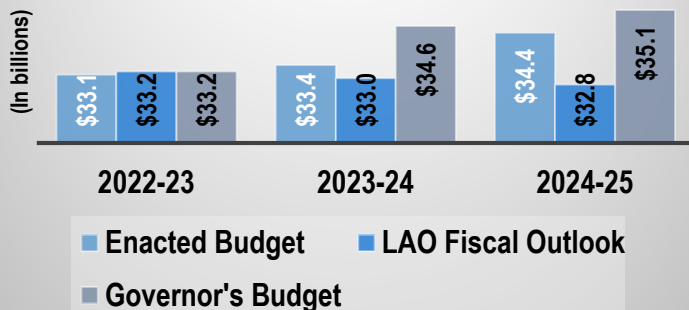


Personal income tax (PIT) and corporation tax revenue projections are significantly lower at Governor's Budget than Enacted Budget

Corporation Tax



Sales and Use Tax



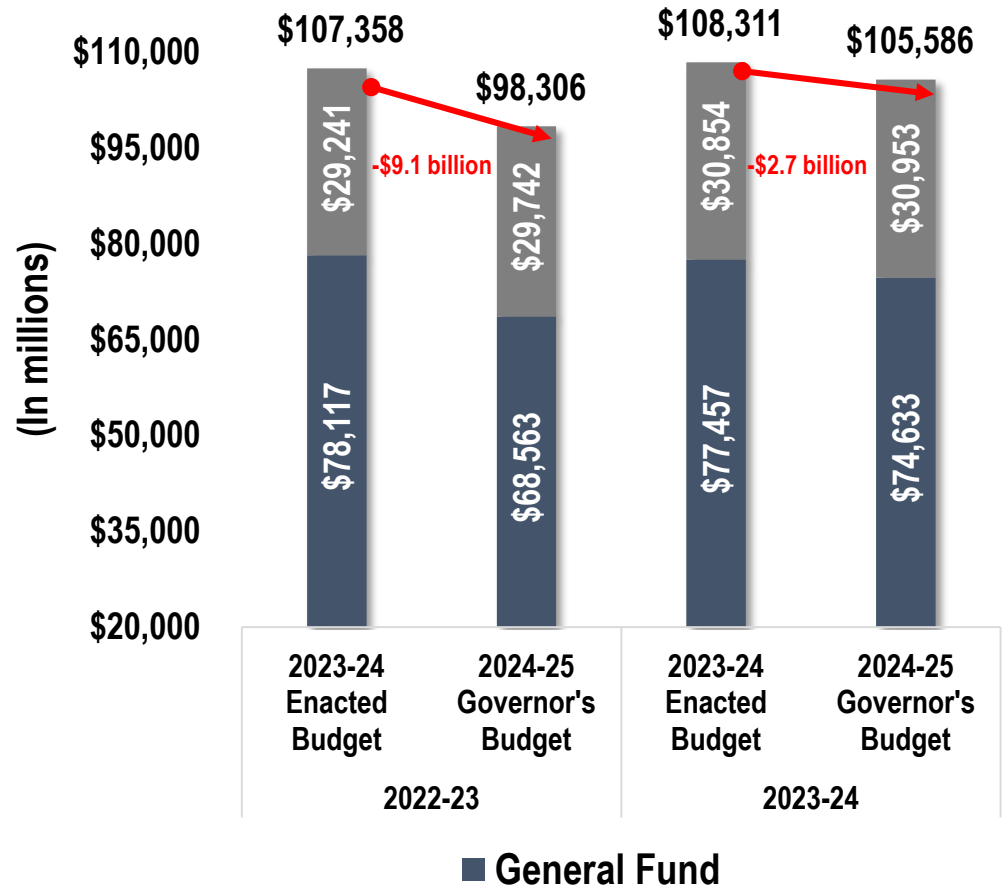
Compared to the LAO's *California's Fiscal Outlook (Outlook)*, the Governor's Budget projections for:

- PIT is \$9.1 billion and \$1.8 billion higher in 2023-24 and 2024-25, respectively
- Corporation tax is slightly higher by roughly \$400 million
- Sales and use tax is \$1.6 billion and \$2.3 billion higher in 2023-24 and 2024-25, respectively

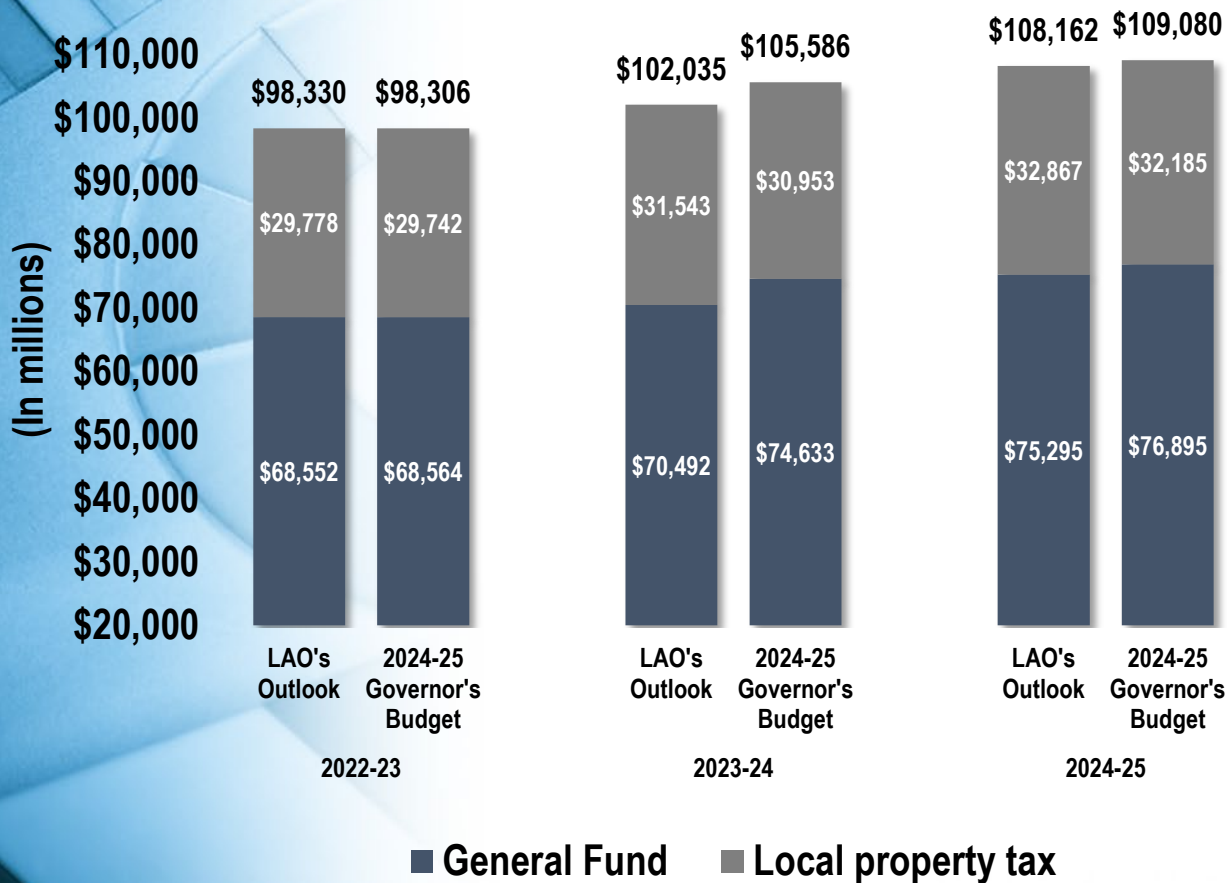
Source: 2024-25 Governor's Budget Summary & LAO's Outlook

Proposition 98 – 2022-23 and 2023-24

- The Governor’s Budget adjusts the prior- and current-year Proposition 98 levels from 2023-24 Enacted Budget levels
 - ✓ 2022-23: -8.4%
 - ✓ 2023-24: -2.5%
- The sole driver of the change is less-than-expected state General Fund revenues
 - ✓ Local property tax assumptions are relatively unchanged



Proposition 98 - Governor's Budget vs. LAO's Outlook



- There is a \$4.5 billion difference in the minimum guarantee between the LAO's *Outlook* and the Governor's Budget for the current and budget year
 - ✓ 2023-24: \$3.6 billion
 - ✓ 2024-25: \$0.9 billion
- The driver is a roughly \$15.2 billion difference in state General Fund revenue assumptions

What's Not in the Education Budget?



Proposition 98 Cuts

Despite the significant drop in the minimum guarantee from 2021-22 to 2022-23, the Governor's Budget proposes no cuts in overall Proposition 98 funding

Deferrals

Due to the Governor's Budget revenue assumptions and the Administration's treatment of the Proposition 98 minimum guarantee, there is no need for the state to defer payments to LEAs

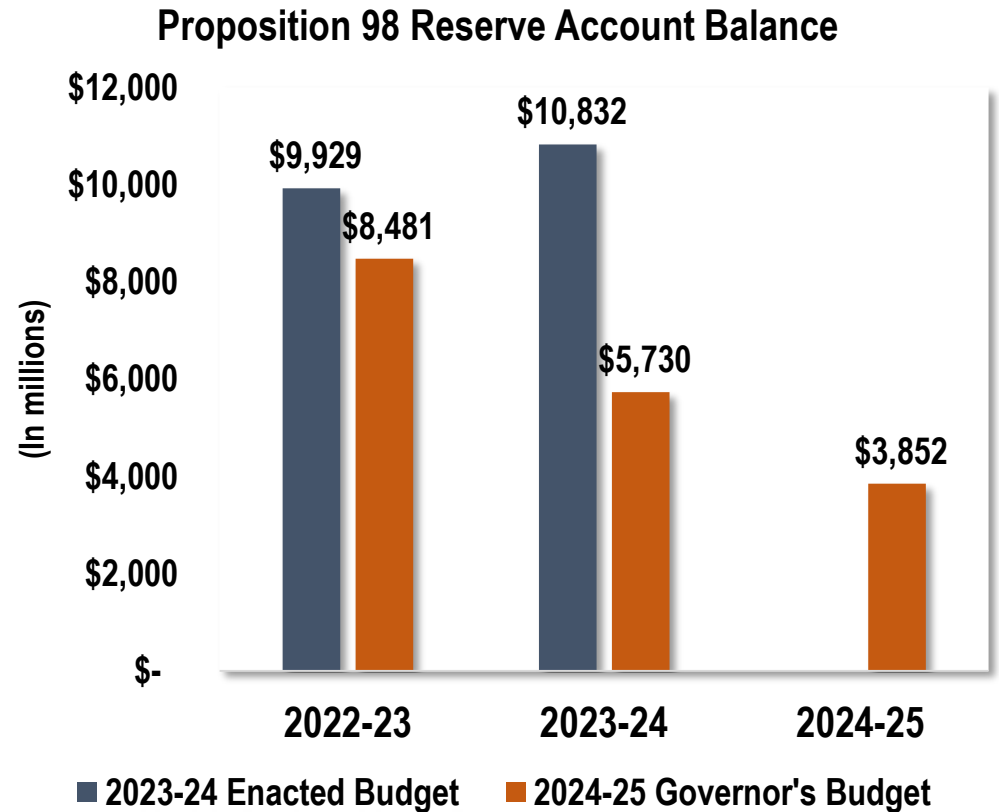
Sweeps

Unlike last year, the Governor's Budget does not include any proposals to sweep unallocated funds from programs, such as the Community Schools Partnership Program, so LEAs planning for those funds can breathe a sigh of relief . . . *for now*

Proposition 98 Reserve

- California’s Constitution determines deposits into and withdrawals from the Prop. 98 reserve
- The proposed withdrawals are discretionary and require the declaration of a budget emergency

Deposits and Withdrawals (In millions)		
Fiscal Year	2023-24 Enacted Budget	2024-25 Governor’s Budget
Deposits		
2022-23	\$1,787	\$339
2023-24	\$903	\$288
2024-25	-	\$752
Withdrawals		
2022-23	-	-
2023-24	-	\$3,039
2024-25	-	\$2,630



The Risks to Proposition 98

General Fund Condition

The conditions that create volatility and vulnerabilities for state revenues pose risks for education funding

- Economic shocks
- Wall Street performance

COLA

2024-25 COLA of 0.76% assumes no increases in the costs of goods and services governments buy in the last quarter of 2023 and the first quarter of 2024 (not likely)

If COLA increases by May, it will exacerbate the Prop. 98 deficit



Proposition 98 Deficit

Spending beyond the means of Prop. 98 in the short-term creates risk for the out-years

The minimum guarantee may not be able to grow its way out of the deficit

Key Budget Assumptions

The assumptions that underpin the State Budget and Prop. 98 are critical for stable local planning

If revenues fall or costs rise, it will exacerbate the Prop. 98 problem



Changes Since First Interim



Key Changes Since First Interim

COLA Percentages

	2023-24	2024-25	2025-26
First Interim – Statutory COLA	8.22%	1.27%	3.29%
Second Interim – Statutory COLA	8.22%	0.76%	2.73%

CalPERS Employer Rates

	2023-24	2024-25	2025-26
CalPERS - First Interim	26.68%	27.70%	28.30%
CalPERS - Second Interim	26.68%	27.80%	28.50%

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 First Interim *(cont.)*

Average Daily Attendance (ADA) Estimates

	2023-24	2024-25	2025-26
First Interim ADA	4,654	4,666	4,682
Second Interim ADA	4,608	4,617	4,621
Estimated ADA Decline	(46)	(49)	(61)



Second Interim Assumptions



Second Interim Report

Purpose

- The Second Interim Report represents the second official revision to the Department's 2023-24 Adopted Budget
- The Second Interim Report includes actual financial information through January 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

Second Interim Multi-Year Projection Assumptions

	2023-24	2024-25	2025-26
Salaries	Negotiations Completed (OCSEA & CSEA)	Pending Negotiations	Pending Negotiations
Statutory COLA	8.22%	0.76%	2.73%
Average Daily Attendance (ADA)	4,608	4,617	4,621
LCFF Revenue Projections	\$108,477,741	\$106,842,300	\$109,572,287
Tuition (ACCESS / Special Schools)	\$ 43,500,392	\$ 43,796,903	\$ 44,870,095



Second Interim Report



Multi-Year Projections - Combined General Fund

	2023-24 Second Interim	2024-25 Projected	2025-26 Projected
Revenues, and Other Financing Sources	\$ 364,724,227	\$ 338,745,973	\$ 343,357,789
Expenditures, and Other Financing Uses	\$ 339,361,853	\$ 336,493,302	\$ 338,211,949
Surplus/(Deficit) - Revenues Minus Expenditures	\$ 25,362,374	\$ 2,252,671	\$ 5,145,840

2023-24 Second 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***



2300144	+11C6V0
2300055	+11C6V0
2300110	+11C6V0
6237158	+11C6V0
2300555	+11C6V0
2300315	+11C6V0

7094	
9.90%	12.16

Budget Challenges



Challenges Ahead

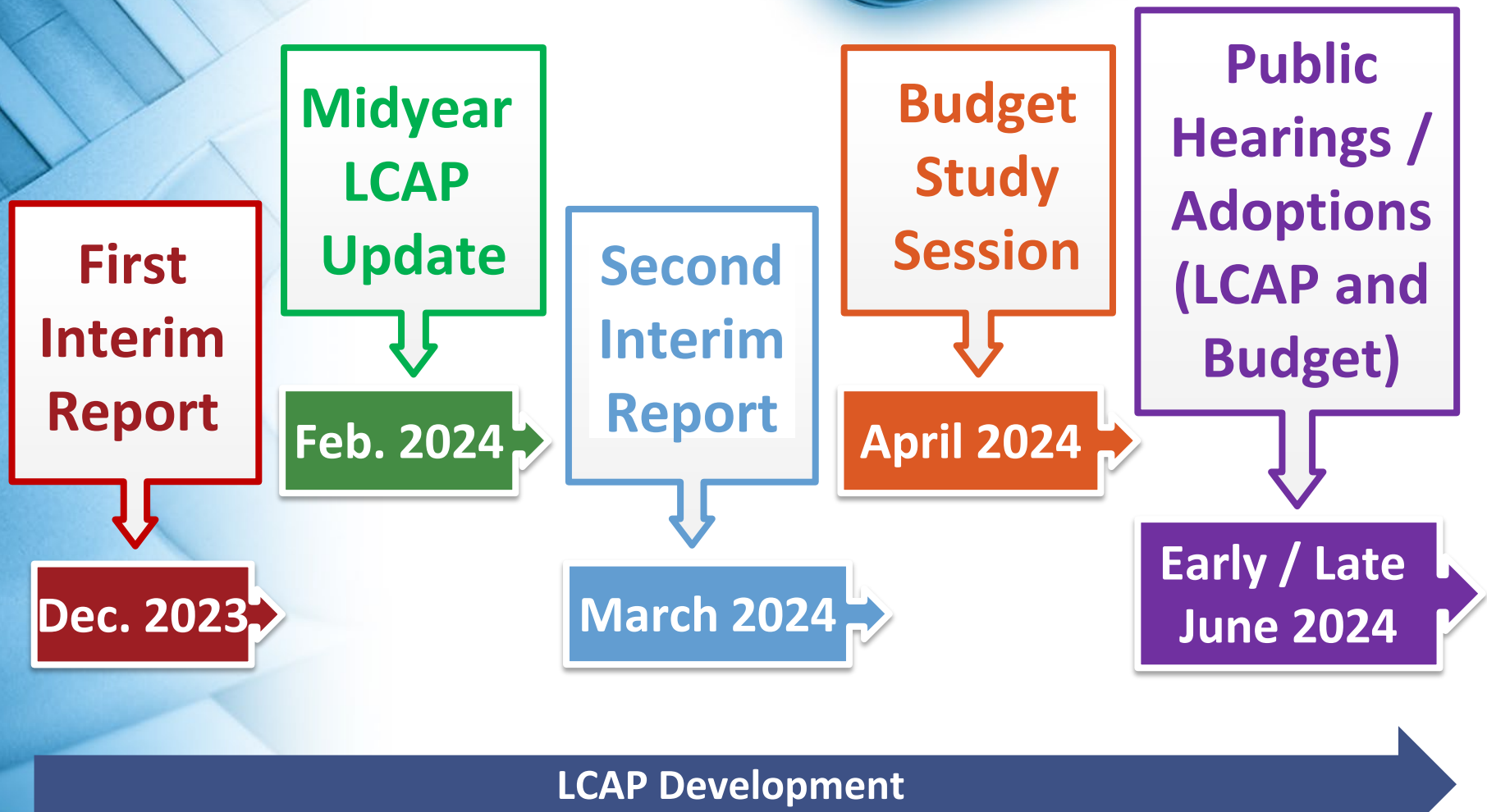
- Costs for Step and Column, CalPERS and CalSTRS Pensions, and Health and Welfare Benefits Premiums Continue to Rise
- Inflationary Cost Pressures for Other Items Such as Supplies, Services and Equipment Remain Persistent
- Expiration of One-time Federal and State COVID-19 Relief Funding
- Minimum State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



Budget Timeline & Next Steps



Next Steps





QUESTIONS?

