

# Budget Study Session

April 3, 2024



# **OCDE Budget Book**

- **The Narrative Summary (includes a breakdown of revenue and expenditures. This section includes a 7-year budget history for all Federal, State and Local Revenues)**
- **Budget Changes in Excess of \$25,000 (new section for First & Second Interim Reports)**
- **Part 1 – Planning Factors (key planning factors used in budget development)**
- **Part 2 – Assumptions (description of changes between current and proposed budget)**
- **Part 3 – Major Object Code Variance (between current and proposed budget)**
- **Part 4 – General Fund (Form 01) Budget Detail by Object Code**
- **Part 5 – Multi-Year Budget Projection (required for current and two subsequent years)**
- **Part 6 – Criteria and Standards (state required trend analysis of the budget)**
- **Part 7 – Average Daily Attendance (ADA) Form A**
- **Part 8 – Listing of All Funds**
- **Part 9 – Special Education Pass-Through Fund – Object Detail**

# **OCDE Budget Book**

- **Part 10 – Child Development Fund (object code detail)**
- **Part 11 – Deferred Maintenance Fund (object code detail)**
- **Part 12 – Special Reserve for Other Than Capital Outlay Projects (object code detail)**
- **Part 13 – County School Facilities Fund (object code detail)**
- **Part 14 – Special Reserve Fund for Capital Outlay Projects (object code detail)**
- **Part 15 – Debt Service Fund (Certificates of Participation for Esplanade project)**
- **Part 16 – Self-Insurance Fund for Dental**
- **Part 17 – Listing of all Entitlements, Contracts, and Grants**
- **Part 18 – Holding Accounts (object code 4399)**
- **Part 19 – COVID-19 Relief Funding**
- **Part 20 – Other State Required Reports**

# State Account Code Structure

Reporting Requirements are Defined in the California School Accounting Manual -  
Overview of the Standardized Account Code Structure

## 1. Fund – 2 digits

2. Resource – 4 digits (tracks activities that are funded with revenues that have spending restrictions)
3. Project Year – 1 digit (identifies projects whose reporting year is different than the fiscal reporting year)
4. Goal – 4 digits (accumulates costs by instructional goals and objectives)
5. Function – 4 digits (describes activities or services performed to support goals and objectives)

## 6. Object – 4 digits (classifies revenues by the general source and type of revenue, and classifies expenditures by the types of items purchased or services obtained (e.g., certificated salaries. It also classifies balance sheet accounts as assets, liabilities, or fund balance.)

7. School – 3-digits (designates a specific, physical school structure in alignment with the CDS code)
8. Optional Manager Code – 4 digits
9. Optional Cost Center Code – 4 digits (OCDE uses the cost center to track specific programs)
10. Optional Site Code – 3 digits (OCDE uses to track key programs, i.e. ACCESS, and Special Schools)

# U.S. Economic Outlook and UCLA Anderson December Forecast

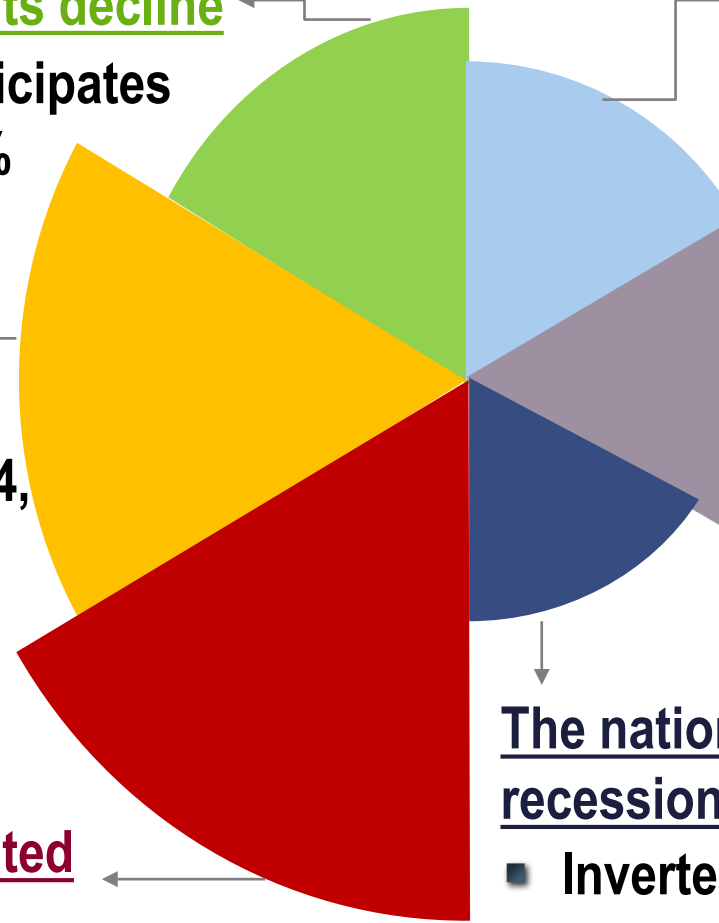
## Inflation is predicted to continue its decline

- UCLA Anderson (Forecast) anticipates headline inflation to fall to 2.7%

## Slow economic growth

- The Forecast projected three quarters of 1.0% growth in 2024, increasing to 2.5% by 2025
- A slow growth economy is especially vulnerable to risk

## A recession is no longer forecasted for the near future



## Interest rate cuts are projected as early as 2024

- The Forecast predicts the federal funds rate will be 4.8% by 2025

## U.S. employment and income are predicted to remain strong

- The Forecast projects stable U.S. unemployment rates through 2025

## The national economy is defying historical recession indicators

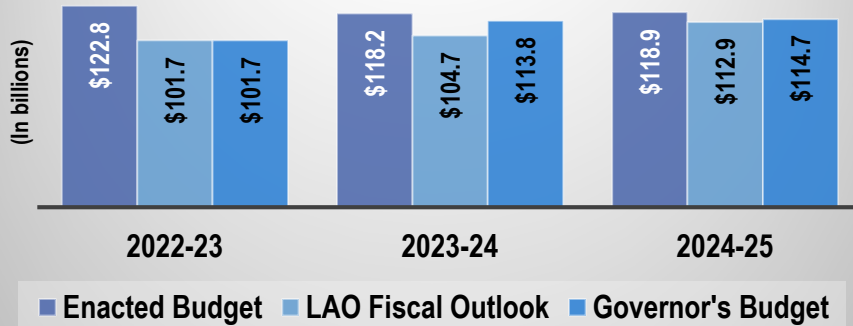
- Inverted yield curve
- Annual inflation falling from above 5.0% to below 3.0%

# Governor's January 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

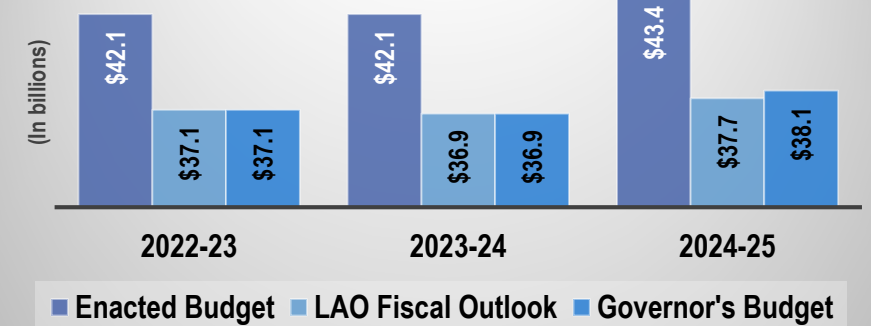
# Big Three Taxes - Governor's Budget vs. LAO's Outlook

## Personal Income Tax (PIT)

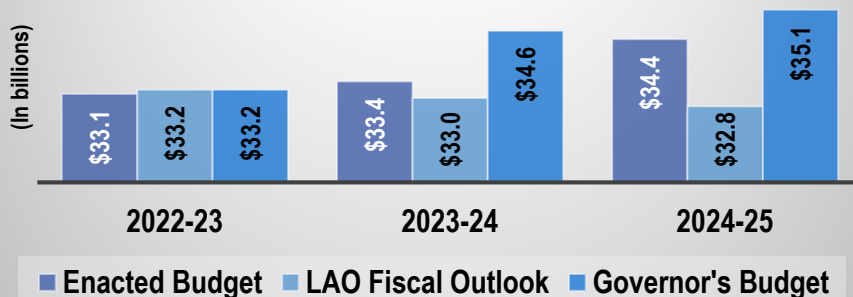


Personal income tax (PIT) and corporation tax revenue projections are significantly lower at Governor's Budget than Enacted Budget

## Corporation Tax



## Sales and Use Tax



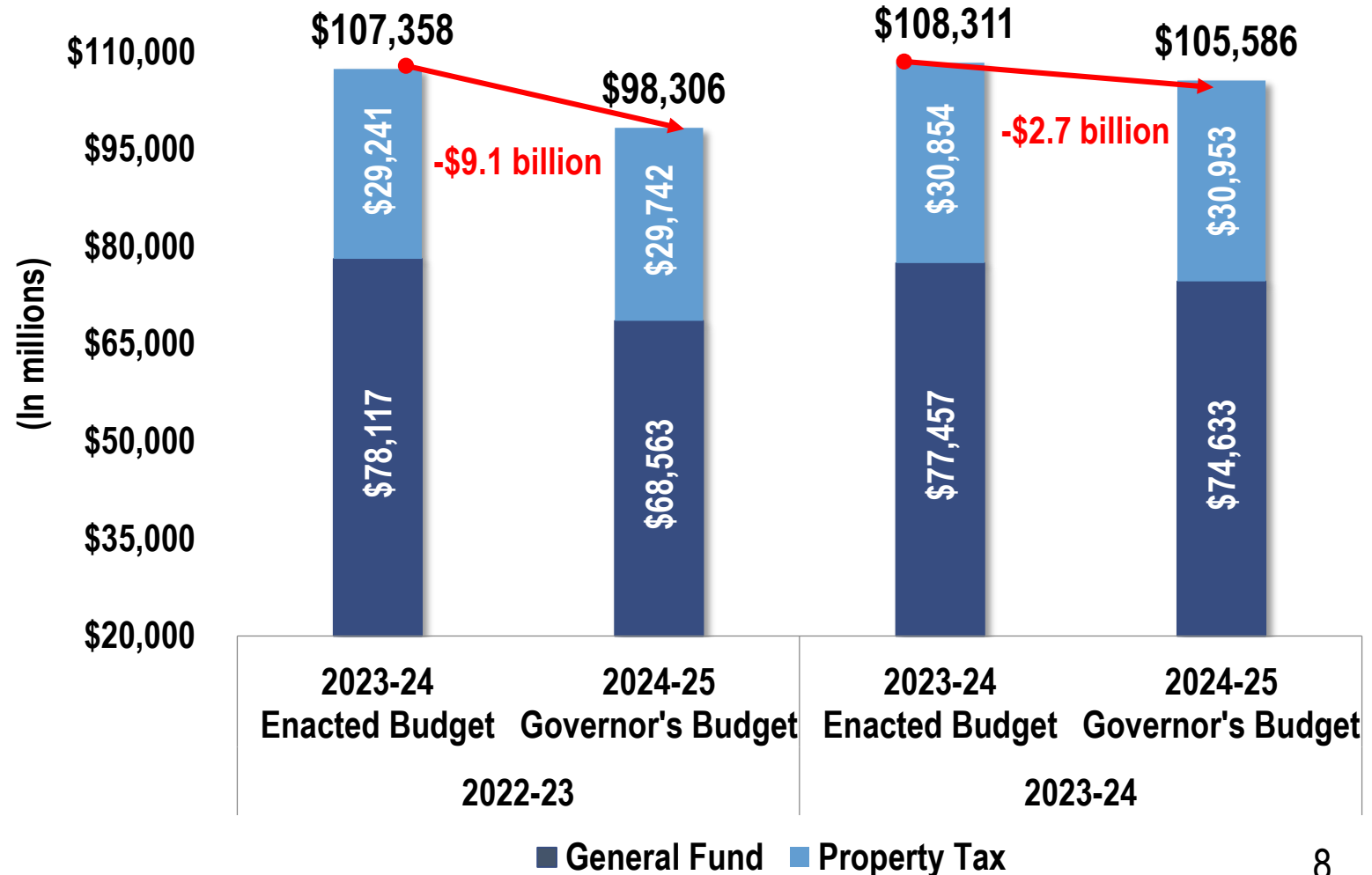
Compared to the LAO's *California's Fiscal Outlook (Outlook)*, the Governor's Budget projections for:

- 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 Prop. 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





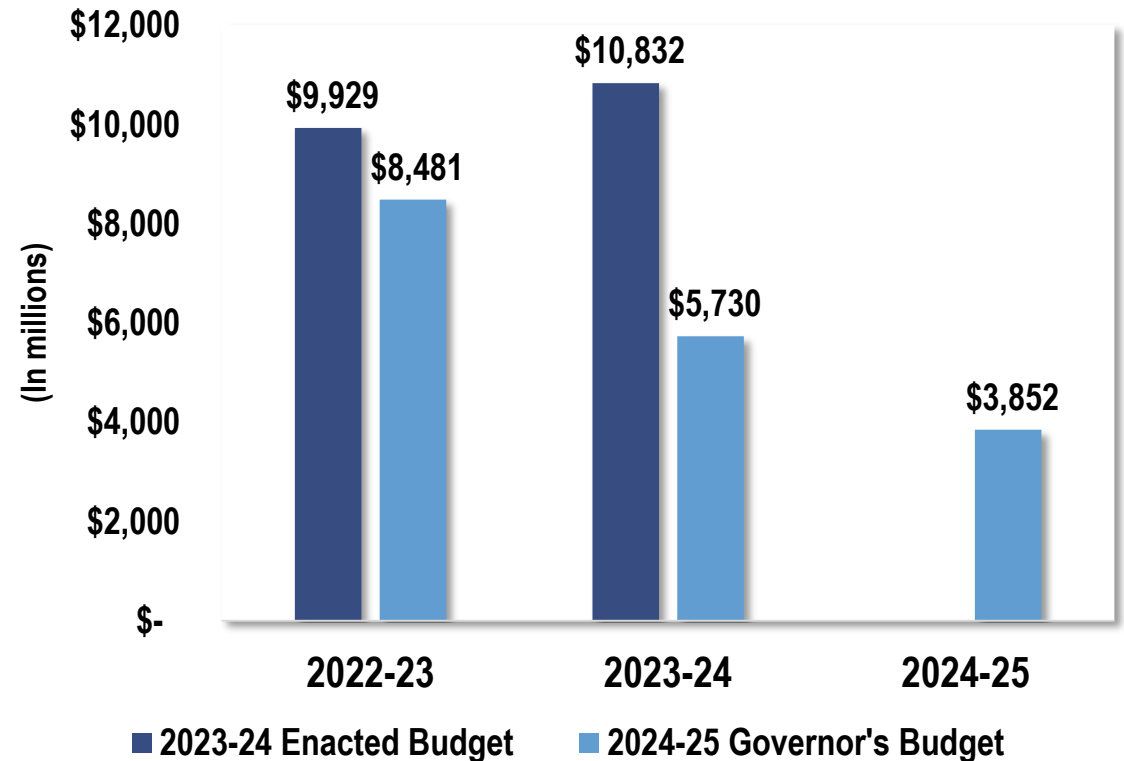
# Proposition 98 Reserve

- 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
<b>Deposits</b>		
2022-23	\$1,787	\$339
2023-24	\$903	\$288
2024-25	-	\$752
<b>Withdrawals</b>		
2022-23	-	-
2023-24	-	\$3,039
2024-25	-	\$2,630

Proposition 98 Reserve Account Balance



# 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*

# 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

# 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

# CalSTRS Employer Contribution Rates

- **Similar to CalPERS, the Governor does not include any new funding towards CalSTRS relief for LEAs**
- **SSC recommends that LEAs anticipate a CalSTRS employer contribution rate of 19.10% in 2024-25 based on the latest information available from CalSTRS**

Effective Date	CalSTRS Funding Plan Increases	
	Rate	Year-Over-Year change
July 1, 2013	8.25%	No increase since 1986
July 1, 2014	8.88%	0.63%
July 1, 2015	10.73%	1.85%
July 1, 2016	12.58%	1.85%
July 1, 2017	14.43%	1.85%
July 1, 2018	16.28%	1.85%
July 1, 2019	17.10%	0.82%
July 1, 2020	16.15%	-0.95%
July 1, 2021	16.92%	0.77%
July 1, 2022	19.10%	2.18%
July 1, 2023	19.10%	0.00%
July 1, 2024	19.10%	0.00%
July 1, 2025	19.10%	0.00%

# CalPERS Employer Contribution Rates

- The Governor did not propose providing CalPERS relief for LEAs
- Based on the latest information from CalPERS, the employer contribution rate for 2024-25 would increase from the current rate of 26.68% to 27.80%

	Actual	Projected				
	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Employer Contribution Rate	26.68%	27.80%	28.50%	28.90%	30.30%	30.10%

Source: CalPERS Schools Pool Actuarial Valuation as of June 30, 2022

# Minimum Wage—Future Forecast

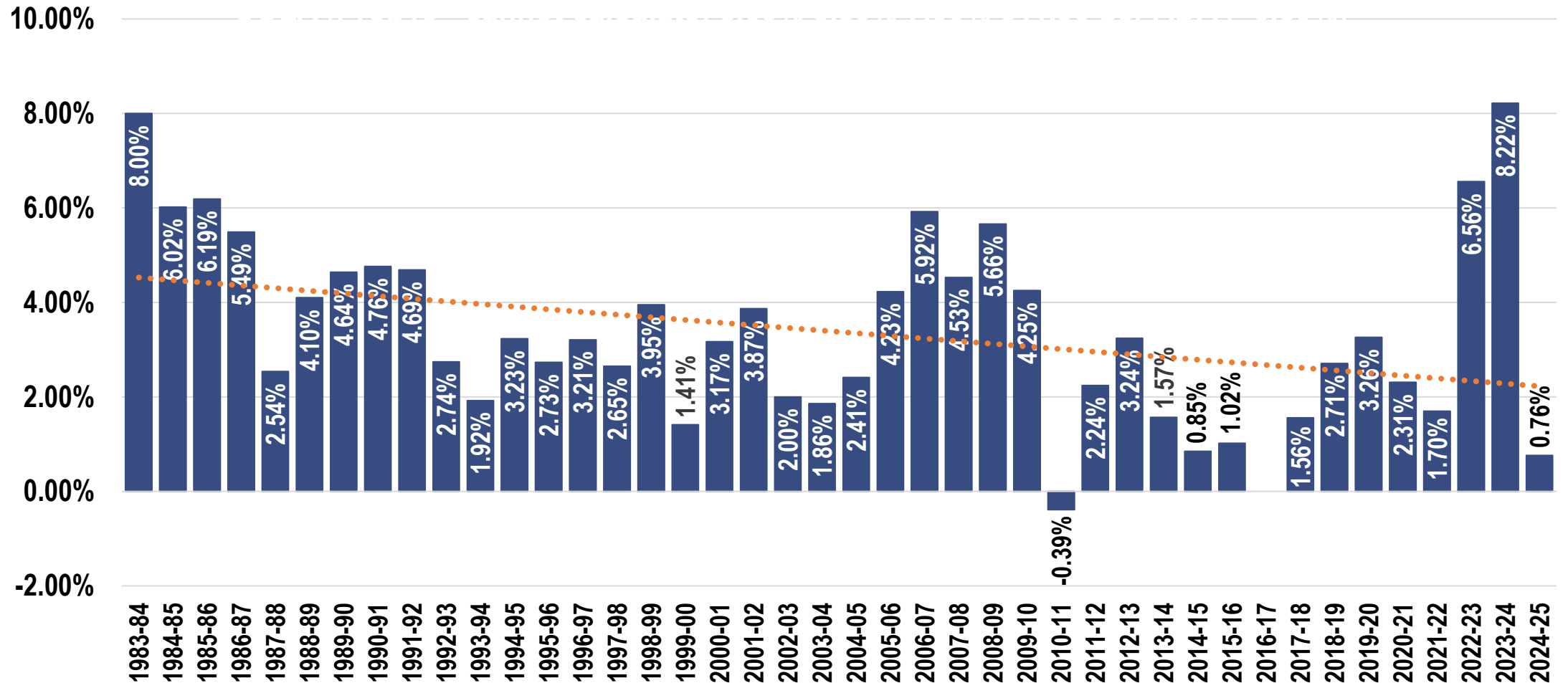
- The minimum wage increased to \$16.00 on January 1, 2024, and SSC projects an increase of about 40¢-50¢ each January thereafter
- Employers should review city or county ordinances to determine if any local minimum wage standards apply

Minimum Wage <sup>1</sup>	Effective Date: >25 Employees	Effective Date: ≤25 Employees	Exempt Minimum Salary (Weekly)	Exempt Minimum Salary (Monthly)	Exempt Minimum Salary (Annually)
\$15.50/hour	January 1, 2023		\$1,240	\$5,373	\$64,480
\$16.00/hour	January 1, 2024		\$1,280	\$5,547	\$66,560
\$16.50/hour	January 1, 2025		\$1,320	\$5,720	\$68,640
\$16.90/hour	January 1, 2026		\$1,352	\$5,859	\$70,304
\$17.30/hour	January 1, 2027		\$1,384	\$5,997	\$71,968
\$17.70/hour	January 1, 2028		\$1,424	\$6,171	\$74,048
\$18.20/hour	January 1, 2029		\$1,464	\$6,344	\$76,128

<sup>1</sup>Minimum wage is tied to the U.S. CPI for Urban Wage Earners and Clerical Workers, but is rounded and capped at 50¢ per year

# Historical Statutory COLAs

- The statutory COLA for 2024-25 feels anomalous relative to the last two years, but when looking back, COLA is beginning to normalize to historical trends—COLAs above 6% are the anomalies





# Fluctuating Statutory COLAs From the Dept. of Finance

- The changing statutory COLA is NOT related to the state’s financial health
  - Rather, the statutory COLA is computed using federally aggregated metrics
- The statutory COLA is a calculated percentage, but the Governor and Legislature must still determine whether there is sufficient money to fund the statutory COLA
- The significant projected decline in 2024-25 is the result of two primary factors:
  - Reversal in price increases that occurred in 2022
  - Revisions to historical data points

	2024-25	2025-26	2026-27
January 2024	0.76%	2.73%	3.11%
June 2023	3.94%	3.29%	3.19%
<i>Percentage Point Decrease</i>	<i>-3.18</i>	<i>-0.56</i>	<i>-0.08</i>

# Impact of COVID-19 Protections on MYPs

## COVID-19 Funding



- More than \$26 billion of federal, one-time funding was invested from 2019-20 through 2024-25
- Final tranche of ESSER<sup>1</sup> is approximately \$14 billion and must be fully obligated by September 30, 2024



## ADA Protections



- Adjustments to reported 2021-22 ADA using 2019-20 attendance yields resulted in a one-time bump to funded ADA
- Inclusion of the option to use the average of three prior years' reported ADA to determine current-year funded ADA



## Healthy Reserves



- The infusion of one-time funding, plus the abeyance of declining enrollment and suppressed attendance yields have allowed LEAs to weather the COVID-19 pandemic with minimal disruptions
- In fact, many LEAs were able to add staff and programs

<sup>1</sup>Elementary and Secondary School Emergency Relief Fund

# Major Projects for 2024-25

- **Rancho Sonado Project**
- **Infra-Structure Upgrades (Conference Center – Building D)**
  - **Electrical, Technology, Audio Visual, Flexible Wall-systems, Secure Reception Area, HVAC Ducts, Ceiling Tiles, Lighting, Restroom ADA Accessibility, Flooring, Painting, Cabinetry and Furniture Improvements**
- **Deferred Maintenance Projects for multiple sites**
  - **Special Education Portable Building Replacements:**
    - **Fred Newhart (4 portable classroom buildings and 1 portable restroom building)**
    - **Mission Viejo (3 portable classroom buildings)**
    - **Hillview (5 portable classroom buildings)**
  - **Sunburst Classroom Upgrades (New Flooring, Classroom Countertops, Lighting, White Boards, & Paint)**

# Board of Education Budget

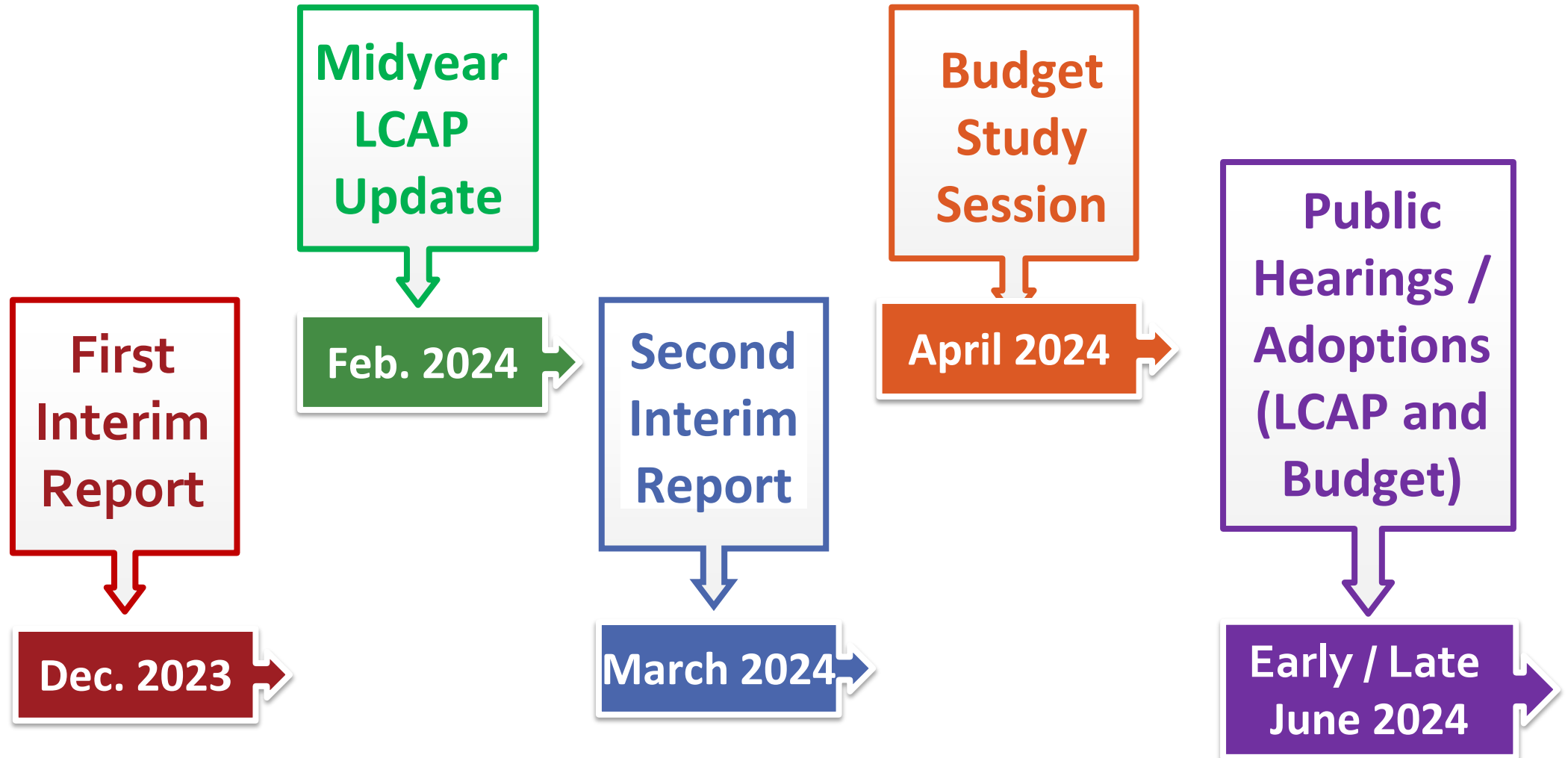
	2022-23 Audited Actuals	2023-24 Second Interim	2024-25 Projected
Salaries and Employee Benefits	\$ 213,236.00	\$ 243,975.00	\$ 243,975.00
Materials and Supplies	\$ 658.07	\$ 44,944.00	\$ 44,944.00
Services and Other Operating Expenditures ( <i>excluding legal &amp; advocacy Services</i> ) *	\$ 32,235.39	\$ 271,793.00	\$ 271,793.00
Legal Services Contracts:	\$ 956,472.91	\$ 2,200,000.00	\$ 2,200,000.00
Advocacy Contracts:	\$ 215,000.00	\$ 228,000.00	\$ 228,000.00
Equipment	-	\$ 23,781.00	\$ 23,781.00
Contingency	-	\$ 250,000.00	\$ 250,000.00
<b>Total</b>	<b>\$ 1,417,602.37</b>	<b>\$ 3,262,493.00</b>	<b>\$ 3,262,493.00</b>

\* Printing costs for district flyers included in Services and Other Operating Expenditures

# 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
- Uncertainty Regarding State Budget Outlook

# Budget Timeline





Thank  
You!