

Piedmont Board of Education

May Revision and 2023-24 Budget Update

May 24, 2023

Budget Development Process

- We are in the final stretch of budget development for 2023-24.
- The Board will hold a public hearing and the budget adoption meeting in June.

Initial Budget - December 2022

All current year ongoing revenues are carried forward and one-time revenues are eliminated.
All current year expenditures are carried forward and one-time costs are eliminated.

Revised - March 2023

Adjustments are made based on Governor's Budget Proposal and enrollment projections.

Fine-Tune - May 2023

Revenues are adjusted to the updated information from the May Revision. Final staffing and other costs are incorporated into costs.



Headlines

- Governor solves the State's 2023-24 budget gap by taking back funds allocated to school districts in 2022-23. Total loss to District is **\$800K** (\$450K in January, plus \$350 more in May).
- COLA of 8.22% is proposed to be funded. Increase to District's LCFF is 4.35%, which is 50% of District revenues. Overall gain is \$1.0 M, but due to offsetting ADA adjustments, change from January is **-\$28K**.
- Uncertainty on rules around Prop. 28 Arts funds means revenue of **\$267K** must be taken out of budget.
- TK expansion and Universal Meals will continue to be funded.

Rick Falick

LEGISLATIVE FEUD

OVERESTIMATE REVENUES 44

CUT PROGRAMS 3

UNDERESTIMATE EXPENSES 21

RAISE TAXES 15

CASH DEFERRALS 10

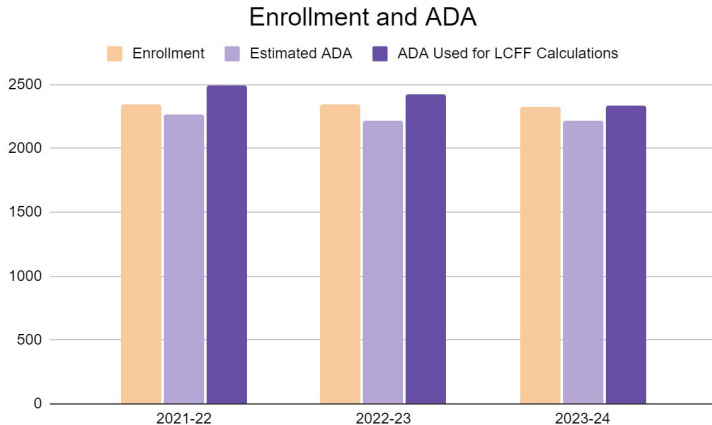


We asked 100 people, how should we balance the budget?

LCFF Funding

The May Revise confirms the COLA at 8.22%.

- Increase over 2022-23 is \$1,042,674. This is a 4.35% increase in LCFF revenues.
- Net difference from 2nd Interim Projections is -\$28K. Gain of \$22K offset by loss of \$50K due to ADA based on P-2 (April 2023).
- LCFF is only 50% of District's revenues; other revenues will not increase at the same rate.



23-24 LCFF Projections	2nd Interim	P-2 ADA Adj	May Revise
COLA	8.13%	8.13%	8.22%
Funded ADA	2,337.16	2,331.46	2,331.46
LCFF	\$26,653,316	\$26,602,823	\$26,624,587
Difference from 2nd Interim		-\$50,493	-\$28,729

State Budget Solutions

Two of the Governor's solutions to the State budget gap are to claw back funds that have already been allocated to schools in 2022-23:

- AMIM Block Grant - plans to take back 50%
 - In January, proposal was to take back 33%.
 - For Piedmont, \$1.5 M reduced by \$750K - this is **\$300 K** more than expected.
- Learning Recovery Emergency Block Grant - plans to take back 30%
 - This one is new.
 - For Piedmont, **\$167 K reduced by \$50 K.**
- Because we have already received these funds, and spent them, we need to set-aside the equivalent amounts totalling **\$800K** in the **Ending Fund Balance.**



Impacts on 2023-24 Projections

Impacts from 3rd Interim Adjustments:

- STRS on-behalf reduction ~ \$430K
- State facilities funding reduces capital outlay and transfers to other funds.
- Beginning Fund Balance increase ~ \$670K

Impacts from May Revision:

- Prop 28 not in revenues ~ 270K
- Ending Fund Balance includes the AMIM and LR block grant claw-backs ~350K (in addition to 450K)

Updated Projections for 2023-24 Financials

2023-24 Budget Projections		2023-24	2023-24	Difference
		From 2nd Interim	May Revise	
Beginning Balance		\$1,677,332	\$2,343,706	\$666,374
	Revenues	52,002,007	51,155,723	(846,284)
	Expenditures	(51,371,490)	(50,732,260)	639,230
	Rev-Exp = Surplus(Deficit)	630,517	423,463	(207,054)
Ending FB		2,307,849	2,767,169	459,320
	3% Reserve Requirement	1,541,145	1,521,968	(19,177)
	Less Restricted + Rev Cash	414,660	482,086	67,426
	Less Measure H reserved for CSEA	320,872	320,872	0
	Less AMIM & LR Grants held back	451,012	805,160	354,148
	Over (Under) Reserve	(419,840)	(362,917)	56,923

Where are we on Budget Adjustments?

- Board authorized position reductions have been incorporated.
- Adjustments to discretionary spending have been incorporated into site and department budgets.
- Special Education Strategic Planning has occurred with site principals, Special Education Director, Asst. Supt., SPED program specialists and business services involved.
- All open positions are being evaluated before being filled (hiring "frost").

Calendar

May →	5/12 Governor releases May Revisions to budget proposal for 2023-24 5/24 Board reviews and approves 3rd Interim Report
June	6/14 Board holds public hearing on LCAP & draft budget 6/28 Final budget adopted by Board

**Comments or
Questions?**

Acknowledgments

Thank you to the Business Services Team!

Upexa Captan

Cheryl Kaiser

Julie Kim

Jennifer Stahl

Shamaree Worley

Appendix

Slides from SSC Presentation

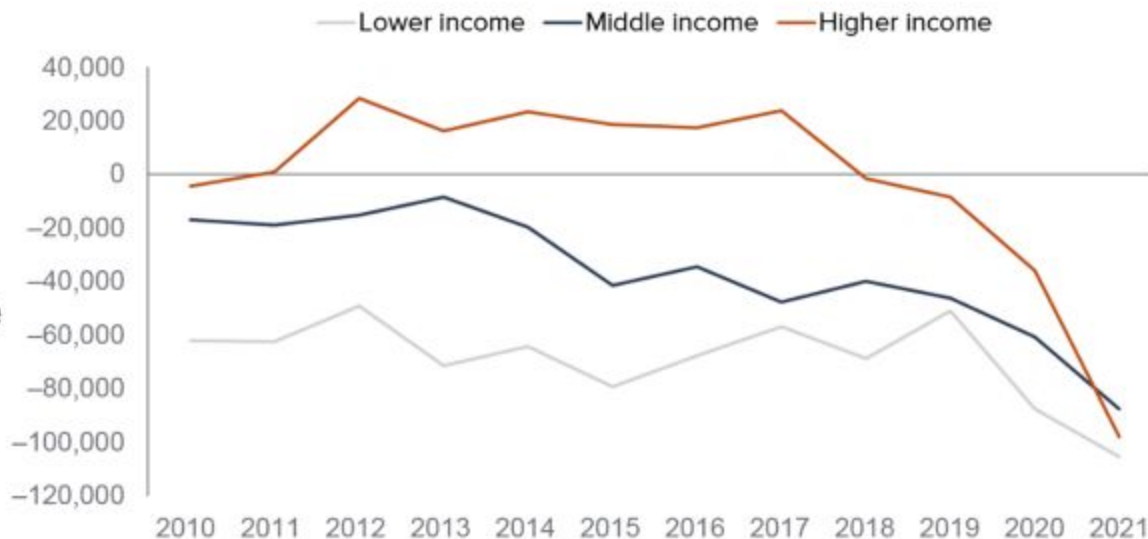
(For information only;
will not be presented
during board meeting)

Declining Enrollment Data

California Migration Trends—Net Migration by Income

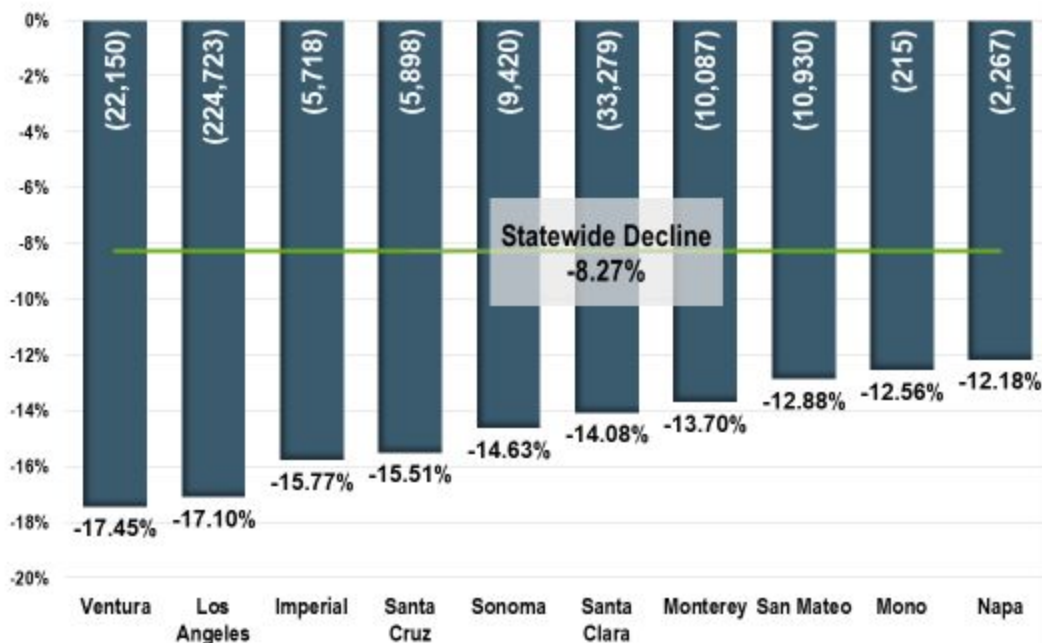
- The Public Policy Institute of California (PPIC) issued a blog about new migration patterns that may impact the state economy and revenues if they continue

- California is losing more residents than it is gaining, at all income levels
- Since 2018, the net loss of higher-income residents has been starker than low- and middle-income Californians



Source: PPIC, March 21, 2023

Declining Enrollment Projections 2022-23 to 2031-32



Source: DOF, CDE

- Most areas in the state are affected by declining enrollment, but to differing degrees:
 - 12 counties are projected to lose 10,000 or more students between 2022-23 and 2031-32
 - 18 counties will lose students at a rate faster than the statewide average of 8.27%
- Enrollment trends for each LEA are unique to the community and student populations they serve
- Enrollment trends impact the bottom line—in the current year and the out-years

Proposition 98 and Attendance

- Although the minimum guarantee has plateaued, overall funding has increased significantly since the inception of the LCFF—up 81% over the decade
- Conversely, student attendance has declined 10% over the same time period



Statewide Attendance Rates

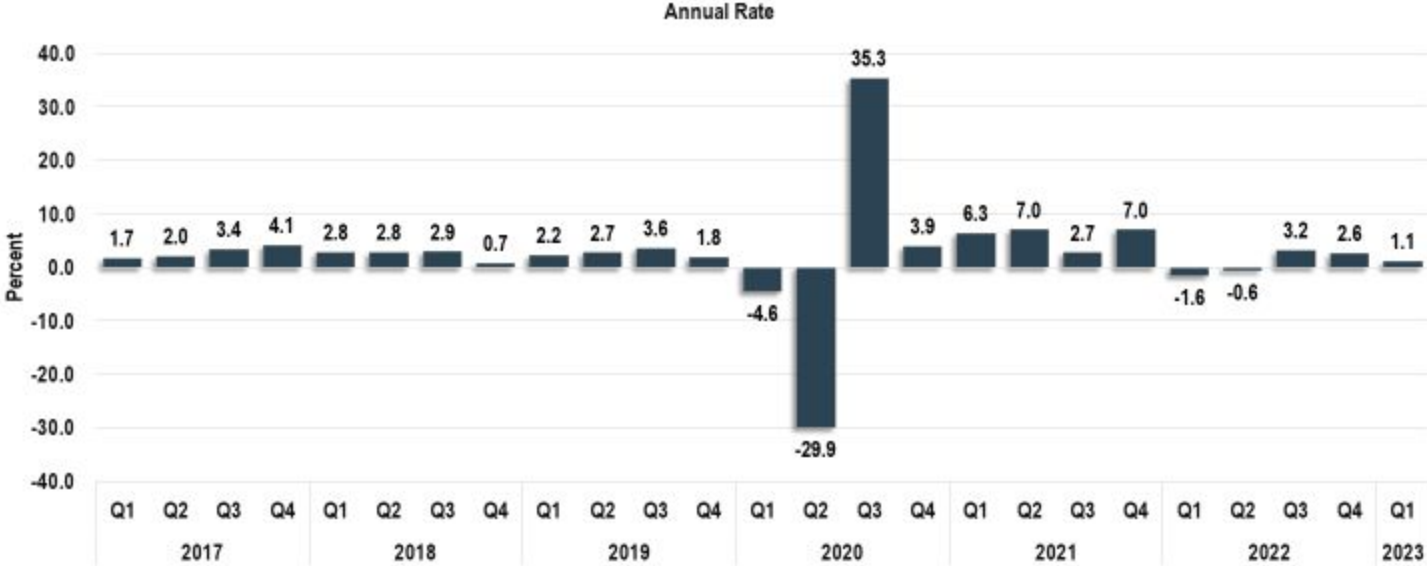
- Declining enrollment has been the topic du jour, but the rate at which students attend school is becoming the star of the show
- Attendance rates in 2022-23 have rebounded only marginally and are nowhere near pre-pandemic attendance levels
 - Percentages below represent reported ADA divided by enrollment using Census Day counts

Fiscal Year	First Principal Apportionment (P-1)	Second Principal Apportionment (P-2)
2018-19	96.25%	95.14%
2019-20	95.89%	95.38%
2020-21	Data not collected	Data not collected
2021-22	91.25%	90.49%
2022-23	91.92%	To be determined

Economic Projection Information

U.S. Gross Domestic Product

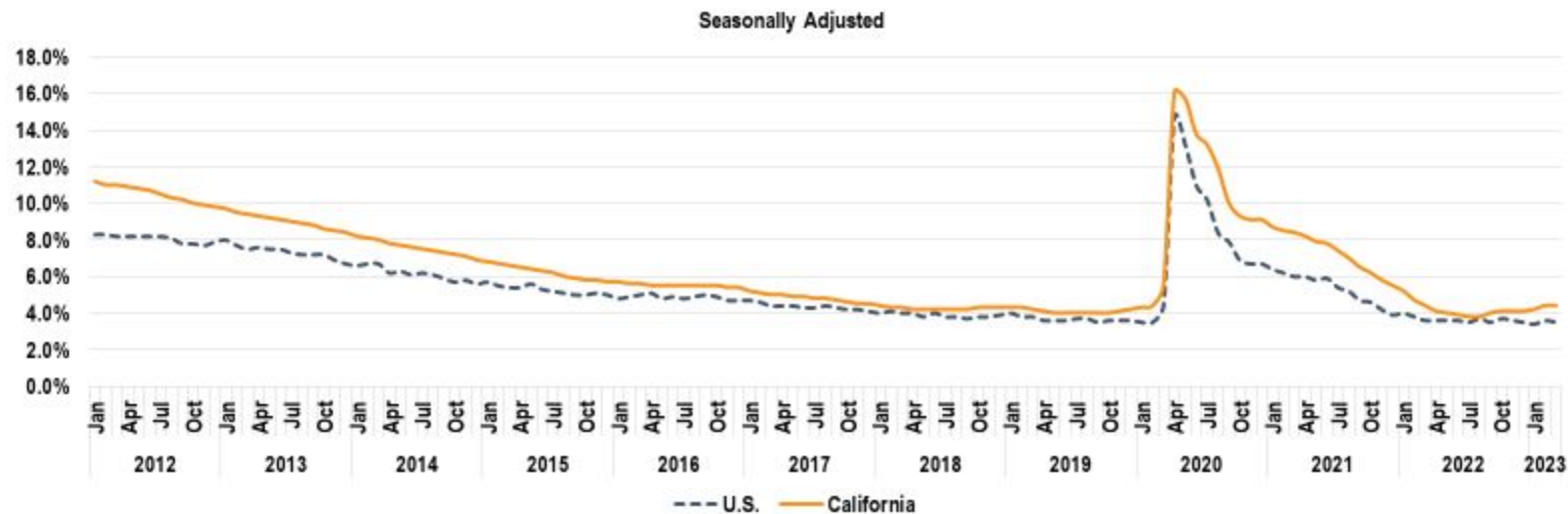
- The overall economy has improved markedly since the first half of 2022, but remains well below pandemic-level highs



Source: Bureau of Economic Analysis

U.S. and California Unemployment Rates

- Unemployment levels have reached pre-pandemic lows; however, concerns mount that the cooling economy or an economic recession may lead to higher jobless rates in the coming months



Sources: U.S. Unemployment—Bureau of Labor Statistics; California Unemployment—Employment Development Department

U.S. Consumer Price Index

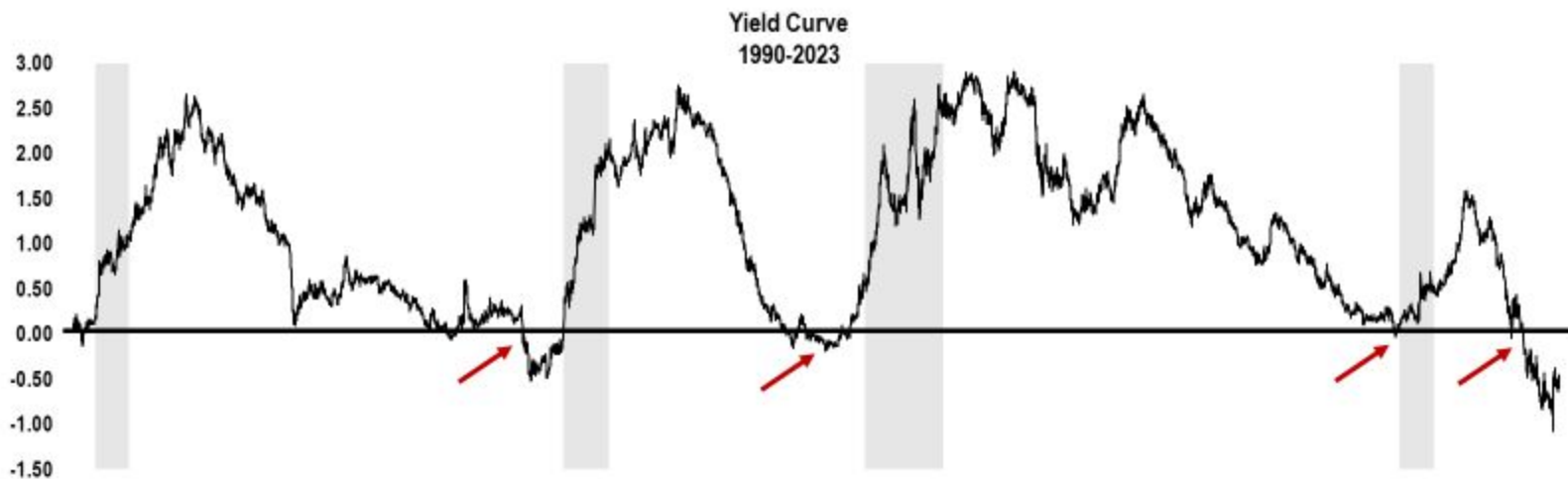
- After reaching its 9.1% peak in the summer of 2022, U.S. inflation is currently 4.9%
- Median weekly earnings for full-time employees have increased by 6.1% from a year ago and by 27.6% over the last five years



Source: Bureau of Labor Statistics

Yield Curve

- The relationship between the two-year and ten-year treasury yields is one of the strongest predictors of an impending economic recession
- When the yield curve inverts, there is a two-thirds chance of a recession within a year and a 98% chance within two years—the curve has been inverted since the summer of 2022

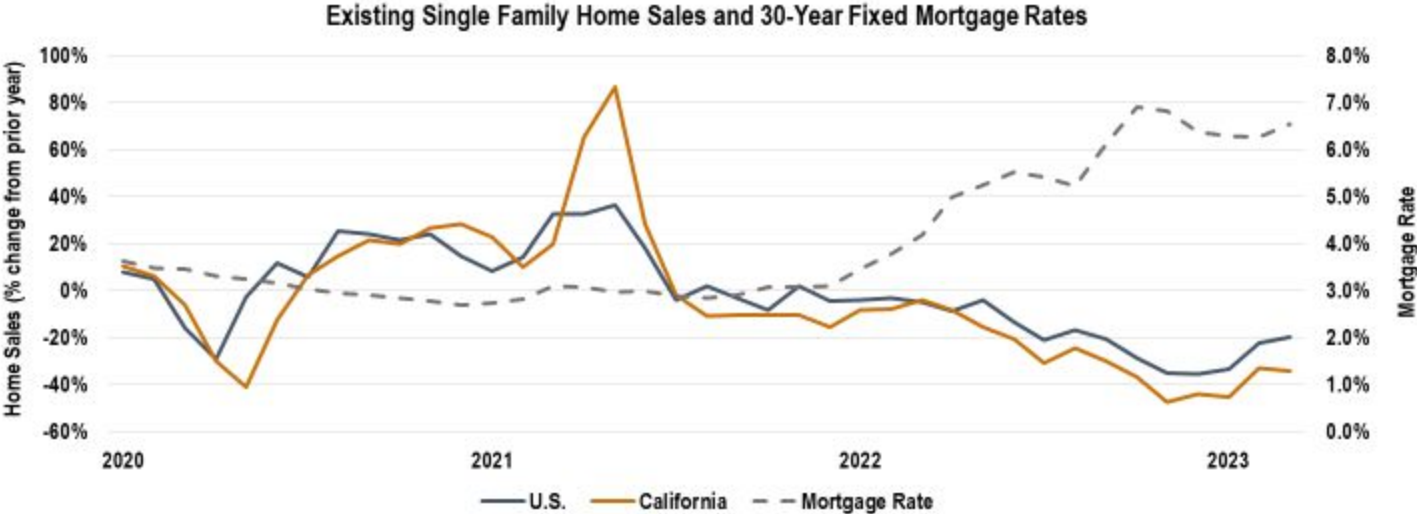


Note: Shaded areas signify economic recessions

Source: U.S. Treasury

Housing Market

- The housing market has been in a recession for nearly two years and is deepening with increasing mortgage rates



Sources: U.S. sales—Ycharts; California sales—California Association of Realtors; mortgage rates—Federal Reserve

Initial Public Offering Trends

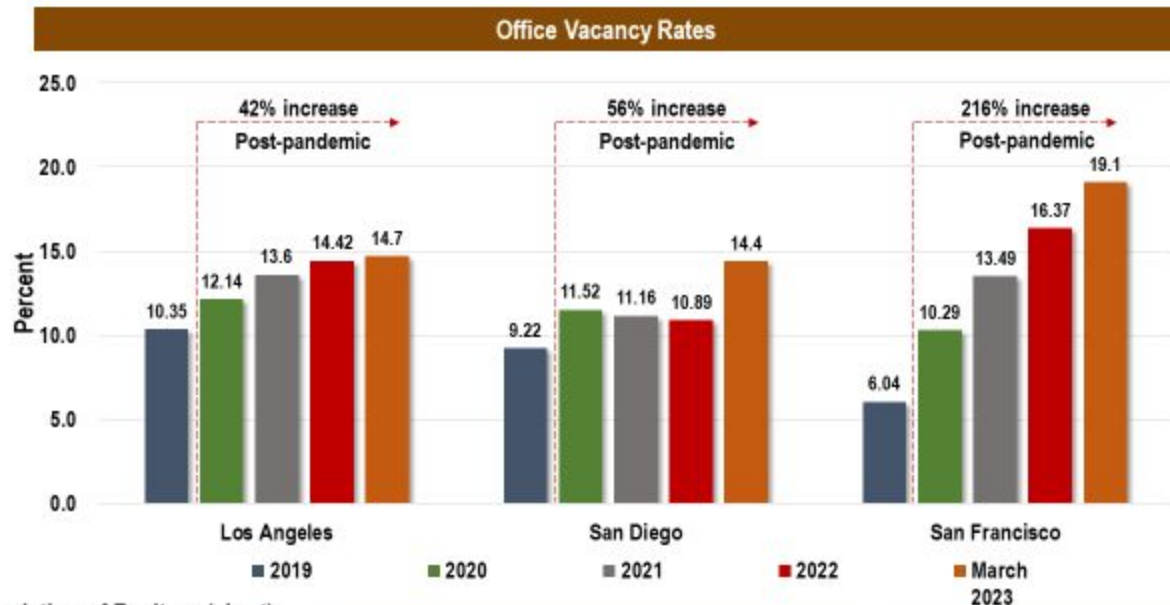
- We are witnessing a marked slowing in the number of initial public offerings (IPOs), which can affect the state economy and revenues
 - Recent IPOs have been in the technology sector
 - California's share of all IPOs in the U.S. in 2021 was 39%
 - Through September 2022, the state's share of IPOs dropped to a mere 2%
 - Raised \$177 million through September 2022
 - Five-year average was \$16 billion



Sources: Bloomberg; Stock Analysis (chart)

Commercial Real Estate Market

- The COVID-19 pandemic has had a lasting impact on commercial real estate as more companies adapted to remote work and adopted permanent flexible work policies
- Office vacancies in the state's historically robust urban centers skyrocketed
- The loss of lease profits comes at a time when commercial mortgages are due to be refinanced at higher interest rates
 - \$2.9 trillion in mortgages due in the next two years



Sources: Morgan Stanley; National Association of Realtors (chart)

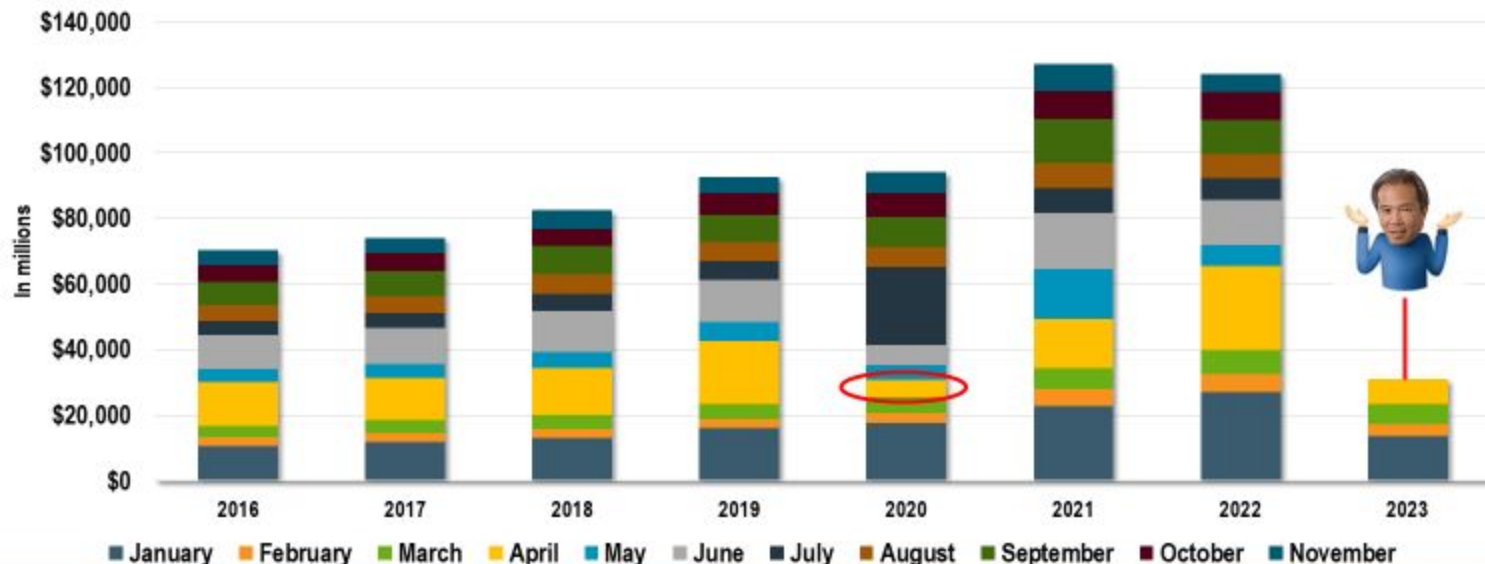
Big Three Taxes—Historical Trend

- While the Big Three tax revenues are lower than projected, they are still significantly higher than pre-pandemic levels—\$55 billion above 2018-19 (a 40% increase)



Personal Income Tax Receipts—Historical Monthly Trends

- April PIT receipts are significant for state revenues and budget projections
 - Between 17% to 21% of total PIT revenues are collected in April alone
 - Deferred tax deadlines warp historical trends with April raising only 6% of total PIT receipts in 2020



Educational Programs

Additional Categorical Funding

The May Revision increases proposed literacy support modestly and maintains categorical funding for opioid overdose reversal and cultural enrichment at levels proposed in the Governor's Budget

\$250 million in one-time Proposition 98 funds to expand the number of high-poverty schools receiving funds to train and hire literacy coaches and reading specialists

\$100 million one-time Proposition 98 funds to provide 12th grade students opportunities to visit museums, attend theater performances, or participate in enrichment activities



\$1 million one-time non-Proposition 98 funds to create a Literacy Roadmap to help educators navigate existing literacy programs

\$3.5 million ongoing Proposition 98 funding for middle, high, and adult school sites to maintain medication to reverse opioid overdose

Investments in Literacy

\$1 million one-time General Fund for an independent panel of experts to evaluate and approve a list of screening instruments

Panel to Develop Screener List

State-Approved Screeners

Approved list of screeners to be finalized by December 2024 and will include evidence-based, culturally, linguistically, and developmentally appropriate tools

Beginning in 2025-26, all LEAs are required to annually screen pupils in grades K-2 for risk of reading difficulties, including dyslexia

May Revision indicates an intention to fund professional development in future budgets

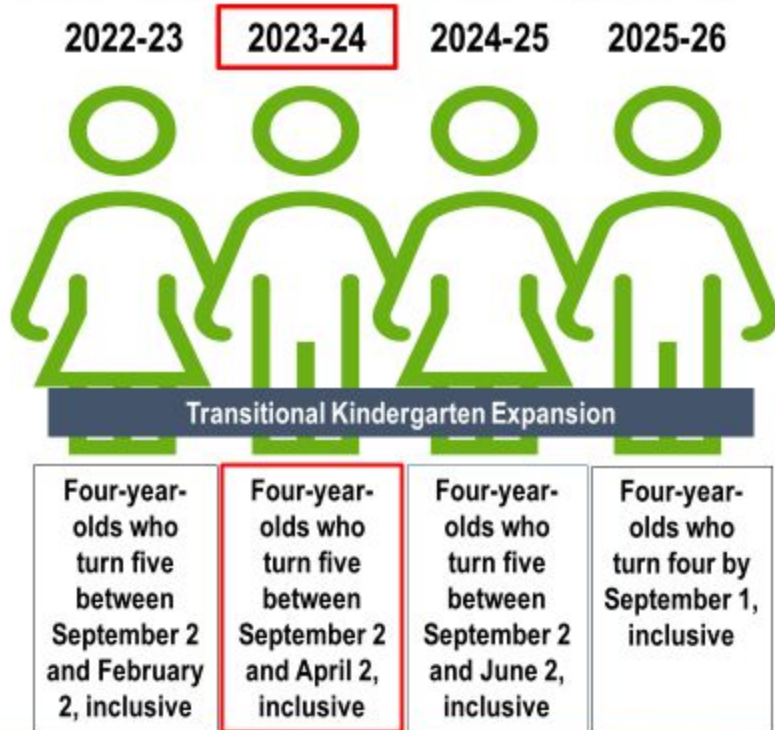
Administration Intent

Legislative Intent

LEAs to coordinate screening with comprehensive strategy to inform instruction, measure progress, identify student needs, and improve efforts to communicate with parents

Universal Transitional Kindergarten Implementation

- 2022-23 Enacted Budget included first investment to expand eligibility for TK
- The Governor continues to prioritize implementation of universal transitional kindergarten (UTK)



- The May Revision updates the figure to implement the second year of UTK to \$597 million ongoing General Fund, based on revised enrollment projections

Other Budget-Related Information

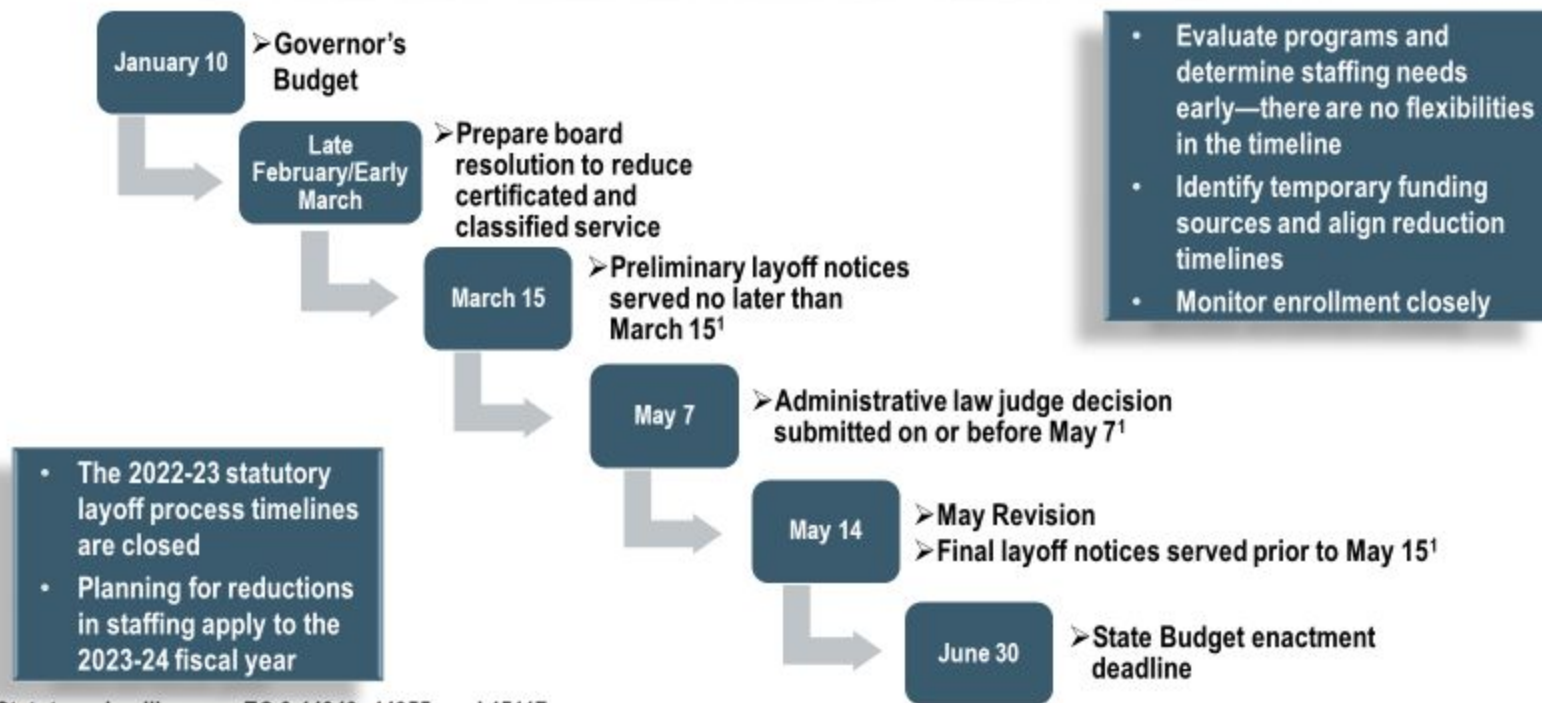
Statewide Average Reserve Levels

- The latest statewide data on school district reserves available is for 2021-22
 - Unrestricted fund balances declined slightly

Average Unrestricted General Fund, Plus Fund 17, Ending Balances ¹			
	2020-21	2021-22	Difference
Unified School Districts	22.36%	22.19%	-0.17%
Elementary School Districts	26.01%	25.32%	-0.69%
High School Districts	21.82%	21.29%	-0.53%

¹As a percentage of total General Fund expenditures, transfers, and other uses

Certificated and Classified Layoffs and State Budget Timeline



¹Statutory deadlines per EC § 44949, 44955, and 45117

Employee Benefits

- LEAs face significant and increasing pressures at the bargaining table—salary increases, reduced class sizes, more mental health professionals, counselors, and nurses
- A silent, but equally significant pressure stems from looming changes to employee benefits

The Silver Tsunami

Wave of eligible retirees among baby boomers will create cost pressures for LEAs with historically rich employee medical benefits

Provider Rates

Kaiser Permanente rates will increase
Southern California: 10.5%-12%
Northern California: 13.5%-15.5%

A bellwether for other provider rates

Dependent Coverage

Other demands on increasingly scarce resources will force LEAs to reevaluate their ability to extend care benefits to employee dependents

Source: Keenan & Associates

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