

Governor's Proposals for the 2024-25 State Budget and K-12 Education

January 24, 2024

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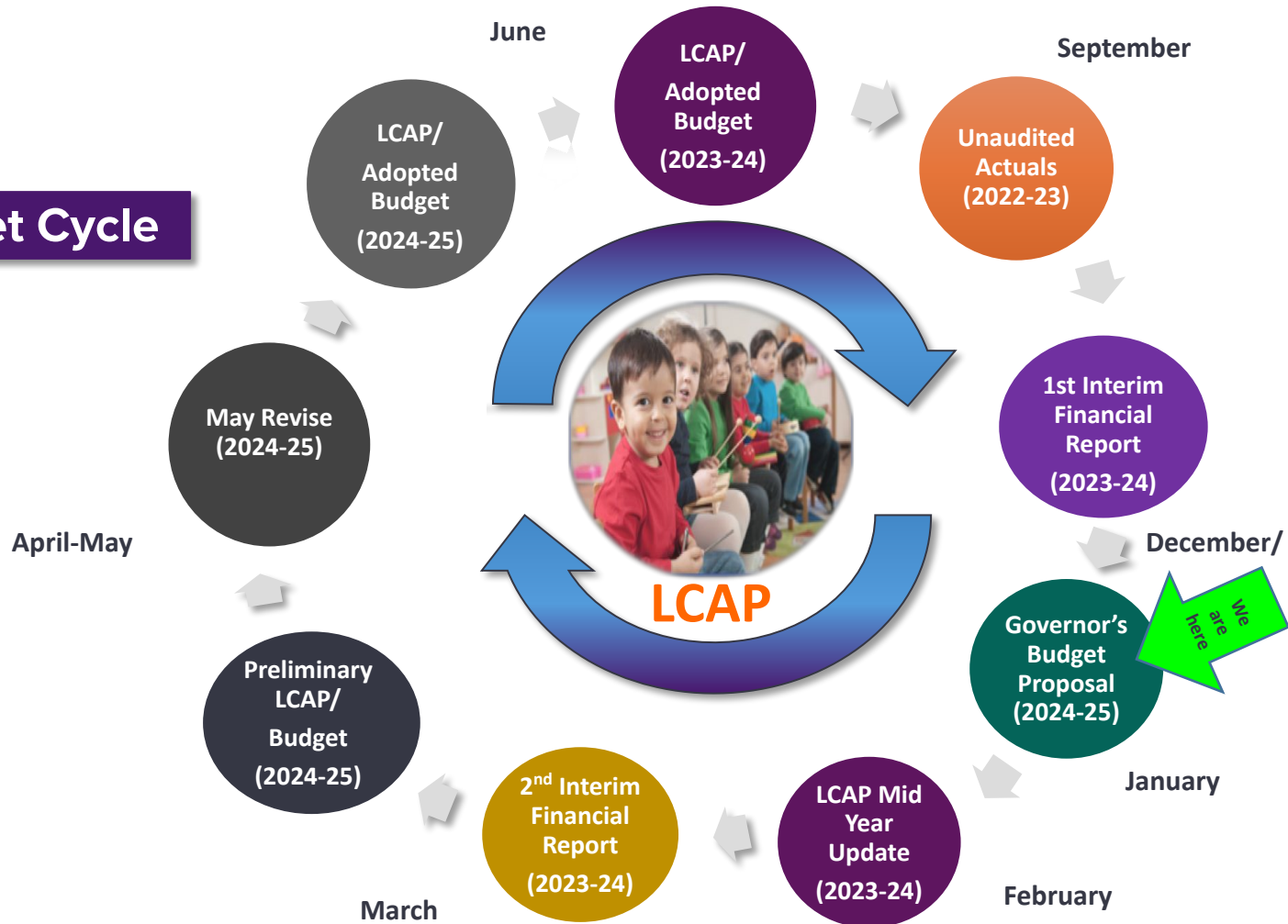


Presentation Items

- Overview
- Proposed State Budget and the State Economy
- Proposed Proposition 98 and Education Funding
- Proposed State Budget and Santa Rosa City Schools Impacts
- Areas to Monitor
- Next Steps
- Questions

Overview

The Annual Budget Cycle

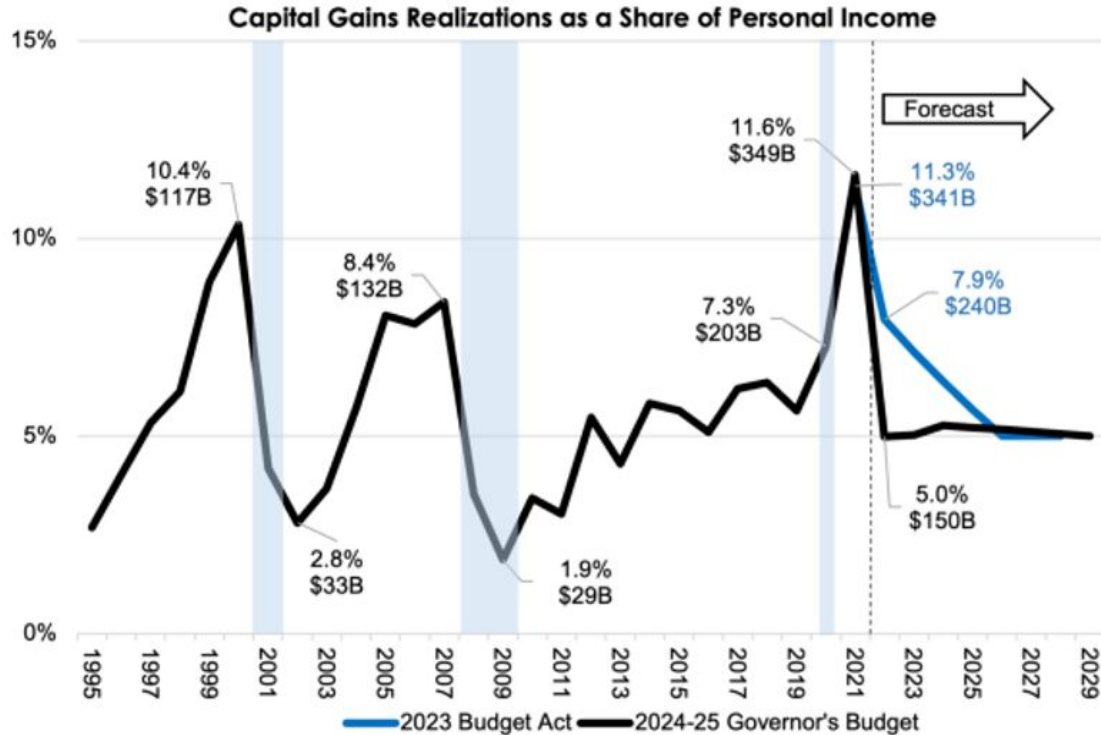


Proposed State Budget and the State Economy

Governor's Budget Themes

- Governor Gavin Newsom measures a \$37.9 billion budget shortfall, due largely to 2022 tax collections well below the budget's assumptions
- The Governor's Budget proposal protects the education budget against the local impact of a nearly \$12 billion reduction in Proposition 98 resources that, if unmitigated, would undoubtedly harm our students and the cadre of professionals who dedicate their lives to teaching and supporting them
- The Governor's Budget uses less pessimistic revenue assumptions than the Legislative Analyst's Office (LAO)
- The Governor projects a \$37.9 billion budget deficit for 2024-25
- Budget-balancing measures include drawing down \$13.1 billion in reserves and \$5.7 billion from the Public School System Stabilization Account (PSSSA), along with borrowing, funding reductions in non-Proposition 98 areas, funding delays, deferrals to payroll and University of California/California State University, and tax revenue proposals
- The state is better prepared to weather a financial downturn due to record levels of reserves
- Education is facing a "COLA-only" year when the projected statutory COLA is significantly less than 2023-24 and anticipated for 2024-25 trending

Capital Gains Realizations as a Share of Personal Income

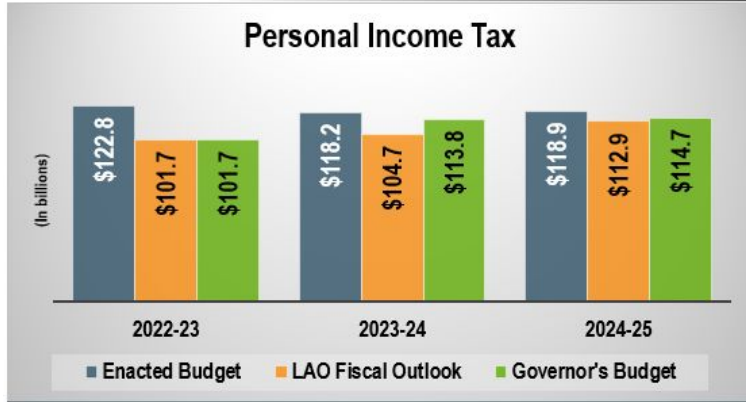


Shaded bars indicate previous U.S. recessions.
 Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

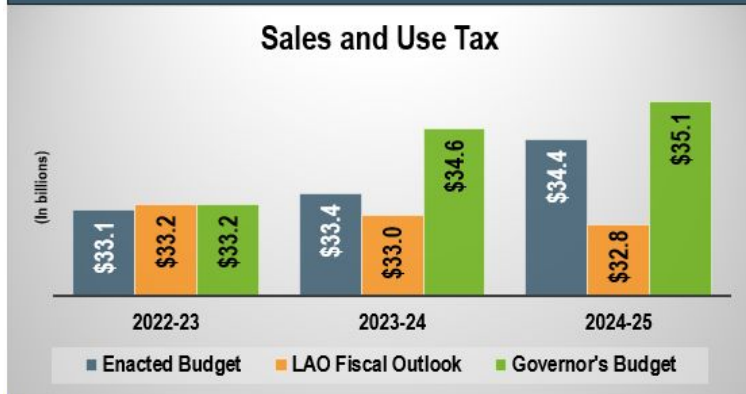
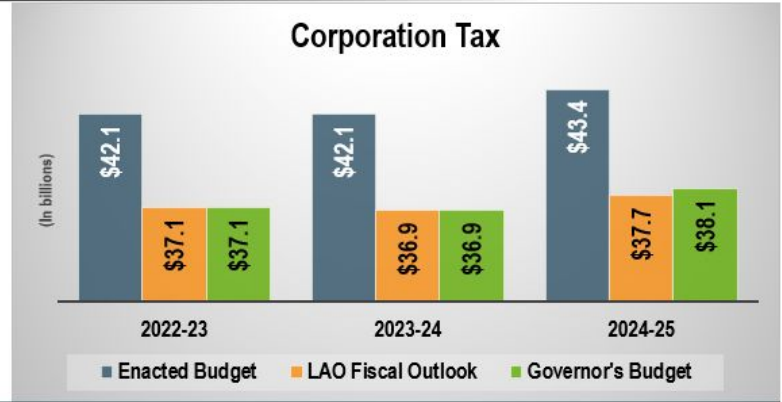
Source: 2024-25 Governor's Budget Summary



Big Three Taxes—Governor’s Budget vs. LAO’s *Outlook*



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



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

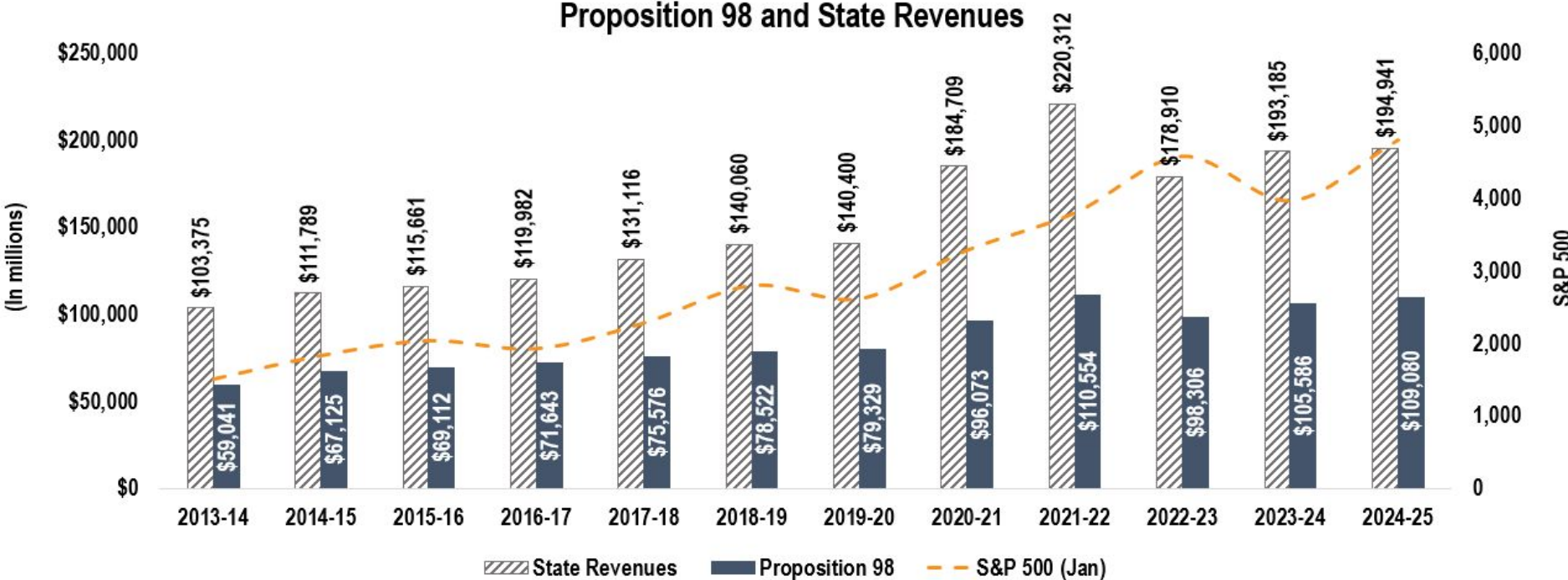
- PIT is \$9.1 billion and \$1.8 billion higher in 2023-24 and 2024-25, respectively
- Corporation tax is slightly higher
- Sales and use tax is higher than both LAO and 2023-24 Enacted Budget projections

Source: 2024-25 Governor’s Budget Summary and LAO’s *Outlook*

Proposition 98 and Education Funding

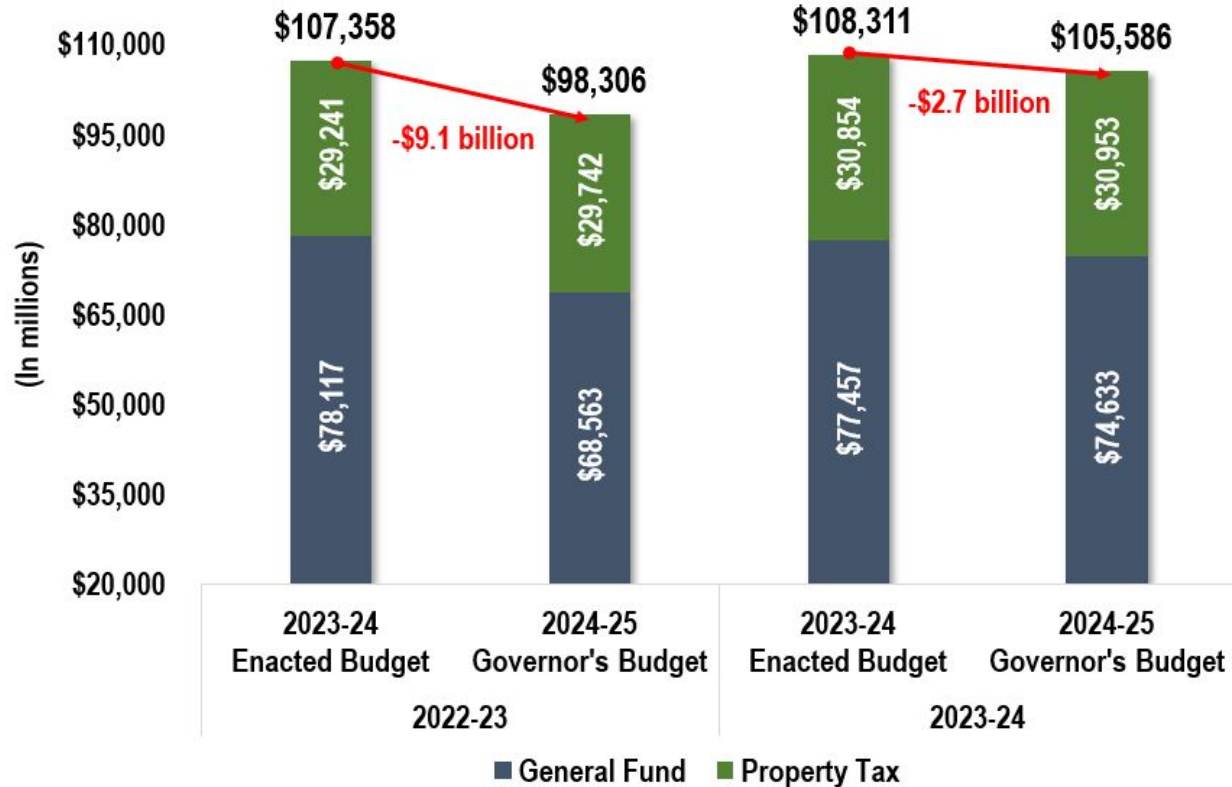
Proposition 98 Over Time

- As we have noted before, General Fund revenues rely heavily on California's top earners
- Even with the downward adjustments, Proposition 98 continues an upward overall trend



Proposition 98—2022-23 and 2023-24

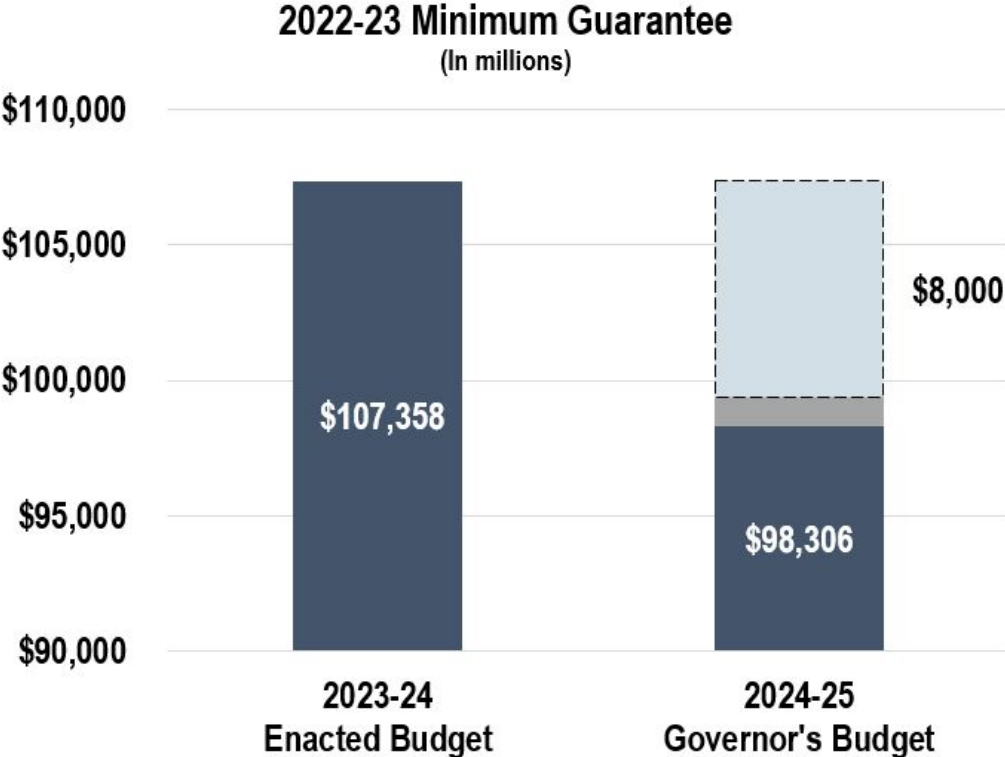
- The Governor's Budget adjusts the prior- and current-year Proposition 98 levels from 2023-24 Enacted Budget levels
 - 2022-23: -8.4%
 - 2023-24: -2.5%
- The sole driver of the change is less-than-expected state General Fund revenues
 - Local property tax assumptions are relatively unchanged



Proposition 98—Allocating Above the 2022-23 Minimum Guarantee

- The treatment of the significant drop in Proposition 98 in 2022-23 is critical
 - Left unaddressed, it can create an increased state obligation in the future
 - But an unmitigated cut in funding for a year that's already over would be untenable (if not impossible) for LEAs

The Governor's Budget proposal enables LEAs to retain the additional funding in 2022-23 with the intention of accounting for it in the future



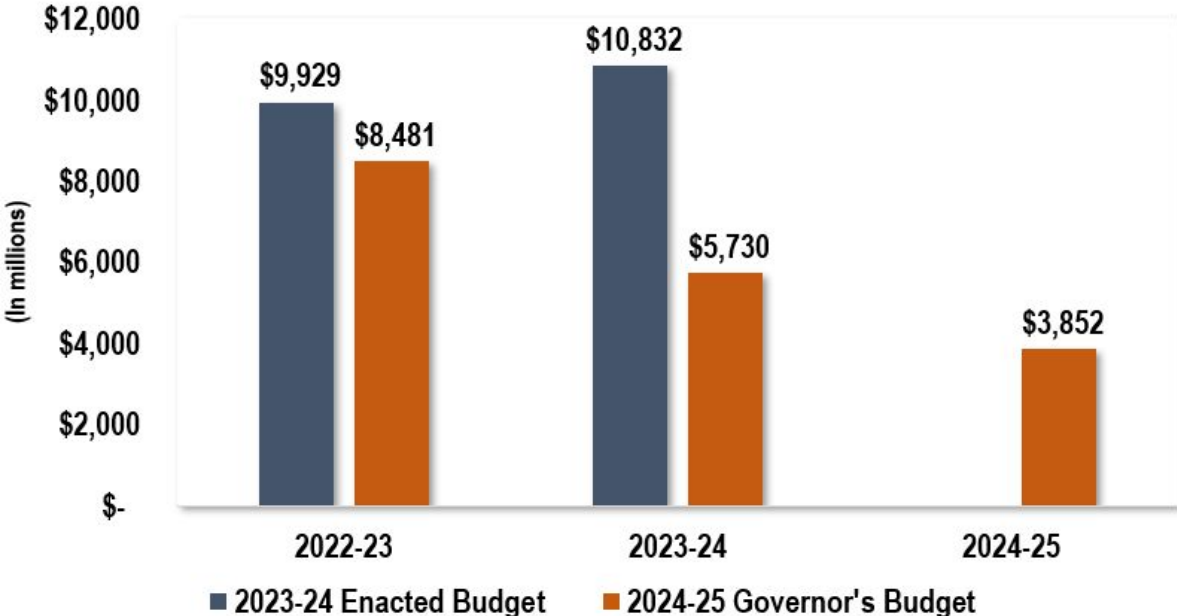
Proposition 98 Reserve

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

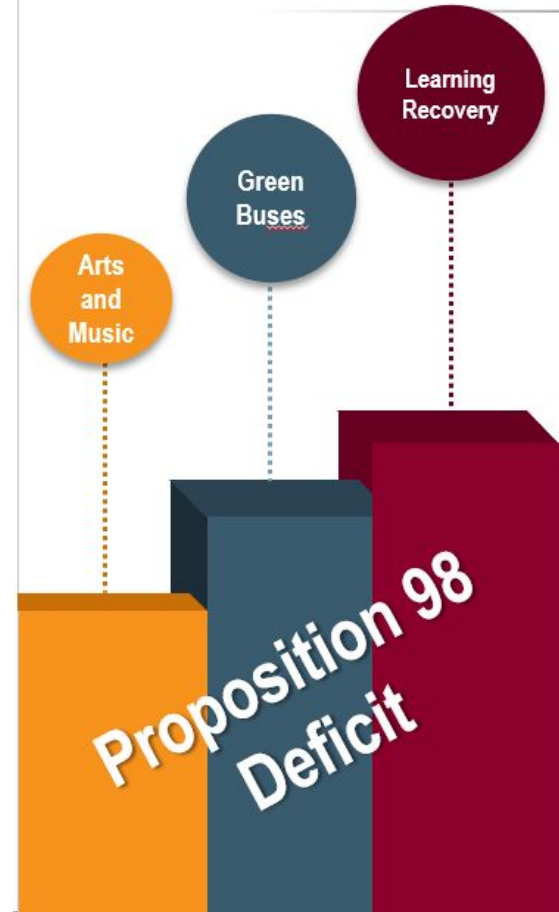
Deposits and Withdrawals
(In millions)

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

Proposition 98 Reserve Account Balance

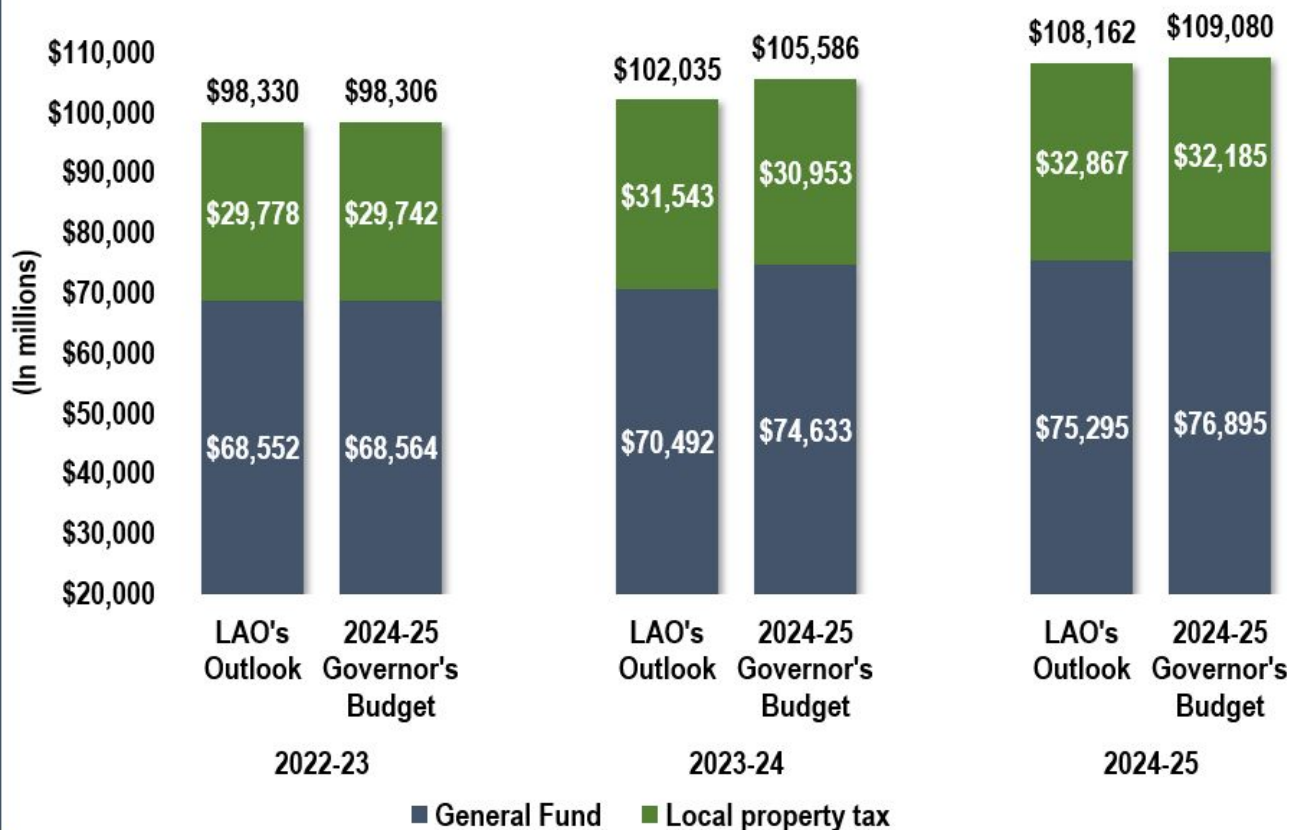


Proposition 98 Deficit



- While rising costs related to annual increases to local apportionments for K-14 agencies are abating in 2024-25, recall that the state began deficit spending in Proposition 98 in 2023-24
- The Governor's Budget continues the trend of deficit spending to:
 - Address an \$11.8 billion drop in Proposition 98 revenues in 2022-23 and 2023-24
 - Backfill for expired one-time funding used to pay for the 8.22% COLA in 2023-24
 - Pay for program cost increases from a 0.76% COLA in the budget year
 - Address an unexpected deficit in 2022-23 stemming from the costs associated with, in part, a 6.70% COLA augmentation

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
- Again, the driver is a \$15.3 billion difference in state General Fund revenue assumptions
 - The LAO assumes modestly higher local property taxes

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*

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 Proposition 98 deficit



Proposition 98 Deficit

Spending beyond the means of Proposition 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 undergird the State Budget and Proposition 98 are critical for stable local planning

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

Proposition 98: Arts and Music Instruction (Proposition 28)

Arts and Music Programs in Public Schools

\$931 million

Beginning in 2024-25, Proposition 98 is permanently re-benched to include an amount equal to 1.0% of the K-12 share of the minimum guarantee to fund arts and music programs in public schools

Proposition 28 allocations are subject to annual audits to ensure that LEAs:

Certify that 80% of funds will be used to employ LEA staff, if LEA enrollment exceeds 500 students

Certify that funds will be used to *supplement* arts education programs

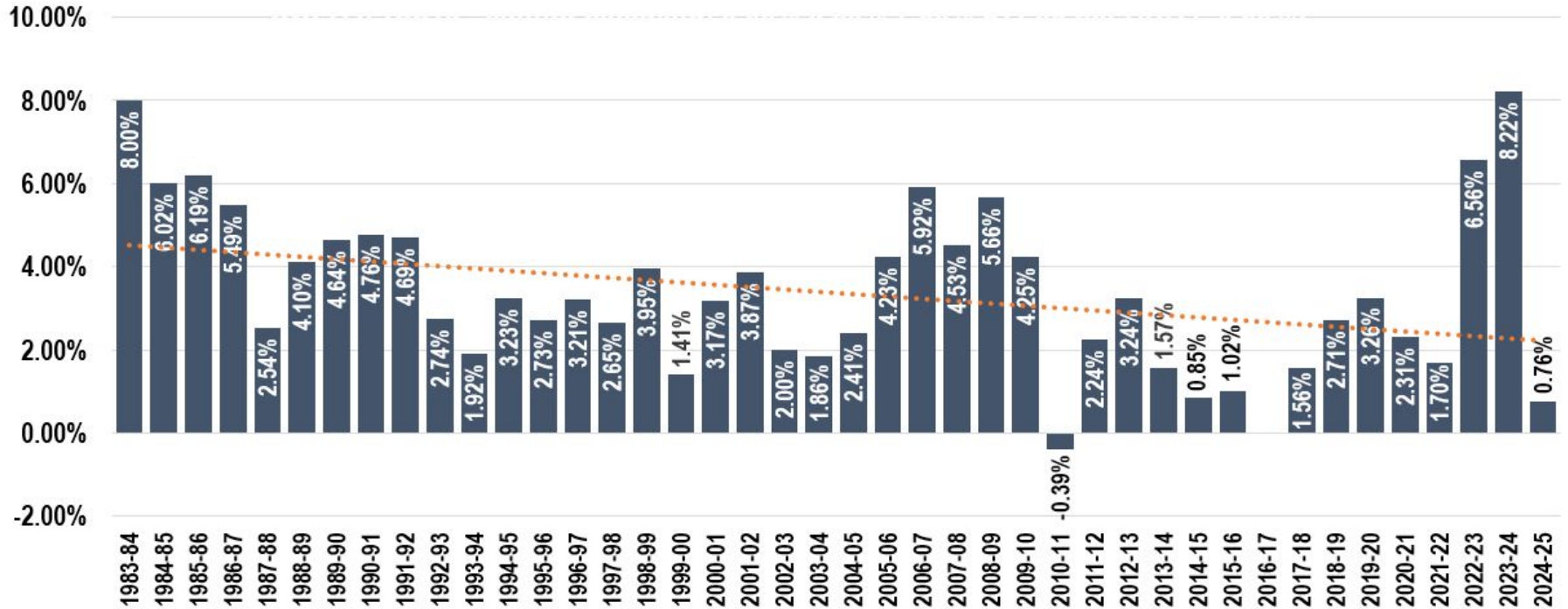
Certify that no more than 1% will be used for administrative expenses

Audit instructions will be forthcoming with the release of the 2023-24 Audit Guide Supplement in March

Proposed State Budget and Santa Rosa City Schools Impacts

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



2024-25 LCFF Funding Factors

0.76% estimated statutory COLA applied to the base grants and transitional kindergarten (TK) and home-to-school transportation add-ons



Grade span adjustments (GSAs) applied as percentage increases to the base grants

- Grades TK-3—10.4%
- Grades 9-12—2.6%

Supplemental and concentration (S/C) grants calculated based on the UPP

Unduplicated pupil percentage (UPP)—LEA's enrolled students who are English learners, free or reduced-price meal program eligible, or foster youth

Fluctuating Statutory COLAs From the Department 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>	-3.18	-0.56	-0.08

2024-25 LCFF Overview

2024-25 Governor's Budget Proposal includes no Augmentation or Suspension to the COLA

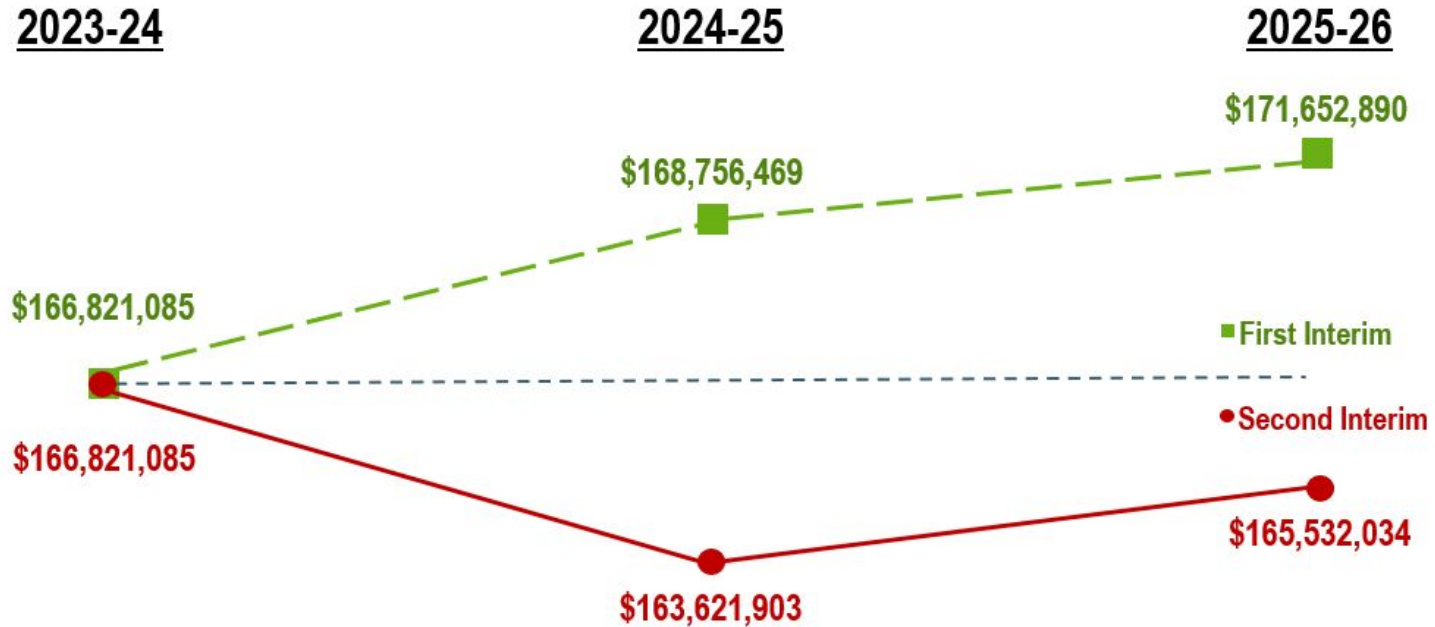
2024-25 Governor's Budget Proposal	2024-25	2025-26	2026-27
LCFF Funded COLA - Statutory COLA & Augmentation/Suspension	0.76%	2.73%	3.11%
Statutory COLA (as calculated by the Department of Finance)	0.76%	2.73%	3.11%
Augmentation/(COLA Suspension)	0.00%	0.00%	0.00%

2024-25 LCFF Overview

2024-25 Governor's Budget Proposal	2023-24	2024-25	2025-26
LCFF Funded COLA - Statutory COLA & Augmentation/Suspension	8.22%	0.76%	2.73%
SRCS Updated LCFF Revenue Projection with 2024-25 Governor's Budget Proposal	\$166,821,085	\$163,621,903	\$165,532,034
2023-24 Enacted Budget	2023-24	2024-25	2025-26
LCFF Funded COLA - Statutory COLA & Augmentation/Suspension	8.22%	3.94%	3.29%
SRCS 2023-24 1st Interim LCFF Revenue	\$166,821,085	\$168,756,469	\$171,652,890
	2023-24	2024-25	2025-26
SRCS Change to LCFF Revenue Projection	\$0	-\$5,134,566	-\$6,120,856

Yellow highlighted areas indicate our current Multi Year Projection (MYP) current year plus two future years
 Revenue Projections are based on Average Daily Attendance (ADA) Projections that are not known yet

A Tale of Two Multiyear Projections— LCFF Revenues First Interim to Second Interim



	2023-24	2024-25	2025-26
ADA	11,966	11,847	11,729
Base Grant 1st Interim	\$10,069	\$10,466 (3.94% COLA)	\$10,807 (3.26% COLA)
Base Grant 2nd Interim	\$10,069	\$10,146 (0.76% COLA)	\$10,422 (2.73% COLA)

LCFF - Receive Dollars, Not Percentages

Year	Funded ADA	LCFF Funds
2023-24	12,624	\$166,821,085
Year	Funded ADA	LCFF Funds
2024-25	12,119 + 0.76% COLA	\$163,621,903
Dollar Increase/Decrease		-\$3,199,182
Percent Change Year over Year		-1.92%

Categorical Program COLA

The Governor's Budget includes the 0.76% COLA for the following programs:

Adults in Correctional Facilities

American Indian Early Childhood
Education Program

American Indian Education
Centers

Charter School Facility Grant
Program

Child Nutrition

Mandate Block Grant

Special Education

Youth in Foster Care

CalPERS Employer Contribution Rates

- The Governor did not propose providing CalPERS relief
- 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

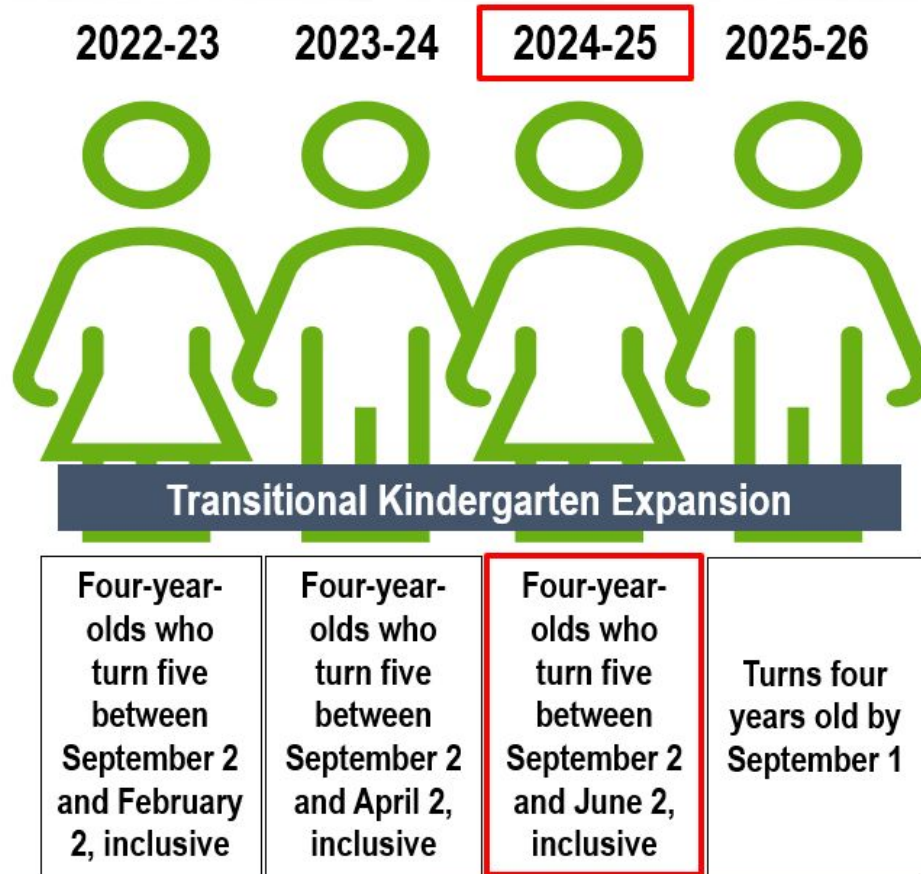
CalSTRS Employer Contribution Rates

- Similarly to CalPERS, the Governor does not include any new funding towards CalSTRS relief
- School Services of California recommends 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%

Universal Transitional Kindergarten Implementation

- The 2023-24 Enacted Budget maintained implementation of universal TK, with no adjustments to the expansion of funded four-year-old students



- Universal TK is part of the California for All Kids plan—a whole child framework to which the Governor remains committed, and which includes investments in community schools, universal meals, and expanded learning opportunities

Universal School Meals Program

- In addition to applying the statutory COLA, the Governor proposes to fully fund the universal school meals program in 2024-25
- Required to provide breakfast and lunch to students that request a meal, free of charge
- In order to receive reimbursement under the program, we must participate in both the National School Lunch Program and the School Breakfast Program



Expanded Learning Opportunities Program

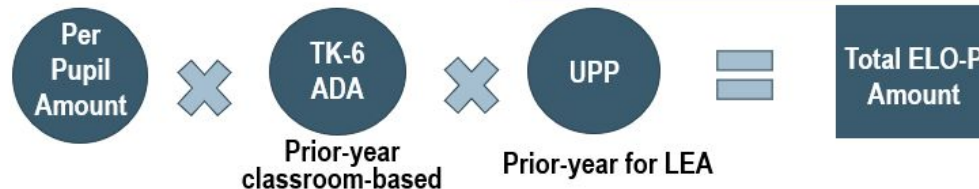
- There are no cuts, nor a COLA, proposed to the Expanded Learning Opportunities Program (ELO-P) for 2024-25
- And while the 2023-24 Enacted Budget did not include cuts, we may see a reduction in our total ELO-P amount this year

2022-23 State Investment in ELO-P Was \$4 billion

- Rate 1: \$2,750 per pupil with UPP \geq 75%, in accordance with statute (Not SRCS)
- Rate 2: \$2,054 per pupil with UPP <75% (SRCS)
- Rate 2 determined by first subtracting the total amount for all Rate 1 schools, with remaining amount distributed per the formula to Rate 2 schools

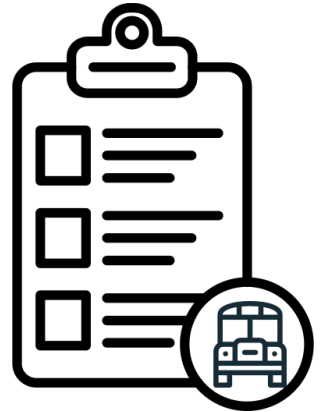
2023-24 State Investment in ELO-P Still \$4 billion

- Rate 1 LEAs: \$2,750 per pupil with UPP \geq 75%, in accordance with statute
- Rate 2 LEAs: \$1,803 per pupil for LEAs with UPP <75%
- Rate 2 decreased by \$251.54 from 2022-23 because of a 3.27% statewide increase in classroom-based ADA in grades TK-6 used in the funding calculation, and no increase to the state budget allocation for the program



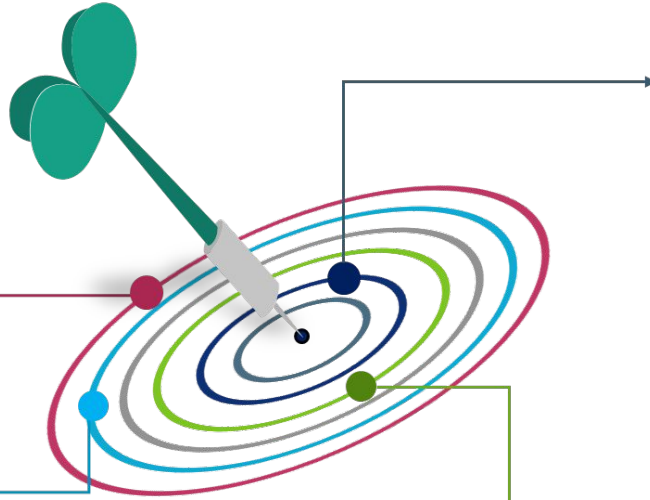
Home-to-School Transportation Funding

- Again as in 2023-24, the 2024-25 Governor's Budget Proposal includes Home-to-school transportation entitlements that are calculated as reimbursement for 60% of transportation costs, less the LCFF add-on
- The Proposal includes the 0.76% COLA
- An annually adopted Transportation Service Plan is required in order to receive reimbursement
 - The plan was to be adopted by April 1, 2023, and each year updated by April 1, primarily about the following fiscal/school year
- Plan must:
 - Include priority for planned services for students in grades TK-6 and low-income students
 - Describe how transportation will be accessible to students with disabilities and homeless youth
 - Describe how unduplicated students may access free transportation
 - Be developed in consultation with staff, regional transit authorities, local air pollution control districts, air quality management districts, parents, and students and adopted in an open meeting with opportunity for in-person and remote public comment



Multi Year Projections

Multiyear projections are required by Assembly Bill (AB) 1200 and AB 2756



Projections are anchored in reliable information as of the date of the projection

Projections will change any time the underlying factors change

Projections must be documented, because they will change

Areas to Monitor

- May Revision and Final budget in June
- Inflation, interest rates, and the stock market
- The Governor's forecast assumes slower economic growth, but not a recession
- Most economists now agree that a recession is possible but unlikely in 2024
- Governor's 2024-25 Budget Proposal is utilizing one-time funding for ongoing expenses, again as in 2023-24
- One-time funding and categorical grant spending deadlines
- Declining enrollment and Average Daily Attendance (ADA) rates
- Employee negotiations / Collective Bargaining
- Fiscal stabilization progress

Next Steps

February 2024

- 2023-24 LCAP Mid Year Update
- Budget Advisory Committee (BAC)
- Recommendations for FSP-P1

March 2024

- BAC
- Board consideration of FSP-P1
- 2023-24 Second Interim Report

April 2024

- BAC

May 2024

- Next State Budget Check Point - Governor's 2024-25 Budget May Revise
- If necessary Third Interim
- BAC

June 2024

- 2023-24 Estimated Actuals
- 2024-25 Budget and LCAP Public Hearings and Adoptions
- State Enacted 2024-25 Budget

July, August & September 2024

- Santa Rosa City Schools 45 Day 2024-25 Budget Update
- 2023-24 Unaudited Actuals

Board Member Questions

