



2023 May Revision Review

Presented By:

Dr. Lisa Gonzales

May 24, 2023

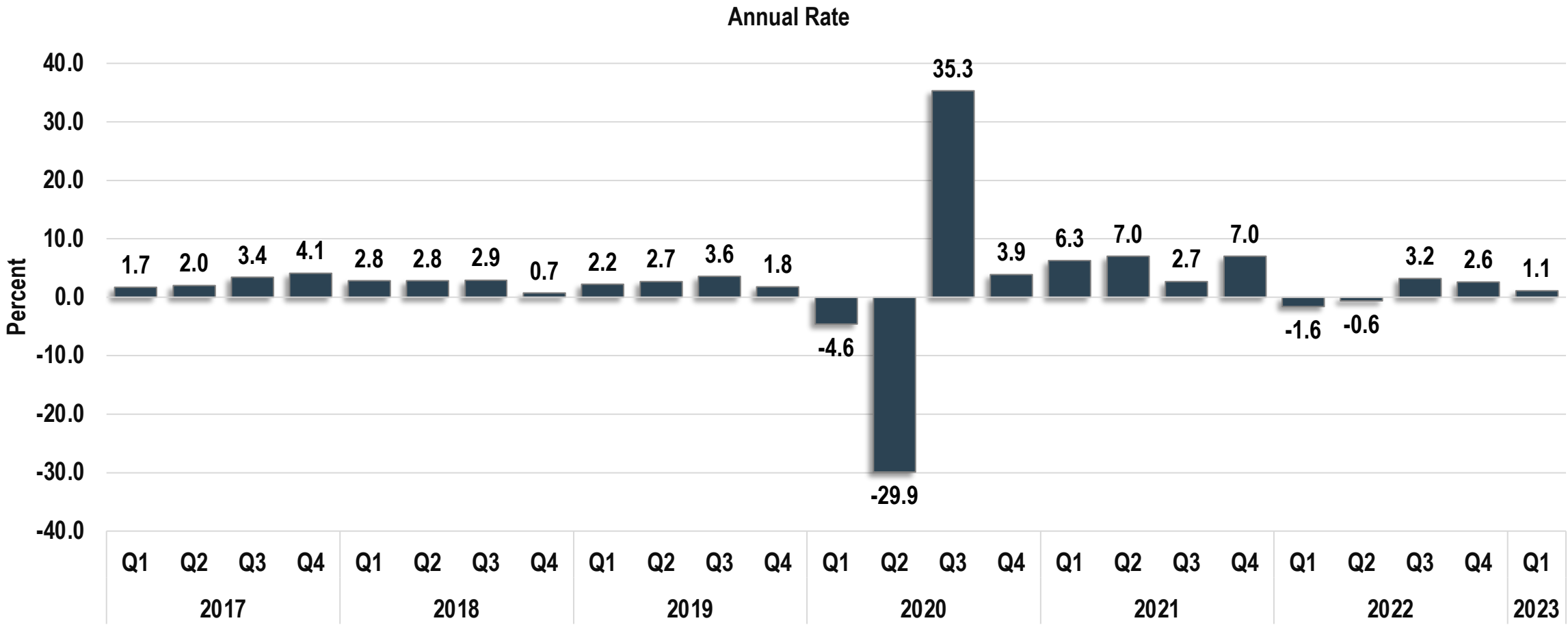
Budget Advisory Committee Meeting

**** Thanks to SSC for providing this content
that can be shared in MDUSD**

Overview of the State Budget and the State Economy

U.S. Gross Domestic Product

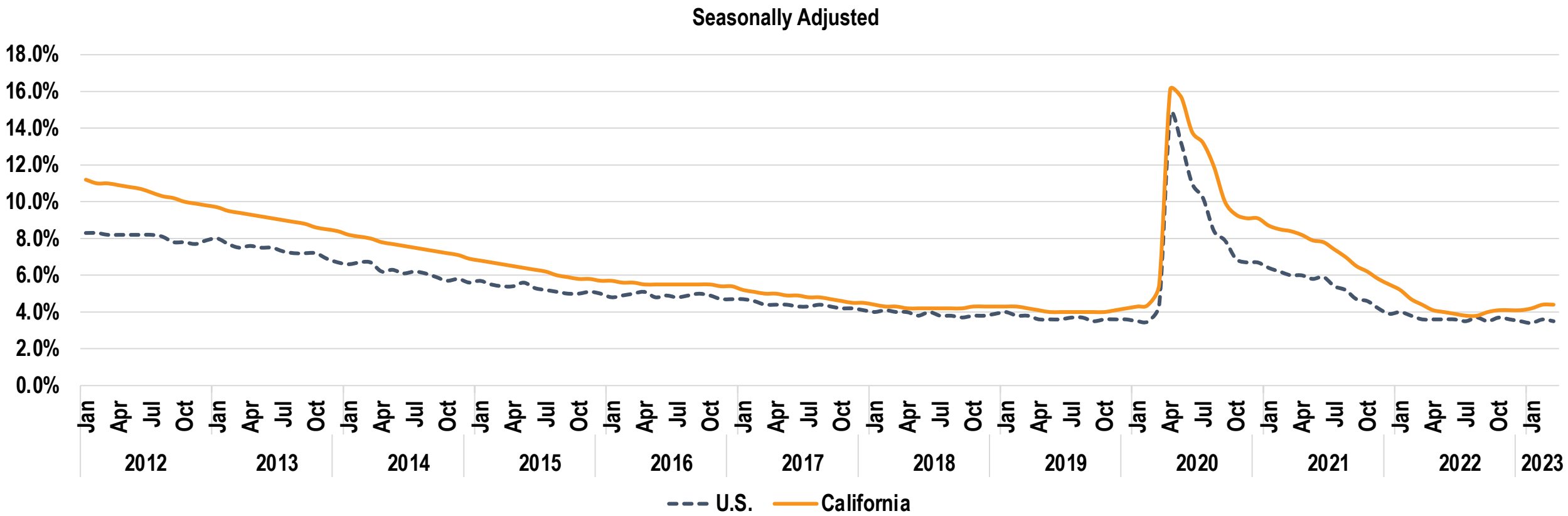
- The overall economy has improved markedly since the first half of 2022, but remains well below pandemic-level highs



Source: Bureau of Economic Analysis

U.S. and California Unemployment Rates

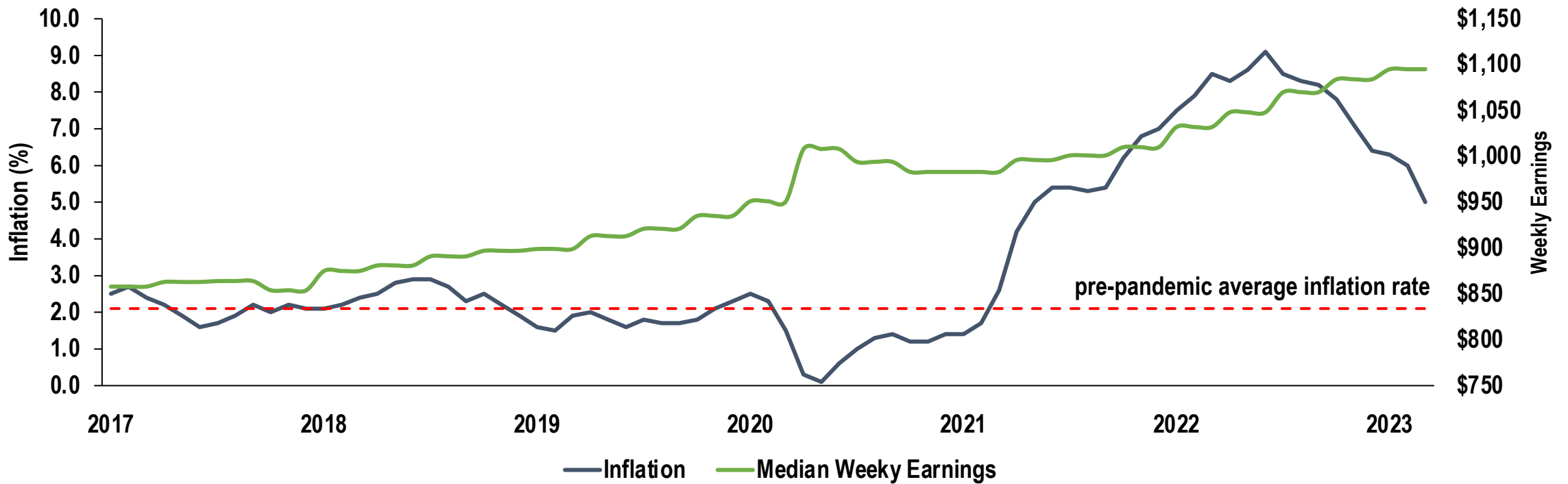
- Unemployment levels have reached pre-pandemic lows; however, concerns mount that the cooling economy or an economic recession may lead to higher jobless rates in the coming months



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

U.S. Consumer Price Index

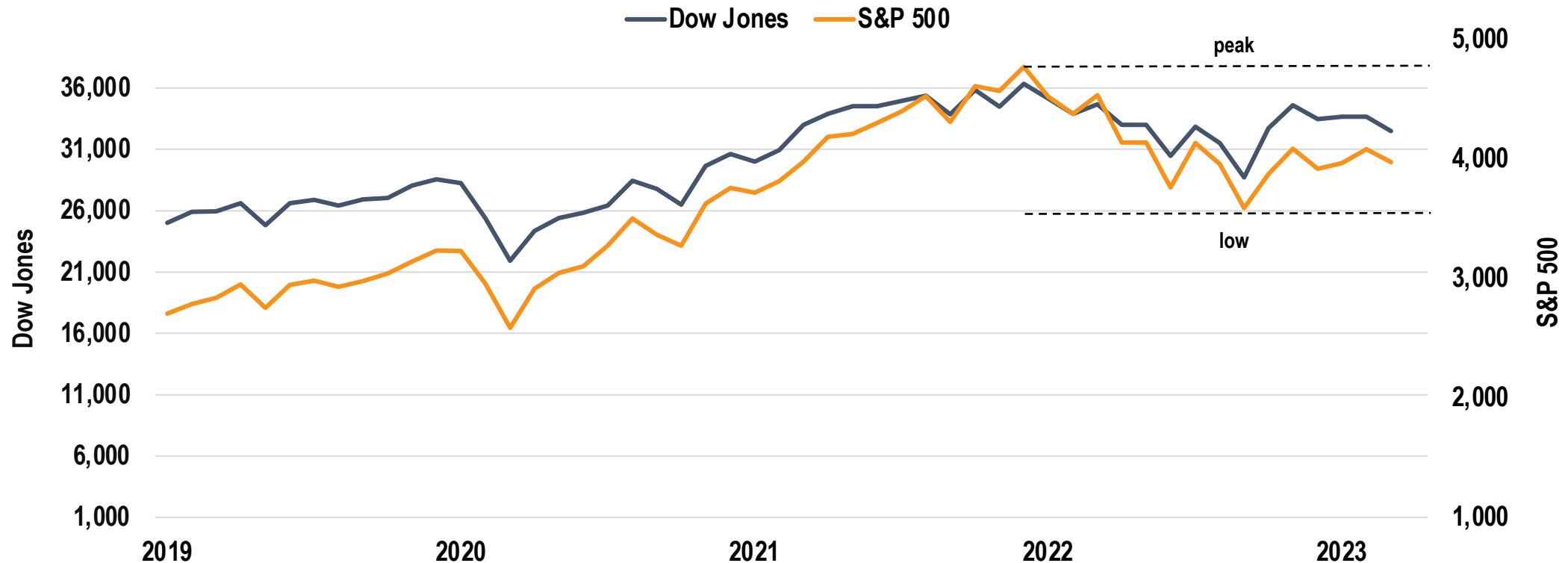
- After reaching its 9.1% peak in the summer of 2022, U.S. inflation is currently 4.9%
- Median weekly earnings for full-time employees have increased by 6.1% from a year ago and by 27.6% over the last five years



Source: Bureau of Labor Statistics

Wall Street

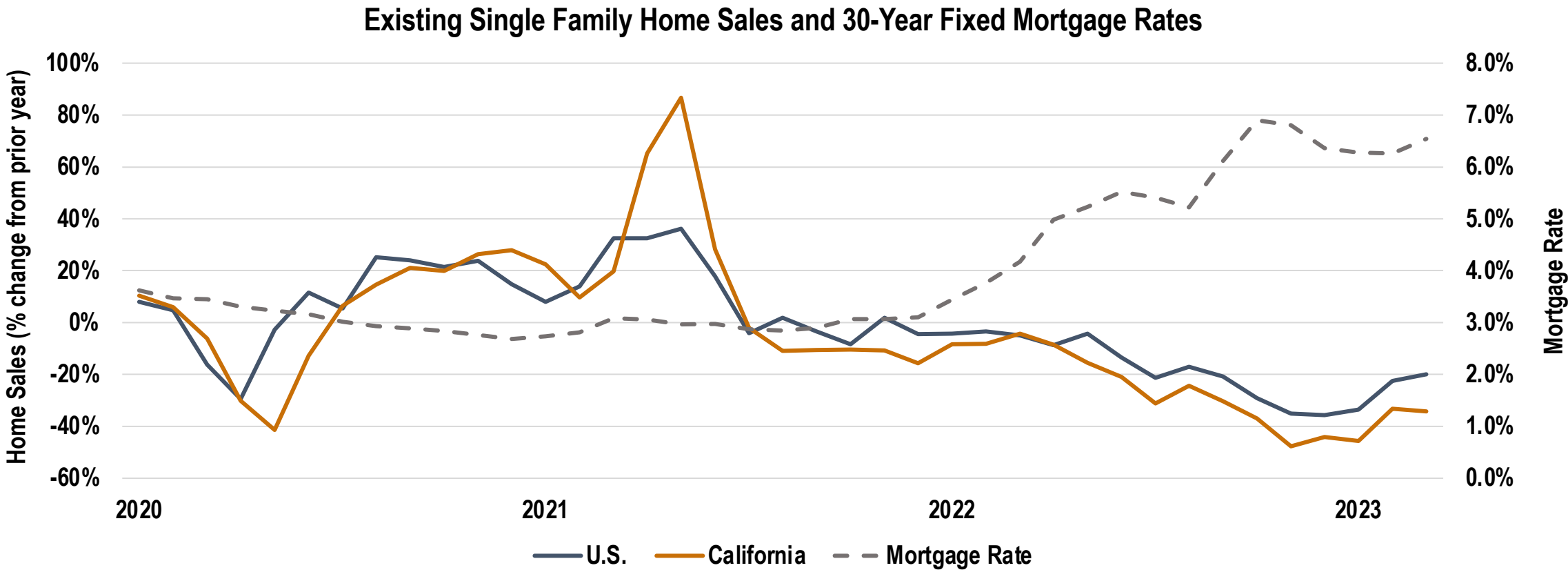
- Wall Street is recovering from its initial shock of Federal Reserve interest rate hikes, but has not reached peak performance
 - At their peaks, the Dow Jones reached 36,338 and S&P 500 was at 4,766
 - The Dow Jones is at approximately 33,000 and the S&P 500 is at approximately 4,100



Source: FRED

Housing Market

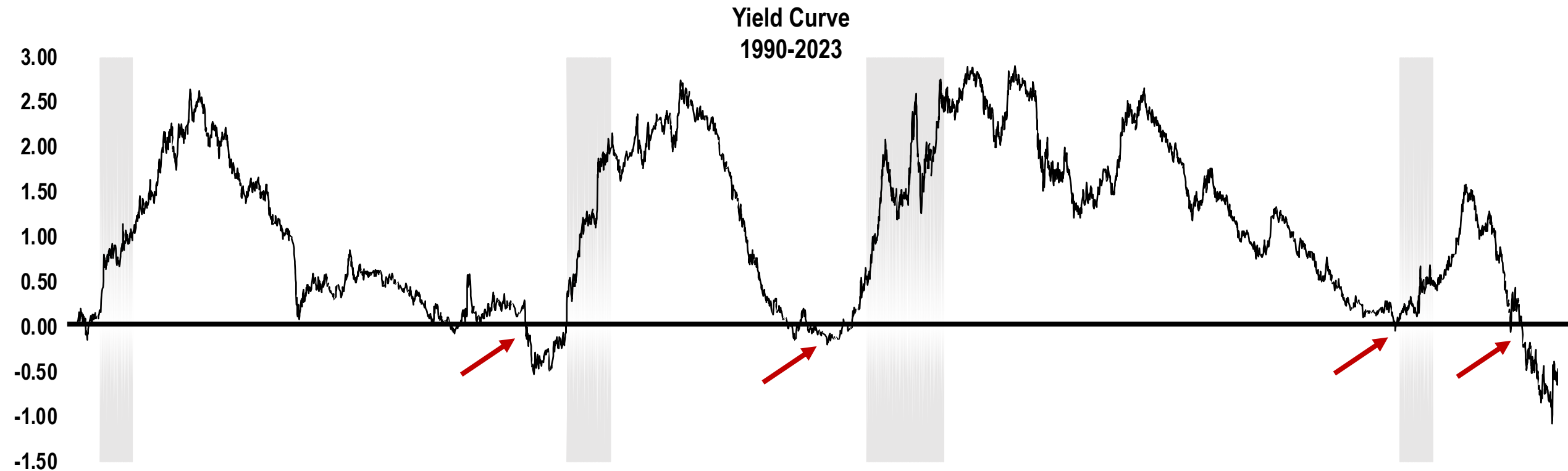
- The housing market has been in a recession for nearly two years and is deepening with increasing mortgage rates



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

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

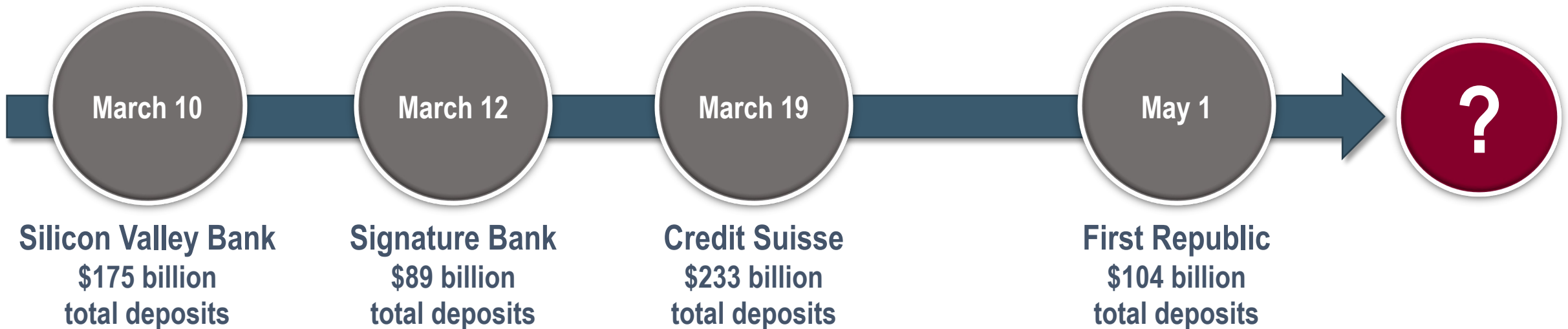


Note: Shaded areas signify economic recessions

Source: U.S. Treasury

Crisis in the Banking Sector

- Risky investment strategies coupled with the impact of higher interest rates on long-term treasury yields have created significant exposure for medium-sized financial institutions
- Since March, three banks have collapsed with signals that others may follow
 - There's hope that the contagion will not spread

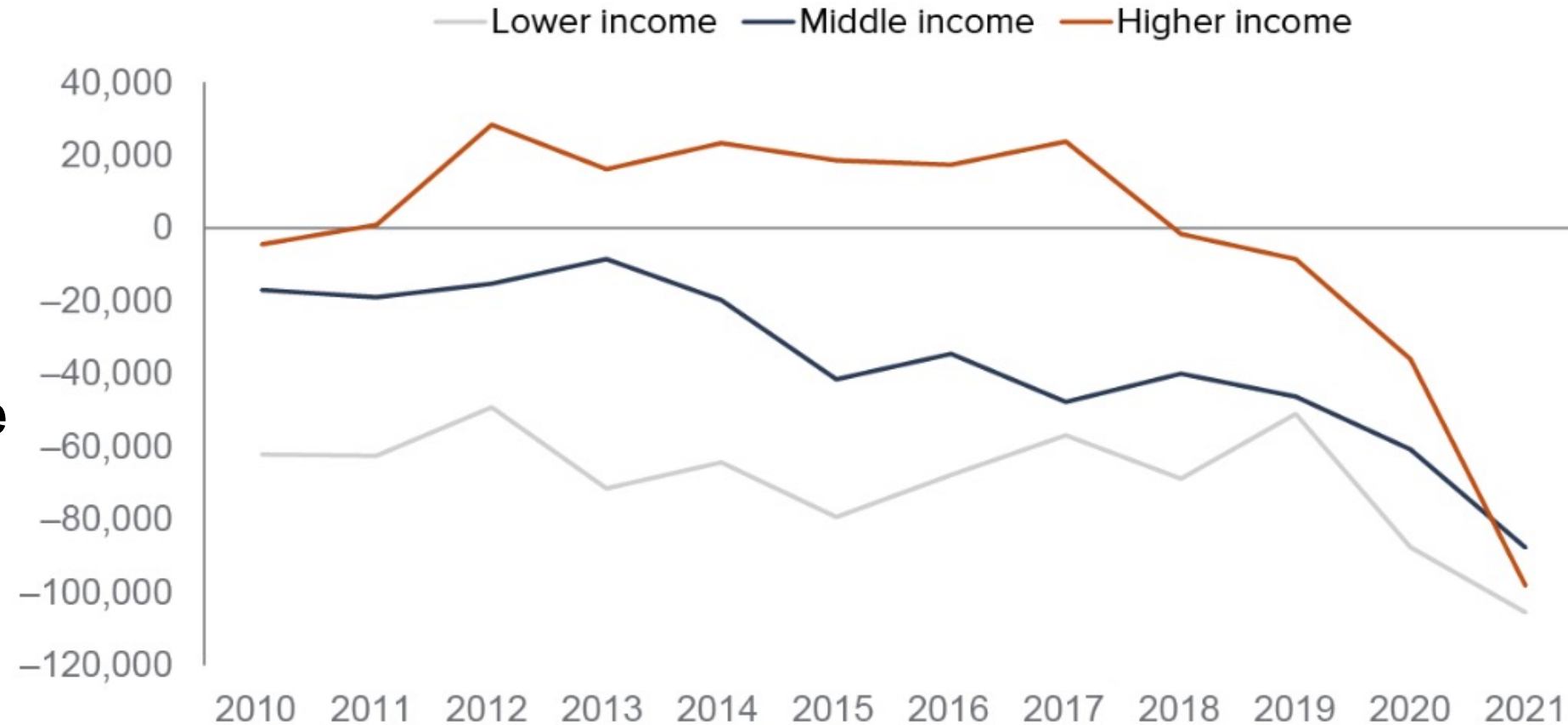


- In any event, the recent banking crisis is squeezing lending practices—tightening available credit for individuals and companies, which will create a cooling effect on economic demand and aid the Federal Reserve's efforts to reduce inflation

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

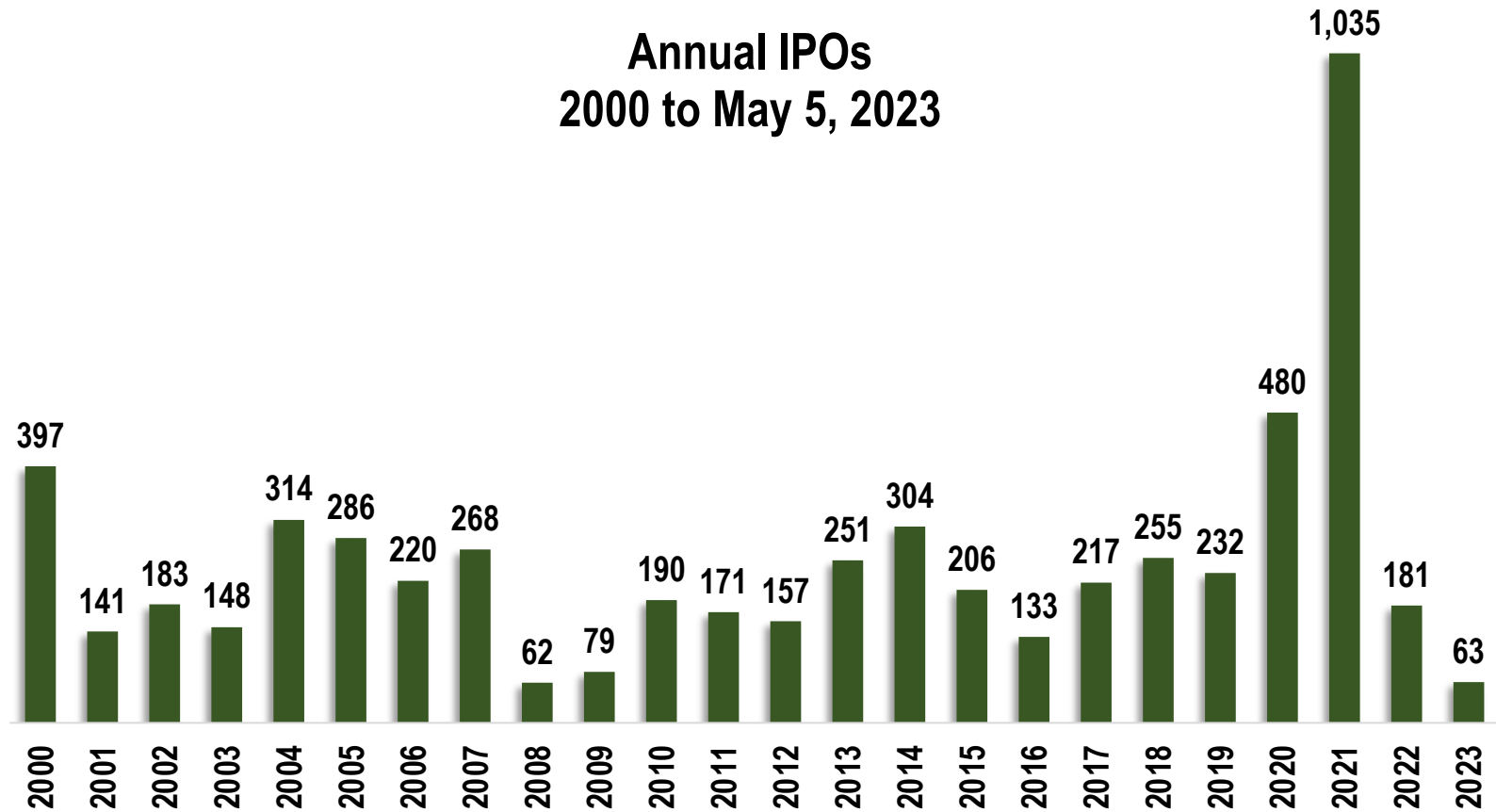
- California is losing more residents than it is gaining, at all income levels
- Since 2018, the net loss of higher-income residents has been starker than low- and middle-income Californians



Source: PPIC, March 21, 2023

Initial Public Offering Trends

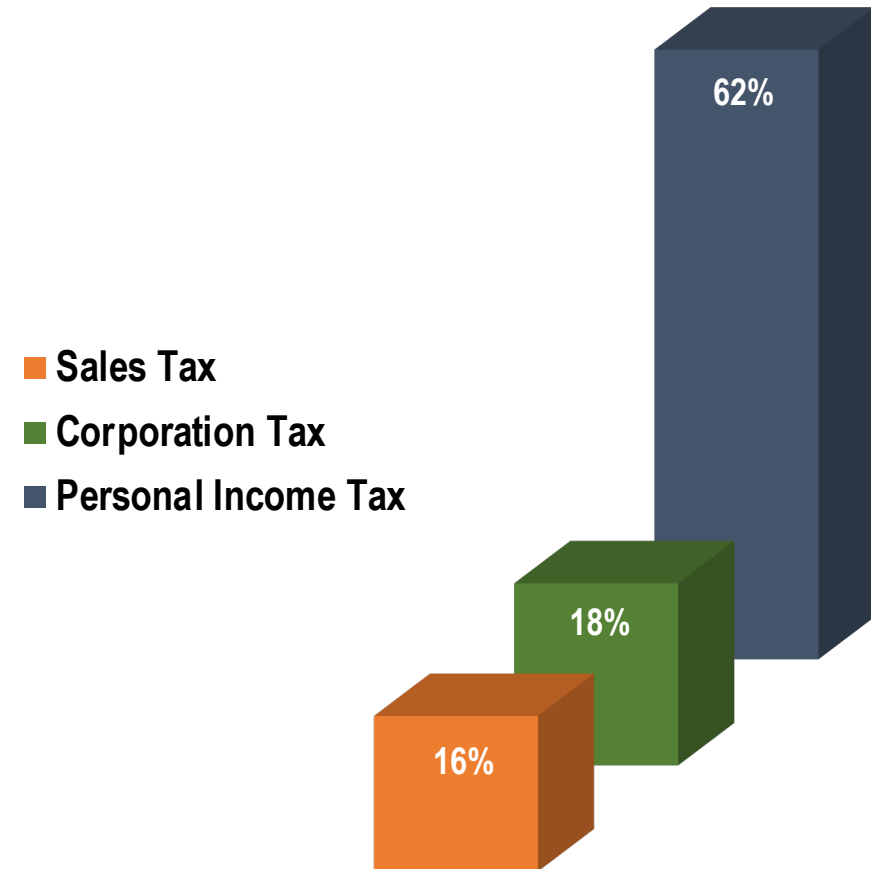
- We are witnessing a marked slowing in the number of initial public offerings (IPOs), which can affect the state economy and revenues
 - Recent IPOs have been in the technology sector
 - California's share of all IPOs in the U.S. in 2021 was 39%
 - Through September 2022, the state's share of IPOs dropped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



Sources: Bloomberg; Stock Analysis (chart)

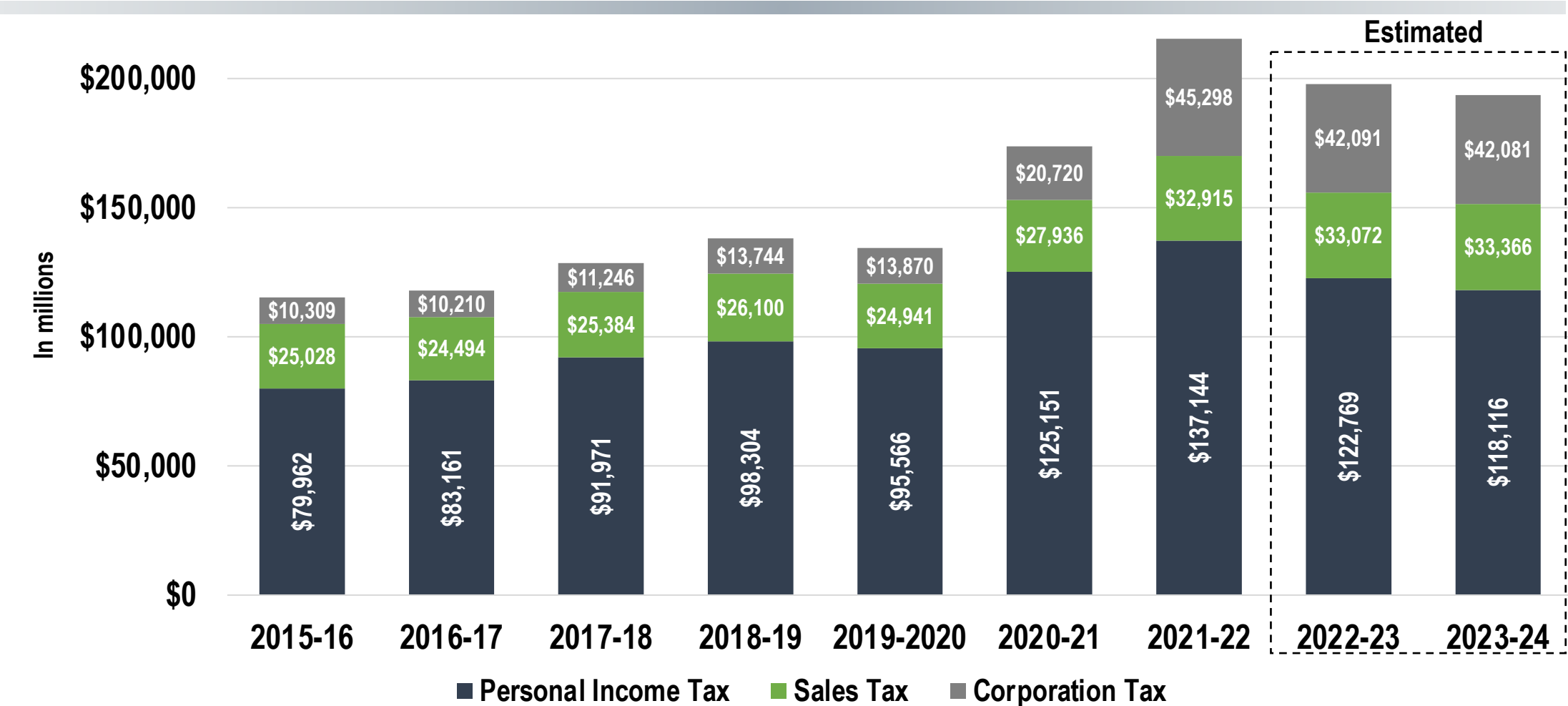
California's Progressive Tax Policy Impact on Revenues

- As a result of California's progressive income tax policy, the state's high-earning residents contribute a disproportionate share of state revenues
 - "Big Three" taxes made up 96% of all state General Fund revenues in 2022-23
 - The lion's share of those are generated by PIT collections, comprising 62% of all state revenues
 - Only 1% of Californians pay approximately 50% of the state's PIT
- Sustained net population loss among high-income earners could result in lower state (and education) revenues in the future



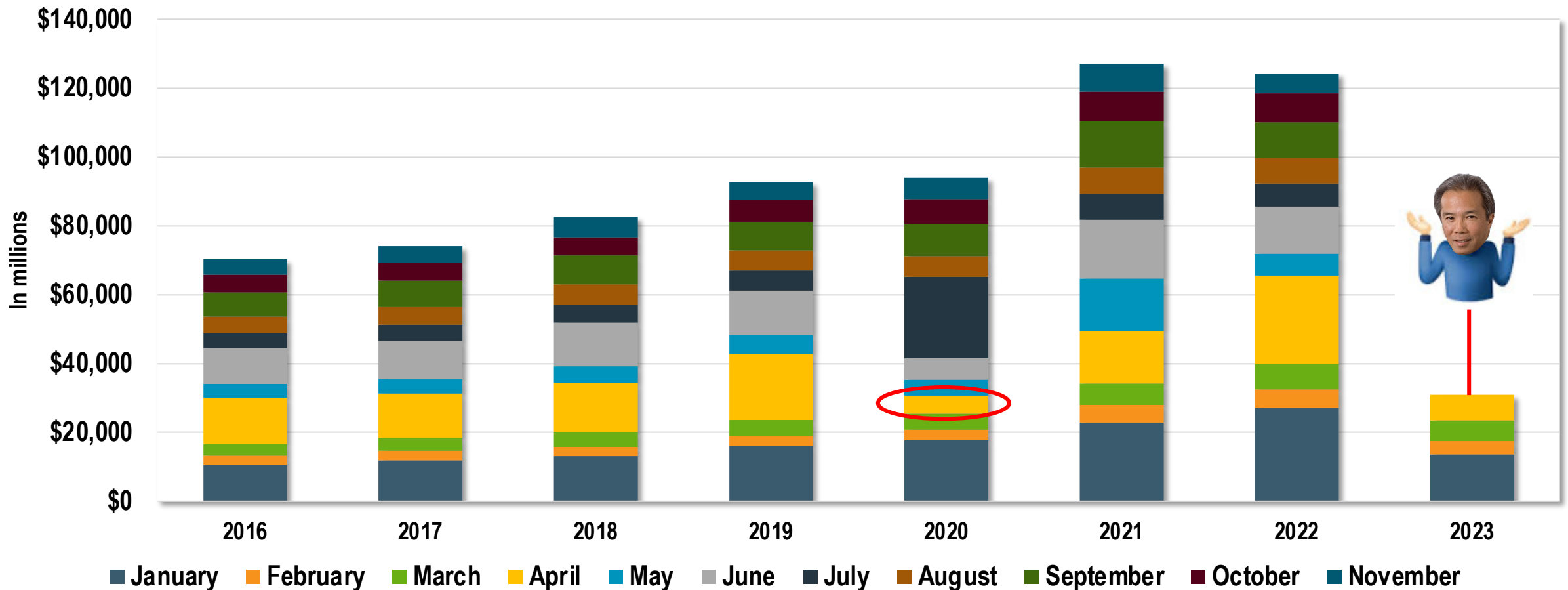
Big Three Taxes—Historical Trend

- 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)



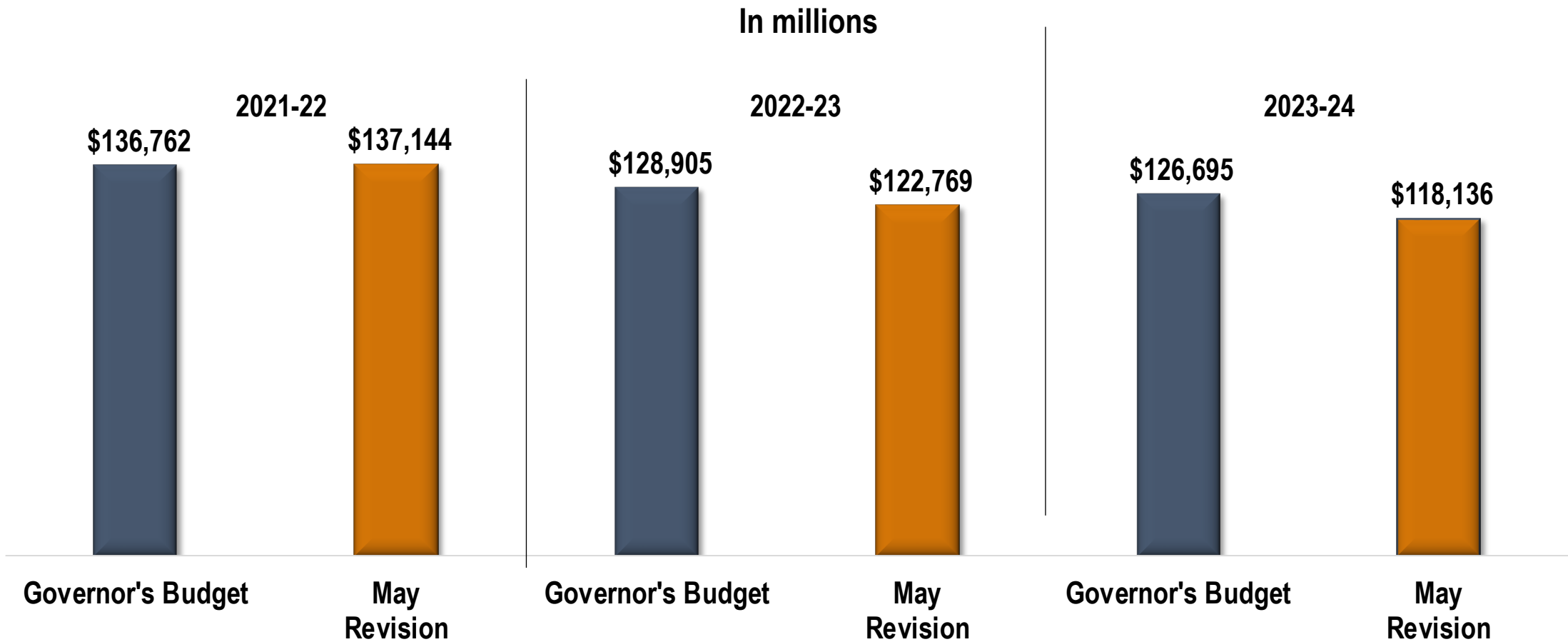
Personal Income Tax Receipts—Historical Monthly Trends

- 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



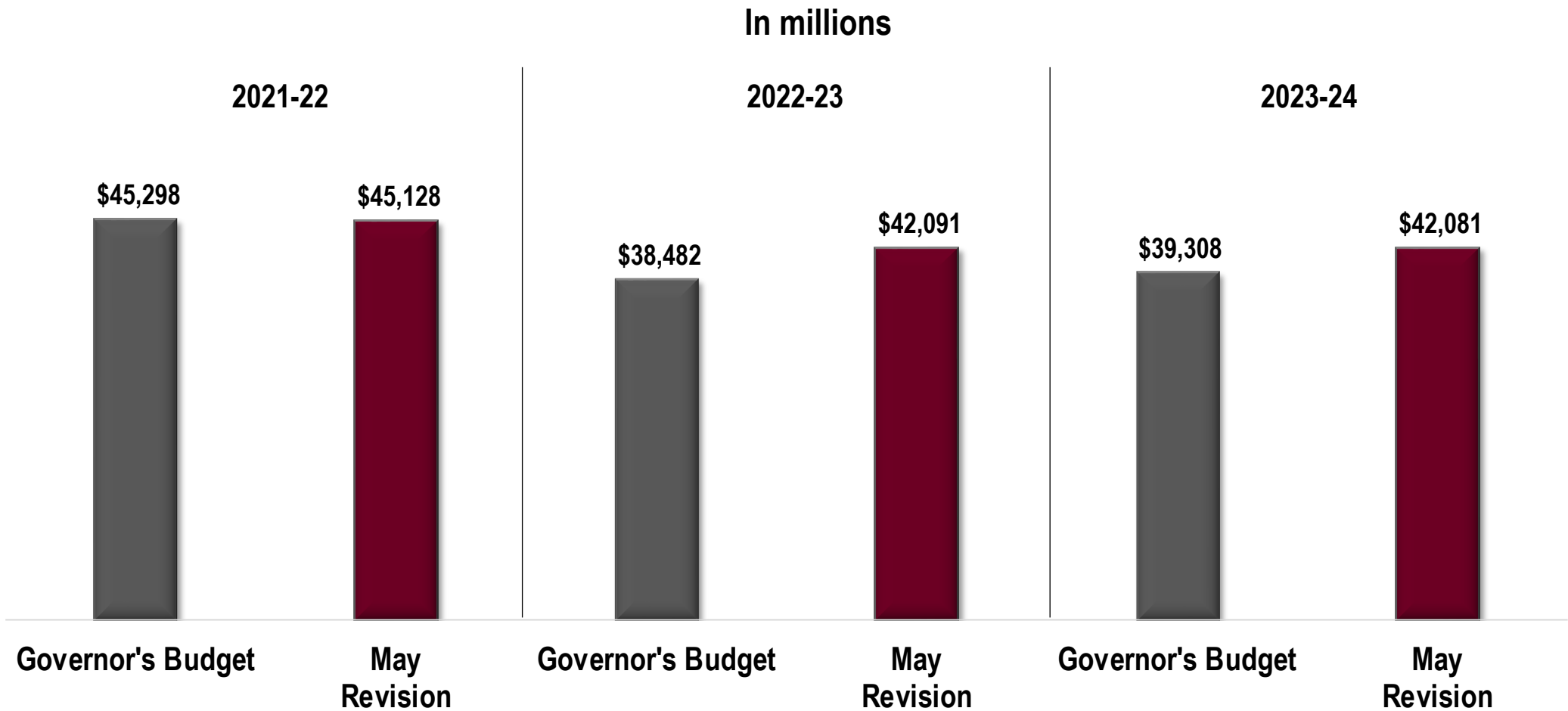
Personal Income Tax

- The May Revision reduces estimates of personal income taxes for 2023-24 by \$8.6 billion from January projections, a 7% reduction



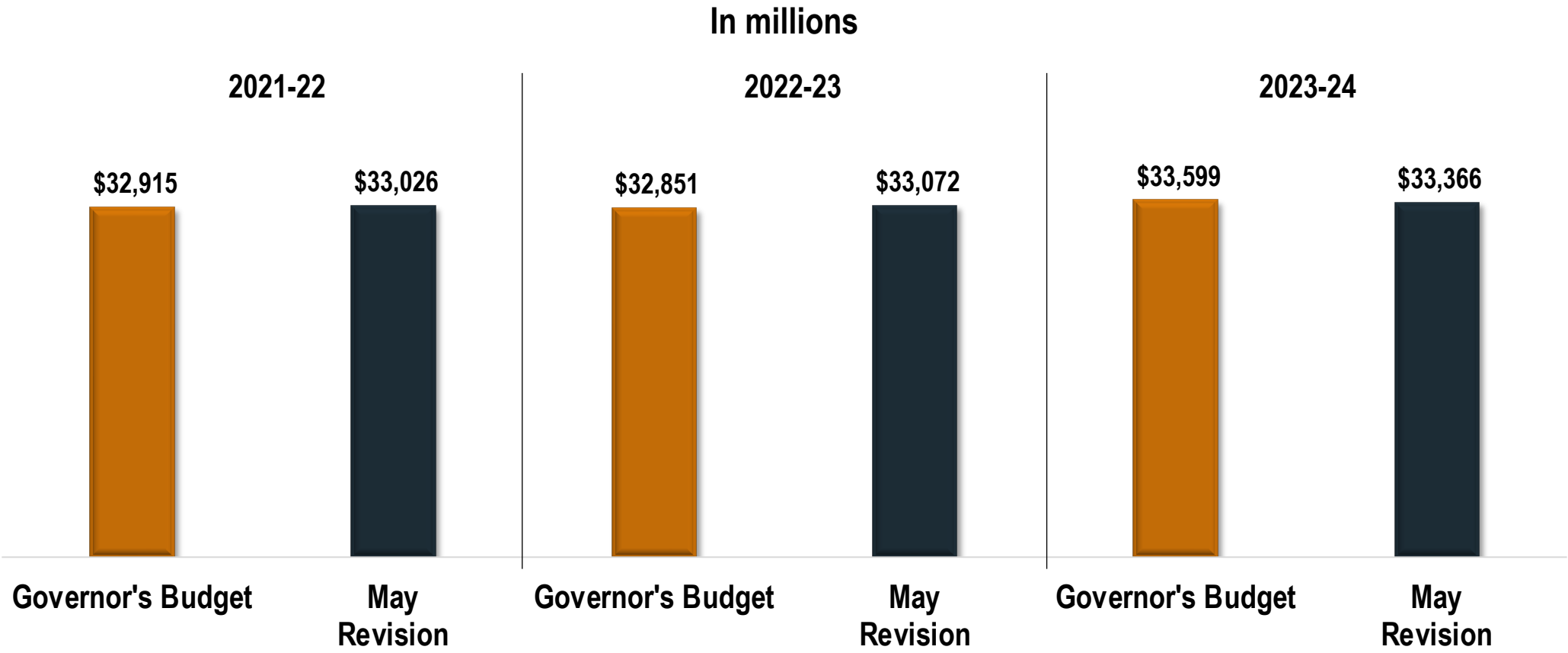
Corporation Tax

- Corporation tax revenues increase from January to May by \$2.8 billion, remaining relatively flat from 2022-23 levels but \$3.0 billion lower than 2021-22



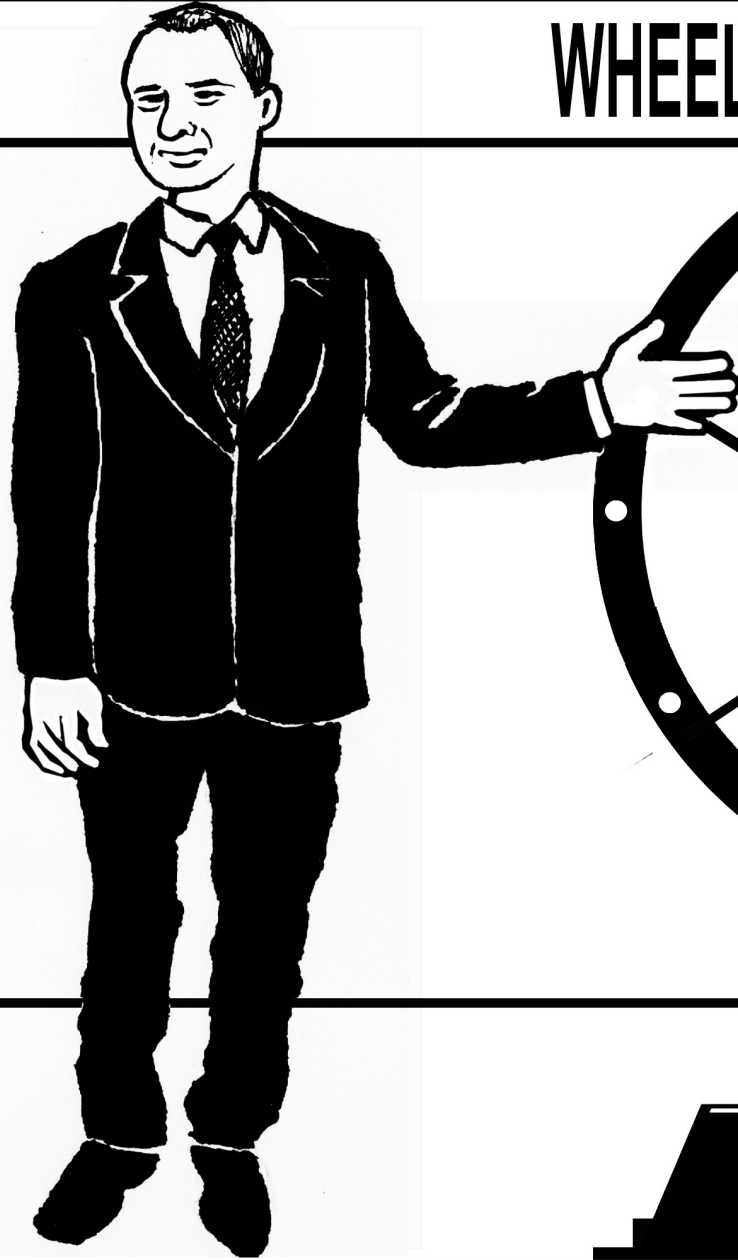
Sales and Use Tax

- Sales and use tax receipts continue to be a steady stream of revenues for the State Budget across the budget window
 - It contributes the smallest share of the “Big Three” tax revenues



WHEEL OF

REVENUE FORTUNE



**On
target**

**Lower
than
projected**

**Lower
than
projected**

Rick Fulido

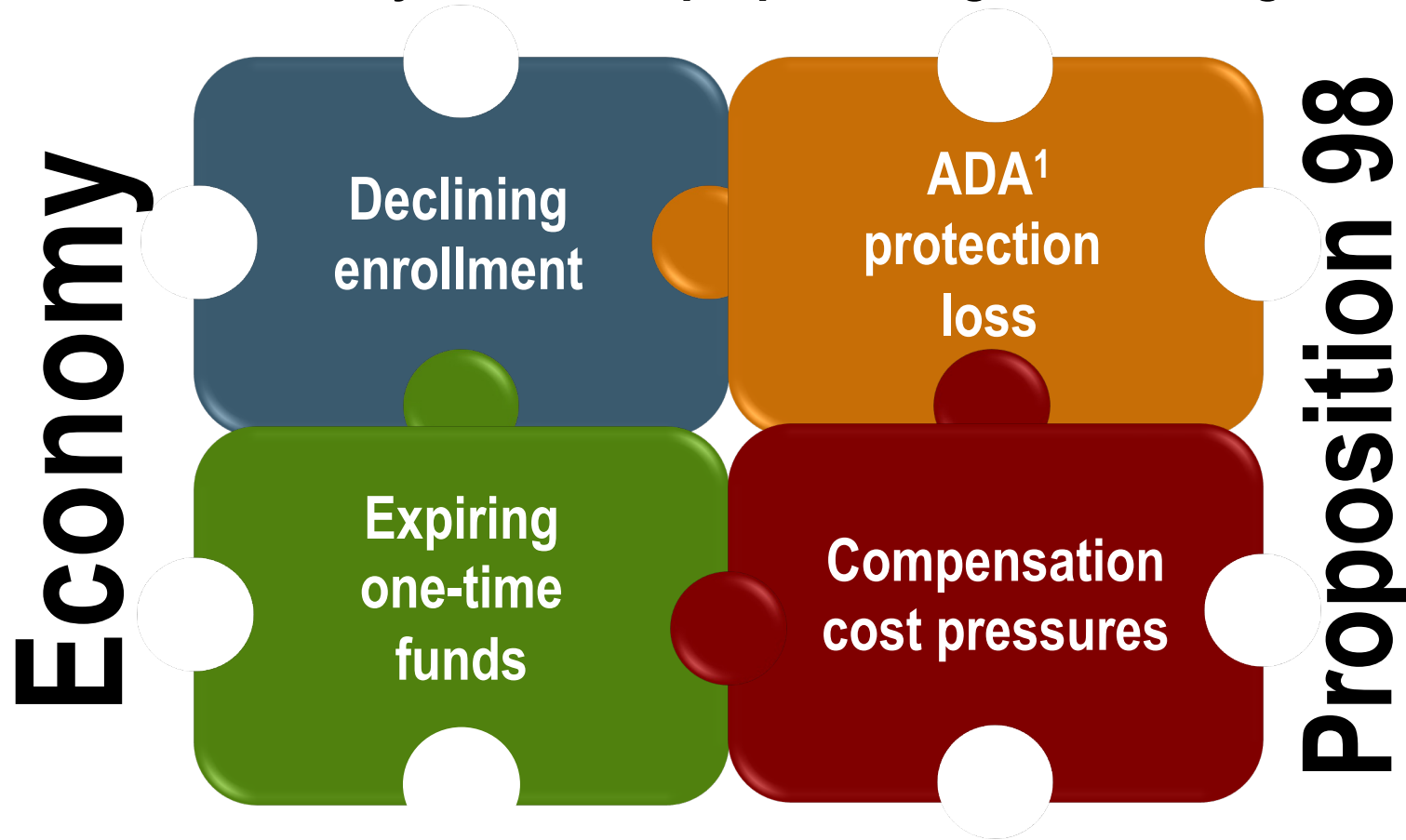
Risks to the Budget

- The greatest risk to the State Budget is the uncertain future of the economy
 - The economy is balancing on the head of a pin
 - Main economic factors can respond positively or negatively



Risks to *YOUR* Budget

- Certainly, the economy poses risks to local budgets, but there are other, unique factors that present more impactful risks for LEAs
- It is important to know what they are and to prepare mitigation strategies

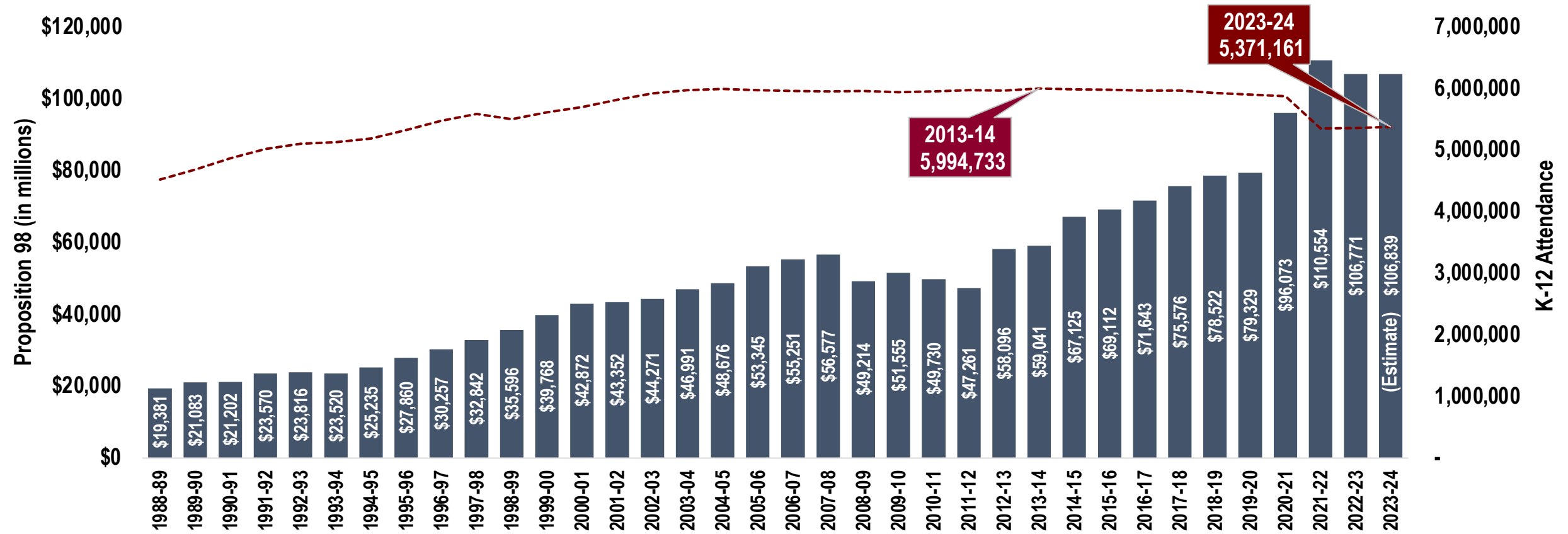


¹Average daily attendance

Proposition 98 and the LCFF

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



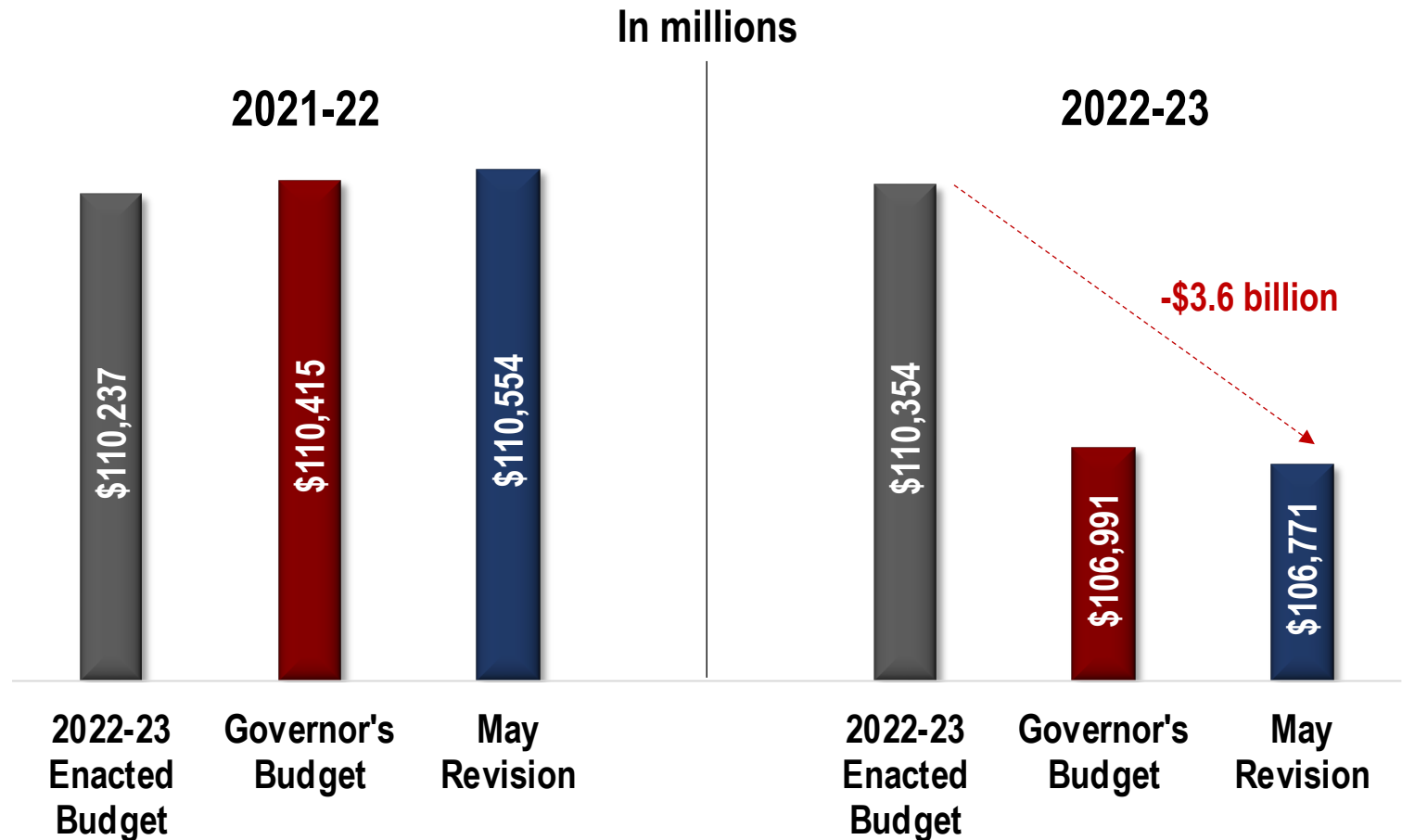
Statewide Attendance Rates

- 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

Proposition 98 Adjustments to 2021-22 and 2022-23

- The state adjusts the minimum guarantee for the two years preceding the budget year (2023-24)
- Over the two years, the net adjustments are a virtual wash
 - From January to May
 - Up \$139 million in 2021-22
 - Down \$220 million in 2022-23
 - The 2022-23 minimum guarantee at May Revision is markedly lower than 2022-23 Enacted Budget estimates — \$3.6 billion lower



The Proposition 98 Problem

- There is a Proposition 98 deficit in 2023-24 that needs to be addressed
 - The problem was there in January
 - It got worse in May—by an additional \$3.1 billion

Proposition 98 Deficit
Growth in Minimum Guarantee vs. Obligations¹

Change in Proposition 98 from 2022-23 (revenues)		Change in Proposition 98 Obligations (expenditures)	
Governor's Budget	May Revision	Governor's Budget	May Revision
\$1.8 billion	\$0.07 billion	\$7.9 billion	\$9.3 billion
Change in revenues at May Revision: -\$1.7 billion		Change in obligations at May Revision: \$1.4 billion	

¹Obligations include Proposition 98 reserve required deposits, general apportionments for K-12 and community colleges, COLA for K-12 and community college categorical programs, and K-12 special education apportionments

Key Issues for Negotiations

How to avoid cuts to prior investments and ensure balanced budget?

- New revenues
- Deferrals
- Reserves

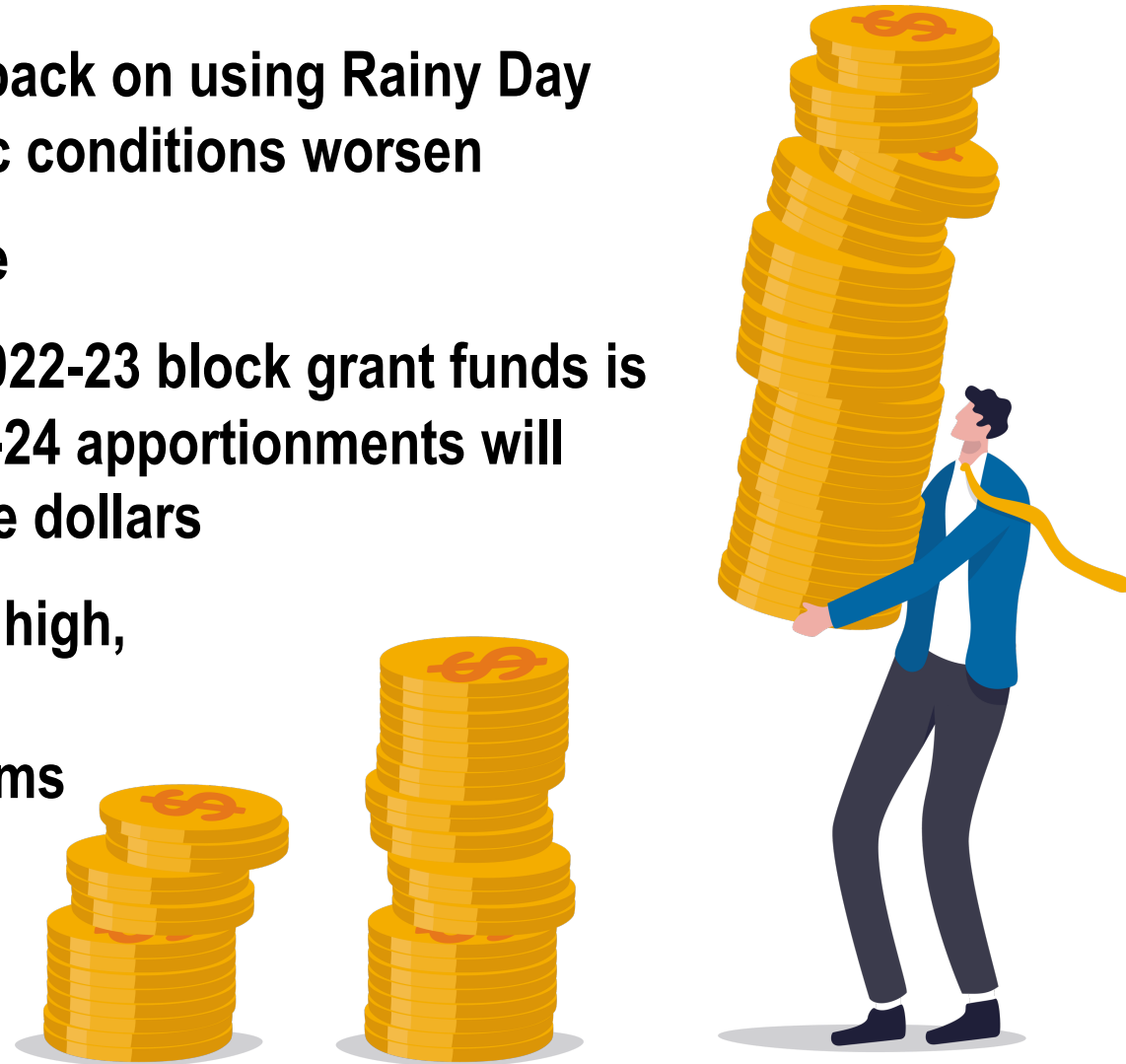


Protect Arts, Music, Instructional Materials Discretionary Block Grant and Learning Recovery Emergency Block Grant?

Maintain statutory COLA and rely on one-time funds for the LCFF?

What's Not in the May Revision?

- Like in January, the Governor *does not* propose:
 - A Reserve Withdrawal: The Governor is holding back on using Rainy Day funds, but may need to play that card if economic conditions worsen
 - Deferrals: All apportionments will be paid on time
 - However, if the Governor's proposals to cut 2022-23 block grant funds is included in the 2023-24 Enacted Budget, 2023-24 apportionments will likely be reduced to effectively take back those dollars
 - A Deficited COLA: While the COLA is historically high, the Governor proposes to fully fund this inflation factor for the LCFF and select categorical programs



Governor's Budget vs. May Revision

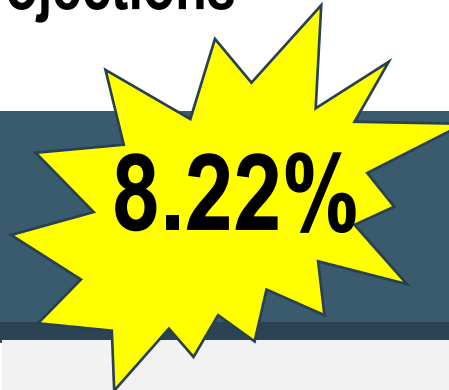
Item	Governor's Budget	May Revision
LCFF Funding Increase	\$5.04 billion ¹	\$4.04 billion ²
Proposition 98 Minimum Guarantee 2021-22 2022-23 2023-24	\$110.4 billion \$107.0 billion \$108.8 billion	\$110.6 billion \$106.8 billion \$106.8 billion
2023-24 Statutory COLA	8.13%	8.22%
Arts, Music, and Instructional Materials Discretionary Block Grant Reduction	-\$1.2 billion	-\$1.8 billion
Learning Recovery Emergency Block Grant Reduction	No Reduction	-\$2.5 billion

¹Reflects an LCFF increase of \$4.2 billion for the 8.13% COLA and \$855 million to support TK expansion

²Reflects an LCFF increase of \$3.6 billion for the 8.22% COLA and \$460 million to support TK expansion

Categorical Program COLA

- The May Revision includes an approximately \$1.7 million reduction in the \$669 million Proposition 98 funding proposed in the Governor’s Budget for a COLA to multiple programs outside of the LCFF
- This reflects both the change in the COLA rate from 8.13% to 8.22% and changes in enrollment projections

 8.22%	Special Education	Mandate Block Grant	American Indian Early Childhood Education Program	Adults in Correctional Facilities
	Child Nutrition	State Preschool	Charter School Facility Grant Program	American Indian Education Centers
				Youth in Foster Care

2023-24 LCFF Funding Factors

Base grants are provided by grade span: K-3, 4-6, 7-8, and 9-12

Two grade span adjustments (GSAs) are applied as percentage increases to the base grants

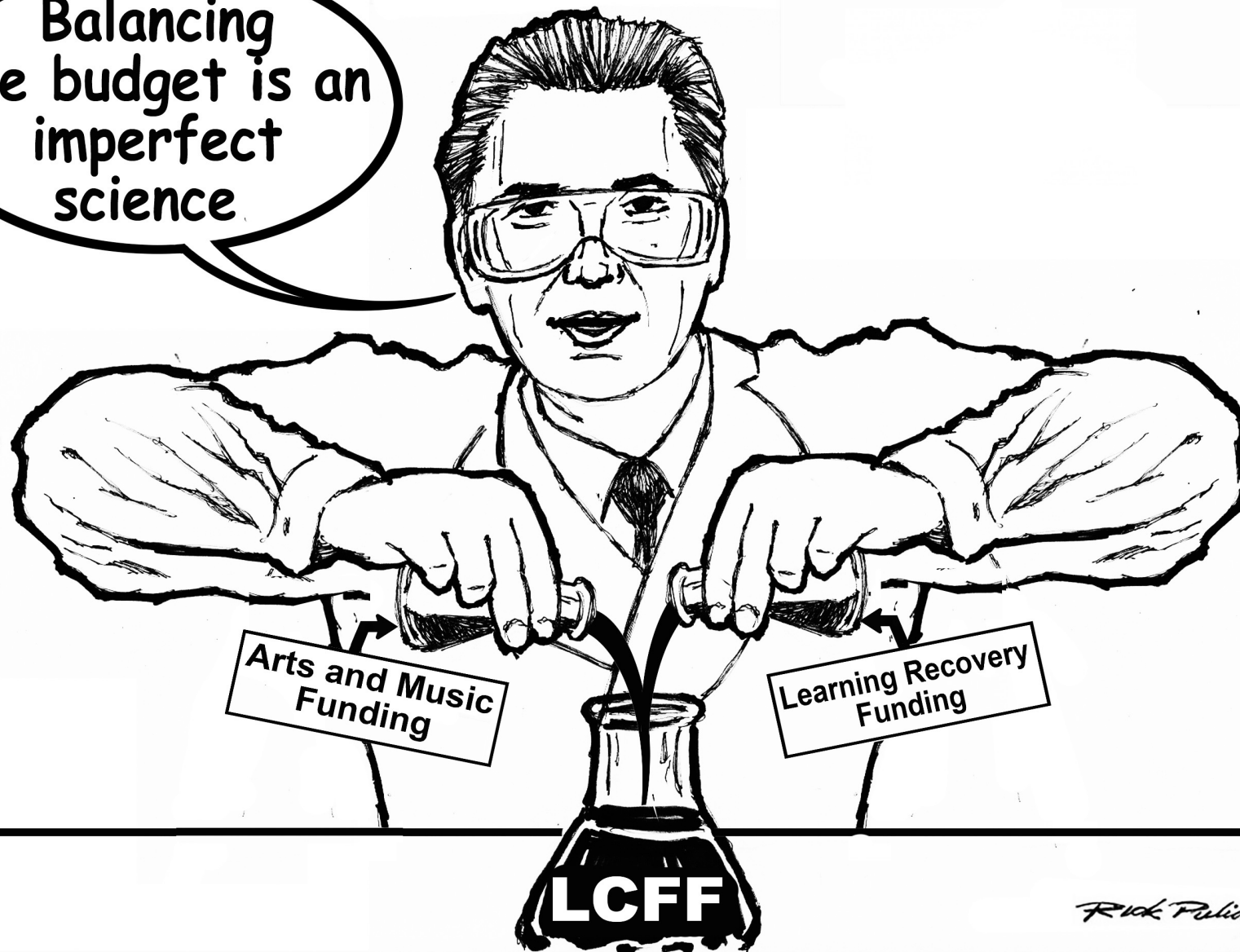
- K-3—10.4%
- 9-12—2.6%

The May Revision increases LCFF base grants by the 8.22% statutory COLA—an increase in funding per student, NOT total funding

Supplemental and concentration grants are calculated based on the percentage—unduplicated pupil¹ percentage (UPP)—of enrolled students

¹English learners, eligible for free or reduced-price meals (FRPM), or foster youth

Balancing
the budget is an
imperfect
science



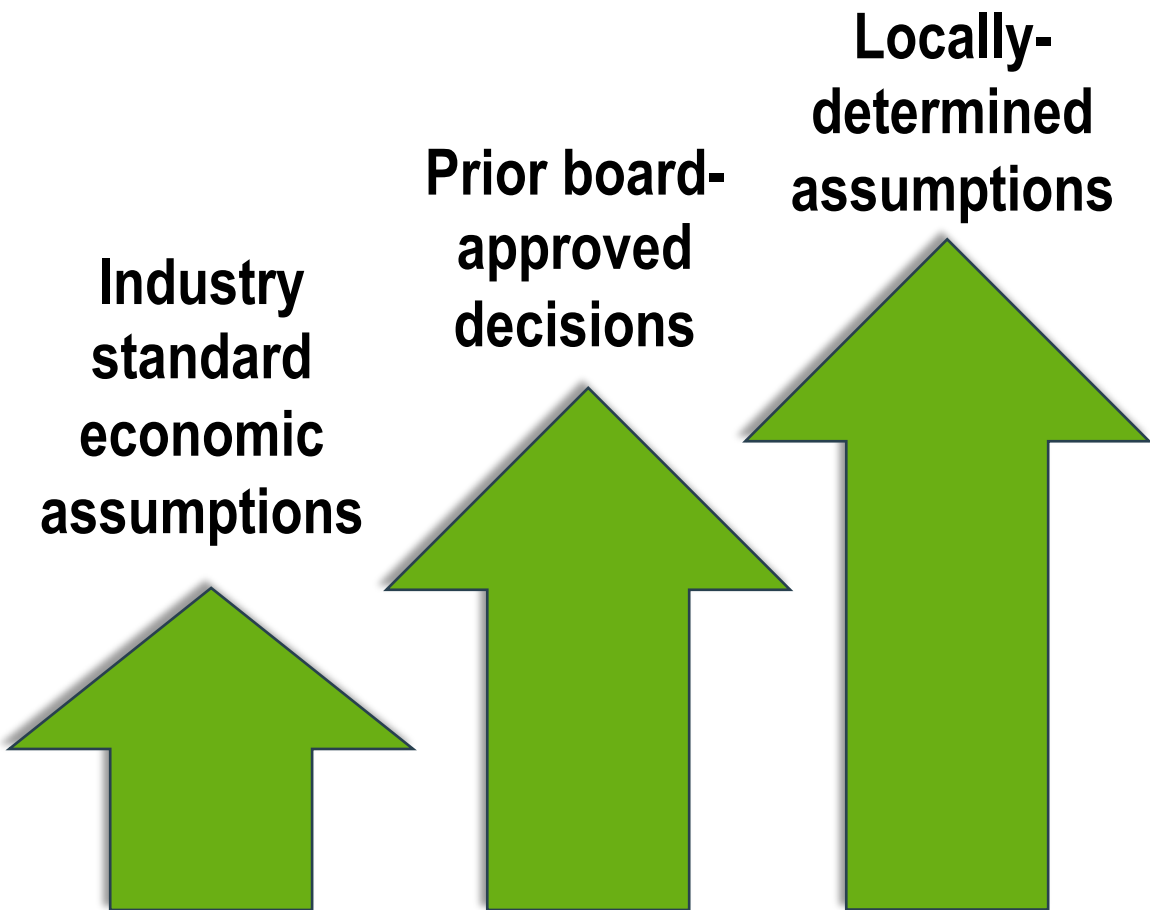
LCFF

Rick Palido

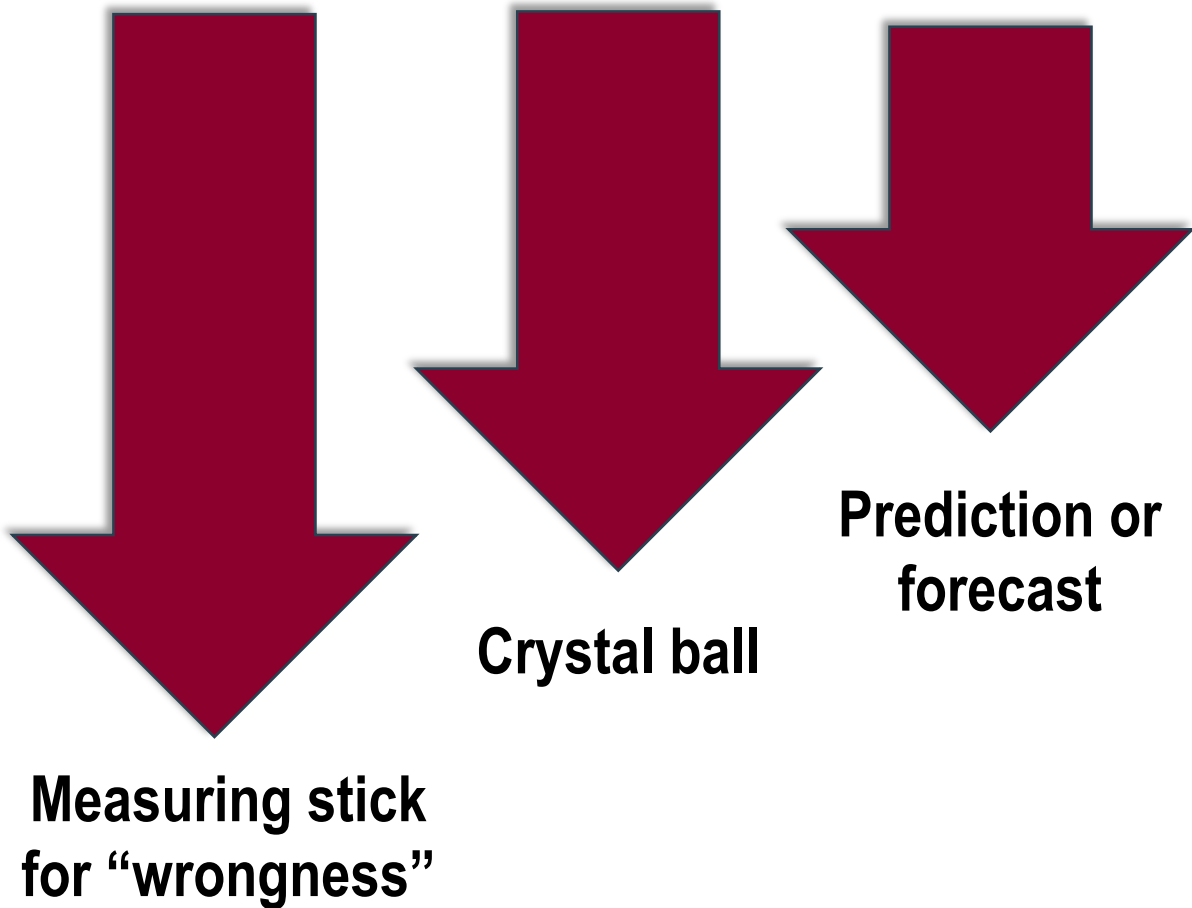
The Proposed State Budget and Local Agency Impacts

Multiyear Projections

Result of mathematical calculations
based on the following:



Should not be used or characterized
as the following:



SSC Financial Projection Dartboard

Planning Factors						
		2022-23	2023-24	2024-25	2025-26	2026-27
DOF Planning COLA		6.56%	8.22%	3.94%	3.29%	3.19%
California CPI ¹		5.71%	3.54%	3.02%	2.64%	2.89%
CalSTRS ² Employer Rate		19.10%	19.10%	19.10%	19.10%	19.10%
CalPERS ³ Employer Rate		25.37%	26.68%	27.70%	28.30%	28.70%
California Lottery	Unrestricted per ADA	\$170	\$170	\$170	\$170	\$170
	Restricted per ADA	\$67	\$67	\$67	\$67	\$67
Mandate Block Grant (District) ⁴	Grades K-8 per ADA	\$34.94	\$37.81	\$39.30	\$40.59	\$41.88
	Grades 9-12 per ADA	\$67.31	\$72.84	\$75.71	\$78.20	\$80.69
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$18.34	\$19.85	\$20.63	\$21.31	\$21.99
	Grades 9-12 per ADA	\$50.98	\$55.17	\$57.34	\$59.23	\$61.12

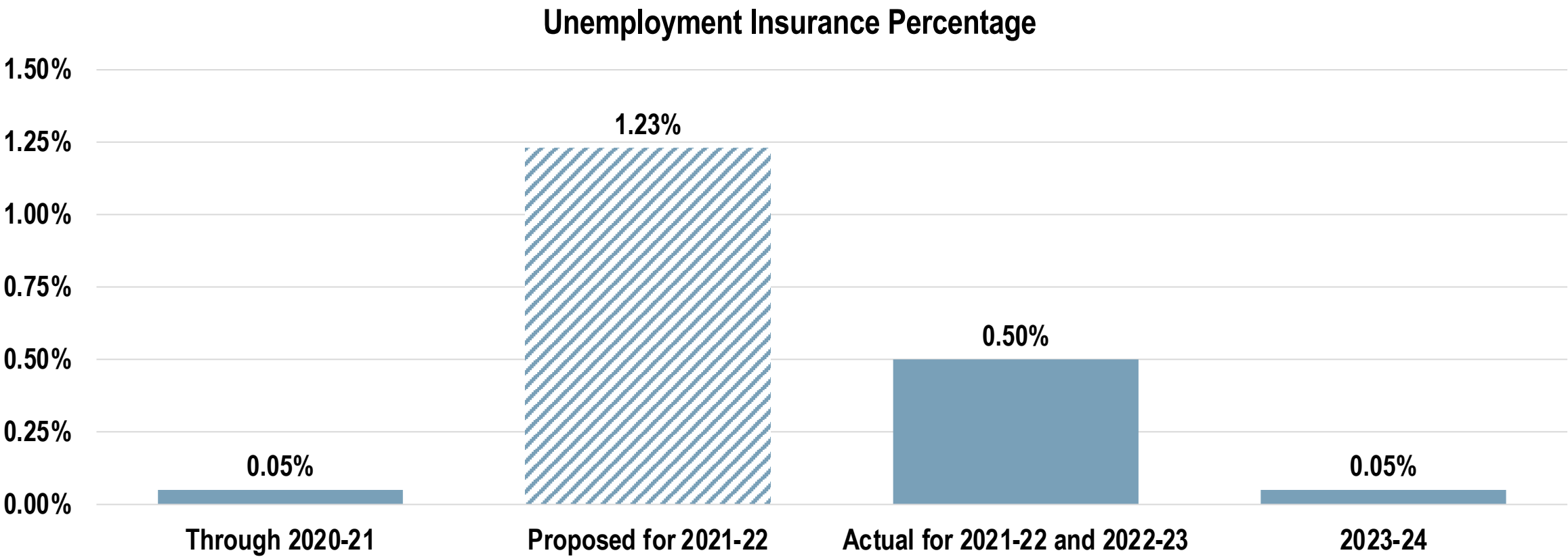
¹Consumer Price Index (CPI), ²California State Teachers’ Retirement System, ³California Public Employees’ Retirement System

⁴COE Mandate Block Grant: \$37.81 per ADA grades K-8; \$72.84 per ADA grades 9-12; \$1.27 per ADA; \$1.27 per unit of countywide ADA

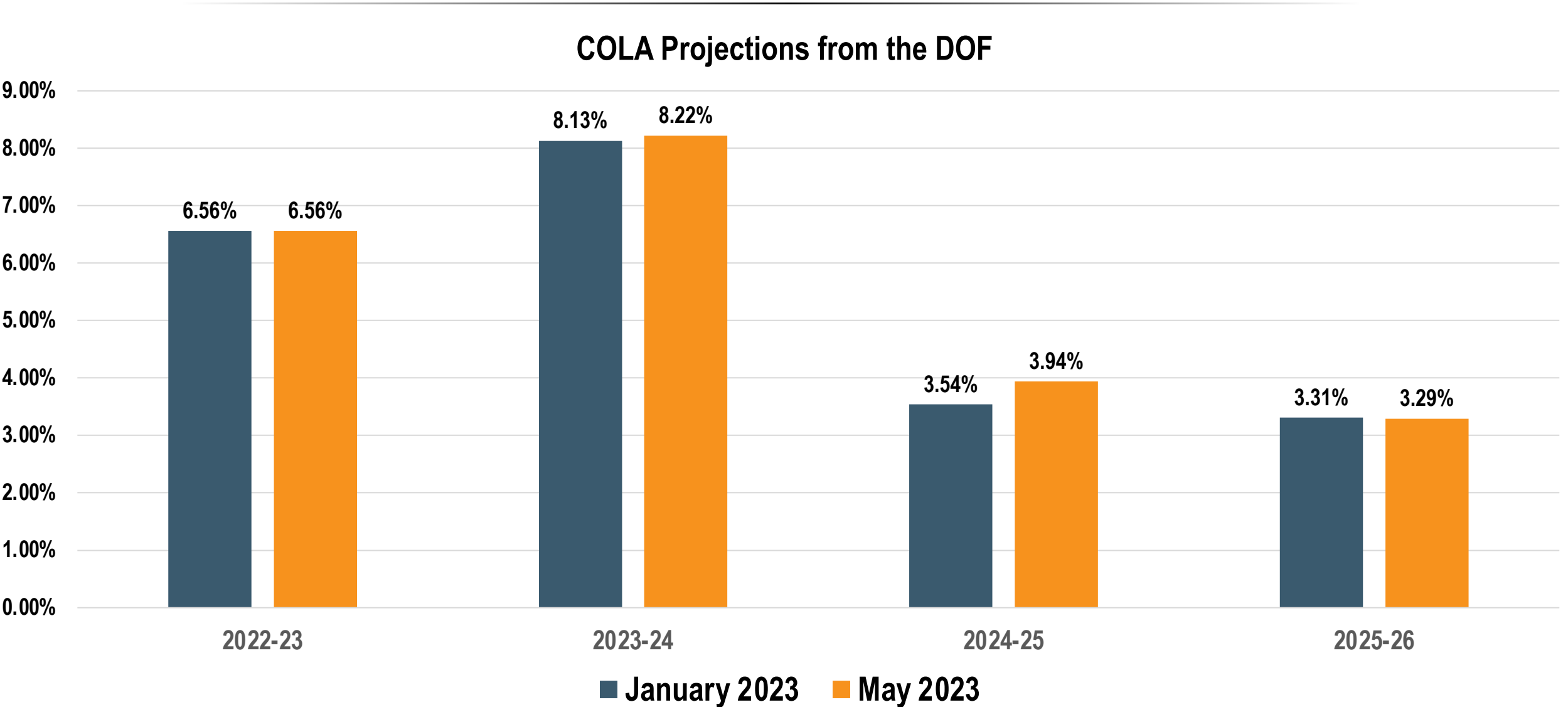
The SSC Dartboard is available in the workshop resources and on SSC’s [website](#).

Unemployment Insurance

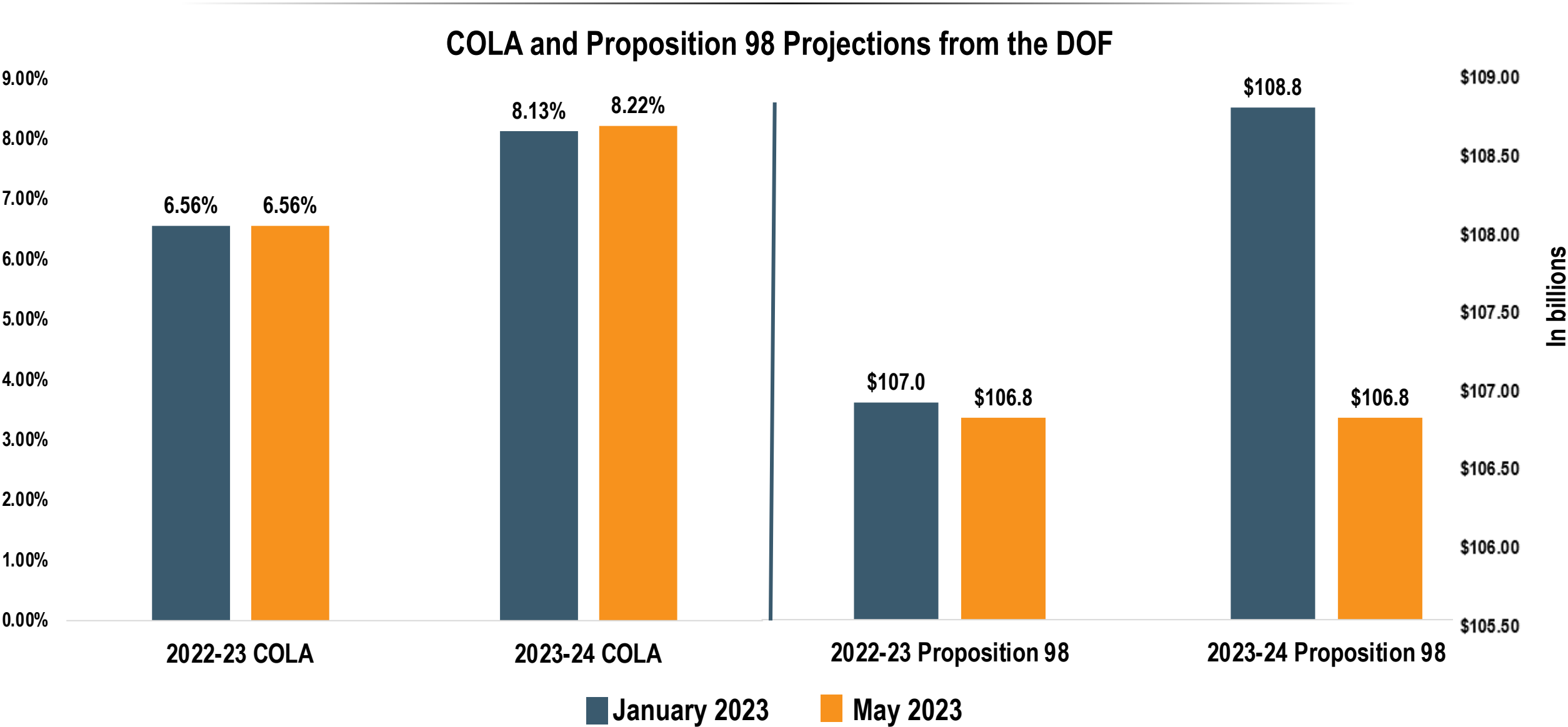
- Unemployment Insurance rates are returning to pre-pandemic levels
 - Threatened increase of 2400% in 2021-22 was mitigated by relief in the 2021-22 Enacted Budget
 - Rates are established annually by April 1 for the subsequent fiscal year



Changing Assumptions From the State



Changing Assumptions From the State



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

Arts, Music, and Instructional Materials Discretionary Block Grant

- The Governor’s Budget proposed a \$1.2 billion reduction in the \$3.5 billion one-time funding provided in the 2022-23 Enacted Budget package
- The May Revision proposal would increase the reduction to \$1.78 billion—sweeping the remaining unallocated portion of the grant



Allocation

Funds were allocated per ADA based on 2021-22 P-2



Distribution

50% of the original \$3.5 billion allocation was distributed in December 2022



Spending Deadline

Funds must be spent by June 30, 2026



Plan

Local plans must be discussed and approved during a regularly scheduled board meeting

Learning Recovery Emergency Block Grant—Proposed Funding Reduction

- The May Revision proposes to reduce this funding by \$2.5 billion from \$7.9 billion to \$5.4 billion, a decrease of 32%
- One-time investment intended to fund initiatives that support academic learning recovery, and social and emotional well-being
- The CDE has allocated the 2022-23 Enacted Budget appropriation fully
- The CDE may reduce future principal apportionments to accommodate this reduction



LEARNING RECOVERY EMERGENCY BLOCK GRANT



Investments in Special Education

- The May Revision proposes a COLA for AB 602—Special Education funding
 - Includes COLA applied to relevant special education add-ons
 - Program Specialists/Regionalized Services (PS/RS), based on 2019-20 special education local plan areas (SELPAs) Funded ADA
 - Low Incidence (LI), based on eligible pupil count
 - Out-of-Home Care

	Current Law	Governor's Budget	May Revision
AB 602 Base Rate	\$820 per ADA	\$866.67 per ADA	\$887.40 per ADA
COLA for Add-Ons <small>¹Estimate for LI due to pupil count</small>	PS/RS—\$18.28 LI—\$3,407.51	PS/RS—\$19.76 LI ¹ —\$3,684.54	PS/RS—\$19.78 LI ¹ —\$3,678.60

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

Expanded Learning Opportunities Program

Governor maintains the funding level but proposes an extension of carryover of 2021-22 allocation

Per Pupil Rate:

- UPP \geq 75%: \$2,750, set in statute
- UPP < 75%: \$2,052 in 2022-23, but this amount will fluctuate each year

**Full implementation in 2023-24—
first year program is subject to audit**

In 2023-24, requirement to offer and provide access to all students or all unduplicated students in grades TK-6, depending on UPP

Carryover:

- Currently, 2021-22 funds must be expended by June 30, 2023
- The May Revision proposes to extend the 2021-22 deadline by one year and authorizes LEAs to also encumber 2021-22 and 2022-23 allocations through June 30, 2024
- Per CDE FAQs, subsequent funds do not have expiration and may be carried over



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

Opioid Overdose Reversal Medication

- The May Revision retains the Governor's Budget proposal to provide \$3.5 million annually to purchase opioid antagonists for public schools
- However, the May Revision proposes the following changes to the process:



Shifts responsibility of purchasing opioid antagonists from LEAs to COEs



Requires COEs to ensure that each middle school, high school, and adult school site has at least two units



Permits COEs to distribute to elementary schools if stocking requirements are met at required sites



Requires up to 10% of allocation (\$350,000) to be used by COEs for administrative costs



LEAs must ensure that at least two staff members per site meet minimum training standards for administration



Funding allocations for this medication will be reevaluated annually

Assignment Monitoring and Credentialing Updates

- The May Revision revises key definitions related to credentialing and assignment monitoring—signaling the inclusion of contract employees in reporting requirements
- Proposed credentialing flexibility for military services members and spouses provides staffing relief



Educator Assignment Monitoring

- Revises definition of “assignment” to mean the placement of an employee or contractor to serve in a teaching or service position
- Misassignment can include an individual hired on a contract
- Reporting requirement includes detailed information regarding credential type, intern credentials, permits, waivers, and vacant positions



Credentialing Flexibility for Military Service Members and Spouses

- Requires the Commission on Teacher Credentialing (CTC) to issue credentials to military service members and/or spouses based on out-of-state license and experience
- Service member/spouse must hold a valid out-of-state credential
- CTC will issue comparable California credential document, valid only for the duration of military orders

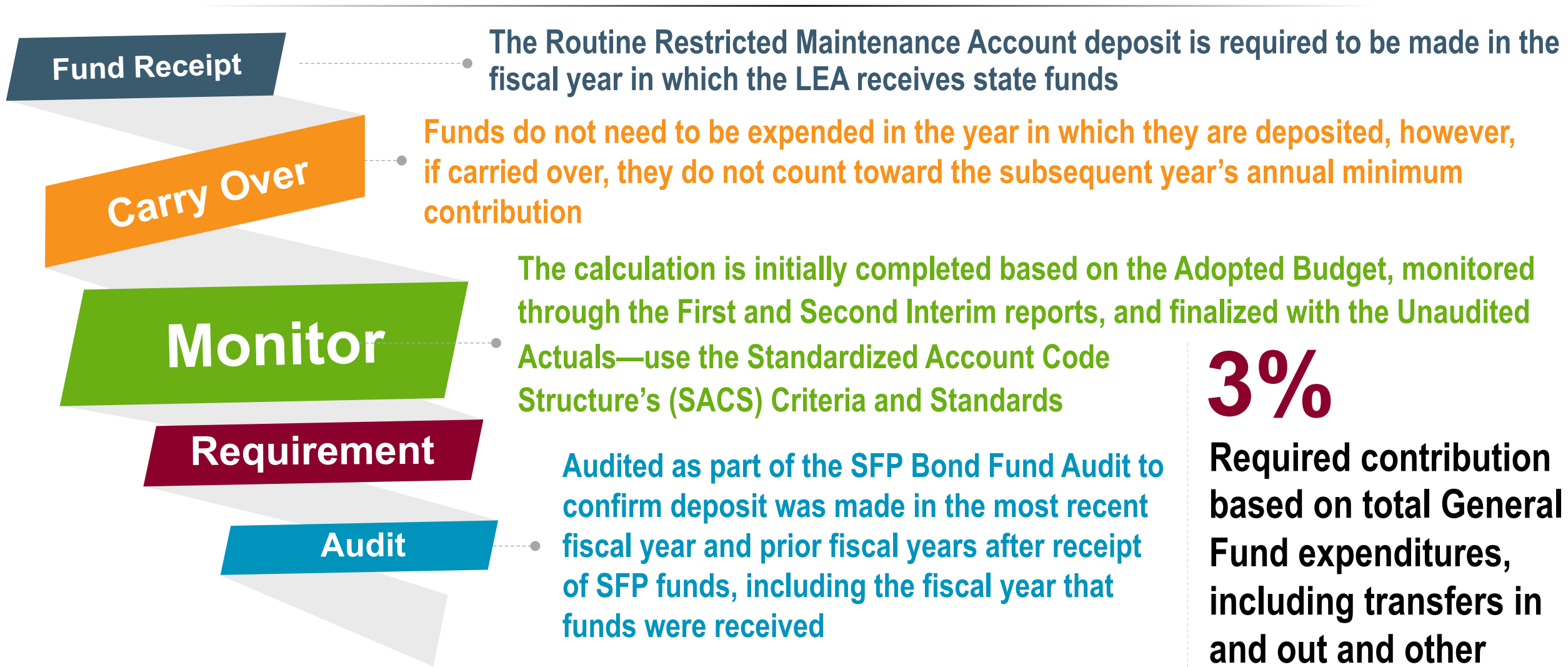
Minimum Wage—Future Forecast

- SSC projects that the minimum wage will increase to \$16.00 on January 2024 and by about 40¢ - 50¢ each January thereafter
- Employers should review city or county ordinances to determine if any local minimum wage standards apply

Minimum Wage ¹	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
\$17.80/hour	January 1, 2028		\$1,424	\$6,171	\$74,048
\$18.30/hour	January 1, 2029		\$1,464	\$6,344	\$76,128

¹Minimum wage is tied to the U.S. Consumer Price Index for Urban Wage Earners and Clerical Workers, but is rounded and capped at 50¢ per year

Annual Routine Restricted Maintenance Account Contribution



3%

Required contribution based on total General Fund expenditures, including transfers in and out and other financing uses¹

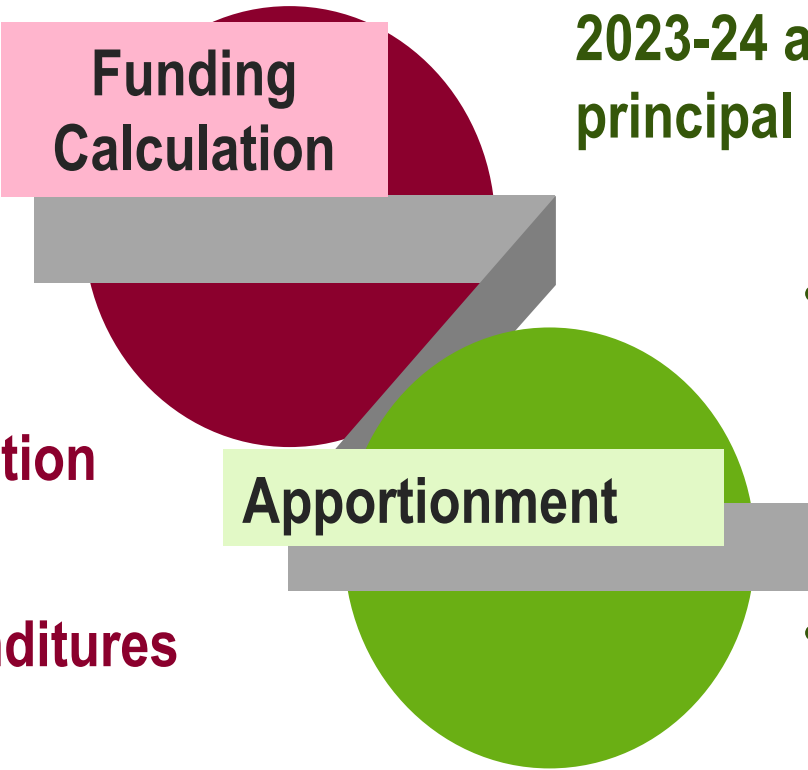
¹Resource codes automatically excluded in SACS: 3210, 3212-3216, 3218-3219, 5316, 7027 and 7690; resource codes that will need to be manually excluded: 3225-3228 and 5632-5634

Home-to-School Transportation

Entitlements are calculated as reimbursement for 60% of transportation costs, less the LCFF add-on

- If the LCFF add-on exceeds the reimbursement, LEAs will still receive the full LCFF add-on
- Transportation LCFF add-on will receive a COLA prior to the deduction beginning 2023-24

Capital outlay and nonagency expenditures are excluded from reimbursement



2022-23 funds will be apportioned in June 2023 as part of the 2022-23 P-2

2023-24 and future years will follow the principal apportionment schedule:

- Advance and P-1 certifications will include an estimate of funding based on prior-year data
- Final funding will be calculated at P-2

Funding is allocated to school districts and COEs

Unduplicated students must be exempted from transportation fees

Home-to-School Transportation

A Transportation Services Plan is required for LEAs receiving reimbursement

- **Plan adoption was required by April 1, 2023**
- **A plan may be adopted in a future year if not eligible for reimbursement in 2022-23**
- **The plan must be updated annually**



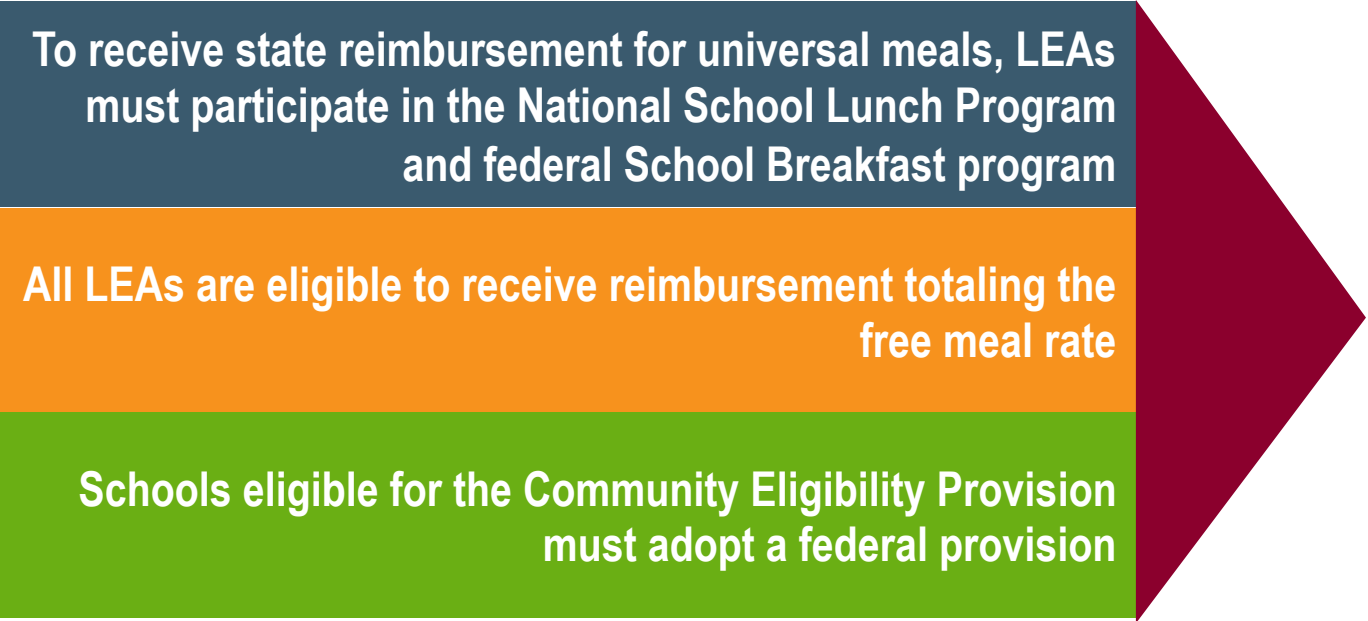
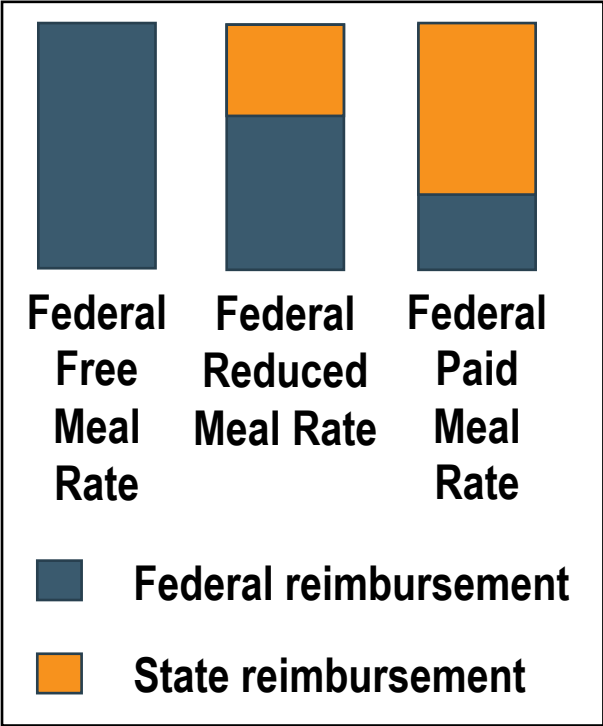
Transportation Services Plan

Annual Audit

- **2022-23 Audit will verify plan**
- **2023-24 Audit is anticipated to verify plan and test expenditures**
- **Noncompliance will result in an audit penalty**

Universal School Meals

The May Revision augments the 2022-23 Enacted Budget investment by \$110 million one-time Proposition 98 funds in 2022-23 and \$191 million ongoing Proposition 98 funds in 2023-24 to fully fund the program



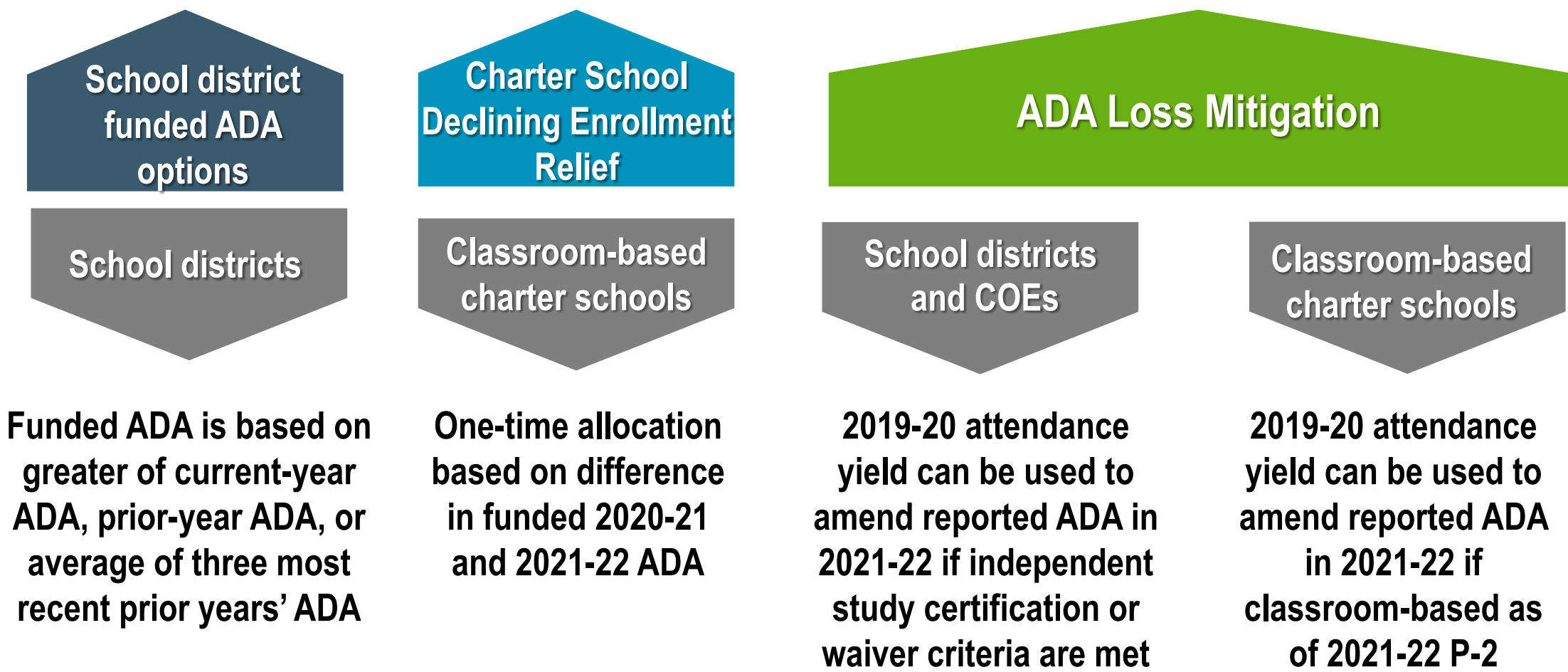
State funds are intended to supplement all available federal reimbursements for school meals

Starting in 2022-23, LEAs are required to provide free breakfast and free lunch each school day to all students that request it, regardless of eligibility for subsidized meals

Local Operational Considerations

Attendance Relief Policies

To mitigate declining enrollment and precipitous declines in attendance, the 2022-23 Enacted Budget included significant, interrelated attendance policies



Attendance Relief Policies

The attendance policies were implemented at the 2022-23 P-1 in February

To benefit from the policy, COEs and school districts are required to certify with independent study criteria

COEs and school districts with a waiver of the independent study offering in 2021-22 requirement were deemed in compliance

Classroom-based charter schools did not have to certify compliance to benefit

- 92% of eligible classroom-based charter schools received an increase to 2021-22 ADA¹

ADA Loss Mitigation



Most COEs and school districts certified compliance¹

- 94% of school districts that certified received an increase to 2021-22 ADA
- 89% of COEs that certified received an increase to 2021-22 ADA

These figures will change in June when P-2 is certified based on updated ADA

Compliance with certification requirements will be verified for school districts and COEs through the 2022-23 annual audit

¹Based on P-1 data reported by the CDE

Attendance Relief Policies

Increased 2021-22 funded ADA due to the ADA Loss Mitigation policy was included in the 2022-23 LCFF funding calculations for school districts and in the Charter School Declining Enrollment Relief calculation

696 school districts' entitlements were calculated based on the three prior-years' average ADA¹

118 school districts' entitlements were calculated based on prior-year ADA¹

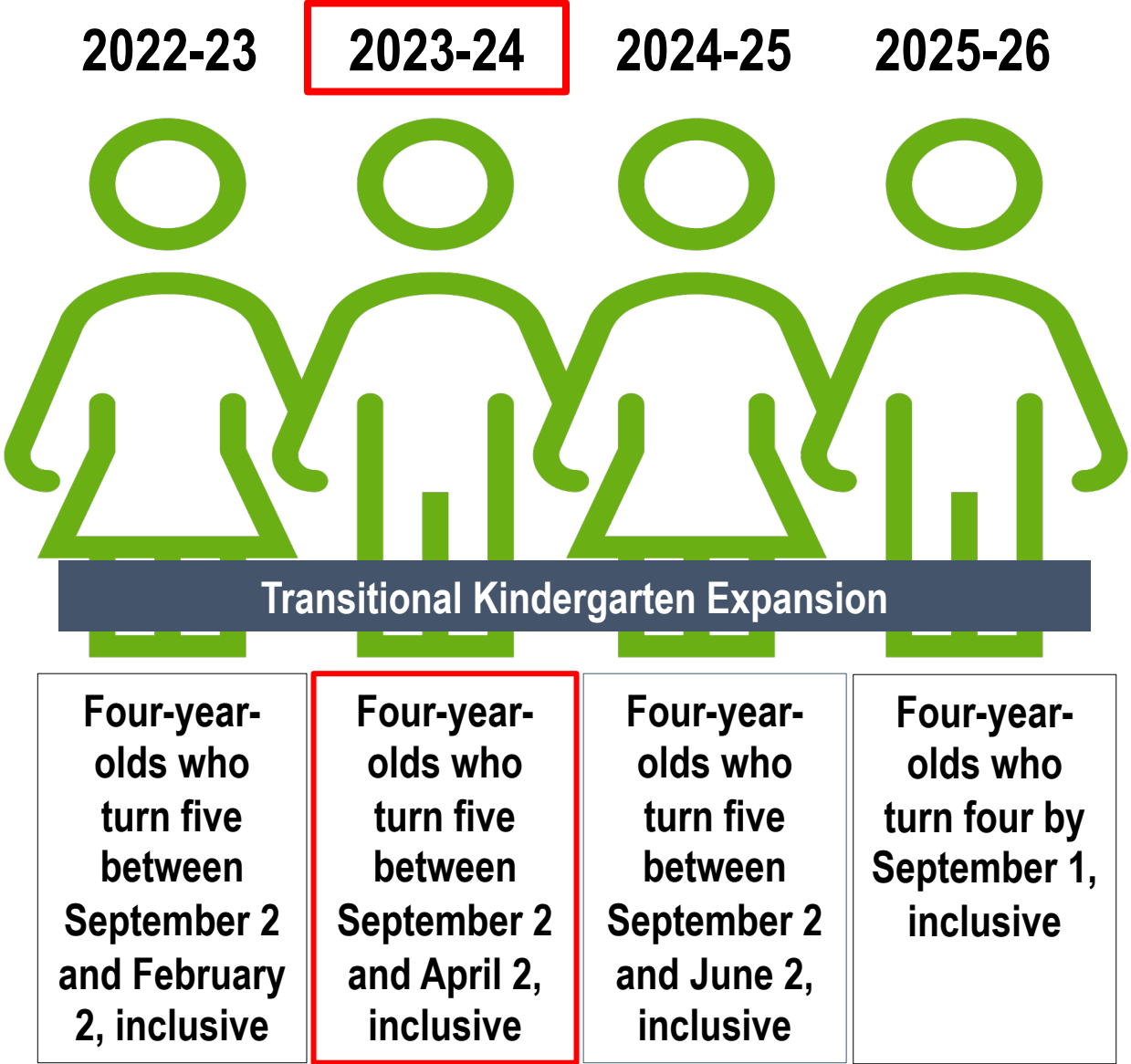
83 school districts' entitlements were calculated based on current-year ADA¹

614 charter schools received a Charter School Declining Enrollment Relief allocation

¹Based on P-1 data reported by the CDE; number of school districts excludes necessary small school districts

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

UPP Trends—2018-19 to 2022-23

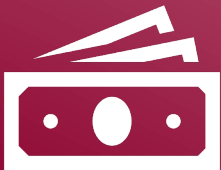


2.8%

Average decline over the last five years across LEAs declining in UPP%



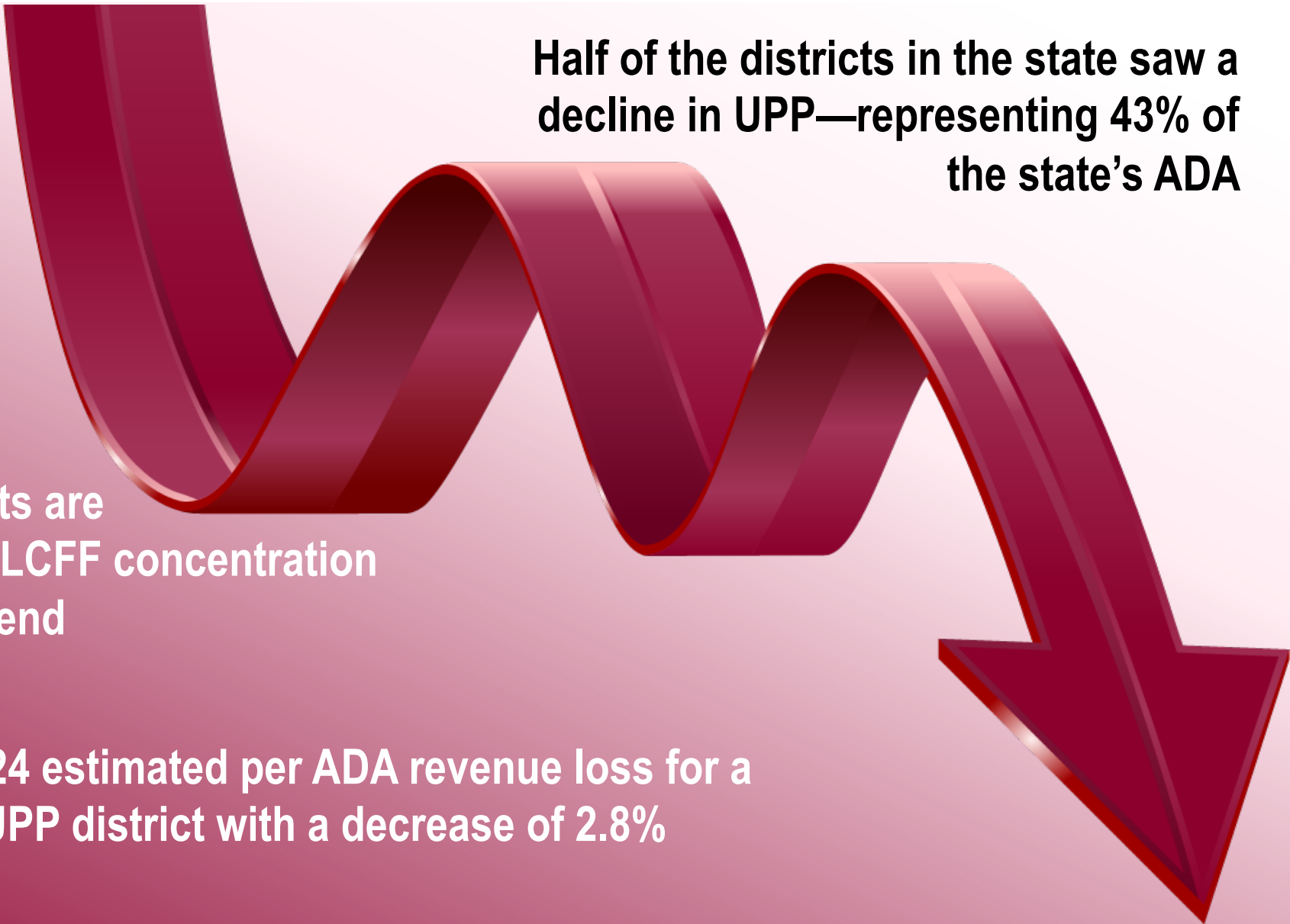
More than 30 districts are no longer receiving LCFF concentration grants due to this trend



\$252

2023-24 estimated per ADA revenue loss for a high UPP district with a decrease of 2.8%

Half of the districts in the state saw a decline in UPP—representing 43% of the state's ADA



Alternative Income Forms for LCFF

- Implementation of universal meals requirement has impacted the LCFF unduplicated pupil count for many LEAs
- To help LEAs account for all their students that are eligible for FRPM, the CDE expanded the collection window for alternative income forms
- Opportunity for LEAs to start identifying their FRPM-eligible students earlier for LCFF purposes

LEAs that rely on alternative income forms can:

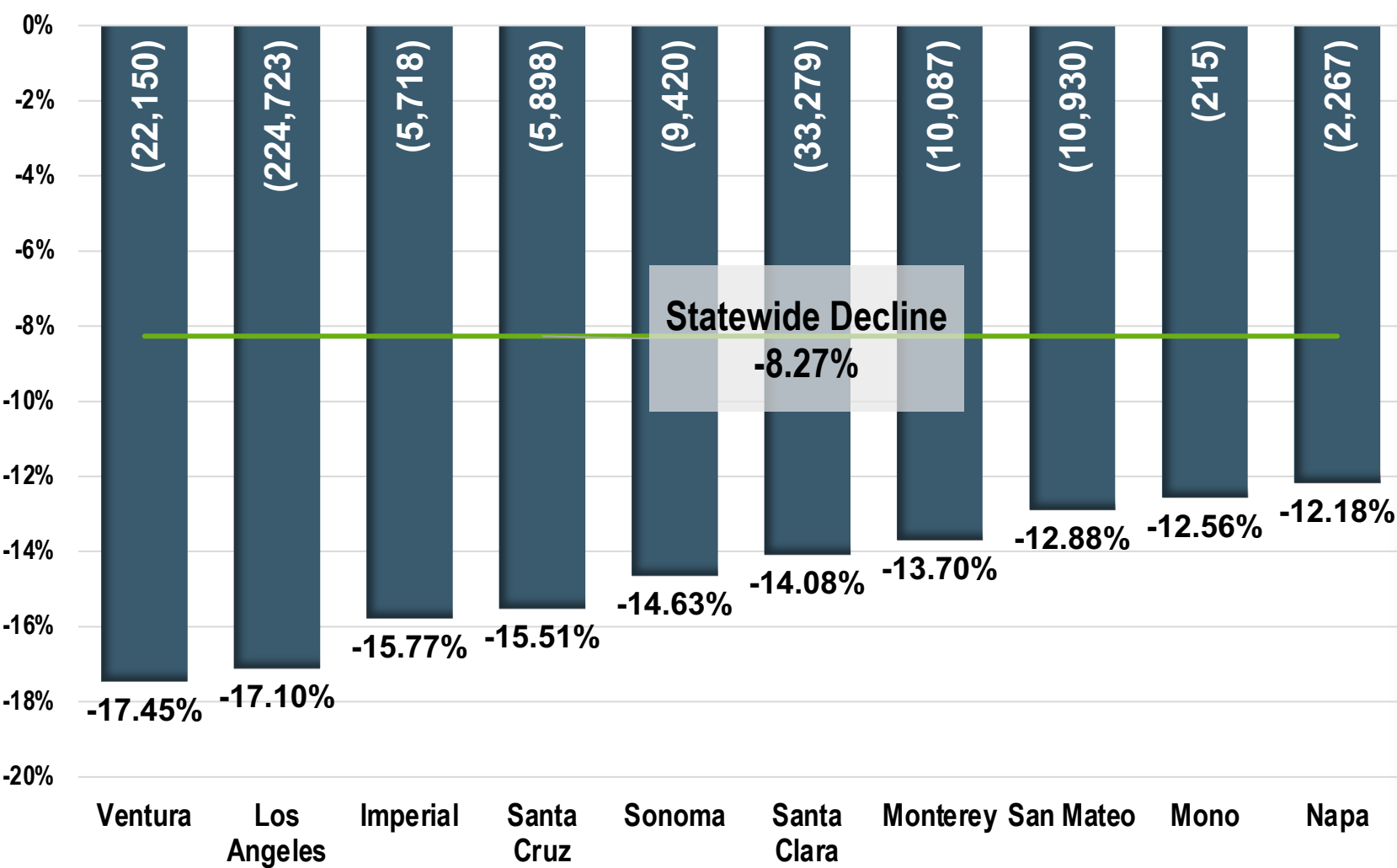
Collect forms in the spring for the following school year¹

Leverage the spring enrollment process to collect the forms

Collect forms online with use of electronic signatures

¹Forms collection can begin once the USDA income eligibility guidelines for the upcoming school year are available

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

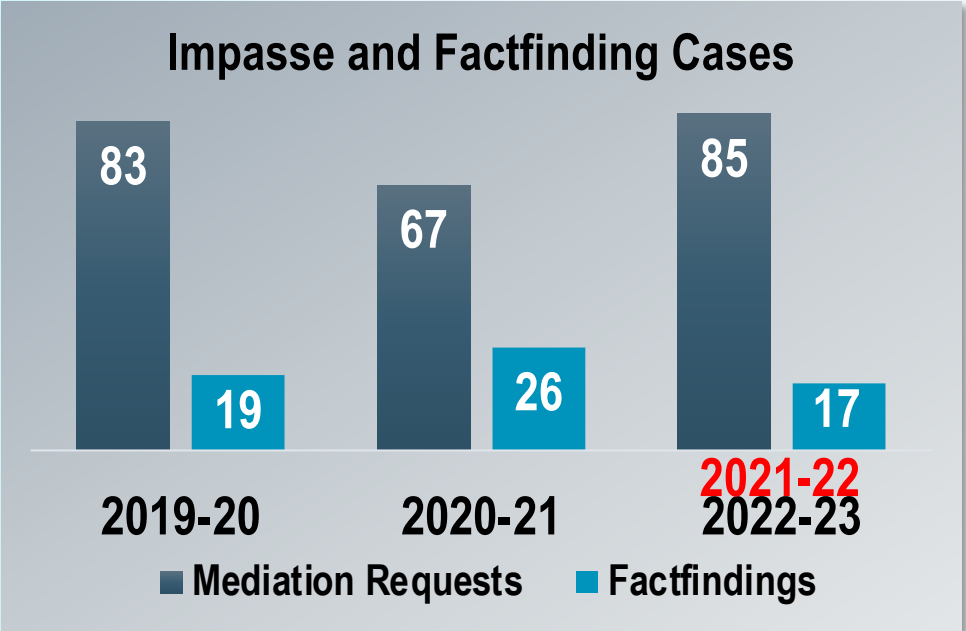
The Collective Bargaining Landscape

During fiscal year **2021-22**, the Public Employment Relations Board received 85 impasse requests, an increase over the prior year—but a lower number continued to factfinding



Declining enrollment, attendance rates, a declining UPP, and the expiration of one-time funding accompanied by the demand for maintaining programs puts many LEAs on a funding cliff

In 2023-24, communicating the LEA’s fiscal story will be essential to successful bargaining and the ability of the parties to achieve a settlement amicably



Source: PERB 2020-21 and 2021-22 Annual Reports

While the percentage of LEAs certified to factfinding decreased, keep in mind that the best agreements are made at the local bargaining table—but going to impasse is better than a bad agreement

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

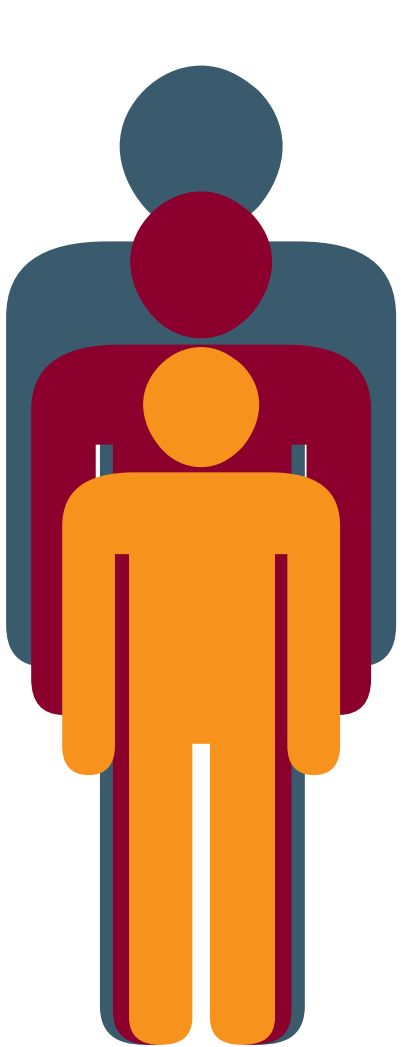
Source: Keenan & Associates

The Great Tsunami



Rick Palido

Staffing Trends—Is the Hiring Frenzy Over?



Economic uncertainty, coupled with the expiration of emergency funding, requires close examination of staffing needs



Collective bargaining implications may influence an LEA's ability to maintain staffing levels and signal a slow down in hiring cycles



These factors provide opportunity to evaluate and reimagine existing staffing to determine viability of retaining vacant positions—implement a hiring “frost”



Planning for 2023-24 reductions in force begins NOW and requires close collaboration with all educational partners

The Road Ahead

LEGISLATIVE FEUD

Rick Pelido

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?

Key 2023 Education Legislation—LCFF



AB 938 (Muratsuchi, D-Torrance) would establish new LCFF funding grants base rates in 2030-31 that would be double those put in place when the LCFF was established in 2013-14



Includes intent language that the new funds be used to “close the wage gap and improve recruitment and retention of school site staff”

Requires CDE to update the existing J-90 data collection process to include classified staff and require LEAs to submit certificated and classified bargaining unit salary data annually



SB 98 (Portantino, D-Burbank) would provide LEAs with supplemental funding based on the difference between what the LEA would have received if LCFF funds were apportioned using enrollment and what the LEA did receive under the LCFF using ADA

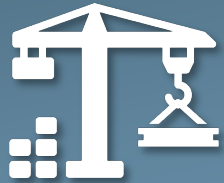


This bill would not make any changes to the existing LCFF formula or statute, but rather would create a categorial program to provide supplement funding to LEAs

Key 2023 Education Legislation—Bond Bills



AB 247 (Muratsuchi) would place a K-14 school bond on the 2024 statewide ballot in an unspecified election for an unspecified amount



Replenish funding under the SFP to support new construction, modernization and charter school projects while also establishing new processes to better support LEAs that qualify for financial hardship



SB 28 (Glazer, D-Orinda) would place a \$15 billion preschool through higher education bond before voters on the March 2024 primary election ballot



This bill is largely a reintroduction of AB 48 (O'Donnell, Statutes of 2019) that placed Proposition 13 on the 2020 primary election ballot, which was rejected 53% to 47% by voters



While there is momentum to place a school bond before voters in 2024, the Legislature will likely only approve one measure, meaning the authors and interest holders of AB 247 and SB 28 will have to work together to craft that single proposal

Key 2023 Education Legislation—Other Bills



AB 299 (Holden, D-Pasadena) would establish civil liability for an educational institution if the institution has direct involvement in, or knew or should have known of, hazing practices of an organization and the organization involved in the hazing is affiliated with the educational institution at the time of the alleged incident



SB 88 (Skinner, D-Berkeley) would impose significant new requirements on *any* driver who provides transportation to students for compensation, including being mandated reporters, clearing tuberculosis risk assessments, and passing a criminal background check



SB 767 (Rubio, D-Baldwin Park) would, beginning with the 2024-25 school year, require a student to have completed one year of kindergarten before being admitted to the first grade

Key 2023 Education Legislation—Next Steps



- The Senate and Assembly Appropriations Committee took up their suspense files yesterday, May 18, 2023, and dispatched several hundred bills
- The bills that cleared this latest deadline will now go to their respective house floor for a vote and, if approved there, will go to the second house where the legislative process starts anew
 - Legislators have until Friday, June 2, 2023, to approve bills introduced in their house



- Since the Legislature operates on a two-year legislative session, any bill that misses a deadline in 2023 can be revived in 2024
- The deadline for bills to make it all the way through the process and hit Governor Newsom's desk is Thursday, September 14, 2023
 - The Governor has until Saturday, October 14, 2023, to sign or veto legislation sent to him at the end of the legislative year
 - Governor Newsom has already signaled that he will veto any bill that adds costs to the state that is not accounted for in the State Budget