



Governor's Proposals for the 2023-24 State Budget and K-12 Education

Presented at

MDUSD Budget Advisory Committee

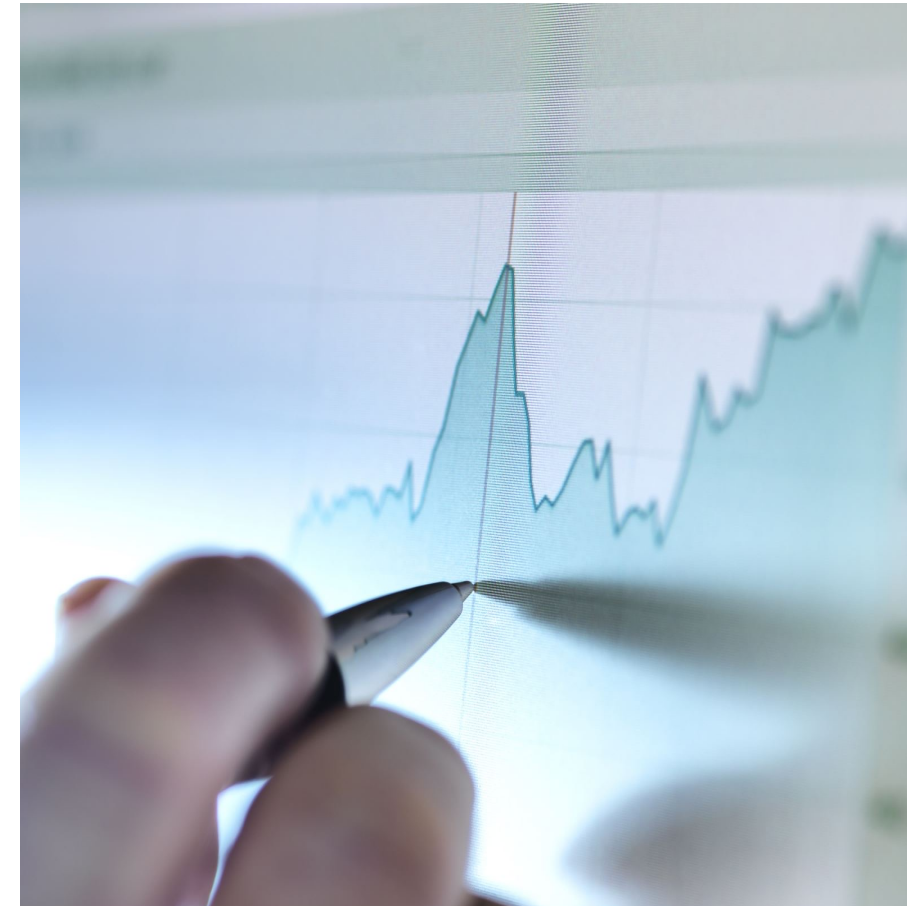
Tuesday, January 24, 2023

Themes for the 2023-24 Governor's Budget

- California seems to have turned the page in State Budget development: from COVID-19 pandemic budgeting since May 2020 to more business as usual
 - Unfortunately, business as usual comes with a softening economy
 - Fortunately, California is better prepared to weather the proverbial storm due to investments made and reserves built up during the good years
- The Governor's Budget is focused on maintaining programs where possible while trimming others
 - As the COVID-19 crisis recedes, other crises receive more attention—homelessness, housing, and extreme weather
 - All of which affect our students and educators
- As bare bones as it is, the Governor's Budget is precariously balanced and a change in the economic forecast could require more difficult decisions at the May Revision

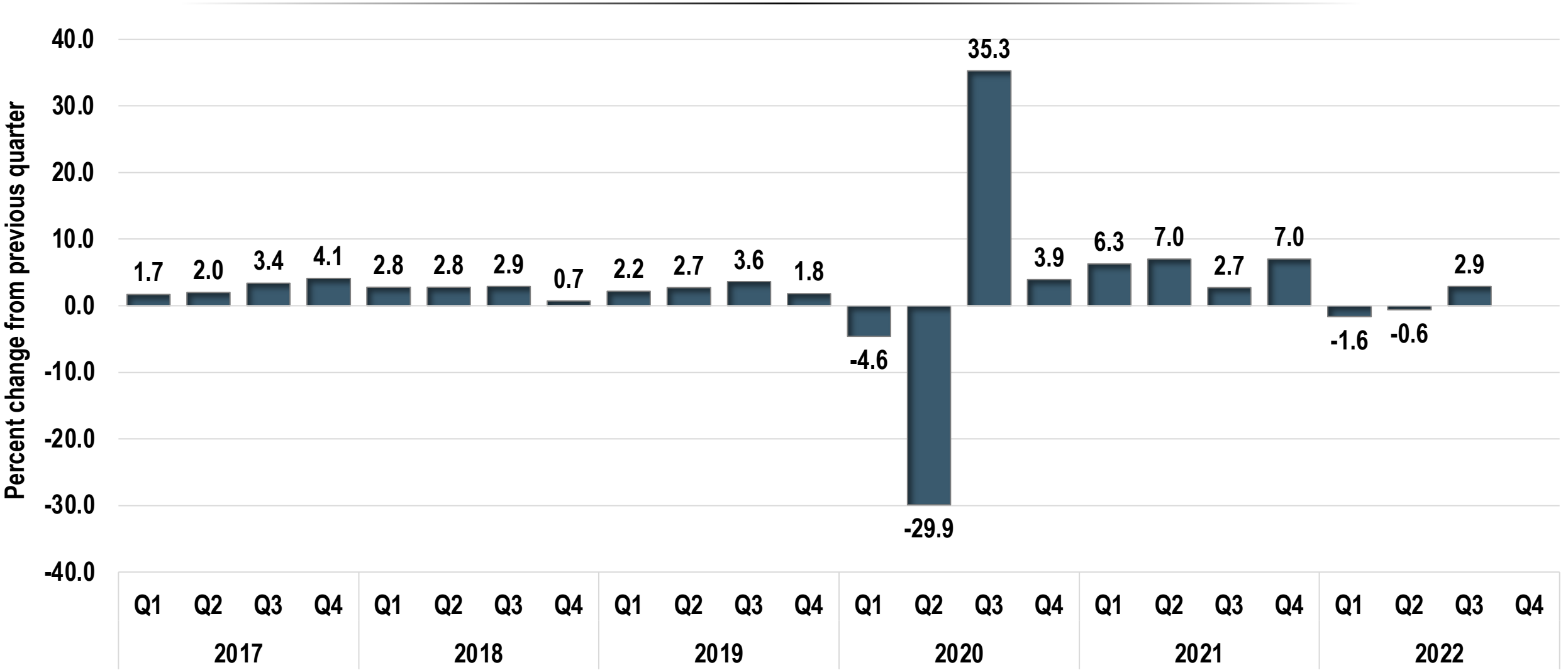
State Budget and Economy

- Persistent inflation, rising interest rates, lingering supply chain issues and the struggling stock market continue to stifle growth both nationally and for the state of California
- Most economists believe that a mild recession will occur in 2023 or 2024
- The state's revenue outlook is substantially different than the prior two years
- The Governor's Budget forecasts General Fund revenues that are \$29.5 billion lower than at the 2022-23 Enacted Budget
 - An estimated gap of \$22.5 billion in the state's General Fund for the 2023-24 fiscal year
- Through funding delays, reduction and pullbacks, fund shifts, trigger reductions and borrowing, the Governor was able to keep the state's significant reserves intact
- The Governor's revenue forecast assumes slower economic growth, but not a recession, which comes with elevated risks



Overview of the State Budget and the State Economy

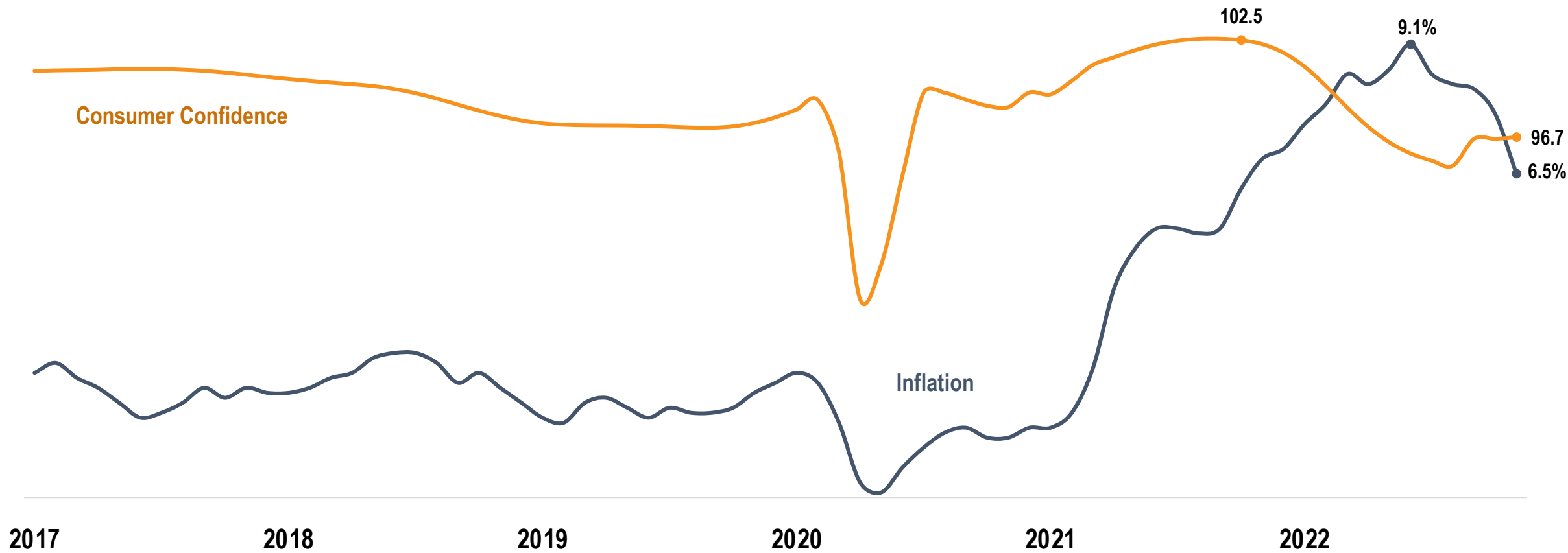
U.S. Gross Domestic Product



Source: U.S. Bureau of Economic Analysis (BEA)

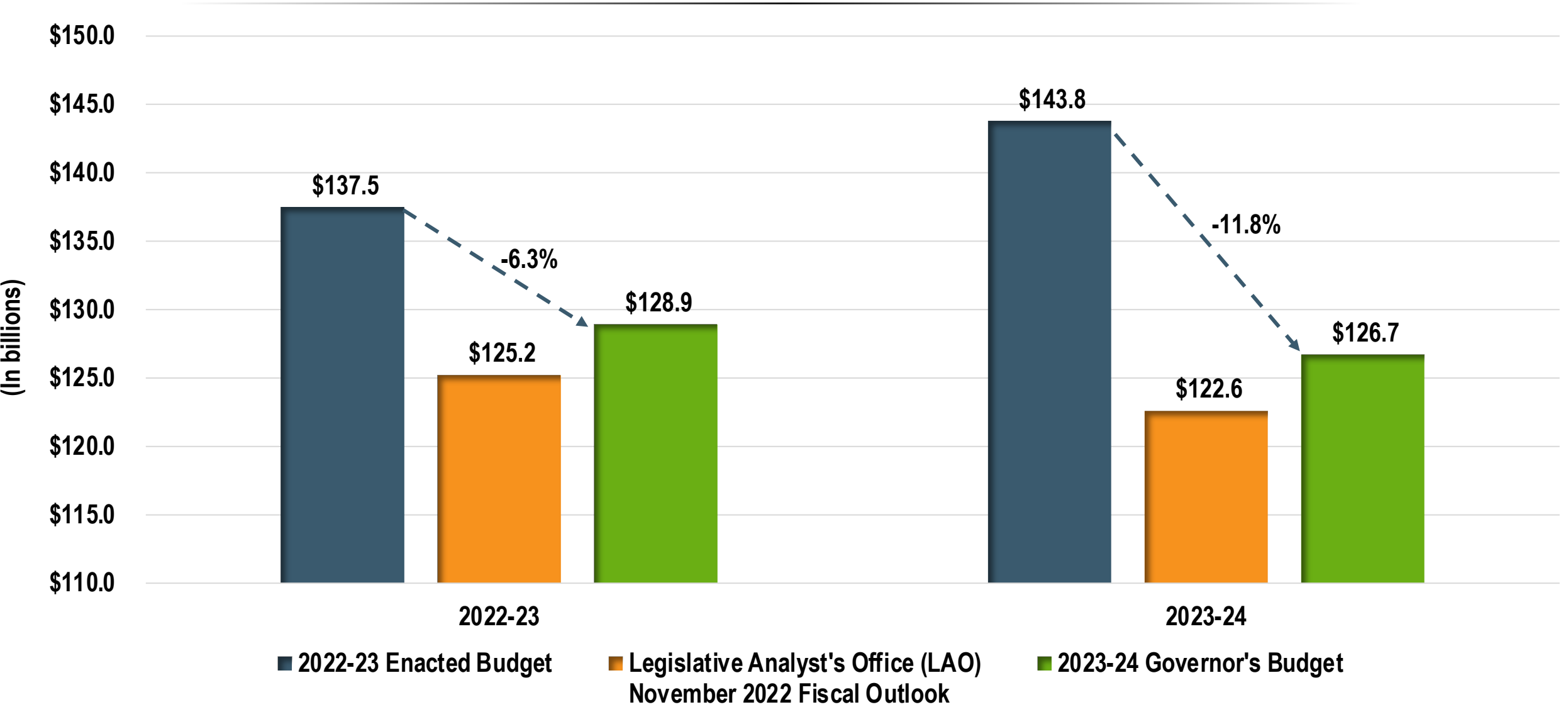
U.S. Consumer Price Index

U.S. Headline Inflation and Consumer Confidence

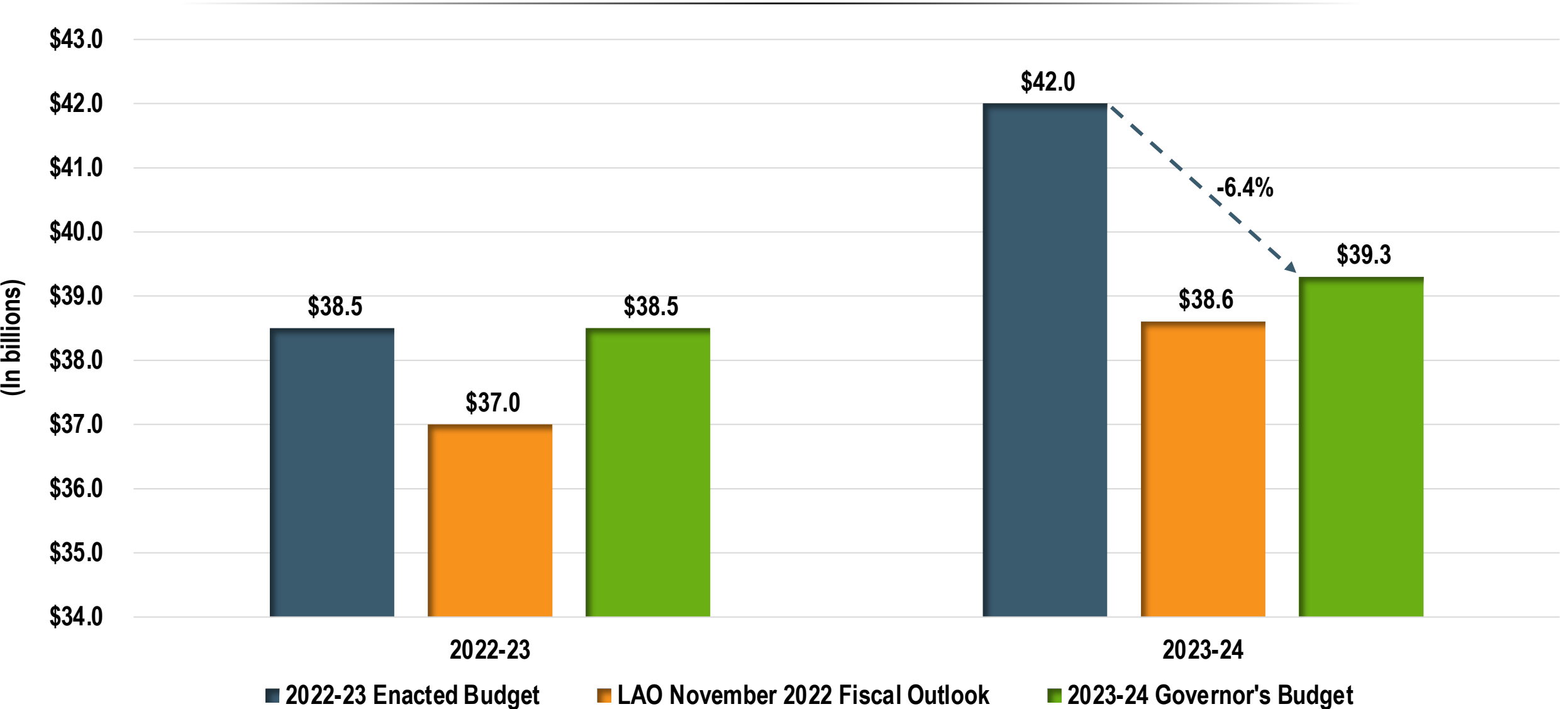


Sources: U.S. Bureau of Labor Statistics (BLS) and Organization for Economic Cooperation and Development

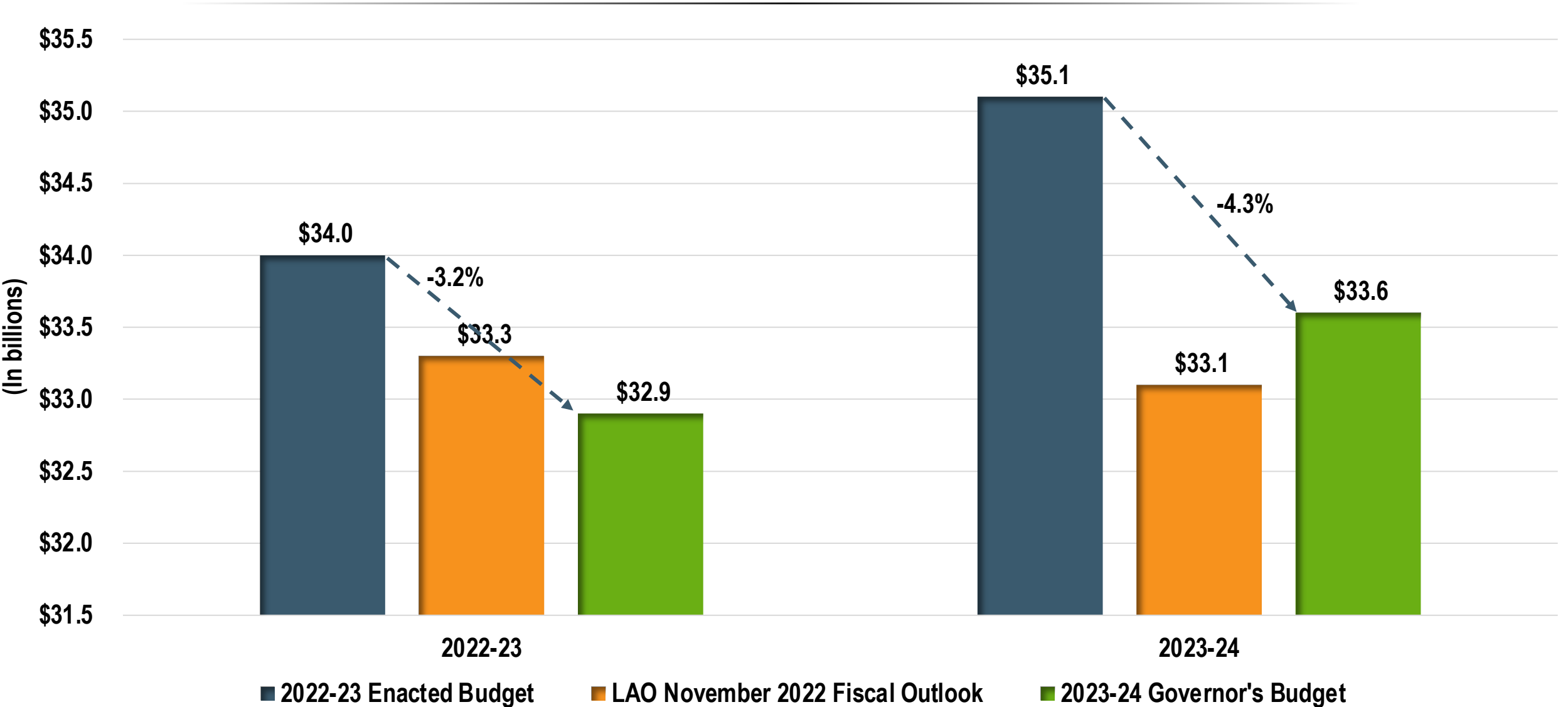
Personal Income Tax



Corporation Tax



Sales and Use Tax



Risks to the Budget

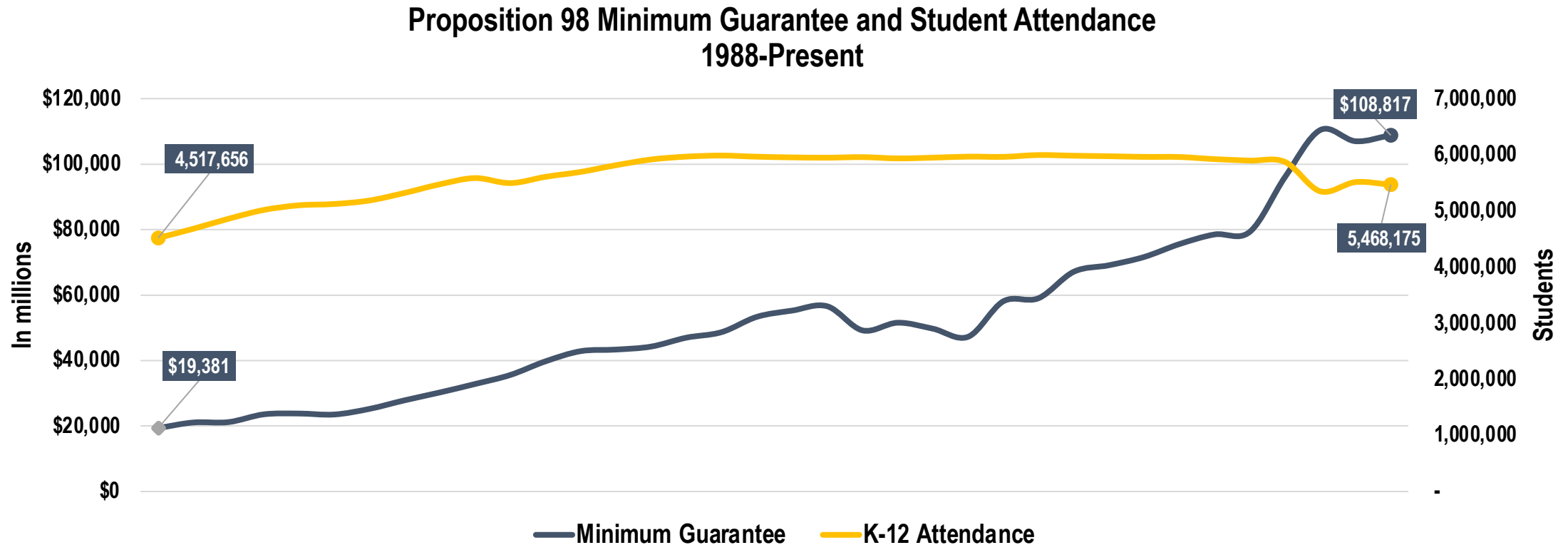
- California's progressive tax system is extremely volatile
- The Governor's Budget forecast assumes slower economic growth but does not assume a recession
- Geopolitical turmoil
- COVID-19 in the U.S. and abroad
- Inflation and Federal Reserve policy
- Further decline of the stock market
- Further declines in home prices
- Recession?



Proposition 98 and Education Funding

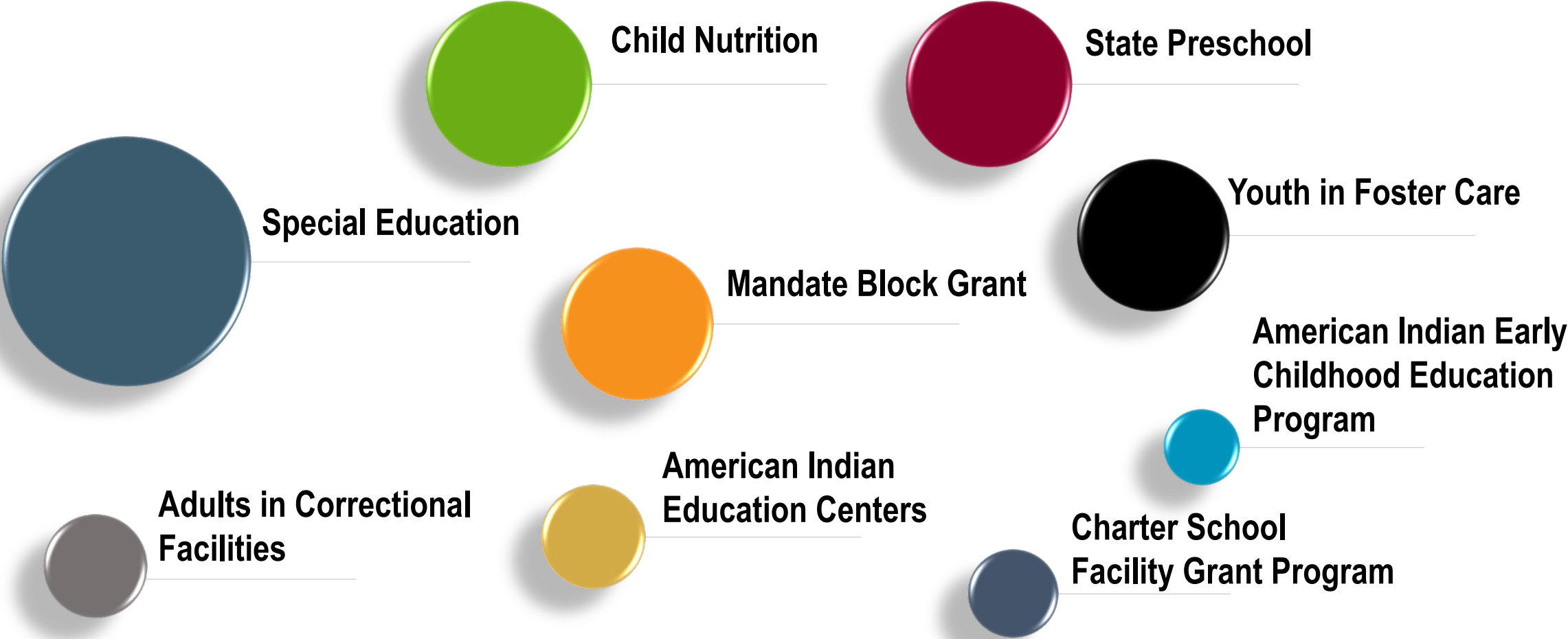
Proposition 98 and Student Attendance

- Since the passage of Proposition 98, the minimum guarantee has increased by 461%
- Meanwhile, the number of students served has grown by 21%, with recent declines in both enrollment and attendance



Categorical Program COLA

The Governor's Budget includes an additional \$669 million in Proposition 98 funding for a 8.13% COLA for multiple programs outside of the LCFF



2023-24 LCFF Funding Factors

Grade Span	TK	K-3	4-6	7-8	9-12
2022-23 Base Grant per ADA	\$9,166	\$9,166	\$9,304	\$9,580	\$11,102
8.13% COLA	\$745	\$745	\$756	\$779	\$903
2023-24 Base Grant per ADA	\$9,911	\$9,911	\$10,060	\$10,359	\$12,005
GSA	\$1,031	\$1,031	—	—	\$312
TK add-on (inclusive of COLA)	\$3,042	—	—	—	—
2023-24 Adjusted Base Grant per ADA	\$13,984	\$10,942	\$10,060	\$10,359	\$12,317
20% Supplemental Grant per ADA ¹	—	\$2,188	\$2,012	\$2,072	\$2,463
65% Concentration Grant per ADA ²	—	\$7,112	\$6,539	\$6,733	\$8,006

¹Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 20% and UPP

²Maximum amount per ADA—to arrive at LEA's grant amount, multiply adjusted base grant per ADA by 65% and UPP above 55%

LCFF Equity Multiplier—Distribution of Funds

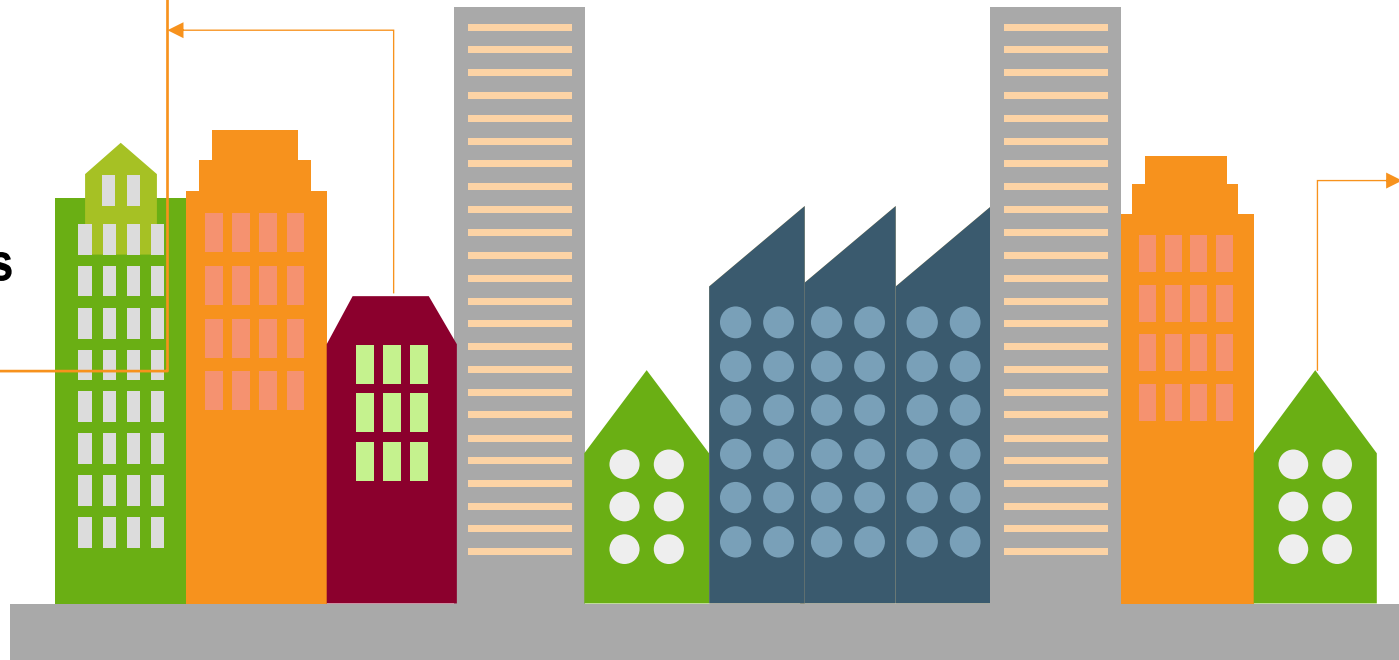
- Additional funds are allocated to LEAs, but eligibility is determined by school sites
 - Formula for distribution of funds will be available later this month

High schools serving at least 85% of students who are eligible for federal free meal program

- School Services of California Inc. (SSC) estimates 195 schools meet this threshold

Elementary and middle schools serving at least 90% of students who are eligible for federal free meal program

- SSC estimates 452 schools meet this threshold



The Proposed State Budget and Local Agency Impacts

CalSTRS Employer Contribution Rates

- Similar to the California Public Employees' Retirement System (CalPERS), the Governor does not include any new funding towards California State Teachers' Retirement System (CalSTRS) relief for LEAs
- SSC recommends that LEAs anticipate a CalSTRS employer contribution rate of 19.10% in 2023-24 based on the best information available to date from CalSTRS
 - Thereafter, CalSTRS projects an employer contribution rate of 19.10% for the next several years

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%
July 1, 2024	19.10%	0%
July 1, 2025	19.10%	0%

CalPERS Employer Contribution Rates

- Governor Newsom did not propose providing CalPERS relief for LEAs
- Based on the latest information from CalPERS, the employer contribution rate for 2023-24 would increase from the current rate of 25.37% to 27.00%

Year	Prior Projections per SSC Dartboard	Projected Rates per Most Recent CalPERS Actuarial Report ¹
2022-23	25.37%	25.37%
2023-24	25.20%	27.00%
2024-25	24.60%	28.10%
2025-26	23.70%	28.80%

¹Projected rates reflect an investment loss for 2021-22 based on preliminary investment returns, as well as an anticipated decrease in normal cost due to new hires entering lower cost benefit tiers

Source: Schools Pool Actuarial Valuation as of June 30, 2021

Minimum Wage Increases—Future Forecast

- Below is a table illustrating minimum wage on an hourly, weekly, monthly, and annual basis
- Based on inflation, SSC staff project that starting in 2024, the minimum wage will continue to increase by the maximum amount allowed by law through 2028

Minimum Wage	Effective Date: > 25 Employees	Effective Date: ≤ 25 Employees	Exempt Minimum Salary (Weekly)	Exempt Minimum Salary (Monthly)	Exempt Minimum Salary (Annually)
\$14.00/hour	January 1, 2021	January 1, 2022	\$1,120	\$4,853	\$58,240
\$15.00/hour	January 1, 2022	N/A	\$1,200	\$5,200	\$62,400
\$15.50/hour	January 1, 2023		\$1,240	\$5,373	\$64,480
\$16.00/hour	January 1, 2024		\$1,280	\$5,547	\$66,560
\$16.40/hour	January 1, 2025		\$1,312	\$5,685	\$68,224
\$16.80/hour	January 1, 2026		\$1,344	\$5,824	\$69,888
\$17.20/hour	January 1, 2027		\$1,376	\$5,963	\$71,552
\$17.60/hour	January 1, 2028		\$1,408	\$6,101	\$73,216

Note: Employers should review city or county ordinances to determine if any local minimum wage standards apply

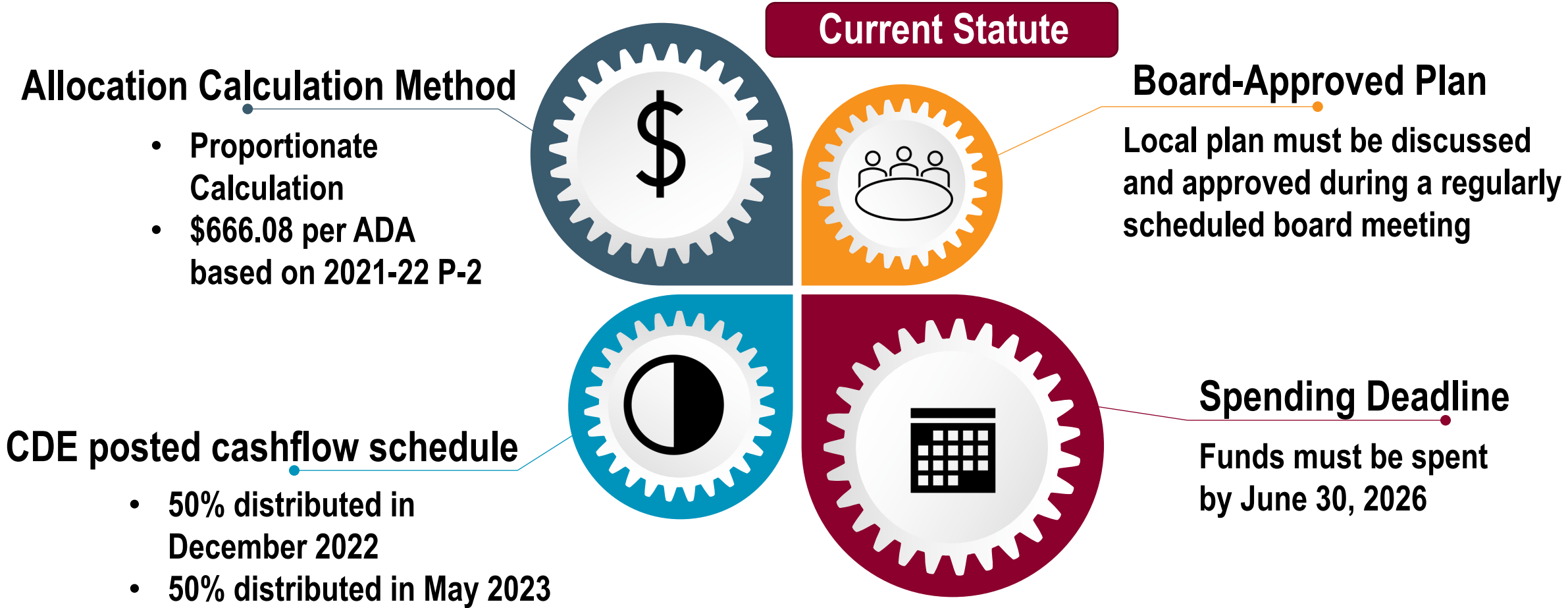
LCFF ADA Policies

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

Policy	Beneficiary	Benefit
COVID-19 ADA Relief	School Districts	Funded ADA is based on greater of current-year ADA, prior-year ADA, or <u>average of three most recent prior years' ADA</u>
	Classroom-Based Charter Schools	Funded ADA in 2021-22 is based on greater of current-year or prior-year ADA
ADA Loss Mitigation	School Districts, COEs, and Classroom-Based Charter Schools	2019-20 attendance yield can be used to amend reported ADA in 2021-22

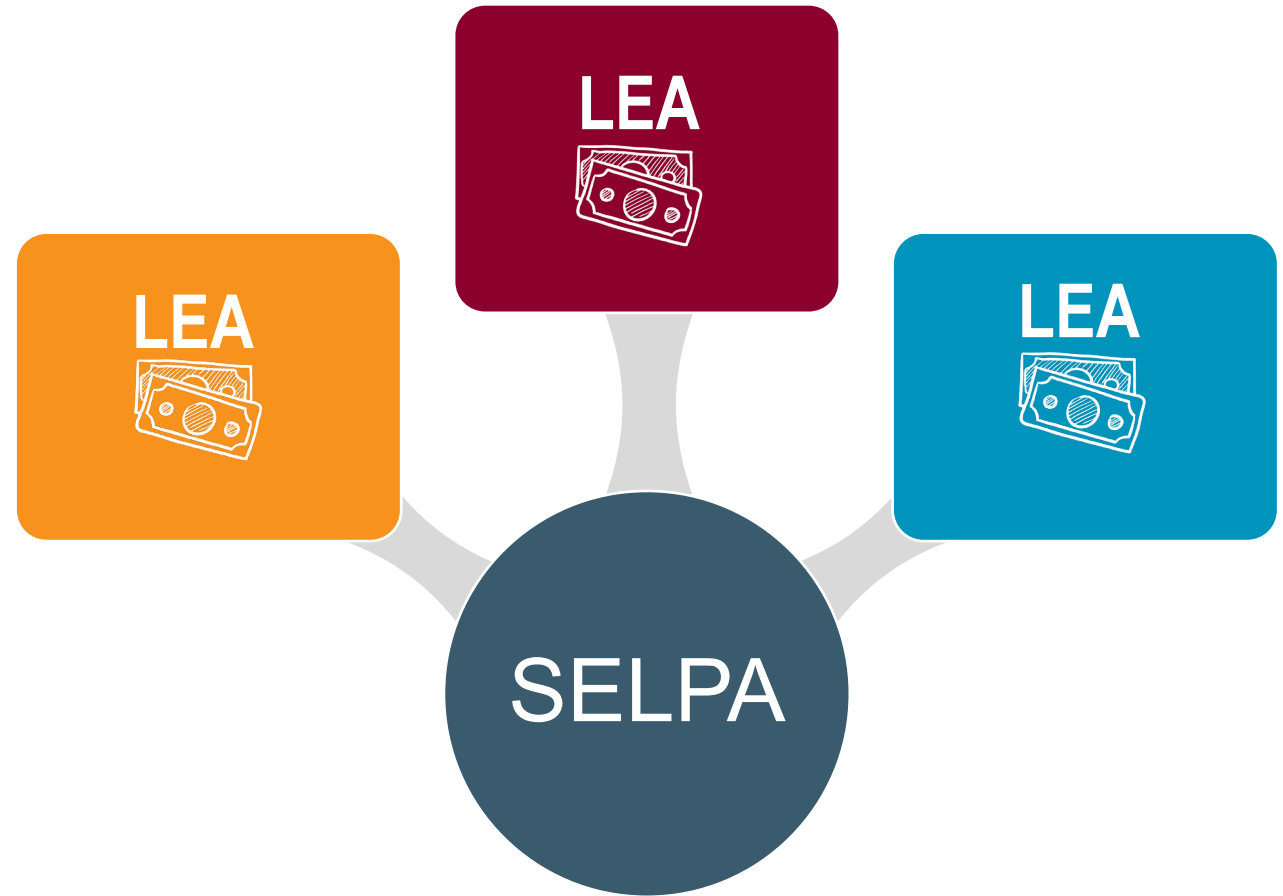
Arts, Music, and Instructional Material Block Grant—Proposed Funding Reduction

The Governor’s Budget proposes a \$1.2 billion reduction in the \$3.5 billion one-time funding provided in the 2022-23 Enacted Budget package, bringing the appropriation down to \$2.3 billion



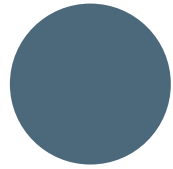
Continued Investment in Special Education

- \$3.6 billion over last four years, including almost \$2 billion in ongoing Proposition 98 General Funds
- AB 602 Funding
 - Statewide base rate per ADA calculated at the LEA level
 - Funds flow under the AB 602 funding formula via Special Education Local Plan Area (SELPAs)
 - Estimated 2023-24 base rate is approximately \$886.66



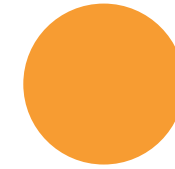
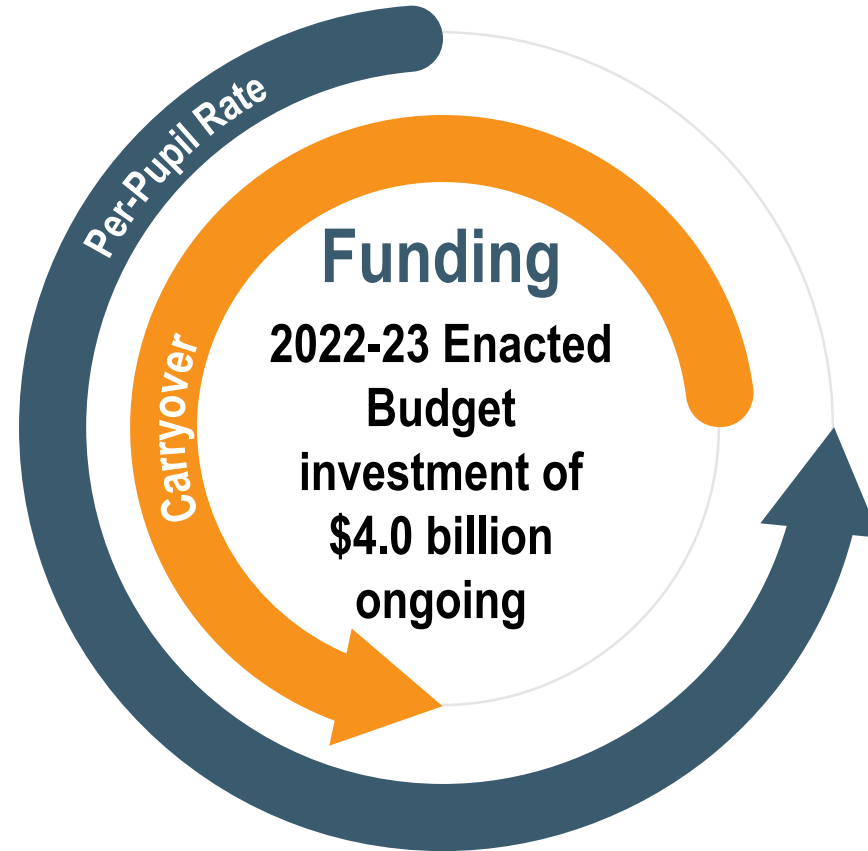
Expanded Learning Opportunities Program

The Governor's Budget proposes no changes to the program



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 depending on the amount that goes to high UPP LEAs



Carryover

Explicitly allowed in statute as LEAs work to implement the program

- Funds received in 2021-22 may be carried over to 2022-23
- Funds received in 2022-23 may be carried over to 2023-24

Home-to-School Transportation Funding

Funding Formula Calculation

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

Apportionment of Funds

2022-23 funds will be apportioned in June 2023 as part of the 2022-23 Second Principal Apportionment (P-2)

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

- The Advance and P-1 certifications will include an estimate of home-to-school transportation reimbursement based on prior-year data
- Final funding for the fiscal year will be calculated at the P-2 certification

- Funding is allocated to school districts and COEs
- Unduplicated students must be exempted from transportation fees
- Requirements will be audited

Additional Categorical Funding

Literacy Coaches and Reading Specialists Grant Program and Literacy Roadmap



\$250 million

- 2022-23 Enacted Budget included \$250 million one-time Proposition 98 funding for Literacy Coaches and Reading Specialists Grants
- Governor's Budget proposes an additional \$250 million in one-time Proposition 98 funds to expand the number of high-poverty schools participating to train and hire literacy coaches and reading specialists

\$1 million

- One-time non-Proposition 98 funds to create a Literacy Roadmap to help educators navigate existing literacy programs

12th Grade Cultural Enrichment



\$100 million

One-time Proposition 98 funds to provide 12th grade students opportunities to visit museums, attend theater performances, or participate in enrichment activities

Opioid Overdose Reversal



\$3.5 million

Ongoing Proposition 98 funding for middle and high school sites to maintain medication to reverse opioid overdose

Continued Workforce Investments

- The Governor’s Budget continues commitments in the 2021-22 and 2022-23 Enacted Budgets to train, recruit, and retain a diverse, expert workforce of administrative, credentialed, and classified staff
 - Absent from the proposal are new investments to address the pervasive staffing shortage—requiring immediate staffing needs to be met with local solutions

