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ASSISTANCE TEAM

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Governor's Budget Proposal for 2024-25

Marin County Office of Education
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Expectations Based on December LAO

- The December 7 Legislative Analyst's Office (LAO) *Fiscal Outlook* established grim expectations for the budget window and beyond.
 - \$68B deficit over the three-year budget window (2022-23 through 2024-25).
 - Deficits driven primarily by \$58B in lower revenues, including a delayed recognition of a 25% drop in 2022-23.
 - Proposition 98... jumps around among Test 1, 2 and 3 conditions.
 - Cost-of-living-adjustment (COLA) of 1.37%.
- But the LAO also provided some reasonable considerations for moving forward.

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Governor's TK-12 Budget At A Glance

- Strong support for schools is maintained; governor's estimates appear to be dramatically different than the LAO's forecast in the near term, but very similar over time and when the full context is considered.
- Over the three-year budget window from the 2023 Budget Act:
 - Revised "big three" tax revenues forecast down \$42.9B.
 - Proposition 98 decline of \$14.3B, to \$109.1B; remains in Test 1.
 - Adjusts prior year deposits and makes a significant withdrawal from the Public School System Stabilization Act rainy day fund to support COLA, bringing the new balance of the fund to \$3.8B.
- Lower than anticipated 0.76% COLA on Local Control Funding Formula (LCFF) and categoricals.
- Maintains prior investments and priorities with only natural reductions.

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Revenues

- Revenue forecasts determine the basis for all else and reflect a normalization after dramatic increases in recent years.
 - General fund revenue is down \$42.9B from 2023 Budget Act.
 - Personal income tax down \$29.6B, \$21B of which is from 2022.
 - Corporation tax down \$15.4B.
 - Sales and use tax up \$2.1B.
 - Capital gains taxes as a percentage of general fund revenues is around 5%, down from 11.6% peak in 2021 – accounting for almost \$25B of the revenue drop.
- Forecast assumes continued but moderate economic growth, with no recession.

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Overall Budget Deficit

- Shortfall projected at \$37.9B over the three-year window.
 - Addressed with a combination of reserves, delays, reductions and other solutions totaling \$43B. Mainly as follows:
 - \$26B spending-related solutions.
 - \$13B reserve withdrawals.
 - \$4.4B in cost shifts and revenue.
- A \$30B difference from the LAO's December forecast, driven primarily by:
 - \$15.3B difference in revenue projections.
 - The LAO calls the governor's revenue estimate "optimistic but plausible."

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Proposition 98 Reserve Fund

- Adjusts the Public School System Stabilization Act (PSSSA) reserve based on new revenue data.
 - Lowers deposits for 2022-23 and 2023-24.
 - Withdrawal of \$3.0B in 2023-24 and \$2.7B in 2024-25, mainly to support LCFF (\$5.0B of the \$5.7B total). This is a discretionary, as opposed to formulaic, withdrawal and will require a future declaration of a budget emergency.
 - New fund balance of \$3.9B at the end of 2024-25 – down from \$10.8B.
 - Local reserve caps remain in place for 2024-25 (fund balance was over \$5.7B in 2023-24).

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Proposition 98

- Proposition 98 down by \$14.3B across the budget window.
- Test 1 environment across the budget window.
 - Funding based on TK-14's proportion of general fund revenues.
 - 39.5% of revenue once funding is rebenched due to universal transitional kindergarten (TK) expansion and Proposition 28 arts/music.
- To insulate local educational agencies (LEAs) from the impact of a Proposition 98 decrease, the administration proposes:
 - Use of \$5.7B in PSSSA rainy day fund withdrawals (using reserves).
 - Treating prior year appropriations of \$8B as advances, and accounting for these advances as non-Proposition 98 in future years on the state's books.

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Proposition 98 (Cont.)

- COLA of 0.76% for LCFF, counties and many categorical programs.
 - State will make it a priority to fund the statutory COLA.
 - COLA adds \$75 - \$91 per ADA for base grants across the grade spans.
 - Special education base funding now \$894 per ADA.
 - Uses \$5.0B of one-time reserves to support the LCFF.
 - Outyear COLAs of 2.73% to 3.24% are low compared to normal costs.
- Maintains prior year commitments, with only minor deferrals or reductions.
- Proposition 28 arts and music initiative estimated at \$931M, down \$6.6M, rebenched from non-Proposition 98 funding.

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Proposition 98 (Cont.)

- Provides various small recurring and one-time funding augmentations for professional development, studies, broadband infrastructure, state special schools and other initiatives. Augmentations include:
 - \$25M added to the Mandate Cost Block Grant for K-2 literacy screening.
 - \$20M for math professional development through county partnership.
 - \$6M to study remote learning models and student information systems' accounting of student attendance.
 - \$5M to extend the school broadband infrastructure grant through 2029.
 - \$5M increase for the California College Guidance Initiative.

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Program Revisions

- Third year implementation of universal transitional kindergarten, adding 51,000 students with birthdays between April 2 and June 2; maintains plan to lower staffing ratios to 10-to-1 for all TK in 2025-26.
- Statute changes to support student attendance recovery opportunities and higher standards for remote learning.
- Proposes authority for the Commission on Teacher Credentialing to create a new arts and music career technical education credential.
- Proposes to replace the basic skills assessment requirement with a bachelor's degree and streamline subject matter completion review for teacher credentials.
- Proposes adjustments to the allowable uses of the Learning Recovery Emergency Block Grant, including alignment with the new math framework, learning recovery and Local Control and Accountability Plan.

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Deferrals or Reductions

- The only two funding deferrals or reductions for TK-12 are in non-Proposition 98 funding:
 - School facility augmentation reduced from \$875M to \$375M, recognizing a commitment to a 2024 education facilities bond measure.
 - Additional one-year delay on \$550M for kindergarten and preschool facilities.

Looking Ahead

- FY 2024-25 and near-term out years include challenges for LEAs.
 - Flat revenue growth over the next several years, with risks to the revenue forecast and Proposition 98 tests.
 - Low to normal COLAs, following record high COLAs of the recent past.
 - Declining enrollment continues in all regions of the state.
 - ADA mitigation provisions remain in place but have narrowing effects.
 - Exhausting and expiring one-time pandemic funds.
 - Message differences between state maintenance of K-14 funding and local implications due to declining enrollment and low COLAs.

Planning Considerations

- Updated multiyear projections are essential; have one for each potential scenario (i.e., revenue and COLA scenarios).
- Maintain and boost reserves in the short term to offset near-term and long-term revenue risks. Revenue risks of \$15B are \$100 per student.
 - Maintain and boost cash balances; ensure reserves are backed by cash.
- Ensure position control is accurate and maintained timely.
- Almost every number in the January budget proposal will change by the final budget. Adjust as information changes.
- There is a silver lining in every storm cloud; be prepared to take full advantage of the opportunities.

Questions

Thank you!

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