

Second Interim Update

March 12, 2024

Jason E. Vann, Assistant Superintendent –
Business Services



Agenda

- Purpose of the Interim
- Where we are in the Budget Cycle
- Key Changes in Assumptions
- Summarize FMSD Updated MYP
- Explain Significant Changes Since Adopted Budget
- Discuss Next Steps
- [BOARD ACTION](#)- Approve Interim As Presented



Purpose

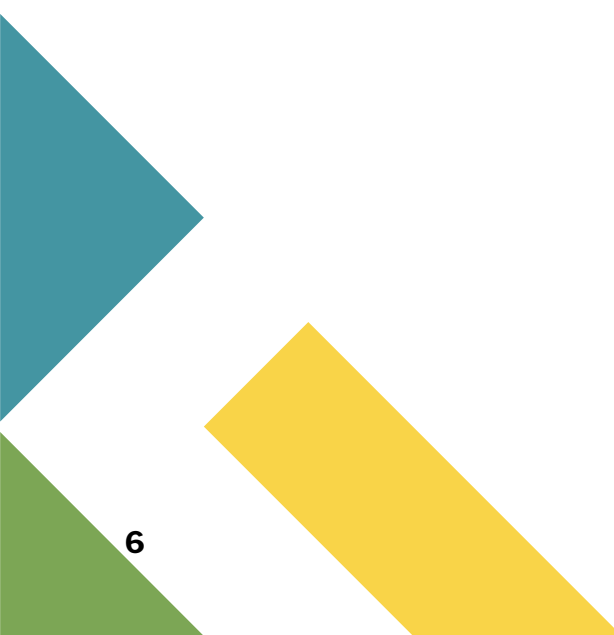
Purpose of the Interim

- **Realign** FMUSD MYP (Multi Year Projection) with State Budget Proposal
- **Summarize changes** in other budget assumptions impacting MYP
 - Examples include (i) Funding updates, (ii) Staffing Changes, (iii) Carryover, etc.,
- **Board Action Required** Under Ed Code: School Boards are required to certify updated projection for the current year and two subsequent years twice a year (Interim Reports)
 - Ed Code 42130, 33127, 33129, AB 1200 and AB 2756
- Typically, During December and March of each year
- MYP includes 23-24, 24-25 and 25-26 (26-27 coming in soon)



Where are we?

Budget Cycle



January – State Budget
Proposal

**March – Second Interim
Update**

May – State's May Revise

Early June – District Adopts
Budget

Late June – State Adopts
Budget

Key Assumption Changes

Nothing more important than the steep decrease in COLA for future years

- **From 3.94% to 0.76% in 24-25**
- **Loss of \$12.6M** in LCFF Revenue over 3 years

ELOP Expenditures Have Significantly Increased

- **23-24:** From \$9M to \$13M



Other Assumptions

Reductions in Workforce

- Projecting a significant decline in operating expenditures from 23-24 to 25-26 to balance the budget.

Enrollment Projected

- **5,769** in 23-24; **5,687** in 24-25 and **5,554** in 25-26 (Reduction of **215** students)

Caveat

- MYP does not assume any new funding from the state or recession; Numbers will change
- An addition of unbudgeted expenditures (without additional funding or savings to offset) will require additional ongoing cuts (e.g., benefits, services, etc.)



Multi-Year Projections

MYP (MultiYear Projections)

Combined General Fund Multi-Year Projections (amounts in dollars)		Unaudited Actuals 2022-23	Multi-Year Projections		
	Formula Reference		2023-24	2024-25	25-26
Beginning Balance	(a)	\$32,058,075	\$48,999,203	\$36,324,935	\$14,933,123
Revenue	(b)	\$137,256,430	\$134,142,191	\$111,795,165	\$111,116,556
Expenditures	(c)	\$120,315,302	\$146,816,459	\$133,186,977	\$120,576,815
Net Increase / (Decrease)	(b) - (c) = (d)	\$ 16,941,128	\$ (12,674,268)	\$ (21,391,812)	\$ (9,460,259)
Ending Balance	(a) + (d) = (e)	\$48,999,203	\$36,324,935	\$14,933,123	\$5,472,864
Total Available Reserves	(f)	\$6,015,765	\$7,343,420	\$6,670,249	\$3,617,294
Total GF Expenditures	(c)	\$120,315,302	\$146,816,459	\$133,186,977	\$120,576,815
Reserve at Second Interim	(f) / (c)	5.0%	5.0%	5.0%	3.0%

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Fiscal Cliff Requiring Tough Decisions



Why A Cliff?

- One-time COVID funds will be fully exhausted by September 2024
- Rapidly rising operating costs
- COLA increases in funding not able to cover rising operating costs
- COLA projects in out years decreased
- Continued Declining Enrollment
- Changing Demographics

Possible Next Steps....

- Eliminate all expenditures paid with one-time funds
- Finalize expenditure reductions to remain fiscally solvent
 - Consolidate schools
 - Eliminate positions / Workforce Reductions
 - Reduce contracts
 - Stretch tech refresh timeline
 - Delay or reduce curriculum adoptions
- Prepare **March 15, 2024** notices
 - CSEA,
 - Management

**Based on the 2nd Interim MYP,
the District would need
expenditure reductions of:**

\$13.69 M in 24-25

\$ 7.57 M in 25-26

\$ 6.63 M in 26-27

To Reach a 3% reserve in 26-27

**If the cuts for 24-25 do not happen,
and there are not ample saving at year-end,
cuts in 25-26 and 26-27 will be larger.**

Notable Changes

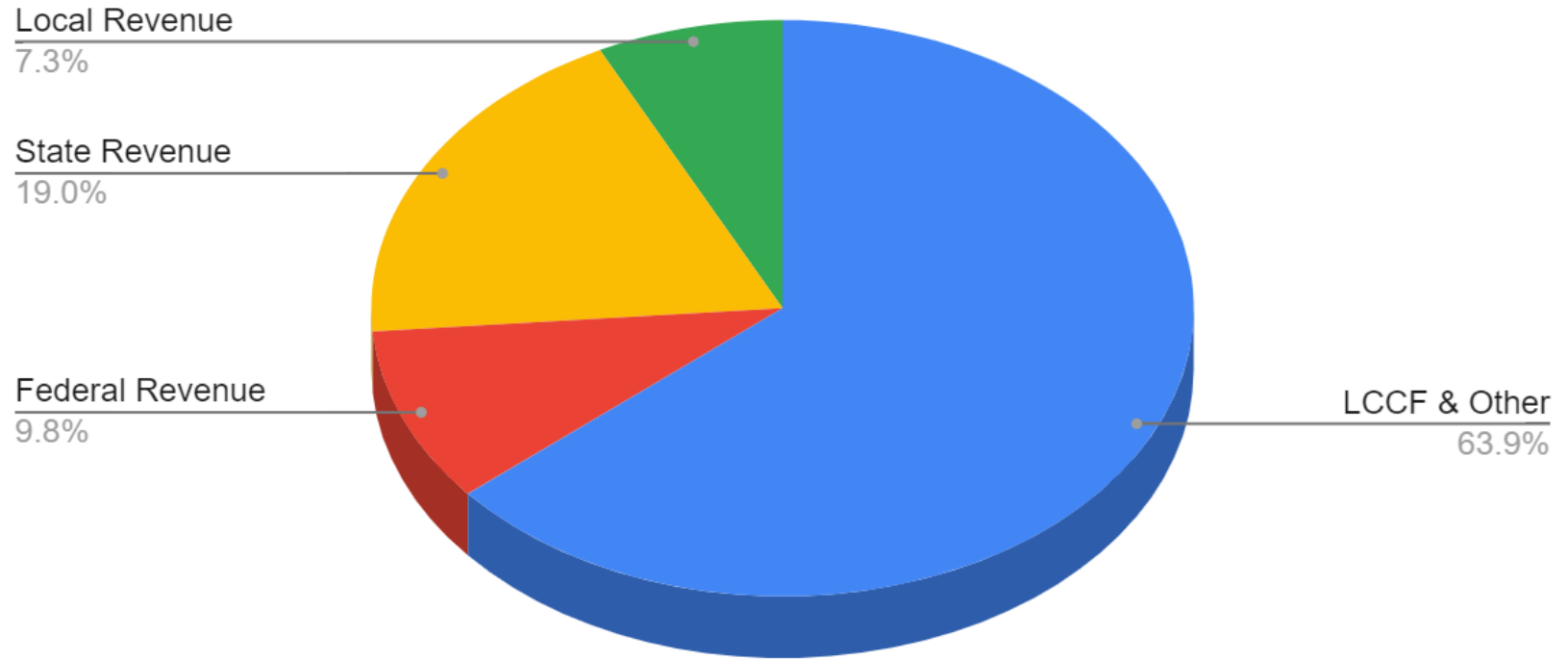


Change from First Interim

Combined General Fund - Change from First Interim Budget					
(amounts in dollars)	<u>Formula Reference</u>	<u>First Interim 2023-24</u>	<u>Second Interim 2023-24</u>	<u>Incr/(Decr) Variance</u>	<u>Percent Change</u>
Formula Reference		(A)	(B)	(B) - (A) = (C)	(C) / (A)
Beginning Balance	(a)	\$48,999,203	\$48,999,203	\$0	0.00%
Revenue	(b)	\$134,409,284	\$134,142,191	\$ (267,093)	(0.20%)
Expenditures	(c)	<u>\$143,085,368</u>	<u>\$146,816,459</u>	<u>\$3,731,091</u>	2.61%
Net Increase / (Decrease)	(b) - (c) = (d)	<u>\$ (8,676,084)</u>	<u>\$ (12,674,268)</u>	<u>\$ (3,998,184)</u>	
Ending Balance	(a) + (d) = (e)	\$40,323,119	\$36,324,935	(\$3,998,184)	(9.92%)
Reserve Percentage		5.0%	5.0%	0.0%	

- **64%** (or \$85.7M) of total revenue from LCFF
- When LCFF has a cold, we will all feel it.
- Avg. Per Student Funding under LCFF is **\$14.2K** in 23-24
- Unduplicated Pupil Percentage: **78%**

Total Revenue At Second Interim By Category



Components of Revenue

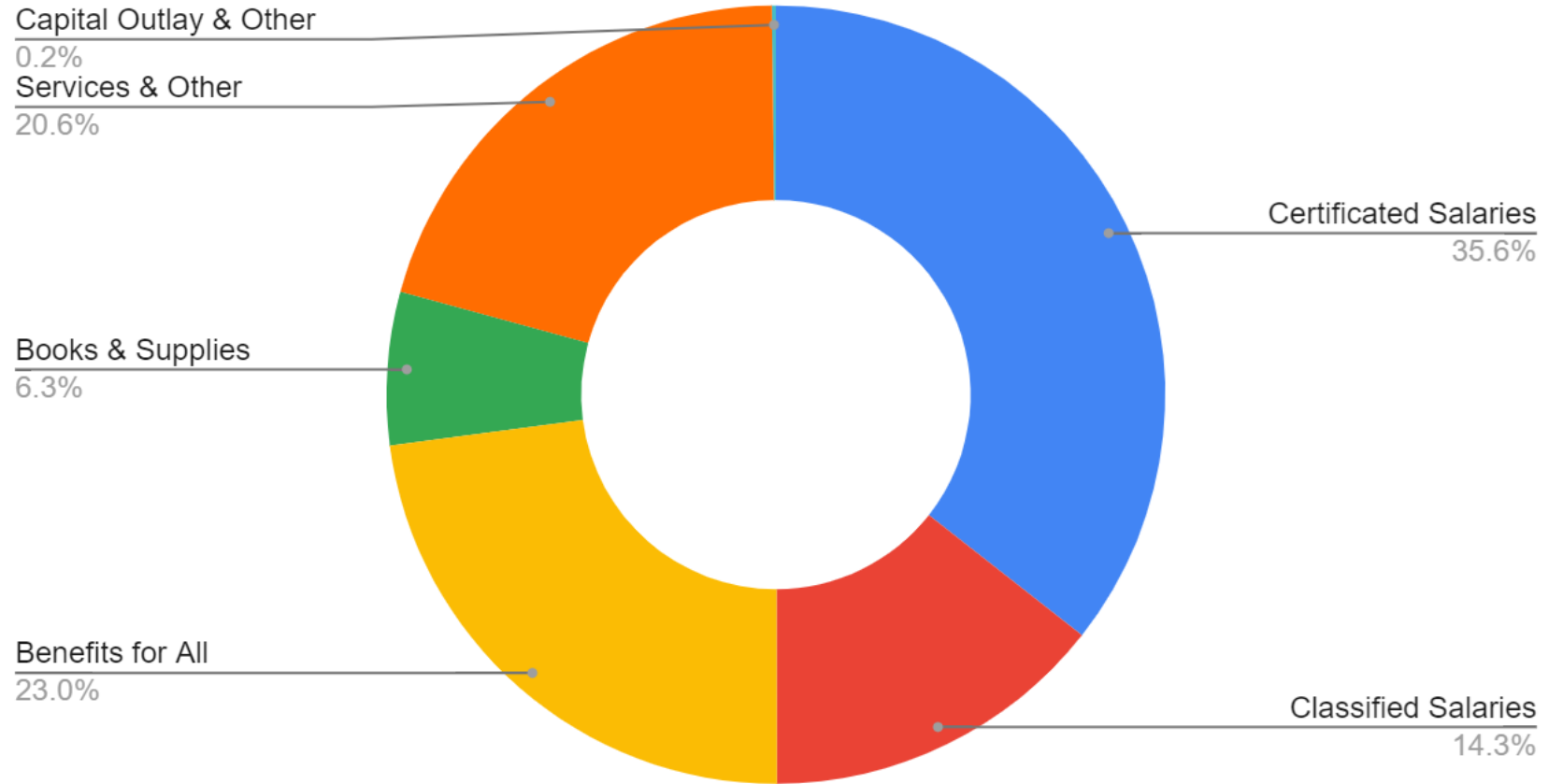
Change by Revenue Category

Revenue By Major Category	2nd Interim % of Total	First Interim	Second Interim	Increase / (Decrease)	Percent Change
LCFF & Other	63.90%	\$85,821,823	\$85,675,747	\$ (146,076)	(0.17%)
Federal Revenue	9.84%	\$13,104,336	\$13,202,903	\$ 98,567	0.75%
State Revenue	18.96%	\$25,387,859	\$25,430,833	\$ 42,974	0.17%
Local Revenue	<u>7.30%</u>	<u>\$10,095,266</u>	<u>\$9,832,708</u>	<u>\$ (262,558)</u>	(2.60%)
Total Revenue	<u>100.00%</u>	<u>\$134,409,284</u>	<u>\$134,142,191</u>	<u>\$ (267,093)</u>	(0.20%)

- **LCFF:** Primarily a decrease in projected per student funding & ADA at second interim
- **Local:** Less funding from Special Education, per SELPA; Rising cost of County Program is reducing this revenue category

- **73%** of our expenditures go to total compensation of all employees. It will get higher as one-time funds are spent down.
- Makes it difficult to reduce expenditures without making a reduction in workforce and limiting student offerings.

Expenditures at Second Interim by Category



Components of Expenditures

Change by Expenditure Category

Expenditures By Category	2nd Interim % of Total	First Interim	Second Interim	Increase / (Decrease)	Percent Change
Certificated Salaries	35.60%	\$53,068,860	\$52,282,774	\$ (786,086)	(1.48%)
Classified Salaries	14.35%	\$21,238,650	\$21,061,397	\$ (177,253)	(0.83%)
Benefits for All	22.96%	\$33,379,492	\$33,703,865	\$ 324,373	0.97%
Books & Supplies	6.35%	\$9,161,447	\$9,317,935	\$ 156,488	1.71%
Services & Other	20.58%	\$25,070,261	\$30,210,009	\$ 5,139,748	20.50%
Capital Outlay & Other	<u>0.16%</u>	<u>\$1,166,658</u>	<u>\$240,479</u>	<u>\$ (926,179)</u>	(79.39%)
Total Expenditures	<u>100.00%</u>	<u>\$143,085,368</u>	<u>\$146,816,459</u>	<u>\$3,731,091</u>	2.61%

- **Salaries:** Added net saving from unfilled certificated and classified positions
- **Benefits:** Rising premiums fueling benefit increase.
- **Services:** ELOP expenditures have increased steadily since first interim. Using carryover to cover costs but future spending levels will need to be reduced.
- **Capital Outlay:** Eliminated CNS Capital Outlay will not occur until 24-25.

Projected June 2024 Ending Balance

Components of Ending Balances As of June 30, 2024	<u>Unrestricted</u>	<u>Restricted</u>	<u>Combined</u>	<u>Percentage of Ending Balance</u>
(Amounts in Dollars)				
Prepaid Expenditures	\$ 713,010	\$ -	\$ 713,010	1.96%
Legally Restricted (1)	\$ -	\$ 16,092,336	\$ 16,092,336	44.31%
Committed (2)	\$ 12,176,169	\$ -	\$ 12,176,169	33.52%
Assigned (2% Board Reserve)	\$ 2,936,329	\$ -	\$ 2,936,329	8.08%
3% Economic Uncertainty	\$ 4,407,091	\$ -	\$ 4,407,091	12.13%
Unassigned Reserve	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>
Ending Balance	<u>\$ 20,232,599</u>	<u>\$ 16,092,336</u>	<u>\$ 36,324,935</u>	<u>100.00%</u>

(1) - Primarily Learning Recovery Emergency Block Grant and ELO Program funds

(2) - Committed for Curriculum Adoption, SERP payments, Tech Refresh & projected deficit spending

COVID-19 Protections Created Healthy Reserves

COVID-19 Funding



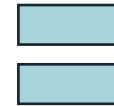
- More than \$26 billion of federal, one-time funding was invested from 2019-20 through 2024-25
- Final tranche of ESSER¹ is approximately \$14 billion and must be fully obligated by September 30, 2024



ADA Protections



- Adjustments to reported 2021-22 ADA using 2019-20 attendance yields resulted in a one-time bump to funded ADA
- Inclusion of the option to use the average of three prior years' reported ADA to determine current-year funded ADA



Healthy Reserves



- The infusion of one-time funding, plus the abeyance of declining enrollment and suppressed attendance yields have allowed LEAs to weather the COVID-19 pandemic with minimal disruptions
- In fact, many LEAs were able to add staff and programs

¹Elementary and Secondary School Emergency Relief Fund



Buckets of the Projected Ending Balance

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Assigned	\$2.9M	Additional 2% reserve based on board resolution 2011-25
Committed	\$9.3M	Mitigations measures - To offset future deficit spending; extend positions funded with expired one-time funds.
Committed	\$1.6M	Supplemental Employment Retirement Plan (SERP) Payments to be made
Committed	\$1.3M	Curriculum Adoption & Tech Refresh
Ed Code Requirement	\$4.4M	3% reserve for economic uncertainty required by Ed Code
Non-Spendable	\$0.7M	Prepaid Health Insurance Expenditures



Buckets of the Projected Ending Balance

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Restricted	\$6.5M	Learning Recovery Emergency Block Grant can only be used for learning recovery initiatives through the 2027-28 school year that supports academic learning recovery, and staff and pupil social and emotional well-being. Currently used to pay for Social Workers, Student Support Specialists and increased hours for Paraeducators. (Spend by June 2028)
Restricted	\$3.3M	Expanded Learning Opportunities Program – Only provides funding for afterschool, intersessional and summer school enrichment programs; Can't be used during the day; Focus on developing the academic, social, emotional, and physical needs and interests of pupils through hands-on, engaging learning experiences;
Restricted	\$2.2M	Other Restricted Local Grants are restricted based on funding source. Include funds received from Packard, Applied Materials, CA Community Schools Partnership Program Grant, donations to the school sites, etc.
Restricted	\$1.2M	Arts, Music & Instructional Materials Block Grant funds are to obtain standards-aligned PD and instructional materials in specified areas, obtain PD on improving school culture, develop diverse and culturally relevant book collections, operational costs and COVID personal protective equipment. (Spend by June 2026)



Buckets of the Projected Ending Balance

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Restricted	\$0.8M	Child Nutrition: K.I.T. Funds - Can only be used to purchase & upgrade Kitchen Infrastructure and provide training to Child Nutrition Services staff members. (Spend by June 2025)
Restricted	\$0.2M	Child Nutrition: School Food Best Practices Apportionment – Funds to implement any of the school food best practices stated in Assembly Bill (AB) 181 as part of serving reimbursable meals through the U.S. Department of Agriculture's (USDA) National School Lunch Program (NSLP) or School Breakfast Program (SBP). This includes: ● Procuring California-grown or produced, sustainably grown, whole or minimally processed foods, ● Using California-grown, whole or minimally processed foods in plant-based or restricted diet meals for pupils, ● Procuring plant-based or restricted diet meals, or ● Freshly preparing meals on site. (Spend by June 2025)



Buckets of the Projected Ending Balance

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Restricted	\$0.7M	Educator Effectiveness Block Grant funds are intended to support professional learning for teachers, administrators, classified staff, and paraprofessionals who work with pupils. Primary focus is SEL & ELD (Spend by June 2026)
Restricted	\$0.7M	Lottery: Instructional Materials – Shall only be used for the purchase of instructional materials.
Restricted	\$0.5M	Universal Prekindergarten Planning & Implementation Grant is an early learning planning and capacity building initiative with the goal of expanding access for preschool-age students to Prekindergarten (Pre-K) programs at local educational agencies (LEAs). Grant funds may pay for costs associated with creating or expanding California State Preschool Programs or Transitional Kindergarten (TK) programs or establish or strengthen partnerships with other providers of Pre-K education within the LEA, including Head Start programs. (Spend by June 2026)
Restricted	\$0.2M	Classified School Employee Summer Assistance Program (CSESAP) provides up to a dollar-for-dollar match on amounts withheld from a participating districts' classified school employees' monthly paychecks.

Next Steps



Next Steps

- ❖ **Action Item For Board Tonight** – Approval of Interim, as presented
- ❖ Staff submits Interim to County for review – March 2024
- ❖ Governor's May Revise – May 2024
- ❖ Assumptions for Adopted Budget finalized – May 2024
- ❖ Present Governor's May Revise to FMSD Board – June 11, 2024
- ❖ Present District Budget Proposal to FMSD Board – June 11, 2024
- ❖ FMSD Board Adopts District's Next Year's Budget – June 25, 2024



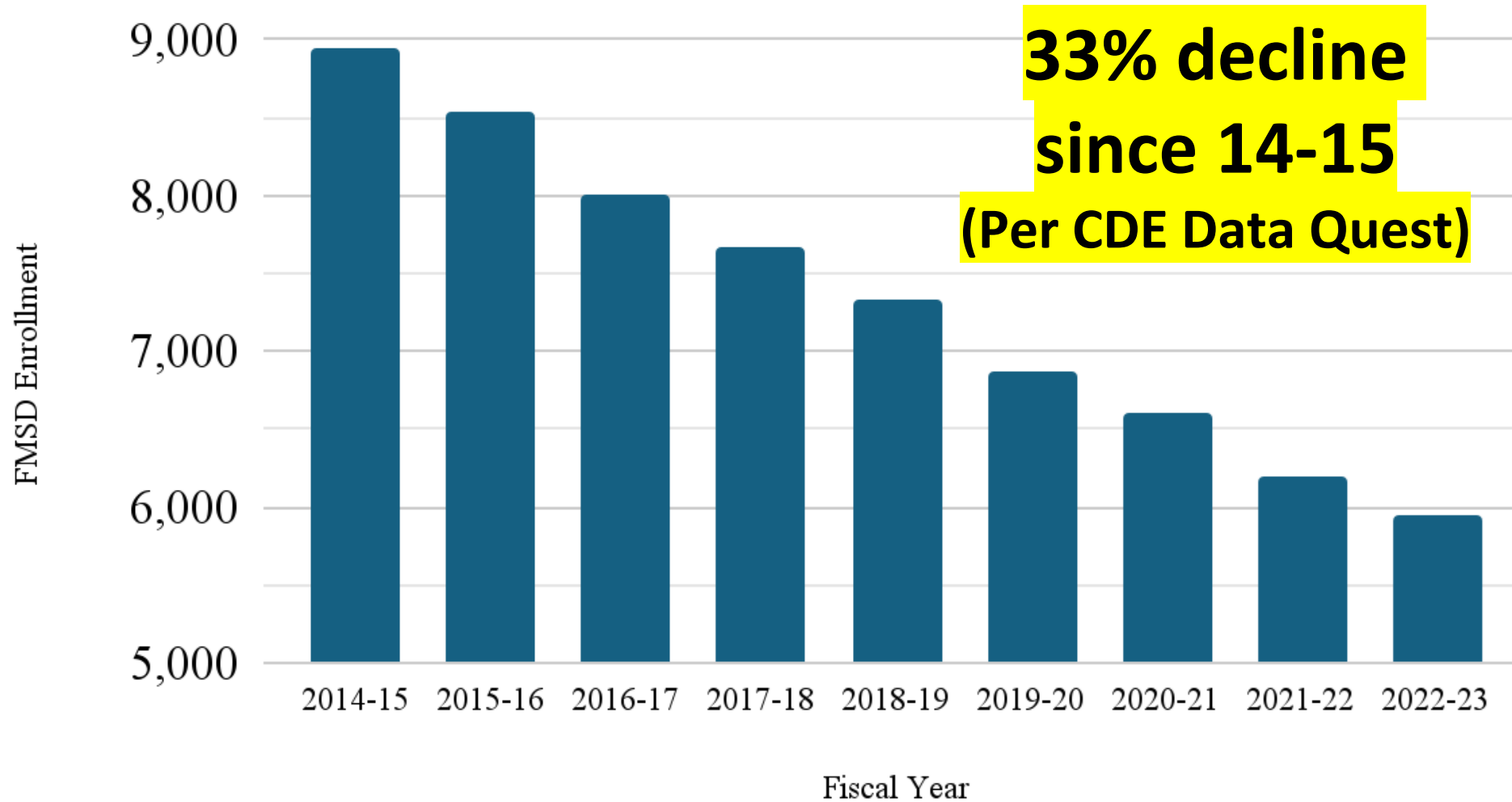
Thank you

Appendix



Enrollment Trends

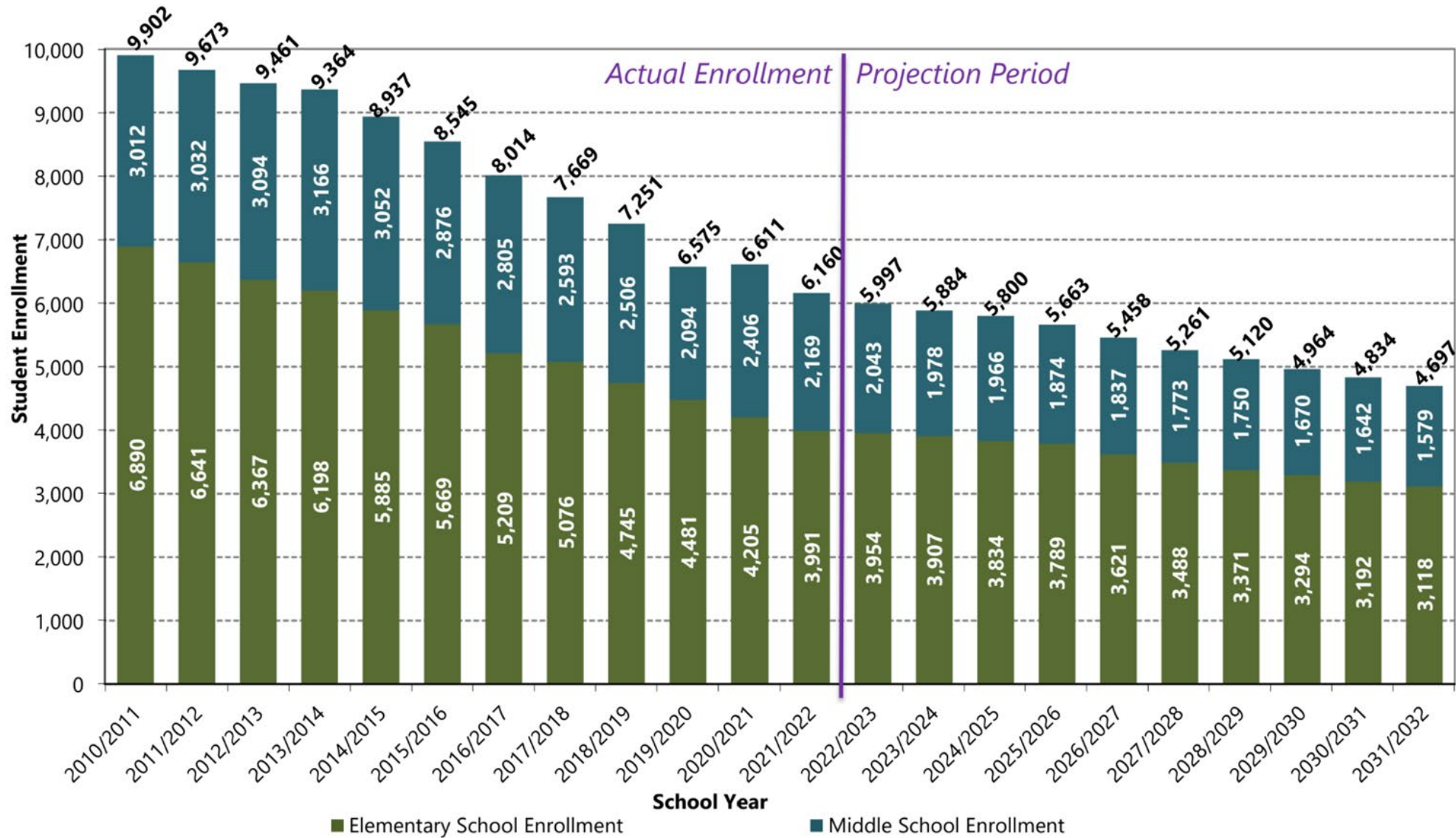
Enrollment Trend



This is important! The fewer students we have the less funding FMSD will receive!

Last Enrollment Projection (March 2022)

► ENROLLMENT PROJECTION DISTRICTWIDE STUDENT ENROLLMENT PROJECTIONS BY SCHOOL YEAR



Enrollment By FMSD School Site Trend

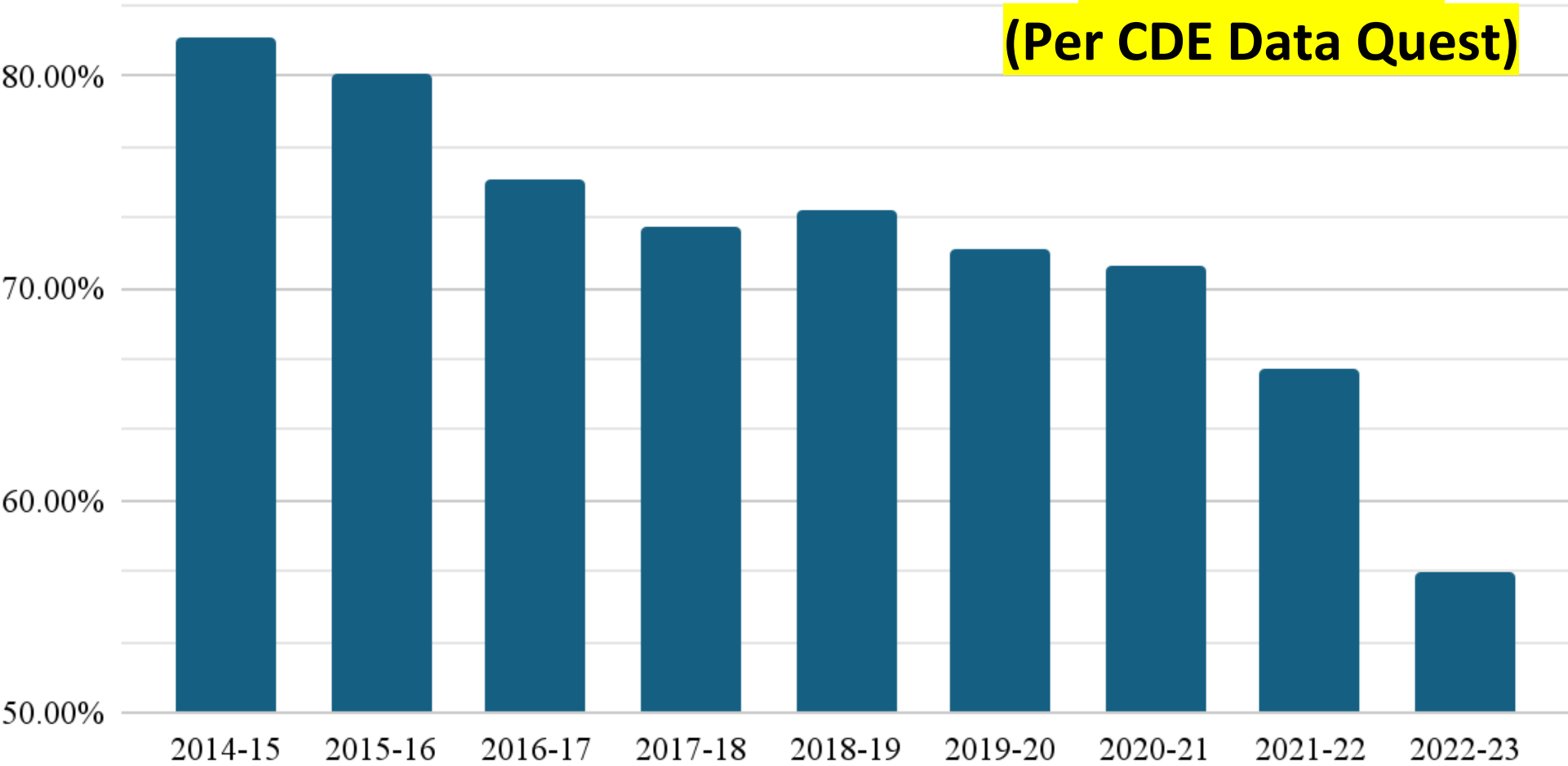
	Enrollment Number by site								Increase (Decrease)
	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	
Bridges	452	378	345	297	331	315	287	282	-38%
Dahl	611	565	549	521	486	426	414	414	-32%
CCA	175	196	210	214	239	209	199	203	16%
Franklin	726	680	665	603	567	525	521	544	-25%
Hellyer	384	407	402	402	374	363	374	373	-3%
Meadows	533	521	501	481	491	459	432	436	-18%
Lairon	402	359	383	330	338	300	315	318	-21%
Los Arboles	399	370	353	310	247	225	188	195	-51%
McKinley	348	315	286	272	236	230	236	241	-31%
Ramblewood	368	371	351	346	312	275	259	260	-29%
Kennedy	441	420	390	388	363	306	308	309	-30%
Santee	443	425	423	413	388	363	359	345	-22%
Shirakawa	814	799	759	703	664	793	633	522	-36%
Stonegate	728	705	681	636	594	536	537	523	-28%
Sylvandale	713	716	574	465	462	401	371	328	-54%
Windmill	470	437	440	481	508	461	509	570	21%

Enrollment By Charter School Site Trend

	Enrollment Number - Charter Schools							Increase (Decrease)
	16-17	17-18	18-19	19-20	20-21	21-22	22-23	
ACE	278	304	288	250	244	222	221	-21%
Cornerstone	451	519	543	538	521	521	520	15%
KIPP	335	451	452	456	453	452	447	33%
Rocketship Mosaic	583	574	579	584	616	558	565	-3%
Rocketship Raising Star	465	561	631	630	616	608	593	28%
Rocketship Spark	591	601	608	618	625	571	558	-6%
Voice	483	478	481	457	431	403	364	-25%
Total	3186	3488	3582	3533	3506	3335	3268	3%

This is important! Even some charters are experiencing declining enrollment and seek students outside of FMSD to reverse trends!

FRPM Percentage Trend



**31% decline
since 14-15
(Per CDE Data Quest)**

**FRPM (Free & Reduced
Priced Meals) % Trend**

This is important! As the % decreases the amount of LCFF funding per student can decrease!

Excerpts from Governor's Proposal



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
- Proposal attempts to ensure that the education profession remains an attractive career choice by removing obstacles to entry and enabling agencies to provide competitive wages
- Governor's focus is on students whose learning was and continues to be deeply impacted by the COVID-19 pandemic
- The Governor's Budget uses less pessimistic revenue assumptions than the Legislative Analyst's Office (LAO)



Proposition 98

- The Proposition 98 budget is a story of correction and normalization

Good News

- The historic increases in Proposition 98 from 2019-20 through 2021-22 resulted in significant financial investments to combat the impacts of the pandemic
- The state is better prepared to weather a financial downturn due to record levels of reserves

Bad News

- The \$26 billion shortfall of tax revenues for 2022-23 turned a normal year into one where it appears that the state provided money above the minimum guarantee
- The Governor's solution to mitigate this shortfall is unprecedented and not widely or clearly understood, which creates risk for local educational agencies (LEAs)

The Education Budget and Local Impact

- The Governor continues with the theme of “correction and normalization”

Good News

- Despite the significant underperformance of General Fund revenues in 2022-23, the Governor is not proposing any new cuts or deferrals to K-12 education core programs
- General Fund revenue spikes in 2021-22 were used for one-time purposes and that is now paying dividends

Bad News

- Education is facing a “COLA¹-only” year where the projected statutory COLA is significantly less than 2023-24 and anticipated for 2024-25 trending

¹Cost-of-living adjustment

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 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%
Percentage Point Decrease	-3.18	-0.56	-0.08

SSC Financial Projection Dashboard

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Planning Factors						
		2023-24	2024-25	2025-26	2026-27	2027-28
DOF ¹ Planning COLA		8.22%	0.76%	2.73%	3.11%	3.17%
California CPI ²		3.36%	2.83%	2.70%	2.72%	2.72%
CalSTRS ³ Employer Rate		19.10%	19.10%	19.10%	19.10%	19.10%
CalPERS ⁴ Employer Rate		26.68%	27.80%	28.50%	28.90%	30.30%
Unemployment Insurance		0.05%	0.05%	0.05%	0.05%	0.05%
California Lottery	Unrestricted per ADA	\$177.00	\$177.00	\$177.00	\$177.00	\$177.00
	Restricted per ADA	\$72.00	\$72.00	\$72.00	\$72.00	\$72.00
Mandate Block Grant (District) ⁵	Grades K-8 per ADA	\$37.81	\$38.10	\$39.14	\$40.36	\$41.64
	Grades 9-12 per ADA	\$72.84	\$73.39	\$75.39	\$77.73	\$80.19
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$19.85	\$20.00	\$20.55	\$21.19	\$21.86
	Grades 9-12 per ADA	\$55.17	\$55.59	\$57.11	\$58.89	\$60.76

¹Department of Finance, ²Consumer Price Index, ³California State Teachers' Retirement System, ⁴California Public Employees' Retirement System, ⁵COE Mandate Block Grant: \$38.10 per ADA grades K-8; \$73.39 per ADA grades 9-12; \$1.28 per unit of countywide ADA

Minimum Wage — Future Forecast

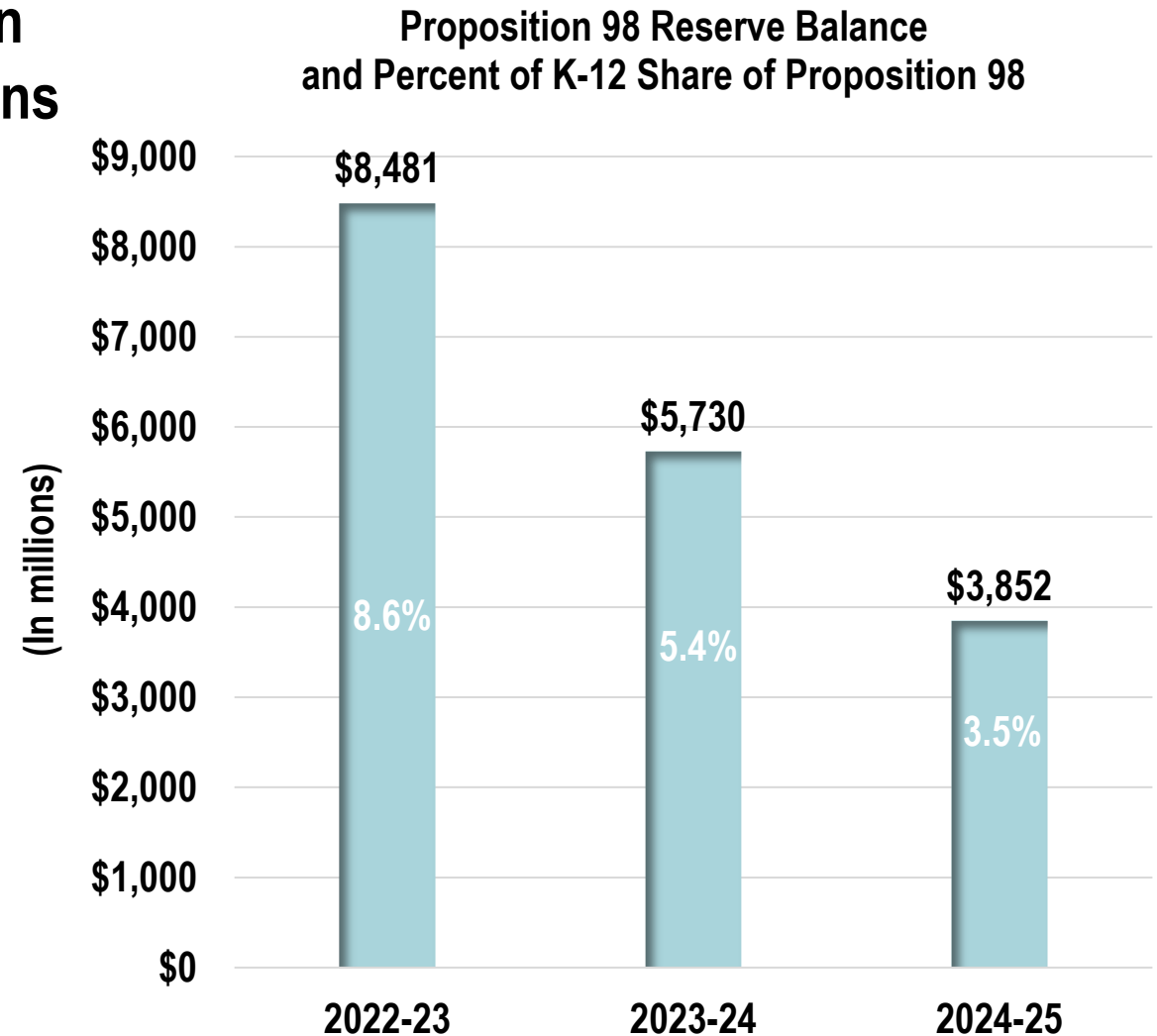
- The minimum wage increased to \$16.00 on January 1, 2024, and School Services of California Inc. (SSC) projects an increase of about 40¢-50¢ **each January thereafter**
- **Employers should review city or county ordinances to determine if any local minimum wage standards apply**

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
\$17.70/hour	January 1, 2028		\$1,424	\$6,171	\$74,048
\$18.20/hour	January 1, 2029		\$1,464	\$6,344	\$76,128

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

Local Reserve Cap

- Law limits local school district reserves to 10% in the subsequent fiscal year when certain conditions are met
- The Governor's Budget reflects:
 - Deposits of \$339 million in 2022-23, \$288 million in 2023-24, and \$752 million in 2024-25
 - Discretionary withdrawals of \$3.0 billion in 2023-24 and \$2.7 billion in 2024-25
 - An account balance of \$5.7 billion in 2023-24 makes the reserve cap operative for 2024-25



The Road Ahead

- Despite a multibillion-dollar budget deficit, the Governor is calling for limited early action on issue areas not affecting education
- The next steps in the process are controlled by the Legislature, which has the responsibility to vet the Governor's proposals during budget hearings over the next several weeks and months
 - This process coincides with the release of further details on the Governor's Budget proposals, included in trailer bill language, which is usually released at the beginning of February
 - The LAO and public also get to weigh in with their feedback and counterproposals
 - This process prepares legislators to respond quickly after the next official State Budget checkpoint—the May Revision

