CALIFORNIA COUNTY SUPERINTENDENTS

The Common Message

May Revision

BASC

Business and Administration Services Committee

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Sources

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Ball / Frost Group, LLC
California Association of School Business Officials
California Collaborative for Educational Excellence
California Department of Education
California Department of Finance
California Public Employees' Retirement System
California State Teachers' Retirement System
California State Board of Education
California School Boards Association
California School Information Services
Capitol Advisors
Fiscal Crisis and Management Assistance Team
K-12 High Speed Network
National Forest Counties and Schools Coalition
School Services of California
Small School Districts' Association
WestEd

Background

Since May 2008, county office chief business officials have crafted common messages to give guidance to districts on assumptions for budget and interim reports. The goal of the Business and Administration Services Committee (BASC) is to provide county office chief business officials with a consistent message, based on assumptions used by the California Department of Finance (DOF), that can be used to provide guidance to school districts.

The BASC would like to thank the DOF, the State Board of Education, the California Department of Education (CDE) the Fiscal Crisis and Management Assistance Team (FCMAT), as well as our colleagues in education listed in the sources section, for providing BASC and our local educational agencies (LEAs) with the most up-to-date information at the time of writing.

Key Guidance Based on Governor's May Revision

On May 10, 2024, Governor Gavin Newsom released the May Revision for the proposed 2024-25 State Budget. The deficit has been adjusted both up and down since his January Budget Proposal, recognizing further declines in state revenues and the Legislature's "early action solutions," resulting in the governor now projecting a $27.6 billion state deficit. The governor is addressing the state's challenges through reserve drawdowns, spending reductions, new revenue proposals, internal borrowing, funding delays, fund shifts, and deferrals.

Major funding provisions in the 2024-25 Governor's May Revision are as follows:

- The funded COLA to the Local Control Funding Formula (LCFF), special education and several other categorical programs outside the LCFF is 1.07 percent.

- The May Revision includes several proposals to address chronic absenteeism and lost instructional time, including the following (see Attendance Recovery and Instructional Continuity and Learning Recovery Emergency Block Grant below for further details):
    - Allowing attendance recovery time to be added to the attendance data submitted to the CDE, both for funding purposes and chronic absenteeism.
    - Requiring schools to give students access to remote instruction or support to enroll in a neighboring LEA when emergency school closures last five days or more.
    - Requiring schools to focus the use of unexpended Learning Recovery Emergency Block Grant (LREBG) funds on actions to address the needs of students most affected by learning loss.

- No cost-of-living adjustment (COLA) is provided for the California State Preschool Program, pursuant to Chapter 41, Statutes of 2023. Instead, the budget maintains funding to implement the current negotiated agreement between the state and Child Care Providers United – California on rates paid to preschool and childcare providers. These rates will be renegotiated for 2025-26.

- The May Revision proposes to pause the expansion of slots in the childcare programs administered by the Department of Social Services (DSS). As a result, DSS has notified tentative 2024-25 General Child Care and Development Program (CCTR) expansion

awardees that there is insufficient funding to support 2024-25 CCTR expansion awards under the May Revision proposal; that the DSS will not be issuing CCTR expansion contracts or awards until further notice; and that DSS will communicate any status changes in the future.

- An elimination of planned increased investments in the 2025-26 and 2026-27 fiscal years to fund preschool inclusivity. Providers will still be required to serve at least 5% of students with disabilities.

- The May Revision proposed an increase of $395 million to the Green School Bus Grant Program for the 2024-25 year and a reduction in the remaining out-year budget commitment to support this program, from $500 million to roughly $105 million. Approximately $254 million from unused Inclusive Early Education Expansion Program Grant and other unspent funds will be used to support this program.

- The reduction of $60.2 million in one-time support for the Golden State Teacher Grant Program. This reduction is subject to change as the DOF received updated program expenditure information after the release of the May Revision.

- The May Revision eliminates the $375 million proposed in the January Governor's Budget for the School Facility Program.

- The May Revision proposes to eliminate the $550 million that was planned for the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program in 2024-25. The Governor's Budget proposed delaying the $550 million to 2025-26, which was adopted as part of the budget early action in AB 106; the May Revision proposes eliminating the planned out-year investment.

Although the Governor's May Revision fully funds the COLA and avoids cuts to most ongoing education programs, LEAs should remain aware of the estimated $26.7 billion state budget deficit for the 2024-25 fiscal year. The May Revision addresses deficits through an $8.8 billion accounting shift (see Proposition 98 Risk Factors below) and a depletion of the $8.4 billion Public School System Stabilization Account (PSSSA). As a result, there is a risk of further state budget shortfalls that could result in cuts to education spending.

Moreover, many LEAs continue to experience chronic student absences, long-term declining enrollment, and various cost pressures such as increased pension rates and energy costs. In addition, all remaining COVID-19 fiscal relief funding (e.g., Elementary and Secondary School Emergency Relief Fund and Expanded Learning Opportunities Grant) will expire on September 30, 2024. As a reminder, the Arts, Music and Instructional Materials Discretionary Block Grant and the Educator Effectiveness Block Grant expire on June 30, 2026, and the LREBG expires on June 30, 2028.

Finally, the cap on special education local plan area administrative costs included in the 2024 Budget Act was one-time and is not proposed to be extended into 2024-25.

Local Control Funding Formula

The Governor's Budget includes a 1.07% COLA to the LCFF. When combined with population adjustments and continued reliance on one-time funding, LCFF funding is approximately $629 million higher for the 2024-25 fiscal year.

To fully fund the LCFF and maintain the level of current-year apportionments, the May Revision proposes withdrawing approximately $5.8 billion from the Public School System Stabilization Account (PSSSA) for 2023-24 and another $2.6 billion for 2024-25. However, this was modified by the May 27, 2024, agreement between the Governor and the California Teachers Association (CTA); see Proposition 98 Risk Factors below.

Declining enrollment protection for school districts will continue, allowing districts to use the greater of current year, prior year, or average of the three most recent prior years' average daily attendance (ADA). Charter schools will continue to be funded based on current year ADA. All LEAs should continue to develop multiple financial projection scenarios using all available options to ensure they are prepared for both best- and worst-case budgets and are better able to adapt to economic uncertainty.

Attendance Recovery and Instructional Continuity

The Governor's Budget proposes statutory changes to allow school districts and classroom-based charter schools to provide attendance recovery opportunities to classroom-based students to make up for lost instructional time.

The intent behind the attendance recovery proposal is to (1) offset student absences and mitigate student learning loss, chronic absenteeism and related fiscal impacts to districts and classroom-based charter schools, and (2) provide attendance and instructional opportunities outside of the regular school day. The intent of the instructional continuity proposal is to facilitate continuity of learning during events that disrupt regular classroom instruction (e.g., emergencies). Highlights of the proposals are as follows:

Attendance Recovery

- In the May Revision, the governor proposed to delay implementation of the attendance recovery proposal until July 1, 2025.
- ADA recovery is capped at the lesser of the number of absences a student has accrued during the school year or 15 days and may be claimed in 15-minute increments of instruction when a student is under the immediate supervision and control of a certificated employee and engaged in educational activities that are substantially equivalent in quality and content to what the student would receive in their regular classroom.
- ADA is credited to a student as a full day of attendance once the student has met the minimum daily instructional minute requirement for their grade span.
- Attendance recovery may be offered before or after school, on weekends, or during

intersessional periods, and it must be credited to the school year in which the attendance recovery program is operated.

- Expanded Learning Opportunity Program (ELOP) funds may be used if a certificated staff member of the district or charter school is providing instruction, and that instruction is substantially equivalent in quality and content to what the pupil would otherwise receive as part of their regular classroom-based instructional program.

- Participation is not mandatory and shall be at the election of the student, parent, or guardian.

Instructional Continuity

- The proposed implementation date of the instructional continuity proposal is fiscal year 2024-25.

- An instructional continuity program is capped at 15 days per school year unless it is medically necessary, or a student is unable to attend due to an emergency situation. The May Revision eliminates the broader exemption for students experiencing significant personal difficulties that directly affect their ability to attend school.

- Instructional content must be substantially equivalent to what a student would receive in their regular classroom-based instructional program.

- A signed parental agreement is required and can be initiated at any time.

Beginning in fiscal year 2025-26, the instructional continuity proposal removes the distinction between short-term and long-term independent study by striking the references to independent study being offered for more than 14 days or less than 15 days (e.g., written agreement timeline).

When submitting J-13A requests for school closures and material decreases in ADA that occur after July 1, 2025, LEAs must certify that, as part of instructional continuity, they offered all affected pupils in-person or remote instruction within the home LEA, or support to enroll in or be temporarily assigned to another LEA, no later than five calendar days after the first day of a school closure or material decrease in attendance.

- In fiscal year 2024-25, LEAs that submit a Form J-13A request are required to adopt a plan to offer remote instruction through either an instructional continuity (IC) program or independent study within five calendar days of a school closure or material decrease in attendance.

Equity Multiplier and Local Accountability Plan

Equity multiplier funds are calculated based on school sites with prior year "nonstability rates" greater than 25 percent and prior year socioeconomically disadvantaged pupil rates of greater than 70 percent. Funding is allocated per unit based on the school site's total prior year adjusted cumulative enrollment.

- ***School site*** is defined as an individual school in an eligible LEA and does not include the district office.

- ***Nonstability Rate*** means the percentage of pupils who are either enrolled for less than 245 continuous days between July 1 and June 30 of the prior school year or who exited a school between July 1 and June 30 of the prior school year due to truancy, expulsion, or for unknown reasons and without stable subsequent enrollment at another school, as identified in the stability rate data file.
- ***Per-unit funding amount*** is based on total statewide eligible enrollment and the amount of funds available, as reported in the stability rate data file.

Statutory proposed **changes to the equity multiplier at the May Revise** include:

- The definition of a school site is clarified to exclude a district office from individual schools in an eligible LEA.

- An eligible school site shall not receive funding of less than fifty thousand dollars ($50,000); the May Revision adjusts this minimum funding amount by applying a COLA to this minimum.

- A school site deemed eligible based on prior-year data shall be deemed ineligible if the school site has closed in the year in which the funds are allocated.

- Unspent funds from any fiscal year provided to an LEA with a school site that has closed would be returned to the CDE. LEAs must report the total amount of unspent funds in accordance with instructions and forms prescribed and furnished by the superintendent of public instruction (SPI).

Learning Recovery & Arts and Music Block Grants

The January Governor's Budget proposed new restrictions on LREBG expenditures. The proposal would require that LREBG expenditures be evidence-based as defined in federal law, and that they be based on a formal needs assessment that identifies the students who most need learning recovery. It targets services toward those students.

The May Revision eliminates the reference to these new provisions applying to unencumbered funds as of July 1, 2024, and instead clarifies that the new requirements apply to the use and expenditure of LREBG funds for the 2025-26, 2026-27 and 2027-28 school years. The LREBG needs assessment and planned expenditures would need to be included in the local control and accountability plan (LCAP) for July 1, 2025, through June 30, 2028. The CDE would be required to update the LCAP instructions accordingly by January 31, 2025.

Arts, Music & Instructional Materials Discretionary Block Grant (AMIMDBG)

The May Revision makes one technical adjustment to the AMIMDBG. Current law states that these funds are "available for encumbrance through June 30, 2025." The May Revision changes the code to state that the funds are "available for expenditure through June 30, 2026." In addition, the proposed change states that LEAs must report final expenditures to the CDE by September 30, 2026, and provides a mechanism for the CDE to collect any unexpended grant funds.

A-G Completion Improvement Grant

The May Revision makes one technical adjustment to the A-G Completion Grants. Current law states that these funds are "available for **encumbrance or expenditure** through June 30, 2026." The May Revision changes the code to state that the funds are "available for **expenditure** through June 30, 2026." The May revision also added a requirement for LEAs to report final expenditures to the CDE by September 30, 2026, and provides a mechanism for the CDE to collect any unexpended grant funds.

Expanded Learning Opportunities Program

The May Revision proposes new expenditure deadlines for both prior year ELOP funds and for future ELOP allocations. Under the proposal, any encumbered 2021-22 and 2022-23 ELOP funds must be expended by September 30, 2024. In addition, starting with the 2023-24 ELOP allocation, LEAs will have two fiscal years to expend the funds, meaning that the 2023-24 allocation would have to be expended by June 30, 2025, and the 2024-25 allocation would have to be expended by June 30, 2026, etc. Any funds not expended by the applicable deadline "shall be returned to the state." Finally, there is legislative intent language that specifies, starting in 2025-26, "school districts and charter schools shall annually declare their operational intent to run the Expanded Learning Opportunities Program," meaning that LEAs will need to opt in to the program to receive funding starting in 2025-26 if this intent language becomes law.

Planning Factors for 2024-25 and MYPs

Key planning factors for LEAs to include in their 2024-25 adopted budgets and multiyear projections (MYPs) based on the latest information available are listed below.

Planning Factor	2024-25	2025-26	2026-27
Cost of Living Adjustment (COLA)			
LCFF COLA	1.07%	2.93%	3.08%
Special Education COLA	1.07%	2.93%	3.08%
Employer Benefit Rates			
CalSTRS	19.10%	19.10%	19.10%
CalPERS-Schools	27.05%	27.60%	28.00%
State Unemployment Insurance	0.05%	0.05%	0.05%
Lottery			
Unrestricted per ADA	$177	$177	$177
Proposition 20 per ADA	$72	$72	$72

Minimum Wage	$16.50[1]	$17.00[2]	$17.40[3]
Universal Transitional Kindergarten/ADA LCFF add-on for the 12-to-1 student-to-adult ratio[4]	$3,077	$3,167	$3,264
Mandated Block Grant			
Districts			
K-8 per ADA	$38.21[5]	$39.33[5,6]	$40.54[5,6]
9-12 per ADA	$73.62	$75.78[6]	$78.11[6]
Charters			
K-8 per ADA	$20.06[5]	$20.65[5,6]	$21.29[5,6]
9-12 per ADA	$55.76	$57.39[6]	$59.16[6]

[1]Effective January 1, 2025.
[2]Effective January 1, 2026.
[3]Effective January 1, 2027.
[4]This ratio will decrease to 10-to-1 in 2025-26.
[5]These rates do not include the $25 million proposed in the Governor's Budget for the cost of training to support mandated literacy screenings.
[6]These rates are calculated based on preliminary COLA projections.

Reserves and Reserve Cap

According to the SPI's letter, distributed on March 7, 2024, "the statutory limitation on school district reserves continues to be in effect for the 2024–25 budget period, pursuant to Education Code (EC) Section 42127.01(e)".

The Governor's May Revision includes significant withdrawals from the PSSSA, which serves as the state's budget reserve for K-14 schools. Specifically, there are proposed withdrawals of $5.8 billion in 2023-24 and $2.6 billion in 2024-25. Under the proposed revised budget, the PSSSA balance for 2023-24 is projected to be $2.6 billion, which would make the reserve cap inoperative for 2024-25.

However, since the state budget will not be adopted until after district budgets are adopted, districts are advised to adhere to the 10 percent cap during this original budget cycle. After the state budget is approved, if the PSSSA withdrawals are enacted as outlined, the 10 percent reserve cap may be lifted at the 45-day budget revision.

Proposition 98 Risk Factors

On May 27, 2024, the governor and the CTA reached an agreement that would withdraw the accounting shift proposed in the May Revision and replace it with an alternative solution that changes the scoring of Proposition 98, suspends Proposition 98 in the current year, and adds a maintenance factor to be paid back to education in the future. The Legislature must either concur with this agreement or negotiate an alternate solution.

LEAs should be aware of the following risks if the proposed alternative solution is accepted:

- Cash deferrals. For example, possibly deferring the June 2025 apportionment to July 2025.
- Maintenance factor repaid through a restricted program.
- Possible reductions to existing programs or reductions in expansions to existing programs.
- The possible rescinding of unallocated grants.
- Creating a long-term obligation to education that could lead to future reductions.

How we got to this point

California revenues depend on three major tax revenue sources: sales, corporate, and personal. Of the three tax types, personal income tax is the most volatile. Over the last several years, California has seen significant revenue volatility, which resulted in the 2021 and 2022 budget acts showing higher growth assumptions than achieved, creating a misalignment between expenditures and revenues.

In 2022-23 and 2023-24, the revenue shortfall resulted in an $8.8 billion overpayment of Proposition 98. To address the overpayment, in January and May the governor proposed an accounting shift. In essence, the governor's proposal financed payments it had already made to schools by creating internal borrowing that would be repaid in future years. The repayment would have been recognized gradually over five years, beginning in 2025-26. The May 27, 2024 agreement with CTA changes this approach.

Summary

This edition of the Common Message gives LEAs data and guidance for fiscal planning and for developing their 2024-25 budget and multiyear projection. The information provided for fiscal year 2024-25 and beyond includes the latest known proposals and projections to assist with multiyear planning. LEAs face near- and long-term challenges, including risks to the state revenue forecast, reduced ADA due to higher student absence rates, inflationary pressures including pension rate increases, expiring one-time funds, and declining enrollment. Because each LEA has unique funding and program needs, it remains essential that each LEA continually assess its individual situation, work closely with its COE, and plan accordingly to maintain fiscal solvency and educational program integrity.