



2024-25 Third Interim & May Revise Highlights

May 27, 2025

Jason E. Vann, Assistant Superintendent – Business Services



Why a Third Interim?

- Pursuant to EC Section 42131(e)[1240.2],
 - The governing board of each school district filing a qualified or negative certification for the second report required under EC Section 42130[1240]
 - Shall provide to the county superintendent of schools, the State Controller, and the SSPI no later than June 1, financial statement projections of the district's fund and cash balances through June 30 for the period ending April 30.

Risks to Proposition 98 and Education

The present is uncertain . . . the future is even more so



- Proposition 98 and the education budget rely on a healthy California economy and the strength of the state General Fund
- Deteriorated conditions diminish education resources
- Reliance on one-time resources to support core programs poses risks, especially if conditions worsen
- Problems on the “*other side*” of the State Budget could make suspending Proposition 98 an enticing budget solution

Themes for the 2025-26 May Revision



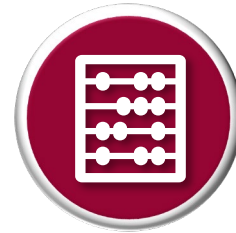
Governor Gavin Newsom released his 2025-26 May Revision amid significant financial and **economic uncertainty**



His May Revision projects both **lower revenues and increased costs** of health care in the current year and near term



Significant emphasis on **federal policy** and its impacts on California foreign trade, tourism, and immigration



To address the budget deficit, **he uses a combination of reductions, borrowing, funding shifts, deferrals,** and expenditures contingent on sufficient revenues



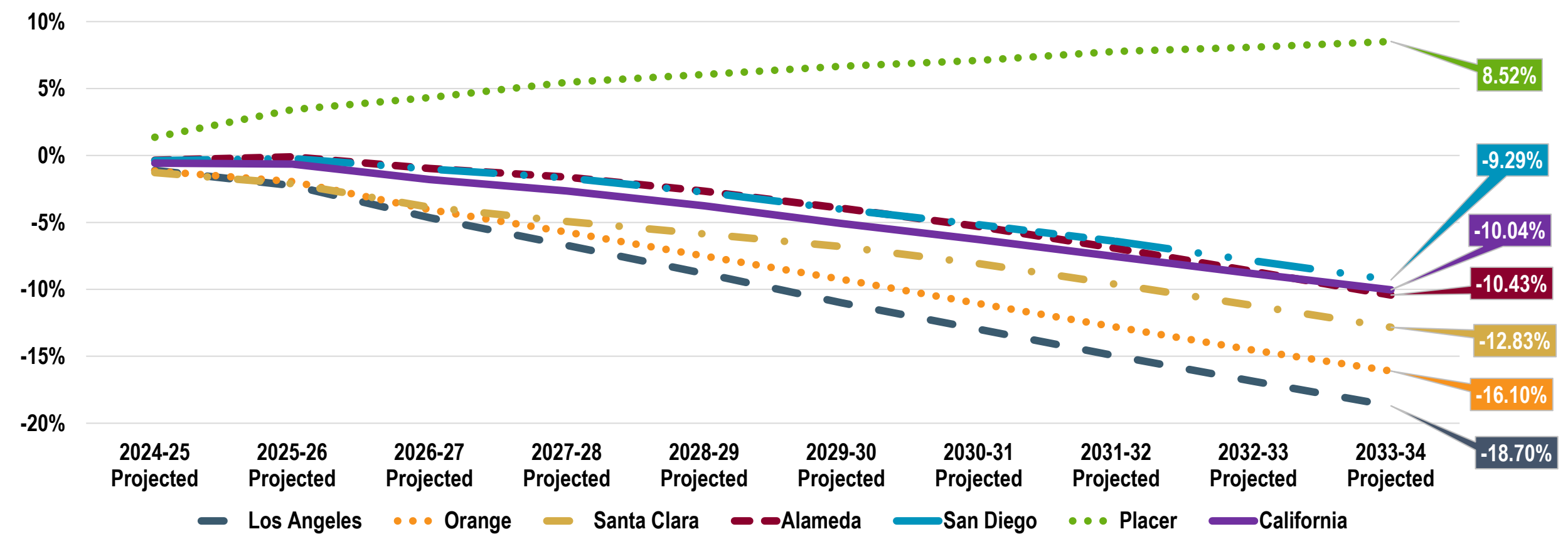
First seen in his January 2025 Budget proposal, the plan to **under-appropriate the 2024-25 minimum guarantee remains** in his May Revision to the tune of \$1.3 billion



Proposition 98 is largely insulated from these problems, with minimal disruptions to the proposals from the Governor's Budget in early January 2025, despite all that has come to pass since then

District Financial Conditions—Declining Enrollment by County

- 44 (or 76%) of the 58 counties are projected to decline in enrollment through 2033-34
- The 44 declining enrollment counties are projected to be down by approximately 600,000
- The 14 (or 24%) growing enrollment counties are projected to increase by approximately 14,000



Federal Education Budget

President Donald Trump's Proposed 2026 Budget

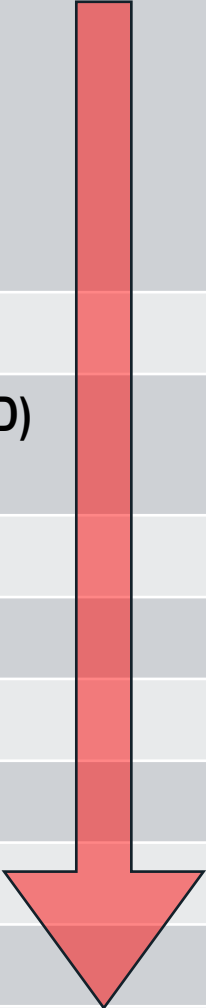
**Non-Defense
Spending**

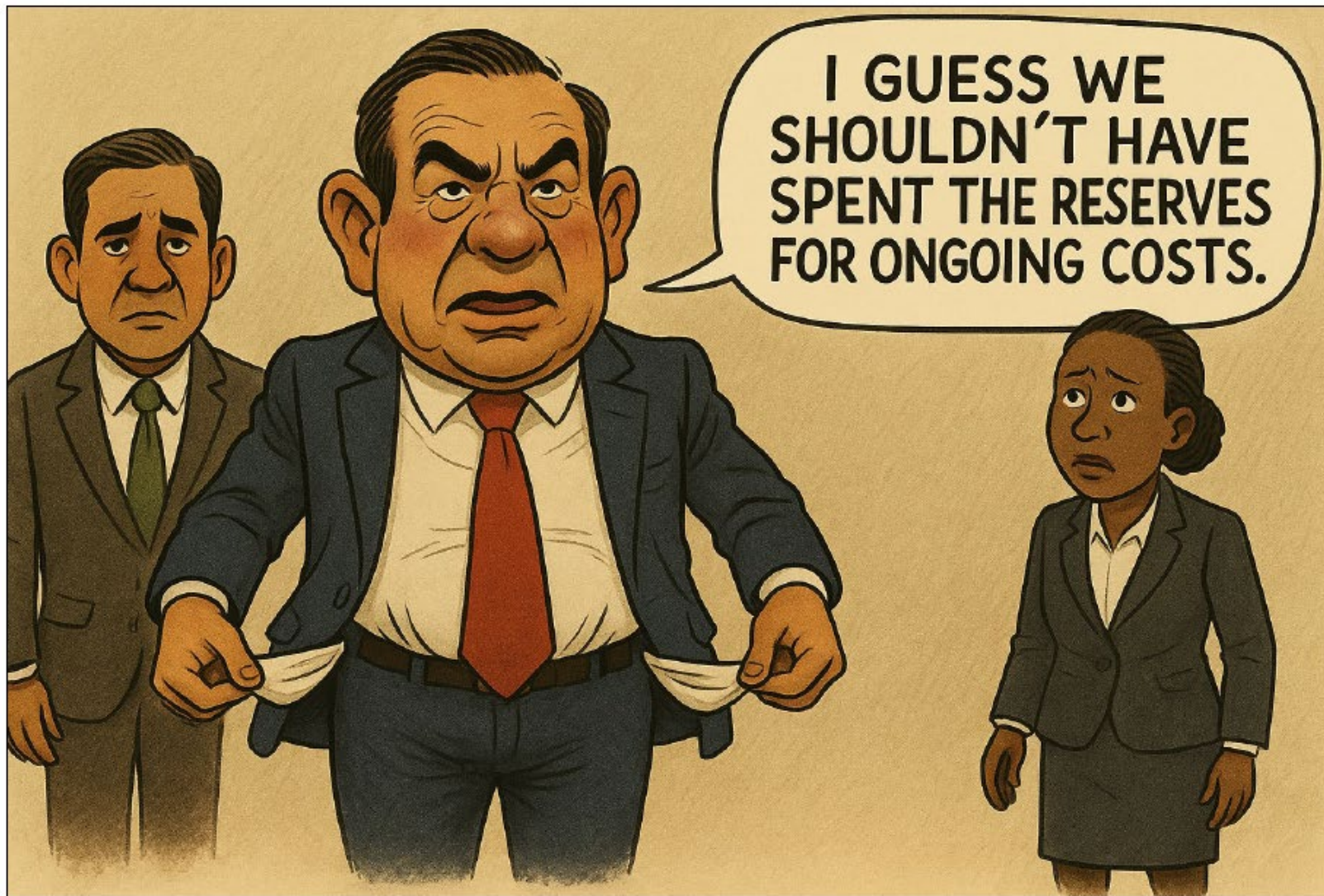
**Reduced by
\$163 billion from
2025 levels, including
education spending**

-● **Maintains Title I and Special Education Funding**
-● **K-12 Simplified Funding Program
\$2 billion for 18 consolidated formula and
competitive grants**
-● **Eliminates Adult Education**
-● **Eliminates Title III and Migrant Education**

Changes from January Proposal to May Revise

Area Impacted	January Proposal for 25-26	May Revise for 25-26
COLA		
2025-26	2.43%	2.30%
2026-27	3.52%	3.02%
2027-28	3.63%	3.42%
2028-29	3.49%	3.31%
TK Add-On	\$6,404	\$5,545
Executive Order Related to Title III	Safe – Helps ELs become English proficient & achieve academic success	Eliminate Title III = \$320K loss (FMSSD)
Minimum Guarantee	\$118.9 Billion	\$114.6 Billion
Rainy Day Fund (25-26)	\$1.533 Billion	Fully Depleted
One-Time Funding	\$1.8 Billion	\$1.7 Billion
Personal Income Tax	\$133.8 Billion	\$126.1 Billion
Corporation Tax	\$37.4 Billion	\$35.3 Billion
Sales & Use Tax	\$35.1 Billion	\$34.9 Billion
Maintenance Factor	\$2.9 Billion	\$3.7 Billion





What Does the LCFF¹ Mean for Franklin-McKinley School District?

<u>Fiscal Year</u>	<u>2nd Interim</u>	<u>Third Interim</u>	<u>Delta</u>
2025-26	\$81,475,604	\$81,514,498	\$38,894
2026-27	\$82,434,123	\$82,095,672	(\$338,451)
2027-28	\$80,599,140	\$80,008,095	(\$591,045)
2028-29	<u>\$79,599,869</u>	<u>\$78,949,323</u>	<u>(\$650,546)</u>
Total Impact	<u><u>\$324,108,736</u></u>	<u><u>\$322,567,588</u></u>	<u><u>(\$1,541,148)</u></u>

¹Local Control Funding Formula

Multi-Year Projections @ Third Interim

Combined General Fund		Unaudited			
Multi-Year Projections	<i>Formula</i>	Actuals	<u>Multi-Year Projections</u>		
<i>(amounts in dollars)</i>	<u>Reference</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>
Beginning Balance	(a)	\$48,999,203	\$45,153,764	\$20,811,399	\$14,834,603
Revenue	(b)	\$134,775,586	\$117,181,411	\$117,294,539	\$117,830,460
Expenditures, net*	(c)	<u>\$138,621,025</u>	<u>\$141,523,776</u>	<u>\$123,271,335</u>	<u>\$127,308,994</u>
Net Increase / (Decrease)	(b) - (c) = (d)	\$ (3,845,439)	\$ (24,342,365)	\$ (5,976,796)	\$ (9,478,534)
Ending Balance	(a) + (d) = (e)	\$45,153,764	\$20,811,399	\$14,834,603	\$5,356,069

Estimated Reserve Percentage is 2% in FY 2026-27
(Down from 2.13% @ 2nd interim)

Needs to be 3%

2023-24 Average Reserve Levels

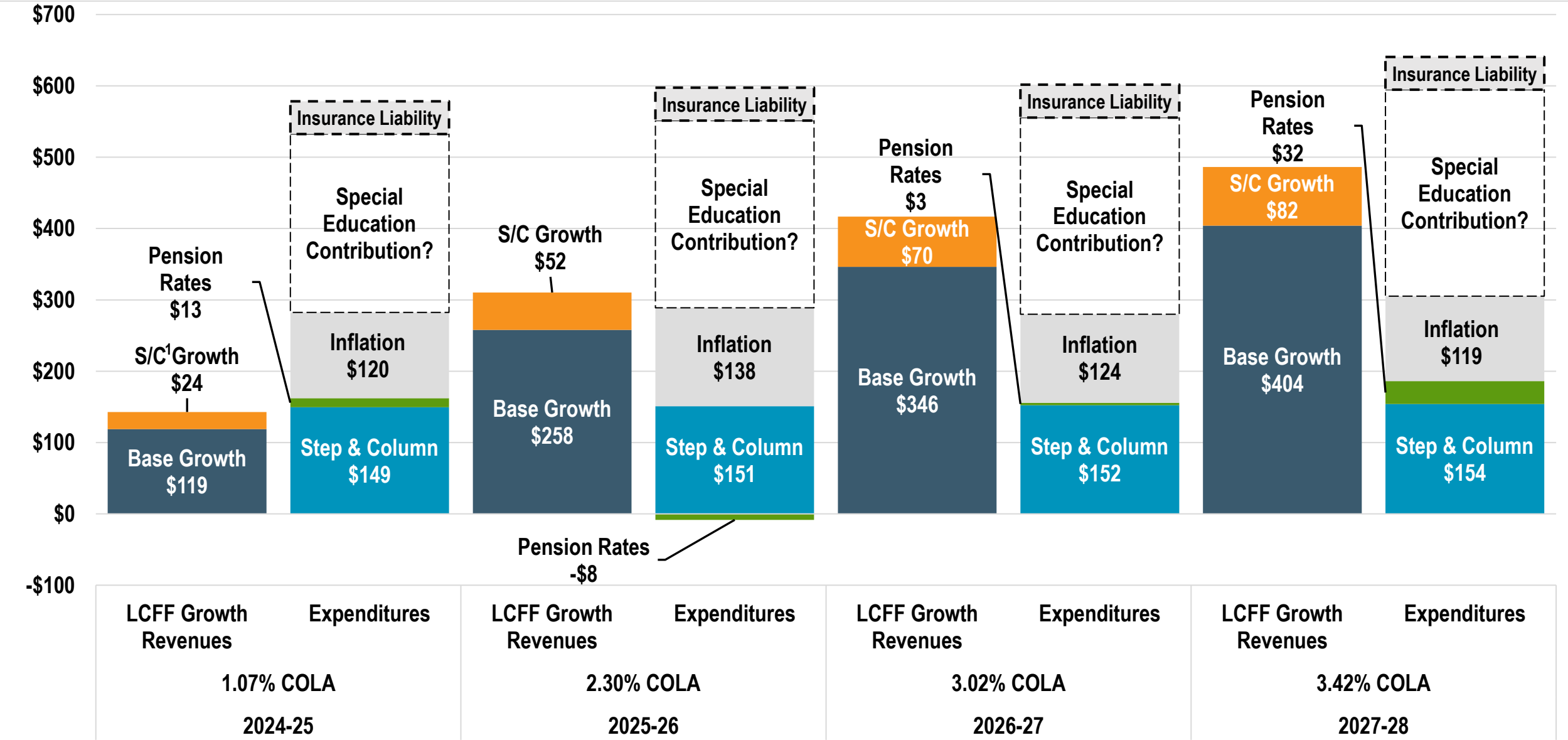
- The latest statewide data on school district reserves available is for 2023-24
 - Despite an 8.22% COLA for 2023-24, reserve levels remain largely flat
 - This is likely due to declining enrollment

Average Unrestricted General Fund, Plus Fund 17, Ending Balances¹

By District Type	2022-23	2023-24	By District Size	2023-24
Unified	23.74%	24.36%	Less than 1,000 ADA	41.91%
Elementary	25.55%	25.54%	1,001 to 5,000 ADA	25.36%
High	22.94%	24.40%	5,001 to 10,000 ADA	22.14%
			Greater than 10,001	24.29%

¹As a percentage of total General Fund expenditures, transfers, and other uses

Multiyear Cost Forecast



¹Supplemental and concentration grants

Property, Liability, and Workers' Compensation

Property and Liability

- The Los Angeles wildfires are expected to be more than a \$50 billion insurable event—the global market can withstand \$100 billion+ in annual losses
- Most insurance platforms are requiring an increased deductible for wildfire-related losses, related to changing wildfire predictive modeling
- Assembly Bill (AB) 218 (Gonzalez, Statutes of 2019) and AB 452 (Addis, Statutes of 2023) create short- and long-term sexual abuse and molestation insurance availability challenges
- FCMAT's¹ "Childhood Sexual Assault: Fiscal Implications for California Public Agencies" report outlines some of those challenges and potential solutions

FORECAST: LEAs can expect at least 20% premium increases pending legislation and changes in coverage

Workers' Compensation

- Claim severity and continuous trauma claims are on the rise due to medical wage and medical inflation
- Workers' Compensation claims costs are increasing as they remain open longer and medical/Rx costs increase

FORECAST: LEAs can expect 5-10% premium increases pending legislation and district-specific claim trends

Source: Keenan; ¹Fiscal Crisis and Management Assistance Team



Buckets of the Projected Ending Balance

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Committed	\$5.2M	Mitigations measures - To offset future deficit spending; extend positions funded with expired one-time funds.
Committed	\$3.1M	Supplemental Employment Retirement Plan (SERP) Payments to be made
Ed Code Requirement	\$4.3M	3% reserve for economic uncertainty required by Ed Code
Assigned	\$2.8M	Additional 2% reserve based on board resolution 2011-25
Non-Spendable	\$0.7M	Prepaid Health Insurance Expenditures



Buckets of the Projected Ending Balance

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Restricted	\$3.1M	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	\$0.6M	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	\$0.4M	Lottery: Instructional Materials – Shall only be used for the purchase of instructional materials.
Restricted	\$0.3M	Other Restricted Local – primarily remaining funds from the Packard Foundation Grant.
Restricted	\$0.1M	K.I.T. - funds that allow districts to continue expanding or modifying their kitchen equipment, infrastructure, and food service staff training. Routine Repairs and Maintenance - For purposes of ongoing and major maintenance.



Buckets of the Projected Ending Balance

<u>Category</u>	<u>Amount</u>	<u>Description</u>
Restricted	\$0.1M	Mental Health Related Services - funds are used to provide mental health-related services for pupils with or without an individualized education program as described in the California Education Code (EC) Section 56836.07. These funds are allocated to the Special Education Program.
Restricted	\$0.1M	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)

Next Steps for 2025-26 Budget Development (Per School Services of California)

- The only proposal codified in Education Code is the statutory COLA—OK to include in local budget
 - The following are still subject to negotiations between the Governor and Legislature

Proposal	SSC Advice	Risk Level	Risk of Including in Your Adopted Budget
2.30% COLA	Yes	Very Little	Statutory COLA is a known number as of April 2025
LREBG Additional Funding	No	Lower	Lower than others, but still subject to negotiation
TK Ratio LCFF Add-On	No	High	Amount decreased from January
Discretionary Block Grant	No	High	Amount decreased and the allocation method, allowable uses, and amount may change again before the budget is enacted
Teacher Preparation and Professional Development	No	High	Amounts have been reduced and repurposed since January
Universal ELO-P 55% Threshold	No	Lower	Lower than others, but still subject to negotiation

NOT IN Assumptions

Caveats

- Numbers will change.
 - Any addition of unbudgeted expenditures (without offsetting funding or savings) will require additional cuts
-
- Excluded possible New Discretionary Block Grant [Estimated at \$1.6M]
 - Excluded possible Learning Recovery Emergency Block Grant [Approx. \$500K/year for 3 years]
 - Excluded possible increase in TK funding for 10:1 ratio (students to staff) [Approx. \$442K/year]
 - Excluded revenue from Attendance Recovery Program
 - Excluded possible AB 218 expenditures [Paid to Date - \$671K]
 - Excluded possible increase in Property & Liability insurance premiums [May go up 20% Per FCMAT]
 - Excluded possible increase in Medical and Dental premiums in future years
 - Excluded possible Federal funding reduction to Districts; FMSD receives \$5.3M annually (Plan B?)
 - Excluded \$4M reduction placeholder in future ongoing expenditures as they need to be bargained, and board approved

Next Steps



Next Steps

- ❖ **Action Item For Board Tonight** – Approval of Interim, as presented
- ❖ Staff submits Interim to County for review – May 2025
- ❖ Assumptions for Adopted Budget finalized – May 2025
- ❖ Present District Budget Proposal to FMSD Board – June 10, 2025
- ❖ FMSD Board Adopts District's Next Year's Budget – June 24, 2025



Thank you



APPENDIX

Risks to the Economy and the State Budget

Stock market volatility in response to federal policy changes can impact projected state revenue

California's unemployment rate is projected to increase in the budget year

California's Gross Domestic Product (GDP) is projected to decrease in a similar pattern to U.S. GDP in the budget year

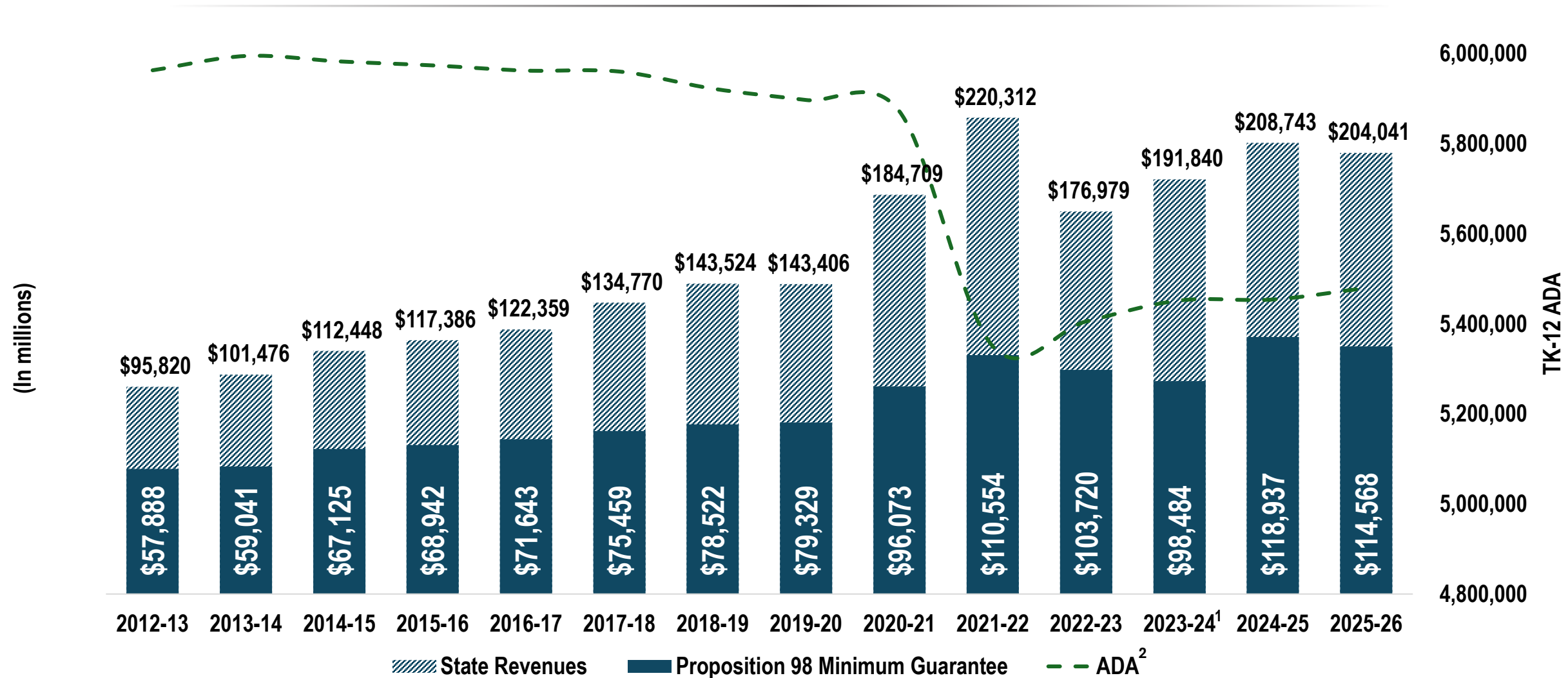


Anticipated cuts to key federal programs will increase pressure to backfill losses in federal funding with state dollars

California has several lawsuits pending against the federal government, the outcome of which could affect the California economy

The “Big Three” revenues are projected to be lower by \$4.8 billion over the three-year budget window when compared to January

Proposition 98 and Student Attendance Over Time



¹Proposition 98 minimum guarantee was suspended in 2023-24; ²Average daily attendance

2025-26 School District and Charter School LCFF

Grade Span	TK ¹ -3	4-6	7-8	9-12
2024-25 Base Grant per ADA	\$10,025	\$10,177	\$10,478	\$12,144
2.30% Cost-of-Living Adjustment (COLA)	\$231	\$234	\$241	\$279
2025-26 Base Grant per ADA	\$10,256	\$10,411	\$10,719	\$12,423
Grade Span Adjustment	\$1,067	—	—	\$323
2025-26 Adjusted Base Grant per ADA	\$11,323	\$10,411	\$10,719	\$12,746
20% Supplemental Grant per ADA ²	\$2,265	\$2,082	\$2,144	\$2,549
65% Concentration Grant per ADA ³	\$3,312	\$3,045	\$3,135	\$3,728
TK Add-On per ADA (inclusive of COLA)	\$5,545 ⁴	—	—	—

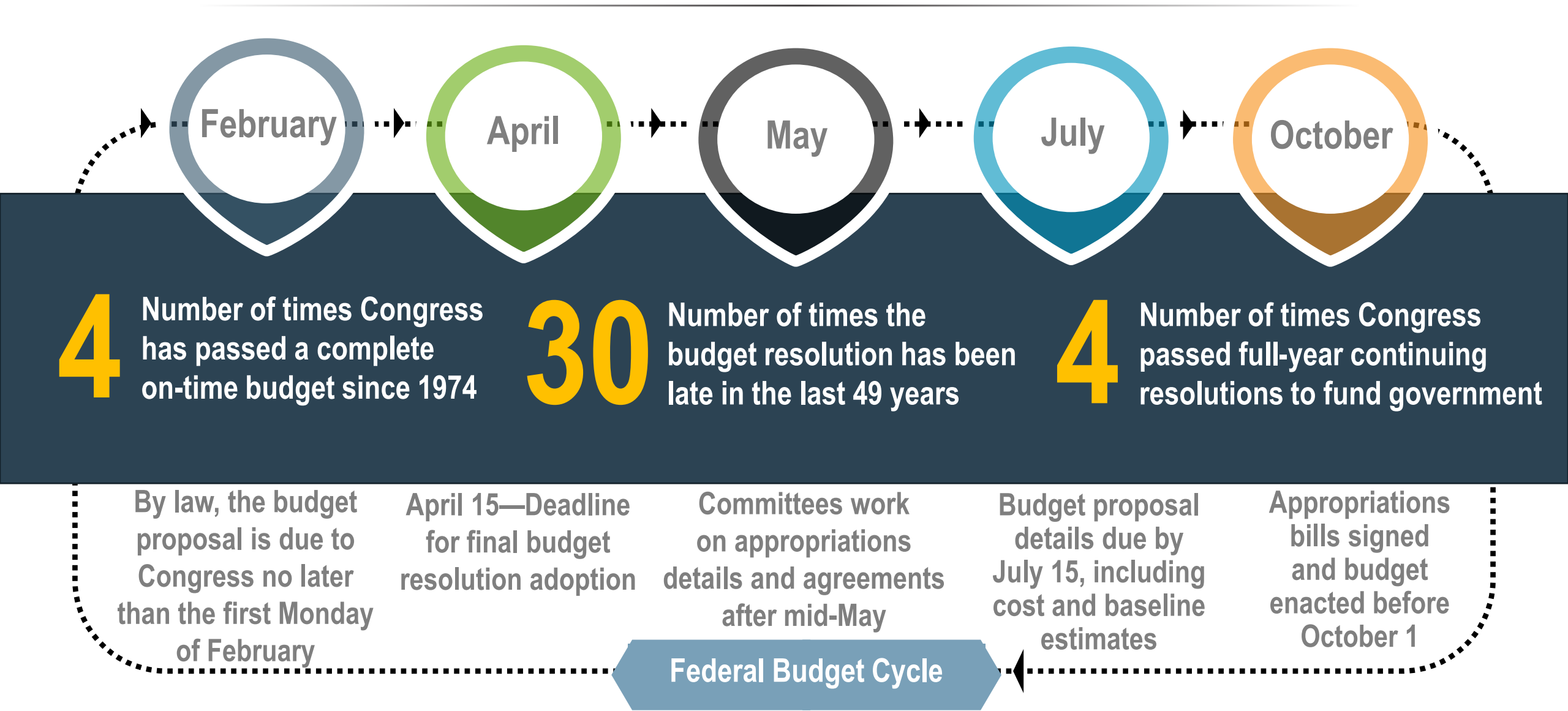
¹Transitional Kindergarten (TK)

²Maximum amount per ADA—to arrive at local educational agency’s (LEA) grant amount, multiply adjusted base grant per ADA by 20% and unduplicated pupil percentage (UPP)

³Maximum amount per ADA—to arrive at LEA’s grant amount, multiply adjusted base grant per ADA by 65% and UPP above 55%

⁴Inclusive of an additional \$2,397 for the student-to-adult ratio reduction from 12:1 to 10:1

Federal Education Budget



Proposition 28—Arts & Music Education Funding for 2025-26

Annual appropriations for the budget year are final as of the May Revision

\$1.05 billion

2025-26

Failure to make annual certifications or provide timely board-approved annual reports may jeopardize Proposition 28 funding

Proposition 28 Requirements	
Annual Certification	Each year, local educational agencies (LEAs) must certify that Arts and Music In Schools (AMS) funds were and will be used as follows: - To provide arts education programs¹ - To supplement funding for arts education programs - No more than 1% for administrative costs
Annual Board-Approved Report	By September 30 each year, the number of: - Full-time equivalent teachers, classified staff, and teaching aides - Students served - School sites providing arts education programs
Final Expenditure Report	By October 1 after the three-year spending period, ² the amount of unexpended AMS funds

¹LEAs with an enrollment of at least 500 pupils must certify that at least 80% of the funds employ teachers or classified staff

²60 days after a charter school ceases operation

SSC Financial Projection Dartboard

Planning Factors						
		2024-25	2025-26	2026-27	2027-28	2028-29
DOF ¹ Planning COLA		1.07%	2.30%	3.02%	3.42%	3.31%
California CPI ²		3.07%	3.42%	2.98%	2.77%	2.90%
CalSTRS ³ Employer Rate		19.10%	19.10%	19.10%	19.10%	19.10%
CalPERS ⁴ Employer Rate		27.05%	26.81%	26.90%	27.80%	27.40%
Unemployment Insurance		0.05%	0.05%	0.05%	0.05%	0.05%
California Lottery	Unrestricted per ADA	\$191	\$191	\$191	\$191	\$191
	Restricted per ADA	\$82	\$82	\$82	\$82	\$82
Mandate Block Grant (District) ⁵	Grades K-8 per ADA	\$38.21	\$39.09	\$40.27	\$41.65	\$43.03
	Grades 9-12 per ADA	\$73.62	\$75.31	\$77.58	\$80.23	\$82.89
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$20.06	\$20.52	\$21.14	\$21.86	\$22.58
	Grades 9-12 per ADA	\$55.76	\$57.04	\$58.76	\$60.77	\$62.78

¹Department of Finance; ²Consumer Price Index; ³California State Teachers’ Retirement System; ⁴California Public Employees’ Retirement System;
⁵County Office of Education Mandate Block Grant: \$39.09 per ADA grades K-8; \$75.31 per ADA grades 9-12; \$1.31 per unit of countywide ADA

Transitional Kindergarten—Fiscal Penalties

→ Classroom Ratio

Failure to meet the proper student-to-adult ratio will reduce the amount received for the TK ratio LCFF add-on

→ TK Teacher Qualification

Failure to meet the TK teacher additional certification requirement will reduce the LCFF base grant entitlement for TK students

→ Class Size

- Under current law, failure to meet the average TK class size per school of 24 students will jeopardize all funding for the LCFF GSA for TK students
- The May Revision applies the penalty to only those students that exceed the average of 24 TK students per class, per school site

New Requirements for School Transportation

Senate Bill (SB) 88 (Skinner, Statutes of 2023) created new requirements effective July 1, 2025, for LEA employees and LEA contractors transporting students in vehicles with 10 or less passengers

What are the major requirements?

Drivers must:

- Complete a medical exam every two years, annually for those 65 and older
- Provide a current Department of Motor Vehicles (DMV) driver report
- Participate in the DMV’s pull notice system
- Comply with drug and alcohol testing
- Hold a valid first aid certificate

Vehicles must be:

- Inspected at licensed facilities
- Equipped with first aid kits and fire extinguishers

Who does this apply to?

A driver who is compensated by an LEA to transport students including LEA teachers, staff, and private companies LEAs contract with for transportation services

Who is exempt?

- Parents and guardians
- Municipal transit, state and county agencies, foster family agencies, and tribal authorities
- An LEA employee driving less than 40 hours per year to supervise athletics, extracurriculars, or field trips

HR Key Topics—LGBTQ+ Cultural Competency Training

- **AB 5 (Zbur, Statutes of 2023), The Safe and Supportive Schools Act, requires:**
 - **LEA certificated staff serving grades 7-12 to complete one hour of LGBTQ+ cultural competency training annually starting with the 2025-26 school year through the 2029-30 school year**
 - **That the CDE develop online training and resources at no cost to meet the training requirement (training will be available by July 2025)**



PRISM¹ training materials are in the development phase



LEAs are required to track and document the training requirement and make the records available to the CDE upon request



LEAs may offer substantially similar in-service training

See the CDE website for PRISM resources, FAQs, and training material updates: <https://www.cde.ca.gov/ci/pl/prism.asp>

¹Providing Relevant Inclusive Support that Matters for LGBTQ+ Students