

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

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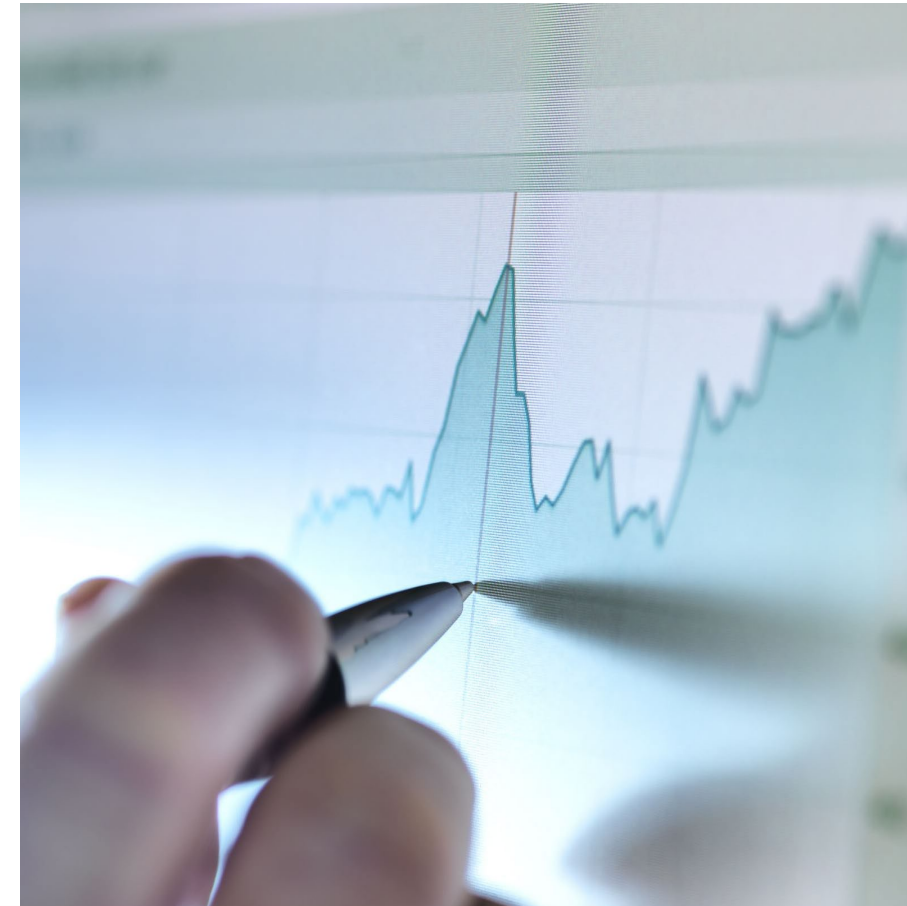


**Governing Board
Meeting
February 2, 2023**



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, Governor Gavin Newsom 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

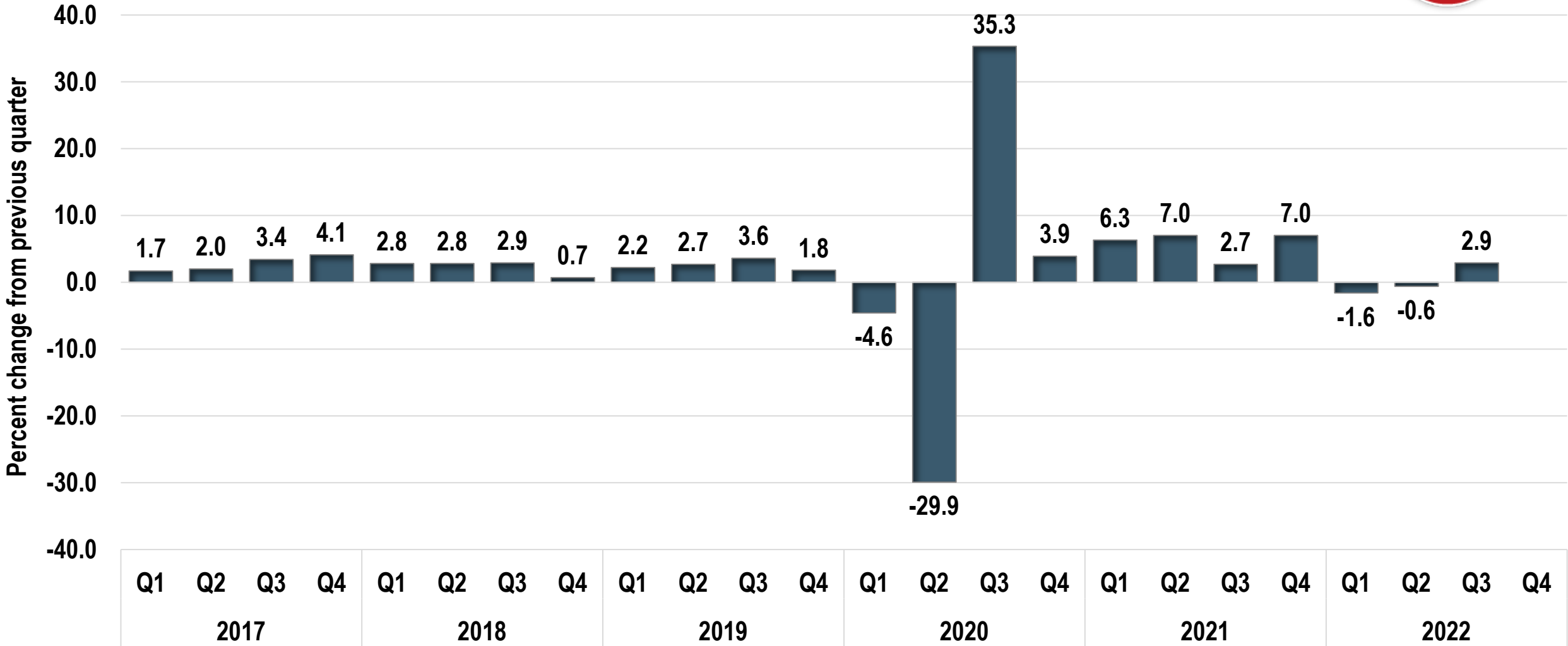




Proposition 98 and the Education Budget

- **Proposition 98 resources grow leaner in the Governor's Budget, as do the proposed investments for K-12 schools**
 - **Maintaining the purchasing power of the Local Control Funding Formula (LCFF) takes center stage with the cost-of-living adjustment (COLA)**
 - **Governor Newsom remains committed to key priorities in transitional kindergarten (TK) and expanded learning**
 - **The budget furthers educational equity to address persistent learning and achievement gaps**
 - **Governor Newsom surprises K-12 with a partial "sweep" of funding for arts and music instruction**

U.S. Gross Domestic Product



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



General Fund Budget Summary

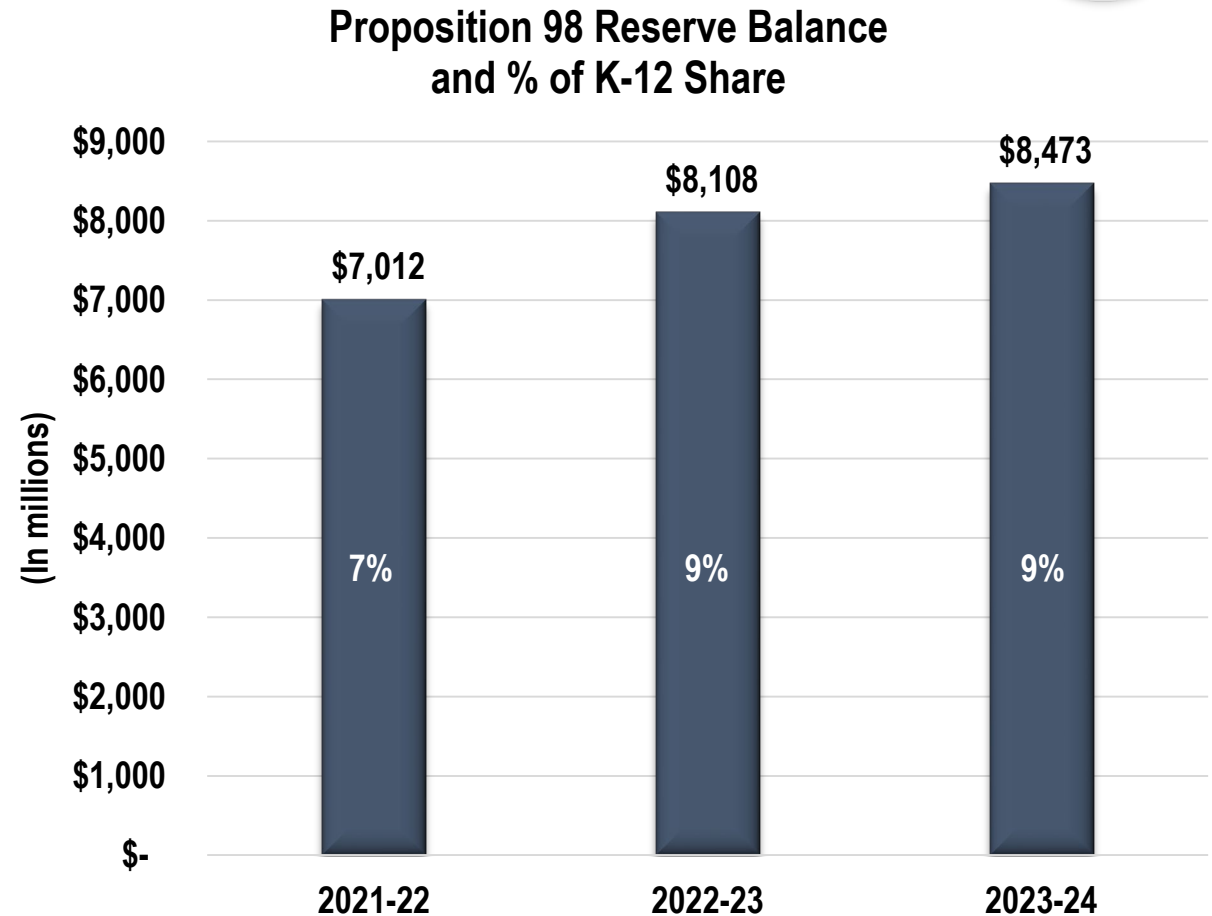
2023-24 Governor's Budget in millions		
	2022-23	2023-24
Prior-Year Balance	\$52,713	\$21,521
Revenues and Transfers	\$208,884	\$210,174
Total Resources Available	\$261,597	\$231,695
Non-Proposition 98 Expenditures	\$160,973	\$143,060
Proposition 98 Expenditures	\$79,103	\$80,554
Total Expenditures	\$240,076	\$223,614
Fund Balance	\$21,521	\$8,081
Reserve for Liquidation of Encumbrances	\$4,276	\$4,276
Special Fund for Economic Uncertainties	\$17,245	\$3,805
Public School System Stabilization Account	\$8,108	\$8,473
Safety Net Reserve	\$900	\$900
Budget Stabilization Account/Rainy Day Fund	\$21,487	\$22,398

Source: Governor's Budget Summary, page 10



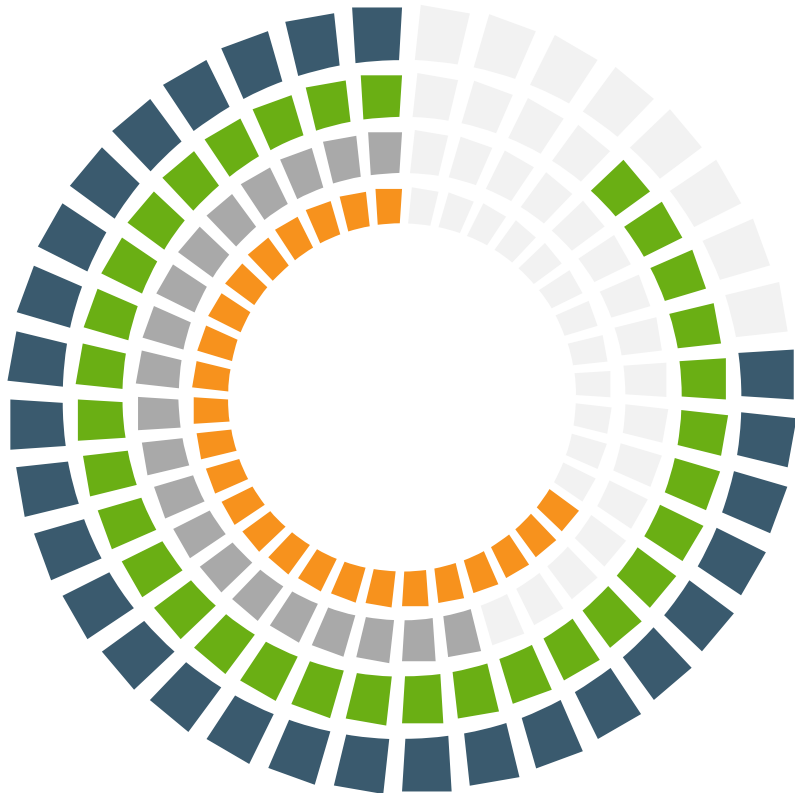
Local Reserve Cap

- Education Code limits local school district reserves¹ to 10% when certain conditions are met
 - The Proposition 98 reserve balance is greater than 3% of K-12's portion of the minimum guarantee
 - Applies only to non-basic aid school districts with average daily attendance (ADA) greater than 2,500
- The account balance continues to exceed the 3% trigger
- Cap remains operative in 2023-24



¹The reserve cap is based on assigned and unassigned ending fund balances of the General Fund and Special Reserve for Other than Capital Outlay Fund

2023-24 LCFF Overview



8.13%

Statutory COLA

\$4.7 billion

New

Equity Multiplier

\$300 million

In conjunction with accountability improvements, intended to augment resources to support highest-needs schools – 85%-90% UPP

\$5.04

Billion

Total 2023-24 LCFF funding increase, utilizing \$1.4 billion in one-time funding

\$\$

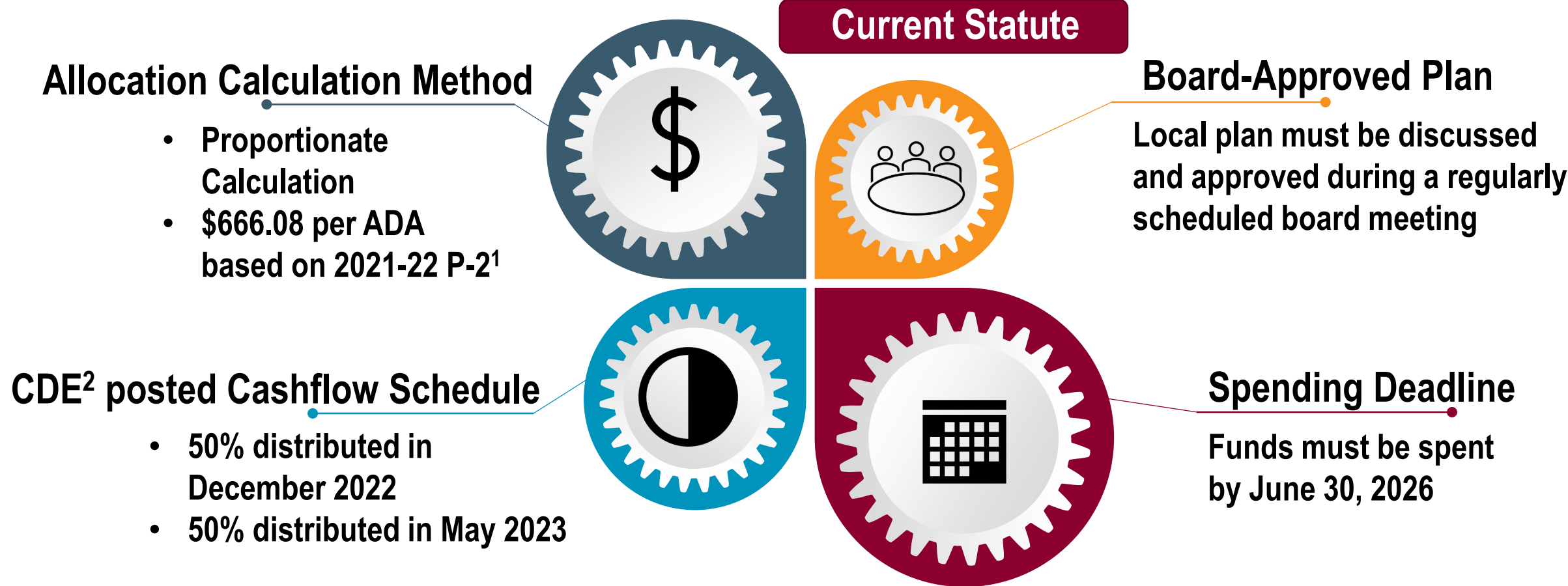
Categorical Programs

COLA also applied to other educational programs funded outside of the LCFF

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



¹Second Principal Apportionment; ²California Department of Education



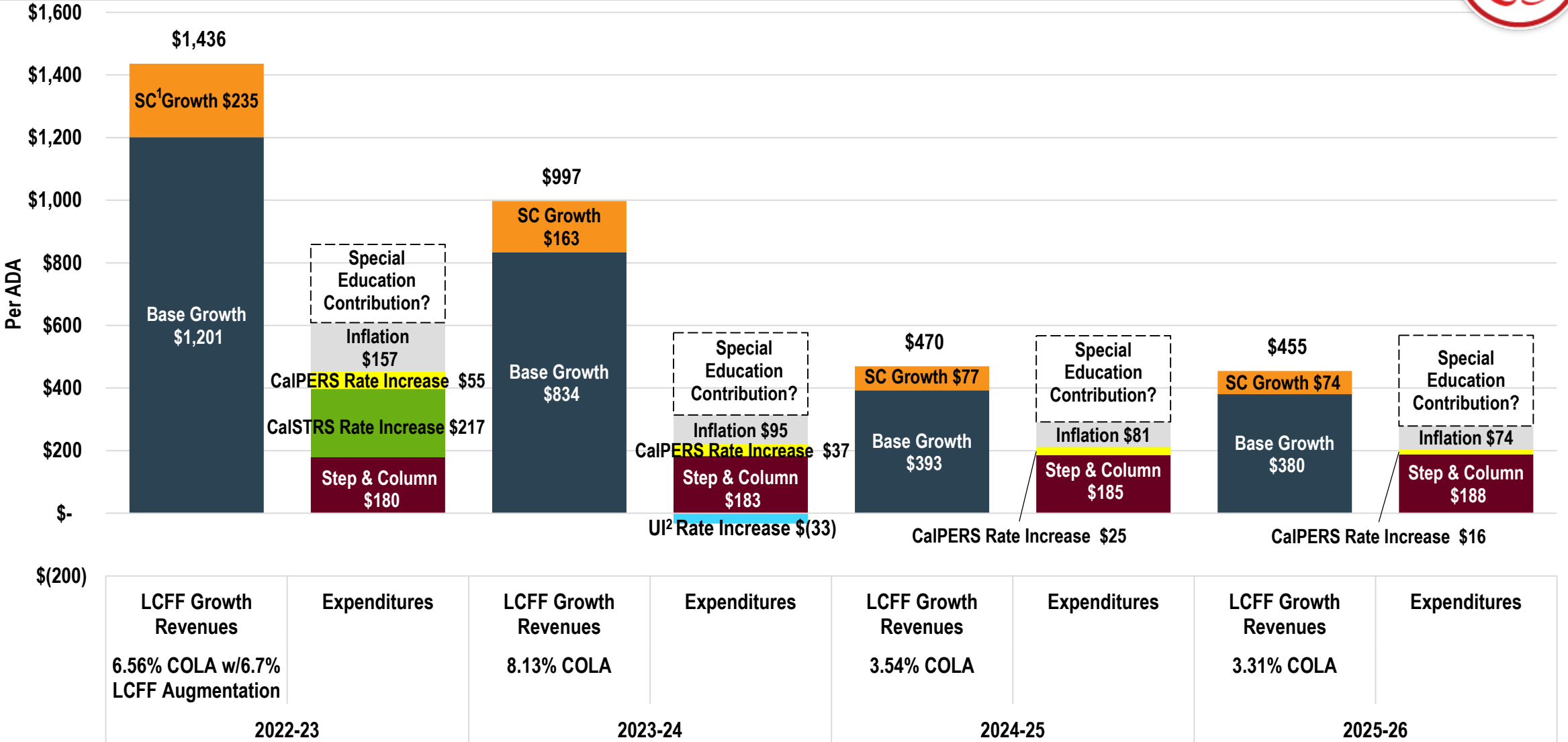
2023-24 LCFF Funding Factors

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
Grade Span Adjustment	\$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 ADA¹	–	\$2,188	\$2,012	\$2,072	\$2,463
65% Concentration Grant per ADA²	–	\$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 Unduplicated Pupil Percentage (UPP)

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

Multiyear Cost Pressures



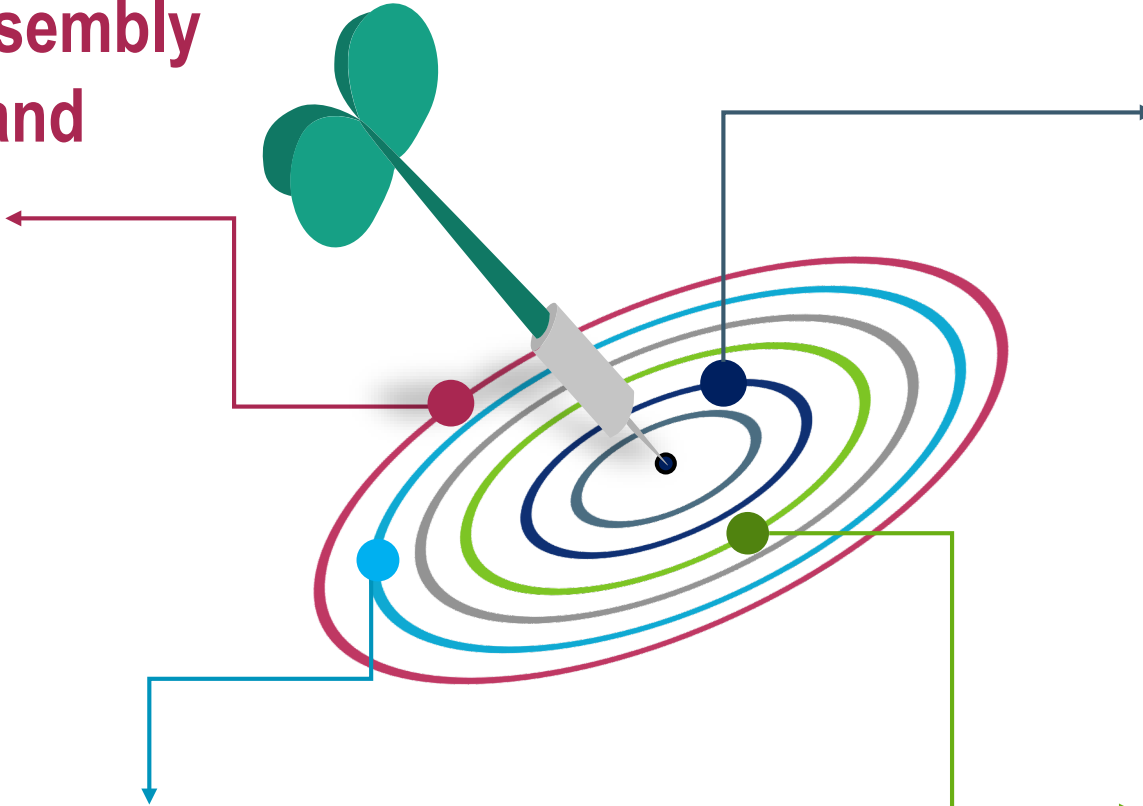
¹Supplemental and concentration; ²Unemployment Insurance



Multiyear Projections

Multiyear projections are required by Assembly Bill (AB) 1200 and AB 2756

Projections are anchored in reliable information as of the date of the projection



Projections will change any time the underlying factors change

Projections must be documented, because they will change

SSC Financial Projection Dashboard



Planning Factors						
		2022-23	2023-24	2024-25	2025-26	2026-27
DOF ¹ Planning COLA		6.56%	8.13%	3.54%	3.31%	3.23%
California CPI ²		6.00%	3.44%	2.77%	2.49%	2.74%
Unemployment Insurance		0.50%	0.20%	0.20%	0.20%	0.20%
California Lottery	Unrestricted per ADA	\$170	\$170	\$170	\$170	\$170
	Restricted per ADA	\$67	\$67	\$67	\$67	\$67
Mandate Block Grant (District)	Grades K-8 per ADA	\$34.94	\$37.78	\$39.12	\$40.41	\$41.72
	Grades 9-12 per ADA	\$67.31	\$72.78	\$75.36	\$77.85	\$80.36
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$18.34	\$19.83	\$20.53	\$21.21	\$21.90
	Grades 9-12 per ADA	\$50.98	\$55.12	\$57.07	\$58.96	\$60.86

¹Department of Finance (DOF)

²Consumer Price Index (CPI)



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%

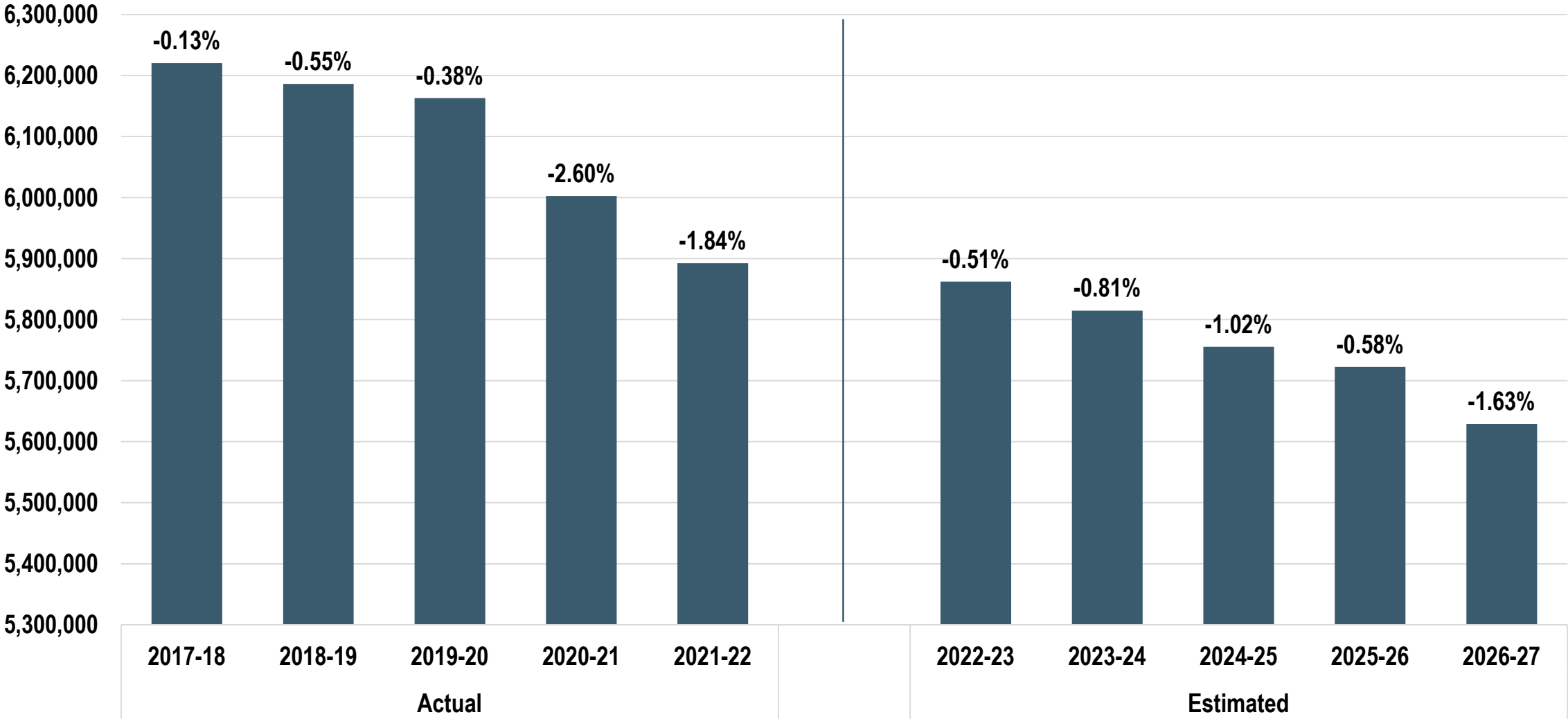
¹Projected rates reflect an investment loss for 2021-22 based on preliminary investment returns, as well as an anticipated decrease in normal cost due to new hires entering lower cost benefit tiers

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

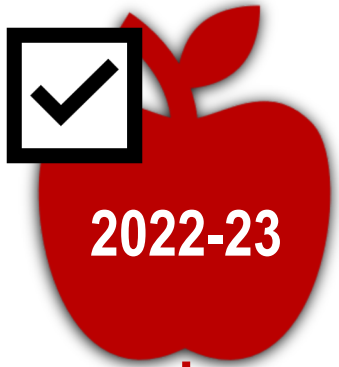
Statewide Enrollment Trends—Ongoing Enrollment Loss



Statewide Enrollment Trends



Universal Transitional Kindergarten Implementation



Offer TK to four-year-olds whose fifth birthday occurs between September 2 and February 2; inclusive

2023-24

Offer TK to four-year-olds whose fifth birthday occurs between September 2 and April 2; inclusive

Offer TK to four-year-olds whose fifth birthday occurs between September 2 and June 2; inclusive

Offer TK to four-year-olds whose fourth birthday occurs by September 1; inclusive

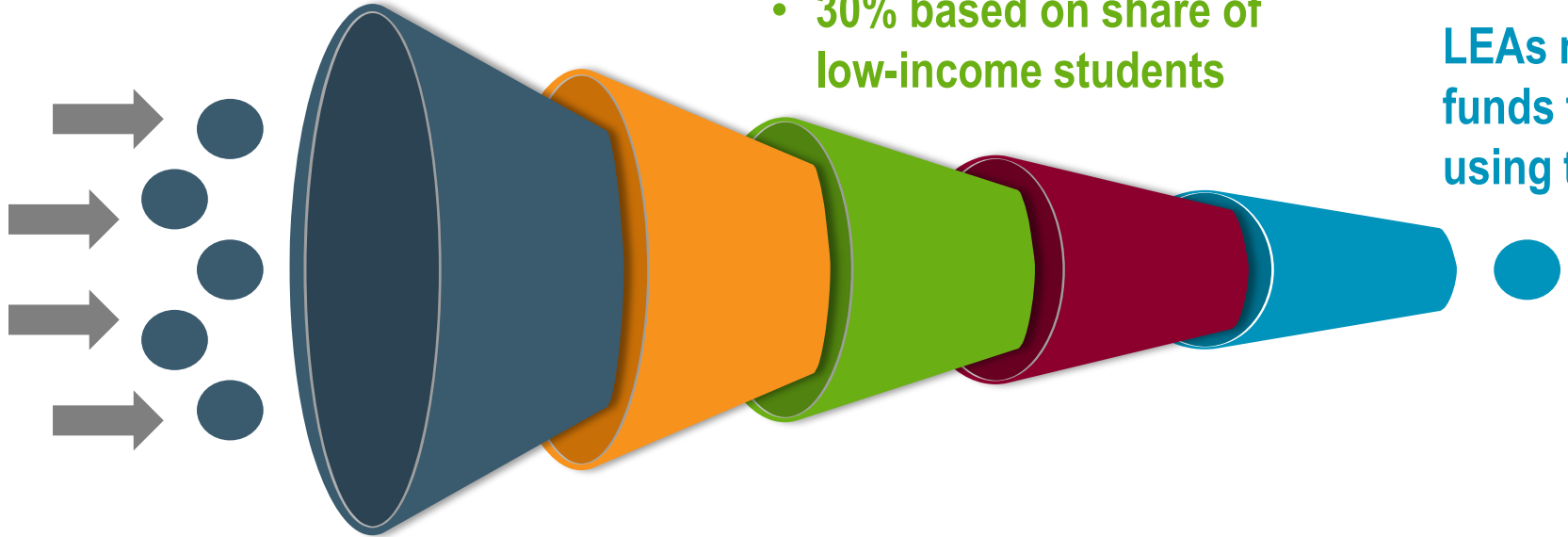
- The Governor continues to prioritize implementation of universal transitional kindergarten (UTK)
- The Governor's Budget provides an additional investment of \$690 million ongoing General Fund to implement second year of UTK expansion
- Proposition 98 minimum guarantee is "rebenched" to account for the expanded universe of TK students

Proposition 28: Arts and Music in Schools—Funding Guarantee and Accountability Act



Beginning with the 2023-24 fiscal year, requires the state to provide additional, dedicated funding originating outside of Proposition 98 for arts and music education

The annual amount is equal to 1% of the prior-year Proposition 98 minimum guarantee



Funds distributed to LEAs:

- 70% based on share of statewide enrollment in preschool through grade 12
- 30% based on share of low-income students

LEAs must distribute their funds to their schools using the same 70/30 split



Proposition 28—Program Requirements

LEAs must annually:

Certify funds used to provide arts education, including a requirement to expend at least 80% of funds to employ staff for arts education instruction

- LEAs with less than 500 students are exempt from this requirement
- CDE may provide a waiver for “good cause shown” upon written request by the school principal
- Waiting for more information about this waiver process

Certify funds received are to supplement, not supplant, existing arts education programs

Certify that no more than 1% of funds will be used for administrative expenses

Submit local governing board-approved report that details:

- Type of arts education programs funded
- Number of staff
- Number of students served
- Number of schools providing arts education programs with the funds

In addition, principal of each school must develop an expenditure plan



One-Time State Categorical Expenditure Deadlines

Fund	Fund Source and/or Distribution Methodology	Resource Code	Deadline
ELO Grant (10% set aside for paraprofessionals)	State funds included in ELO Grant	7426	September 30, 2024
ELO Grant	State funds included in ELO Grant	7425	September 30, 2024
In-Person Instruction Grant	State funds allocated proportionately based on 2020-21 LCFF entitlements	7422	September 30, 2024
Arts, Music, and Instructional Materials Discretionary Block Grant	State funds allocated based on 2021-22 P-2 ADA ¹	6762	June 30, 2026
Educator Effectiveness Block Grant	State funds allocated based on 2020-21 certificated and classified FTEs	6266	June 30, 2026
Learning Recovery Emergency Block Grant	State funds allocated based on 2021-22 P-2 ADA multiplied by 2021-22 UPP	7435	June 30, 2028

¹State special schools ADA proxy is 97% of 2021-22 CBEDS Enrollment

Next Steps



- **Business Office is preparing 2nd Interim Report**
- **New Multi-Year Projections (MYP) based on the Governor's Proposals**
- **February – Start developing 2023-2024 Budget**
- **2nd Interim Report - March 16, 2023 Board Meeting**
- **May – Governor's May Revise**
- **June – 2023-2024 Budget Adoption**

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Questions?