

FCMAT

FISCAL CRISIS & MANAGEMENT
ASSISTANCE TEAM

School Funding Forum

Marin County Office of Education

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TK-12 Budget At A Glance

- Strong support for schools is maintained
- Revised three-year revenue forecast – down \$31.7B
- Third year contribution to school rainy-day fund - \$8.5B new projected total
- Proposition 98 decline (TK-14) - \$1.5B from June to \$108.8B
- Record 8.13% COLA on LCFF and many categoricals - \$4.9B
- Second of four-year universal transitional kindergarten expansion and 12:1 staffing ratios
- Maintains prior investments and priorities with no proposed ongoing reductions

Revenues

- Revenue forecasts reflect moderation and slower growth, but not a recession
 - General Fund revenue is down \$31.7B from 2022 Budget Act
 - Capital gains taxes as a percentage of General Fund revenues is 8.3%, down from 12.6% peak in 2020
- Budget shortfall of \$29.5B over the three-year window
 - Addresses with delays, reductions and other solutions; almost all outside of Proposition 98
- Shifts some prior year one-time revenue to support recurring expenditures in the budget year and subsequent year

Proposition 98 Reserves

- Does not tap the Public School System Stabilization Account (rainy-day fund) at this time, but acknowledges the possibility at May Revise to mitigate added risks
- Adjusts the PSSSA reserve based on new revenue data
 - Deposit of \$365M in 2023-24
 - New projected total of \$8.5B at the end of 2023-24 – down from \$9.5B in 2022 Budget
 - Reduction reflects adjusted revenues in 2021-22 and 2022-23
- Local reserve caps remain in place

Proposition 98

- Test 1 environment – funding based on TK-14's proportion of General Fund revenues
 - 38.6% of revenue with UTK rebench, but without Proposition 28 rebench
- Proposition 98 down \$1.5B to \$108.8B (\$4.7B over three years)
- \$4.9B COLA of 8.13% for LCFF, COEs and many categorical programs
 - 8.13% estimate is below LAO's November estimate of 8.73%
 - COLA adds \$745 - \$903 per-ADA for base grants across the grade spans
 - Special Education base funding now \$887 per-ADA
 - Uses \$1.4B of prior year one-time revenues to support the COLA increase

Proposition 98 (Cont.)

- \$855M (\$1.8B total recurring), second year implementation of universal transitional kindergarten and TK staffing ratios of 12:1
- \$250M one-time investment (\$500M one-time over two years) in early literacy coaches and reading specialists
- \$300M recurring Equity Multiplier as an LCFF add-on
 - School site eligibility, based on NSLP free meal counts
 - Eligibility thresholds: 90% for K-8 and 85% for 9-12
 - LCAP to be amended to focus on school-level equity gaps
- \$1.2B (33%) reduction to 2022 arts/music/all other block grant
 - May be partially offset by Proposition 28 arts and music initiative at \$941M

Special Education

- COLA of 8.13% - \$887 per-ADA
- To further recent reform efforts, proposes policy / programmatic changes
 - Limiting the amount of additional funding that SELPAs are allowed to retain for non-direct student services before allocating special education base funding to their member LEAs (intended as a freeze, not a cap)
 - Stabilizing current SELPA membership by extending the moratorium on the creation of new single-district SELPSs by two years to June 2025
 - Increasing fiscal transparency by requiring the CDE to post each SELPA's annual local plan, including their governance, budget and services plans on its website

Universal Transitional Kindergarten

- Second year of expansion towards universal transitional kindergarten
 - Funds students whose fifth birthday occurs between September 2 and April 2 – a two-month expansion (estimated 46,000 more students)
- Proposition 98 is “rebenched” to include non-Proposition 98 funds equal to the cost \$690M (\$1.3B total)
- Funds student-to-adult ratio at 12:1 (not 10:1) at \$165M (\$502M total)
- Acknowledges lower costs due to lower enrollment / ADA
- Teacher certification requirements effective August 1, 2023
- Facility funding for full day kindergarten, UTK and preschool delayed one year

Proposition 98 / Education Adjustments

- No proposed ongoing reductions for education.
- Few downside adjustments are proposed for TK-12. Those that are include:
 - \$1.2B (33%) reduction of the 2022 arts/music/all other block grant from (new total at \$2.3B)
 - \$550M facility funding for full day kindergarten, UTK and preschool delayed one year is delayed one-year
 - \$100M decrease from the \$2.1B originally planned for 2023-24

Looking Ahead

- FY2023-24 and near-term outyears include challenges for LEAs
 - The planets are aligning all at once to create challenges
 - Slowing revenue growth over the next several years
 - Declining enrollment continues in many regions of the state
 - Exhausting and expiring one-time pandemic funds
 - Inflationary pressures from historic increases in CPI
 - Market losses impact on CalSTRS and CalPERS earnings
 - Risks to revenue forecast
 - But a substantial rainy-day fund is maintained, at least temporarily

Questions

Thank you!