



Governor's Proposals for the 2024-25 State Budget

Board Meeting
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Agenda Item No. 10.1

Presented by:

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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

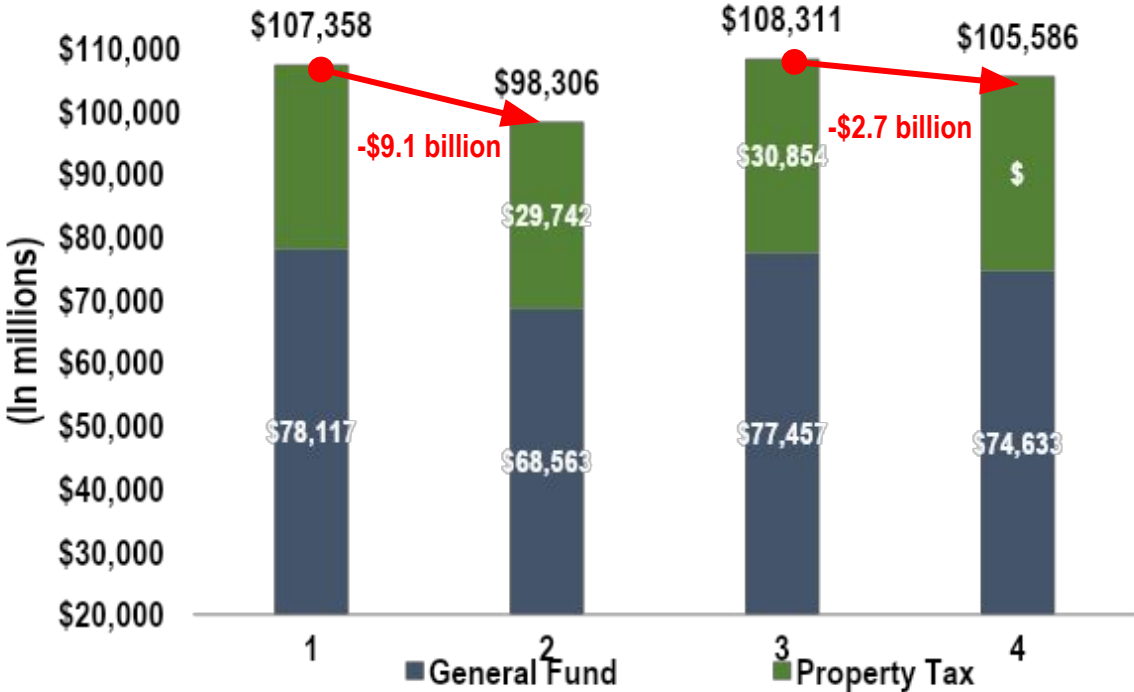
Bad News

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

¹cost-of-living adjustment

Proposition 98—2022-23 and 2023-24

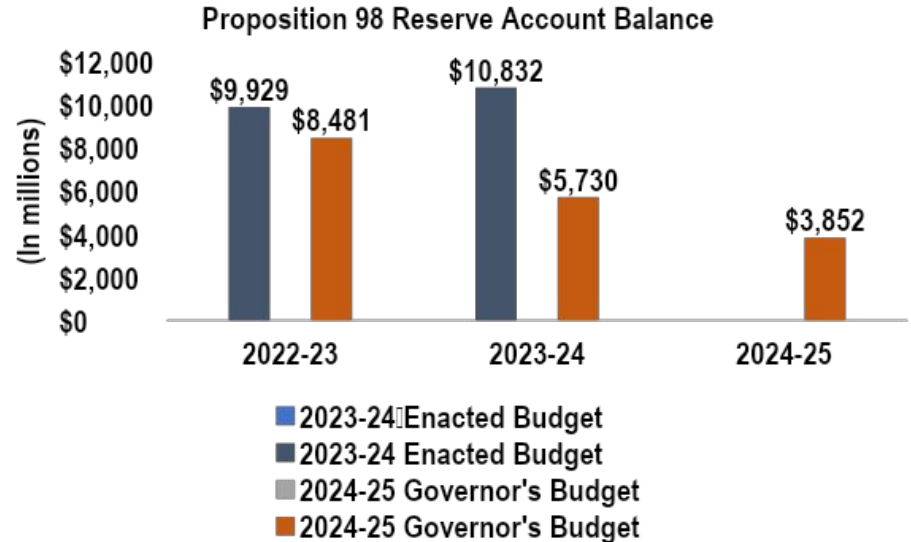
- The Governor’s Budget adjusts the prior- and current-year Proposition 98 levels from 2023-24 Enacted Budget levels
 - 2022-23: -8.4%
 - 2023-24: -2.5%
- The sole driver of the change is less-than-expected state General Fund revenues
 - Local property tax assumptions are relatively unchanged



Proposition 98 Reserve

- California’s Constitution determines deposits into and withdrawals from the Proposition 98 reserve
- The proposed withdrawals are discretionary and require the declaration of a budget emergency

Deposits and Withdrawals (In millions)		
Fiscal Year	2023-24 Enacted Budget	2024-25 Governor’s Budget
Deposits		
2022-23	\$1,787	\$339
2023-24	\$903	\$288
2024-25	-	\$752
Withdrawals		
2022-23	-	-
2023-24	-	\$3,039
2024-25	-	\$2,630



LCFF Overview

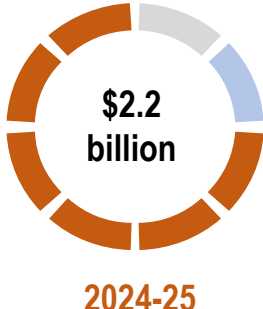
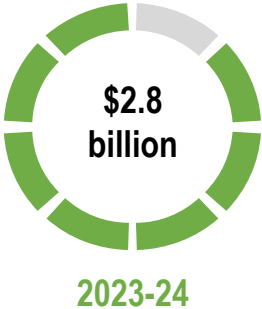
The Governor’s Budget once again relies on one-time funding to meet the ongoing obligation to the Local Control Funding Formula (LCFF)

- Of the proposed \$5.7 billion Public School System Stabilization Account (PSSSA) withdrawals across the current and budget year, \$5.0 billion is proposed to be allocated for the purposes of supporting the LCFF

2023-24 Enacted Budget



2024-25 Governor's Budget

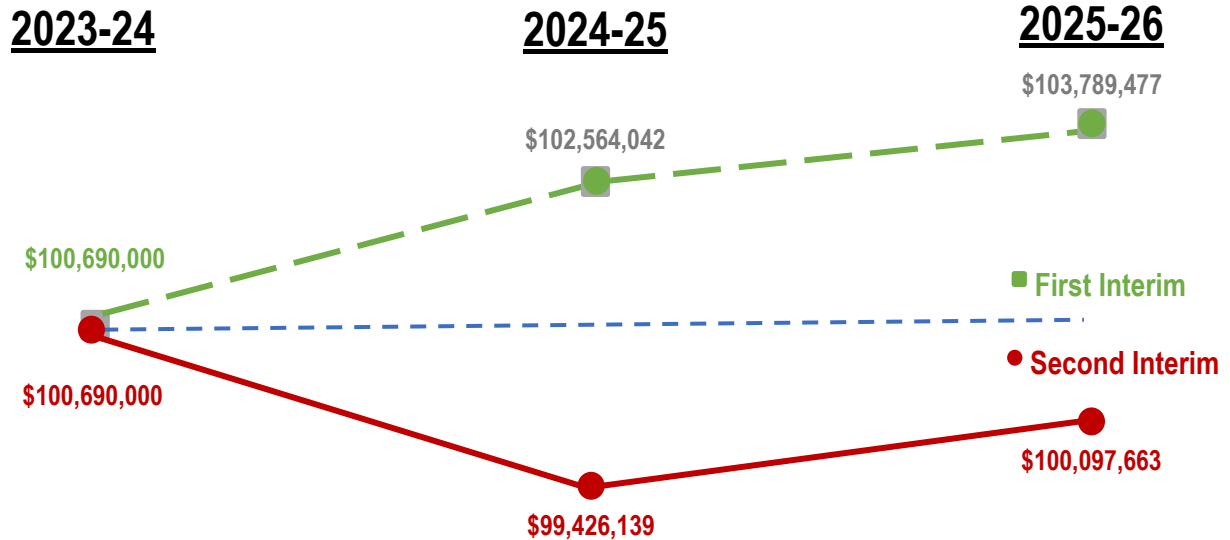


Fluctuating Statutory COLAs From the Department of Finance

- 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 of 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

A Tale of Two Multiyear Projections— LCFF Revenues First Interim to Second Interim



	2023-24	2024-25	2025-26
Average Daily Attendance (ADA)	10,000	9,800	9,604
Base Grant 1st Interim	\$10,069	\$10,466 (3.94% COLA)	\$10,807 (3.26% COLA)
Base Grant 2nd Interim	\$10,069	\$10,146 (0.76% COLA)	\$10,422 (2.73% COLA)

What's Not in the Education Budget?



Proposition 98 Cuts

Despite the significant drop in the minimum guarantee from 2021-22 to 2022-23, the Governor's Budget proposes no cuts in overall Proposition 98 funding

Deferrals

Due to the Governor's Budget revenue assumptions and the Administration's treatment of the Proposition 98 minimum guarantee, there is no need for the state to defer payments to LEAs

Sweeps

Unlike last year, the Governor's Budget does not include any proposals to sweep unallocated funds from programs, such as the Community Schools Partnership Program, so LEAs planning for those funds can breathe a sigh of relief . . . *for now*

The Risks to Proposition 98

General Fund Condition

The conditions that create volatility and vulnerabilities for state revenues pose risks for education funding

- Economic shocks
- Wall Street performance

COLA

2024-25 COLA of 0.76% assumes no increases in the costs of goods and services governments buy in the last quarter of 2023 and the first quarter of 2024 (not likely)

If COLA increases by May, it will exacerbate the Proposition 98 deficit



Proposition 98 Deficit

Spending beyond the means of Proposition 98 in the short-term creates risk for the out-years

The minimum guarantee may not be able to grow its way out of the deficit

Key Budget Assumptions

The assumptions that undergird the State Budget and Proposition 98 are critical for stable local planning

If revenues fall or costs rise, it will exacerbate the Proposition 98 problem

Thank you!



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