association of california school administrators

BUSINESS SERVICES COUNCIL

Wednesday, February 22, 2023
10:00 AM – 2:00 PM

ACSA Sacramento Office
1029 J Street, Sacramento, CA 95814 3rd Floor Conference Room

Ruben Hernandez, Council President

MEETING MINUTES

I. Welcome & Introductions
Ruben Hernandez, Business Services Council President
Attendees: Megan Baier, Yuri Calderon, Lisa Davis, Kevin Franklin, Vivian Hamilton, Shannon Hansen, Annette Heldman, Ruben Hernandez, Bradley Johnson, Kraig Magnussen, Sean Martin, Tim McLellan, Dawnalyn Murakawa-Leopard, Sheldon Smith, Ron Tanimura, Kristy Tchamourian, Andreya Viscovich, Julie Vitale, Rick Wiersma

II. Council Business
Ruben Hernandez, Business Services Council President

A. Approval of Prior Minutes Motion made by Sean Martin, seconded by Tim McLellan, and approved unanimously.
B. Review & Approve Council Purpose for 2023-24 The council agreed that the purpose does not need revision.

III. Legislative Analyst Office Fiscal Update
Kenneth Kapphahn, Legislative Analyst Office

The LAO is about to release a new report looking at the economic conditions of the state; over the next few months the LAO and DOF will need to align their perspectives in preparation for the adoption of the state budget. The LAO is suggesting that the 2023-24 budget not add new things and reductions in ongoing funding, and in particular not fully funding the COLA. (While, in the past, reductions to COLA have been “repaid” in future years, there is no obligation to do so.)

Mr. Kapphahn shared information about the current economic climate, explaining that there is a $18 billion shortfall that has developed since the adoption of the 2022-23 budget. The governor proposes to address this through a variety of measures, though there is no proposal to utilize existing reserves. The LAO believes that state revenues will be lower than what the Governor projects and recommends that the Legislature plan for a larger budget problem than is reflected in the Governor’s proposal. The LAO supports preserving reserves and notes that the shortfall is not one-time but could be ongoing, meaning that one-time solutions will not solve the problem.

California income tax withholding is trailing last year. This is an indicator of what is happening with jobs, salaries, payrolls, bonuses, stock options, etc., so provides good insight into what is happening. The lower withholding is likely to reflect current conditions in the technology sector. January withholding is 14% lower than anticipated, which may be a sign of a true underlying weakness in the economy.

The LAO estimates that revenues will be $5 billion below the Governor's budget anticipates for 2022-23 and an additional $5 billion lower in 2023-24. The LAO forecasts a sluggish picture for 2022-23 through 2024-25, followed by stronger growth in 2025-26 and 2026-27, eventually reaching the levels that were projected at the time of budget adoption.

Inflation has begun to drop and is predicted to continue to ease over the coming year; this tends to temper the risk of a recession, though overall levels remain high.

The Governor's proposal lowers the Proposition 98 guarantee. The current estimate is a drop by $4 billion. Notably, changes in student attendance do not affect the guarantee. The Proposition 2 reserve (the Rainy Day Fund) is generally controlled by formula and can only be used to supplement the Proposition 98 guarantee. The reserve has an $8.5 billion balance. If revenues come in lower than anticipated and the Proposition 98 guarantee is lower, this could free up funding by eliminating deposits and, in a worse-case scenario, requiring automatic withdrawals.

LCFF costs are lower than anticipated, mostly because new costs are not coming in as high as anticipated. The 2022-23 budget used $2.8 billion in ongoing funds for one-time purposes. These factors, combined with a lower required deposit into the Proposition 98 reserve, create $5.2 billion in available funding. The governor's proposal provides $6 billion in ongoing increases (mostly for the 8.13% COLA, plus $300 million for the equity multiplier), one-time proposals of $376 million ($250 million for reading specialists and $100 million for cultural enrichment activities for high school seniors), and a one-time reduction by $1.2 billion to the Arts Music Instructional Materials Discretionary Block Grant. This math does not add up. The LAO suggests the elimination of the equity multiplier, the removal of the one time proposals, and funding a lower COLA amount.

The allocation and use of Proposition 28 funding will be clarified in May and through guidance from CDE.

The LAO points out that the Governor's proposal relies on $1.4 billion in one-time funds to pay for ongoing costs and that the midyear reduction to the Arts Music Instructional Materials Discretionary Block Grant is likely disruptive for districts.

As noted previously, the LAO recommends avoiding relying on one-time funds for ongoing costs, rejecting the Governor's larger proposals for new programs (including the literacy grant and the cultural enrichment funding), consider funding a lower COLA rate (each 0.5% change equates to about $400 million – so to avoid relying on one-time funds and makes no other changes to the Governor's budget the COLA would be 6.4%), and consider reductions to existing programs (e.g., ELO-P, which some districts are saying creates challenges related to staffing and participation/interest, and State Preschool funding, which may be over-funded based on the existing number of students being served and existing contracts).

The LAO will put out a report on the equity multiplier on February 23.

Mr. Kapphahn commented that the rainy day fund should be used when using those funds would allow the state to avoid negative impacts to a program, including cuts or deferrals, and when they would allow the state to get through a challenging period that will last for a shorter period of time.

In the past, mid-year reductions have been made to funding that has not yet gone "out the door." The administration did not want to make a mid-year change, but they may ask CDE to delay distribution of the second half of the Arts Music Instructional Materials Discretionary Block Grant. If CDE knew legislation was coming and likely to be adopted prior to the end of the fiscal year, they would likely hold the funds back, but if there was a deadlock or lack of agreement, they might apportion the funds. At this point, it seems unlikely that CDE would apportion the funds until it becomes clear where the legislature is heading.

The Council expressed concern regarding the restrictions put in place for the Proposition 28 funds as well as the requirements related to the use of ELO-P funding (particularly when Districts are utilizing one-time funding to support their ELO-P programs in order to make their dollars go farther).

Historical attendance-to-enrollment ratios were around 95%; this dropped to 90% in 2021-22. There was also an uptick in out-migration during the pandemic years, a small uptick in private school and home school enrollment, and an ongoing decline in births. The LAO does not anticipate that attendance will return to what it was prior to the pandemic, even if the attendance-to-enrollment ratio were to return to normal. There was a question about whether there are any mechanisms to prevent the per-pupil amount from dropping.

It was noted that the combination of unfunded COLAs and increases to STRS and PERS rates have historically created significant challenges. CalPERS investment returns have been low, accounting for the projected increases in rates. For CalSTRS, the state accrues the benefit and burden of changes in investment returns.

Existing law provides the legislature the option to pro-rate COLA down when funds are not available; it is unclear why the Governor's proposal relies on one-time funds to support ongoing costs. The 7th COLA indicator has come out, and DOF now projects COLA at 8.4%. The 8th indicator may shift this by a small amount, but it will not be a large change.

IV. Proposition 28: Art and Music K-12 Education Funding Initiative

Megan Baier, ACSA Legislative Advocate

CDE is not yet ready to provide guidance, but information is starting to come out. There are rumors swirling about the possibility of budget language modifying Proposition 28. As the proposition was initiative-sponsored, the legislature had nothing to do with it and there was no opportunity for any review to determine if it could be implemented. LEAs will likely receive money starting this fall (the funds will be 2023-24 funds) and will have a rolling 3-year expenditure deadline. Allocations will be based on 1% of Proposition 98

– so funding amounts will fluctuate each year. The legislature can "tweak" the language in any way that "furthers the purpose" of the proposition. The legislature will not be able to eliminate the supplement language or the school-site basis, as those are embedded multiple times in the law. 2022-23 arts spending is the baseline for the "supplement" requirement. The District does have a say in what the funds are used for – there is a site plan requirement, but the District can direct the funds. Existing staff can be used if you are paying them additional hours. Funds do not have to be expended during the instructional day – they could be used for ELO-P, summer school, after school, etc. 80% of funds must be used for district personnel. The Legislature is likely to work on the definition of the baseline and possibly on the 80/20 split between personnel and other needs. There is some suggestion that the 80/20 split could be on the allocation rather than on the expenditures. There was some discussion that the language may require that the 80/20 split must be on expenditures. There were also questions about the 80/20 split waiver and whether this is based on site or district enrollment; it was suggested that this will only be allowed by the state superintendent under very extraordinary circumstances. There was a discussion about looking at funding sources in establishing arts programs – the idea being that current arts programs may be supported by local sources (foundations or other fundraising organizations) and these funding sources may not be sustainable in a post-Proposition 28 environment. ACSA will advocate for ensuring that one-time and local funding sources not be included in the baseline and asks that members engage in this advocacy with their local legislators as well. It was suggested that funds be allowed to be used for stipended positions that may be currently supported by boosters (e.g., band section coaches, etc.). There was a concern related to staffing availability.

V. Budget Trailer Bill Language Update

Megan Baier, ACSA Legislative Advocate

Megan clarified that the expenditure deadline for 2021-22 ELO-P funds must be spent by June 30, 2023, with the expenditure deadline for 2022-23 funding is June 30,2024, and unexpended funds will be due back to the state when LEAs submit their expenditure reports at the end of each fiscal year. Details can be found on the CDE website at http://cde.ca.gov/ls/ex/elofaq.asp. ELO-P purchases can be used during the instructional day if they are also used for ELO-P needs. There was a discussion about the proportionate funding model and what the audit requirements might be. It was suggested that this topic be added to the agenda for the BSC's next meeting.

The trailer bill language came out earlier this month.

ACSA ran some data to examine the equity multiplier; the data is estimated but gives some idea of the impact. The district will have a role in determining how funds are spent, but the funds will be allocated to particular school sites. ACSA anticipates that 790 school sites will receive funding across 271 LEAs, with 358 LAUSD school sites receiving funds. There is a connected but separate accountability proposal focused on the achievement gap. Some of these give rise to consternation. Districts with a student group in the red and/or which receive equity multiplier money will need to have a specific LCAP goal related to improving the achievement of that subgroup. If Districts do not make progress over 3 years, they will need to develop plans to change/modify their plans to make progress. There have been challenges for some districts who wanted to use S&C dollars to address achievement gaps.

The Governor's proposal pauses the reduction in the TK staff to student ratio to 1:10 and to maintain the current 1:12 ratio. 1:10 will likely still be a long term goal. It was pointed out that when we reach full implementation, when students turn 4 in September, TK students may be 3 years old when they start (if school starts in August). TK may become more like preschool (with issues such as potty training); this may be impetus to move towards the preschool ratio of 1:10. The administration is suggesting that paraprofessionals supporting TK must be on track to get a credential or on track to have a child development permit – ACSA will lobby for this to be removed.

There is no proposal related to ongoing absence/attendance issues. There are questions about whether funding should be impacted (and chronic absenteeism triggered) when absences are due to legitimate illnesses – including everything from COVID to RSV to strep throat – especially since districts can't staff to ADA and need to staff to enrollment.

There were concerns related to the proposed legislation that would consider prohibiting suspensions for willful defiance for students in grades TK-12 on a permanent basis. There is an associated concern about teachers implementing classroom suspensions for this type of behavior.

A concern was raised regarding PERS guideline changes that may prohibit retirees from working 960 hours (as is currently in place) and from working for 2 years for the same LEA (this would be new). This would be a significant concern, especially if it includes substitutes as well as contracted employees. The comment period closed in December; if a change is made it may be made for the 2023-24 fiscal year. BASC has opposed this change.

VI. Small School District Committee Survey for Council Status
Ruben Hernandez, Business Services Council President

It was explained that some of the superintendents of small school districts do not feel that their voices are heard on the Superintendent's Council, which is why the proposal to create a Small School District Committee Council has been put forth. Yuri made a motion, which Kraig seconded, to provide BSC's support for this proposal. Megan and Kristy will work with Ruben to develop responses to the specific survey questions based on today's conversation. A response is due by March 10.

VII. Lunch

VIII. Department of Finance Budget Conversation
Amber Alexander, Department of Finance
Chris Ferguson, Department of Finance

Mr. Ferguson acknowledged that the LAO is now projecting revenue to be lower than the DOF anticipated and said that they are monitoring this to determine if this is a "blip" due to the rains or an ongoing concern, noting that the proposals are built to leave the rainy day fund intact.

Ms. Alexander mentioned that the focus is on implementation of ongoing programs rather than new programs.

Mr. Ferguson added that there will be negotiations regarding a school bond. It's unclear whether this will be K-12, K-14, and K-14 + higher education.

Mr. Ferguson and Ms. Alexander were asked to comment on how the Arts Music Instructional Materials Discretionary Block Grant reduction would work. DOF and CDE are having conversations, and CDE is working to delay providing the second half of the funds to provide time for the legislature and Governor to determine where they will land on this issue. DOF's impression is that small and rural districts tended to spend the entire amount of funds all at once, where larger districts generally do have multi-year plans. There is no plan to mitigate the issues that arise for districts that have encumbered and spent the funds, but this will be considered – there will be an examination into the fiscal impact of this as well. For Basic Aid districts, they will lose the Arts Music Instructional Materials Discretionary Block Grant funding and see no benefit through the LCFF.

Mr. Ferguson said that funding for universal meals may be short in the current year, but this is based on limited and preliminary data. The state is fully committed to this program, so if there is a shortfall the DOF will look for solutions. In response to a question about existing underfunding, Mr. Ferguson pointed to the state's maintenance of the seamless summer meal rates.

With regards to the Proposition 28 funding, DOF is working with CDE to determine what can or can't be included in the baseline funding. DOF and CDE will run potential clarification language through their legal teams to ensure that it furthers the intent of the law. Concerns related to funding sources (foundation sources, booster clubs, etc., who may not be able to continue to raise such funds to support the arts programs they have historically supported) and the use of the funds towards personnel have been heard. It was suggested that the intent of the proposition was to help relieve the burden that such outside groups have been carrying for some districts. It was suggested that it is important to focus on donors who are supplementing programs and to be careful of any suggestion that districts are working to supplant donor-supported programs. The MOE is at the LEA level, though the funds are distributed at the site level. A question was asked about how much influence the District has over site plans and about whether the waiver of the 80/20 split is based on enrollment at the LEA level or the site level. The language does *not* say that an LEA can't weigh in on a principal's school plan, so LEA and/or Board input is acceptable. The waiver language is clearly stated to be at the LEA level.

There was a question about a proposed shift to move the Dashboard release back to October. The intention is to get information out earlier in order to inform local discussions about LCAP and budget development. There are some concerns related to the resources needed to move the timelines up, both at the FCMAT level and the LEA level, and DOF is considering these.

There is some uncertainty in revenues; however, DOF has some experience in developing projections under such circumstances.

There is a concern about some of the proposals around SELPA funding, and particularly the idea that SELPAs would be required to disburse exactly the same amount of funding (plus COLA) to member LEAs in future years as they provided this year. This creates implications for local plans, SELPA-provided services, etc., especially if total funding drops due to declining enrollment or shifts of attendance. DOF has been receiving budget simulations on this topic. DOF is working to create an environment where there is more stability. It is likely that there will be some adjustments to address the concerns being raised but unclear as yet what those will be. It was noted that there are charters leaving SELPAs, which also has impacts on SELPA funding. DOF asks why charters are leaving and why larger districts are opting to form single-district SELPAs.

The DOF believes that there are sufficient revenues to fund the out years, particularly because of the avoidance in reliance on existing/planned reserves. Additional triggers can be pulled in pausing on longer term goals like ELO-P. A Great Recession scenario is not on the horizon. DOF is trying to avoid scenarios where there are really “great” years and really “bad” years and is working to provide stability and predictability. DOF anticipated that the reduction in the Discretionary Grant would be the easiest for local districts to navigate. They have heard the calls for no reduction and no delays; however this is not possible in the current economic environment.

There has been a long-standing process of fully funding COLA. Even during the Great Recession, when LCFF was not fully funded, the COLA was deferred and then provided to LEAs. It was pointed out that fully funding COLA also has implications for the bargaining table, particularly if ongoing costs are funded by one-time dollars. The LAO’s comfort level is due to out-year projections and the reserve levels that could be utilized to see the state through a downturn.

Out-migration and the impacts on property tax revenue are taken into account in the DOF’s projections related to revenue. The housing market is slowing, with some decline in home prices, but there is no projection of the kinds of declines we saw during the Great Recession.

IX. Closing Thoughts: Actions & Takeaways

Ruben Hernandez, Business Services Council President

- ELO-P will be placed on the next agenda.
- There were also questions about single-payer health care and whether there is any movement in this area.
- There was also a discussion about health care costs in general (PERS went up 10% last year and 15% this year; SISC is projecting 7-10%.)
- There was also a question about a bill that would require districts to charge for mental health services and bill insurance providers for those costs – Ron indicated that this may be incentive infrastructure funding that requires districts to partner with an MCO to access the funds but that this is not required.
- The group expressed concerns related to AB218, SAM liability, and the potential for fiscal insolvency related to claims.

X. Adjournment

2022-23 COUNCIL MEETING DATES

Date	Meeting | *Location*	Time
October 19, 2022 Wednesday	**Business Services Council Meeting** Virtual | Zoom	10:00 AM-1:15 PM
February 22, 2023 Wednesday	**Business Services Council Meeting** In-Person | Sacramento Office	10:00 AM-2:00 PM
May 24, 2023 Wednesday	**Business Services Council Meeting** In-Person | Sacramento Office	10:00 AM-2:00 PM

** Outlook calendar invites will be sent out for the BSC meetings.*

FYI: 2023 ACSA BUDGET WEBINARS

Date	Meeting | *Location*	Time
May 15, 2023 Monday	**Webinar: CA Governor's May Revision** * Budget is due May 14, 2023	3:00 PM-4:00 PM

** Webinar dates are tentative, depending on the date of release.*