State Budget Forecast

Edgar Cabral, Deputy Legislative Analyst: K-12 Education, Legislative Analyst Office

Mr. Cabral said that the main headline is, “Stay tuned one month from now!” The LAO believes that there will be an economic slowdown. The LAO’s Revenue Outlook from May reflected pre-recession scenarios in many indicators. With the Federal Reserve increasing interest rates, a slowdown is expected, and fluctuation in IPO’s and other business factors can have a significant impact on California’s revenues. The LAO published a blog post update on October 10 which said that, “our updated estimates suggest collections from the state’s “big three” taxes—personal income, sales, and corporation taxes—are likely to fall below the Budget Act assumption of $210 billion.”

The budget includes one-time expenditures that will provide some cushion to limit future budget reductions. This is estimated to be a $5.5 billion “cushion.” The state is also anticipating future declines in LCFF costs due to declining enrollment which would also help to avoid other reductions.

The LAO is expecting to receive information to inform COLA calculations in the coming days. The last update was in July, when the COLA was projected to be at historic levels, in the 7-8% range. Next week the LAO will receive data that will include information on 6 of the 8 quarters that impact COLA calculations. If revenues are lower and the COLA is high, there will be less funding available for discretionary programs.

There is some uncertainty related to the impact of property tax revenues. The LAO is adjusting its projections for property tax revenue and may be lowering its expectations in this area.

2022 Legislative Wrap-Up

Megan Baier, ACSA Legislative Advocate

The current year budget is one of the best education budgets in history. There was a historic COLA, provisions to limit loss related to COVID enrollment declines, and some relief in transportation funding with no new compliance requirements. In addition, there was an increase to special education funding. Policy changes were limited.

There was a big push on school safety. Many of the bills were misguided, and ACSA was able to advocate against these, including a bill that would have required a gun registry, another bill that would have required campus reviews of school safety and prescribed the membership of school safety teams (this will likely come back). It is critical that schools are able to include the right people in addressing safety threats. It is important to strike the right balance between safety and feasibility.

There was a bill that would have allowed minors to seek vaccines without parental consent, as well as one that would have required all employees to be vaccinated against COVID-19. ACSA is not seeing any new vaccine mandates. The Governor has officially lifted the state of emergency. ACSA has been a strong advocate for CDPH to align with CDC.

There was a bill that would have required all students to be bused to school without charging any fees; this also did not move forward. There was also a bill to require districts to transition to zero emission vehicles; Senator Portantino prevented this bill from moving forward. It is likely that this will come back.

There was a bill to remove the exemption from tenure laws for very small schools; ACSA was able to block this.

There was also a bill that protects both retirees and districts that was successful.

There was a bill that would have made kindergarten mandatory and another that would have required full day kindergarten. These proposals were vetoed by the Governor because there was not funding to support them. The Governor stated that the TK expansion was the priority and that implementing these other bills at the same time is not prudent. However, there will continue to be pressure to implement full day kindergarten.

SB 490, the Buy American Food Act, was signed by the Governor. This will prevent districts from purchasing non-domestic products. ACSA anticipates that this will cost hundreds of millions of dollars and asks that members provide data about increased costs and/or price gauging as a result in order to be able to provide advocacy related to the fiscal impact of this new law.

A question was asked about TK ratios and whether, for small school, it is permissible to have a multi-grade (e.g. TK-3) classroom that includes TK, as long as the 24:1/12:1 staffing ratio is in place. It was noted that there are restroom requirements but that these do not apply to existing facilities.

Political Landscape & Looking Forward

Iván Carrillo, ACSA Sr. Director of Policy & Governmental Relations
Diana Vu, ACSA Legislative Advocate
Iván provided an overview of the current climate, which will be heavily influenced by November elections as well as by census-related redistricting. There will be significant turnover in the legislature. This will bring opportunities but will also require significant education of new members. ACSA requests that BSC members work with any new local legislators in their areas early so that legislators can get to know them and learn from them. Iván provided ACSA's endorsements.

ACSA is monitoring state revenue reports and notes that there is cause for concern; the most recent reports show that revenue is approximately $7B behind projections. The state is in a much different place than during previous downturns due to the reserve levels that have been built up.

ACSA is in the process of developing its legislative platform and is looking for input from stakeholders. One priority is to protect what has been provided and to communicate that long-term fiscal challenges remain.

It was requested that ACSA continue to monitor the implementation of the universal meal program, with concerns related to the level of fiscal support on an ongoing basis. ACSA needs input if members are finding that state funding is not covering program costs. Requirements that districts be in CNIPS to be considered for the Kitchen Infrastructure program and that funding be allocated before projects can commence create challenges. There are delays in the CNIPS system, and some schools are not receiving timely reimbursement. Districts are also challenged by space limitations, including refrigerator, freezer, and warehouse space. Infrastructure grants are not large enough to support major facility work. Staffing shortages as well as high absenteeism are creating challenges, as are supply chain/supplier issues.

The Governor included a signing message in with the Buy American Bill recognizing that this would increase costs and that he would consider budget requests.

There were questions about requirements for air pollution control boards and local transit agencies to participate in transportation plan development committees. In order to access increased funds, a Board approved plan is required.

There is some nervousness in Sacramento surrounding the uncertainty in the budget, especially given the Governor's commitment to some larger programs. However, there is still significant volatility in the budget and it is too early to tell what will happen. Given current reserve levels and the amount of one-time expenditures, we should be able to withstand a mild recession, and impacts would likely not be felt next year but rather the year after that. ACSA is preparing to fight to protect the investments provided in the current budget, to maintain the commitment to the programs that are already in place, and not to add new programs.

Bargaining

Matt Phillips, CPA, Director, Management Consulting Services, School Services of California

The trend right now is that there is no trend. Settlements are all over the place. In Sonoma County, there are about 40 districts; most of these are small districts, with only a few over 2,000 students. One association is requesting an increase over over$10 to every cell, which works out to a 63% increase. Others are asking for 4%. Districts that settled before April 2022 typically settled for 3-5%; those that settled between April and July generally settled for 5-6.5%; since then, districts have been settling in the 7-12% range. In the past, bargaining units have worked to get an increase that equated to COLA. This has been upended due to the augmentation that was provided on top of the COLA. COLA is 6.56%, and the supplemental percentage is 6.7%. The additional 6.7% is intended to increase ongoing cost pressures - they can be used for salary, but should not be considered to be "part of" the COLA. Double digit salary settlements are cause for nervousness; 8% seems like a reasonable number.

There has not been a lot of pressure at the table to include Learning Recovery Emergency Block Grant dollars in settlements. There have been some questions related to the Arts, Music, and Instructional Materials Discretionary Block Grant. A plan is required, though CDE is not planning to put out a template for the plan. The key words in the title of the grant are "Discretionary Block Grant" - "operational costs" gives districts broad discretion. The intent is that expenditures be spread evenly across the five "buckets" (instructional materials, professional development, diverse book collections, operational costs, and COVID-19 related supplies), but this is not required.

Current statutory COLA projections are 6.56% (final) for 2022-23, 5.38% for 2023-24, and 4.02% for 2024-25. All signs indicate that the 5.38% projection for next year is low. If there is no additional inflation over the coming 3 quarters, the COLA will be 7.20%; with modest inflation (1.0%) it will be 8.82%; 10% is not an unrealistic scenario. However, there are questions about whether the state can afford this. A 1% COLA increase costs approximately $660M; a higher COLA will require a significant investment of state funds, which is challenging given current revenue projections. The state is currently over $7B below projections in revenue collections. This would reduce Prop 98 by $2.8B.

It was noted that in prior years, initial budget projections were very conservative, and enacted budgets have been consistently better than initial projections.

It was pointed out that it is important for educational partners to understand that the COLA is designed to pay for all increased costs, so it may not be possible to provide a salary increase that equates to COLA, depending on what other structural cost increases are inherent in a district's budget, and depending on how enrollment impacts a district's revenues. It was suggested that the COLA, offset by enrollment changes, might result in a very different "net COLA" than the statewide COLA percentage.

With regards to settlement timelines, it does not seem likely that things will get significantly better than they are now. Associations will likely want to settle as quickly as possible; management may want to wait.