FCMAT

FISCAL CRISIS & MANAGEMENT ASSISTANCE TEAM

The Three "Es" to Watch: Economy, Enrollment and ESSER

October 2023

V10/13

Economy

Broader Economy

- Economic growth is slowing
- Unemployment continues to be low but creeping up
  - US unemployment up .3% to 3.8% in August
  - California unemployment rate was unchanged in August at 4.6%
- Broad-based, persistent inflation continues to be a challenge
  - US headline inflation increased in August after 12 consecutive months of declines, to 3.7% (unadjusted annual)
  - US core inflation (excludes food and energy) decreased to 4.3% annually from 4.7% in July (lowest level since September 2021)

Broader Economy (Cont.)

- Federal reserve monetary tightening policies have had a positive impact on inflation
- California's economy is stronger than the national economy but has its own pluses and minuses
  - State revenues are stabilizing, trending higher than three-year budget
  - Personal income tax withholdings are modestly better than expected
  - California benefits disproportionately from federal investments
  - California import-export trade activity is down on monthly and annual basis
  - California housing continues to sputter with permits down on monthly and annual basis

Year-to-date Tax Collections are Stable

- Year-to-date are tracking to budget projections*
  - August collections were above projections in part due to timing differences
  - Personal income tax (PIT) withholding up 7.2% year over year and 4.8% higher cumulatively from May
  - Latest Legislative Analyst data shows trending higher than projected over three year budget window
- More than $42 billion in 2022-23 tax receipts was delayed until October 16
  - $28.4 billion in PIT
  - $13.3 billion in corporate taxes
  - Any shortfall could impact 2023-24, but for certain Proposition 98 in 2024-25
    - Proposition 98 Test 1, school funding is based on approximately 40% of state revenue from big three taxes

*Fiscal year 2023-24 data through August

Current Year Enacted Budget

- What's different in the 2023-24 enacted budget than the recent past?
  - The postponement of PIT and corporate tax returns until October makes this year's budget the riskiest in over a decade
  - Creates an operating deficit for Proposition 98 by using one-time funds to support recurring obligations that will cause hurdles for 2024-25
  - Reduces one-time program funding that was already apportioned to local educational agencies (LEAs) with intent language to restore in the future
  - The crumble zone of past budget architecture is absent
  - Higher than normal cost of living adjustment (COLA) that resets to more normal level in the outyears – currently estimating 2 - 3%

Proposition 98 Reminders

- Securely in test 1 – estimated 40% of state revenues
  - Average daily attendance (ADA) drops don't affect test 1, but do affect test 2 and 3
  - Property tax revenue increases affect test 1, but not test 2 and 3 minimum guarantee levels
  - Proposition 98 spike protection further entrenches test 1
    - General fund revenue increases in excess of 1.5% of test 1 are excluded from test 2 and 3 calculations
- 2024-25 COLA trending downward toward 2% range based on five of the eight data points currently available

How Do I Plan?

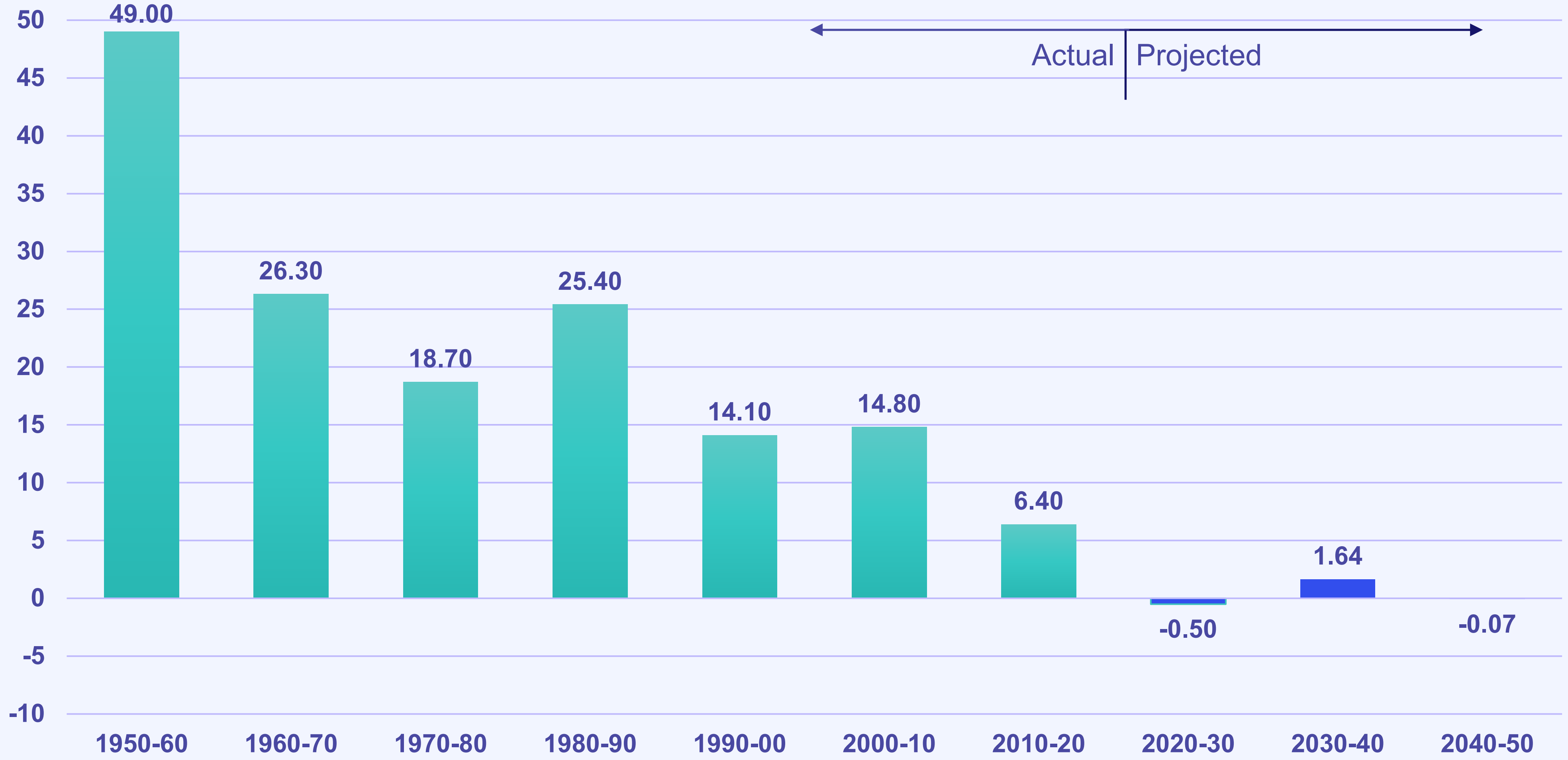
- Tax collections through August are too early to assess Proposition 98 impacts, but trending up
- Economic data is more stable than a year ago, but slowing economy is evident
- Monitor the economy and state revenue closely
  - Use remaining one-time resources strategically, balanced among short- and long-term needs, general fiscal conditions, MYP indicators, tolerance for risk
  - Update MYP regularly, craft multiple scenarios for enrollment / ADA, COLA, unduplicated pupil count / percentage (UPC/P)
  - Be strategic and thoughtful about out year commitments

Enrollment

The Big Picture: Declining Population

- California's population is declining
  - Population declined during the pandemic – first time in history
  - Before and after the pandemic, the rate of population growth has slowed
- Birthrates are down
  - Total fertility rate (TFR) is below levels considered necessary to maintain the population
- Net migration is down, fluctuating between net migration in and out

Percentage of Growth of California Population

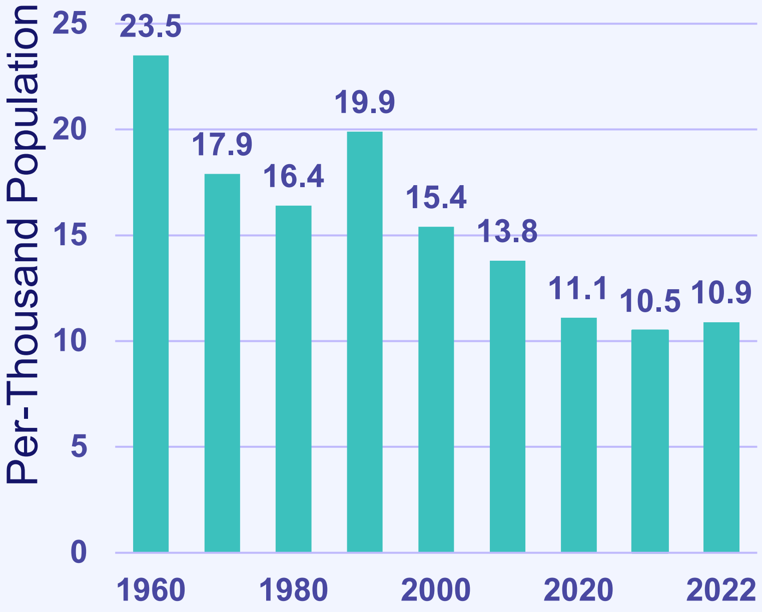


Percent change from prior decade

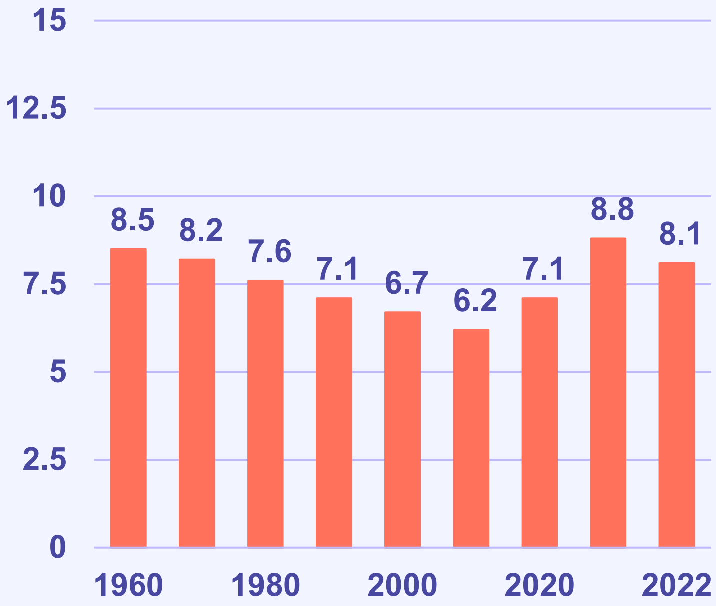
Source: CA Department of Finance

Population Component Changes

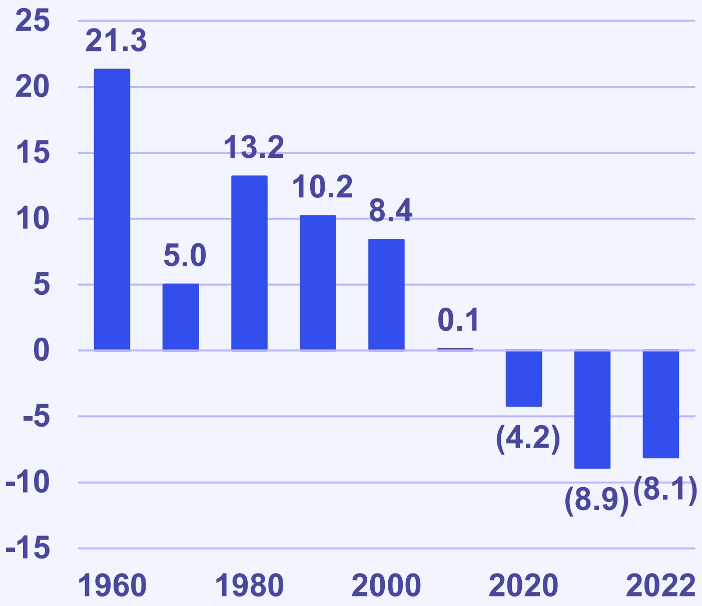
Crude Birth Rate



Crude Death Rate



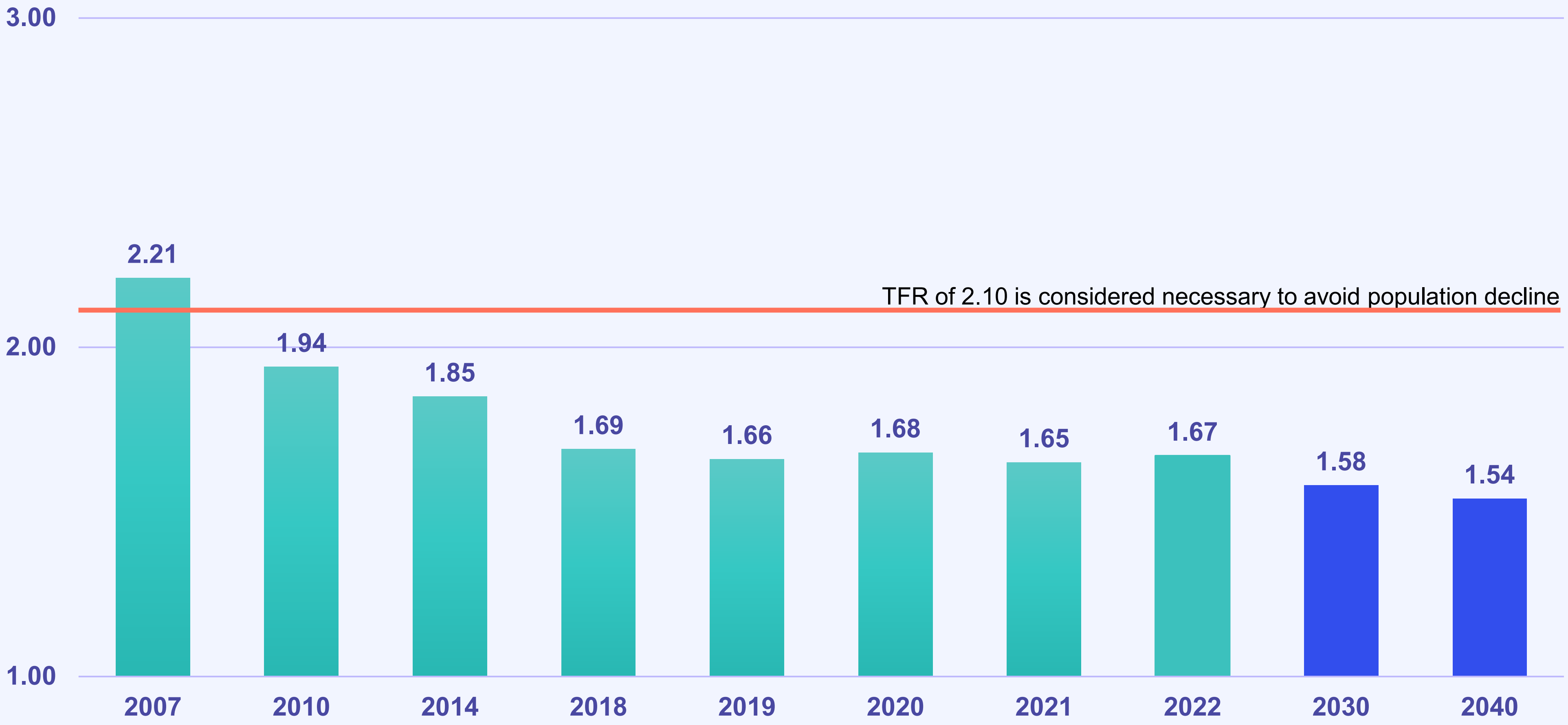
Crude Migration Rate



Crude rates reflect the number of events divided by the total population multiplied by 1,000 to reflect events per 1,000 population

Source: CA Department of Finance

Total Fertility Rates (TFR)



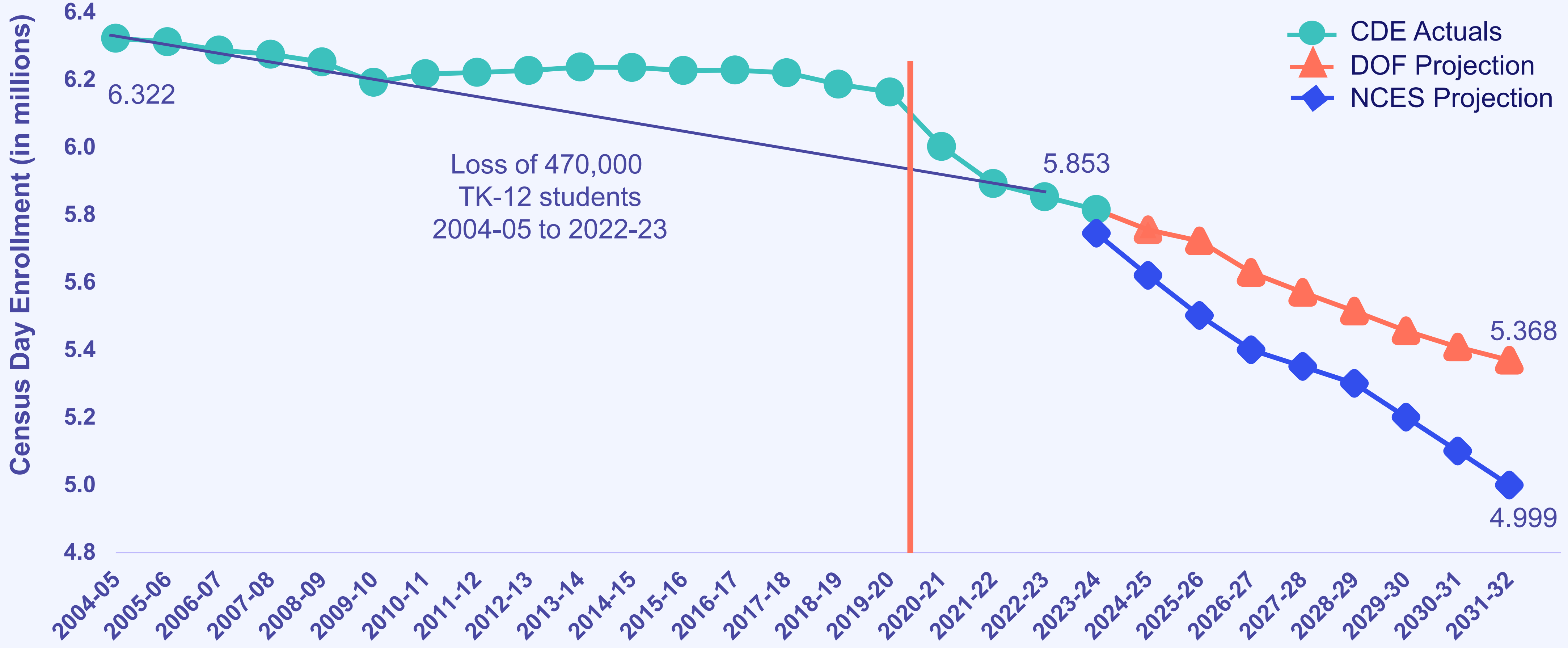
TFR represents the average number of children per woman over their reproductive lives

Source: CA Department of Finance

Migration is a Contributing Factor

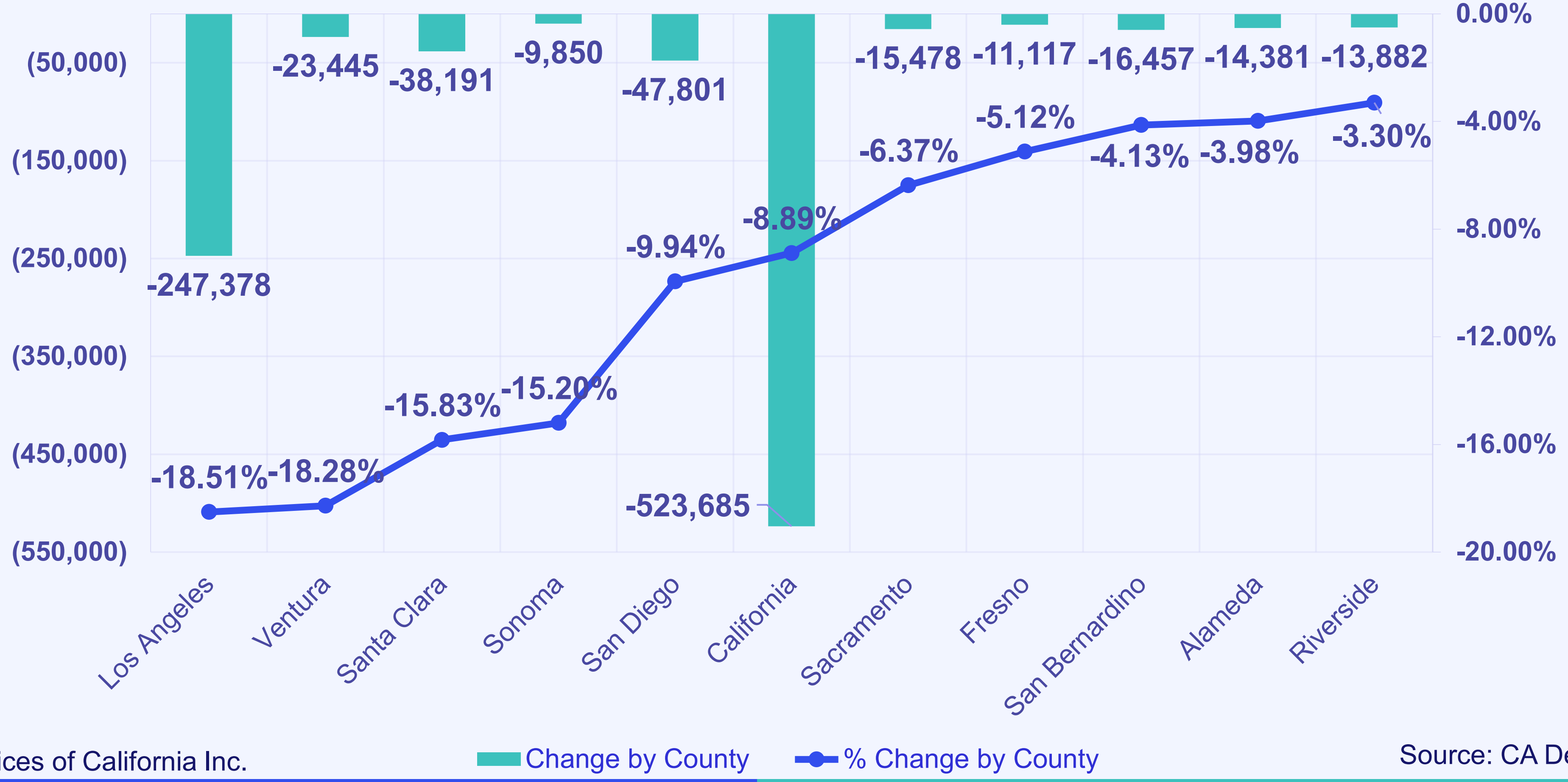
- Migration of school-age population contributes to TK-12 enrollment declines
- School-age migration out of California is not new but accelerated in 2020 and 2021 – more than doubling the 2019 level, and exceeding 2006 levels
- Previous outmigration was offset in part by international immigration to California, but that has slowed
- California is still an attractive destination, but those moving here are more likely to be working age, employed, have higher education levels and earning high wages – concentrated among young college graduates without school-age children

Declining TK-12 Enrollment is Not New



Source: CA Department of Education (CDE), CA Department of Finance (DOF), National Center for Education Statistics (NCES)

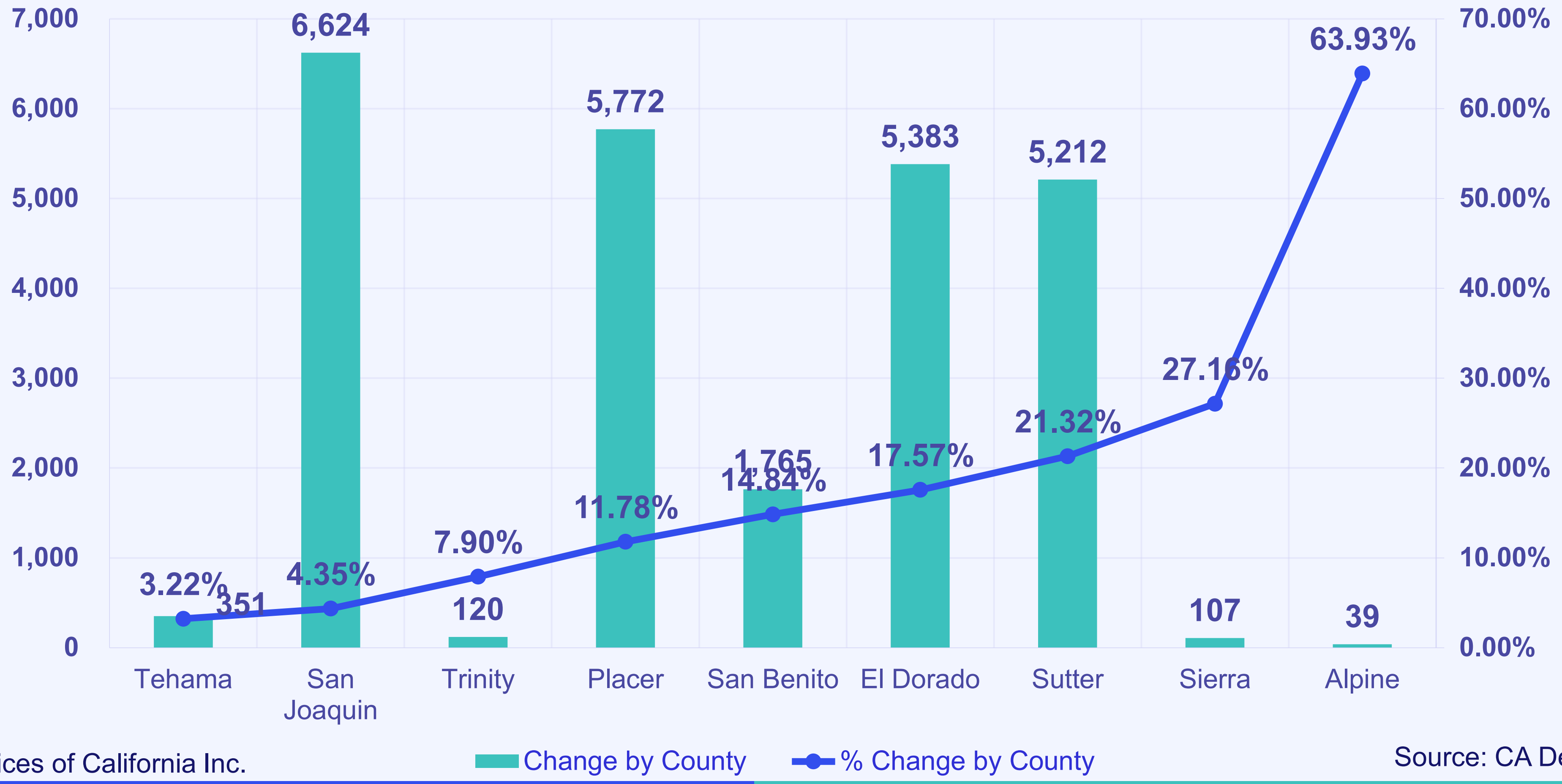
Change in School-Age Population from 2021-22 to 2031-32 – Selected Declines



Adapted from School Services of California Inc.

Source: CA Department of Finance

Change in School Age-Population from 2021-22 to 2031-30 – Selected Increases



Adapted from School Services of California Inc.

Source: CA Department of Finance

Declining Enrollment has Program Implications

- Historical and projected declines are higher in counties with larger student populations of English learners, low-income families and students with disabilities
- The largest decline during the pandemic was kindergarten (-13.13% in 2020-21), but it is also the grade with the largest growth since
- While school closures and campus repurposing have been minimal so far, the accumulated impact of continued enrollment declines will put pressure on districts to consider closures, consolidations and repurposing
  - Prompting concern about equity
- Declines will impact UPC/P, which has program funding implications in the Local Control Funding Formula

Financial Impacts of Declining Enrollment

- Use your multiyear projection to identify the timing and size of the impact
  - Average daily attendance drives revenue – revenues will flatten or decline
  - Enrollment drives expenditures – expenditures will increase

Loss of 120 students = 113 ADA @ $13,560 per ADA

Lost revenue:	**$1,532,280**

Loss of 120 students @ 24:1 staffing = 5 teachers @ $87,748 per teacher
Miscellaneous costs @ $500 per student

Teacher savings:	**$438,739**
Miscellaneous savings:	**$60,000**
Total savings:	**$498,739**

Deficit from scenario is $1,033,541 or 67% of lost revenue. This necessitates other reductions to programs, operational costs and other staff to make up the difference.

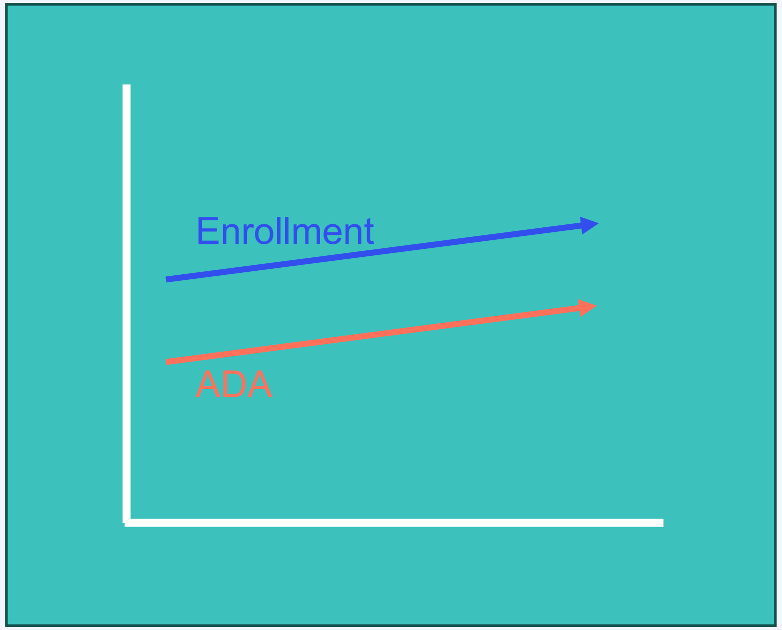
Adapted from School Services of California, Inc.

Strategies For Declining Enrollment

- Know and understand your local and regional data and trends
  - Each LEA has a unique story about community, enrollment, programs, competition, causes and opportunities
  - What, how, who and when?
- Be strategic about your approach, and be intentional about collaboration between business and human resources
  - Know your staffing: attrition, temporary and nonclassroom assignments, forecast
  - ADA mitigation slowed the impact, but there is not a hold harmless and there will be an impact beginning in 2024-25
- Act early

Traditional Enrollment and ADA Projections

- Enrollment and ADA are related
- Traditionally:
  - Enrollment and ADA have trended in the same direction – growing or declining
  - Enrollment is projected based on numerous considerations, but primarily using a form of cohort survival
  - ADA is projected as a factor of enrollment based on historical enrollment-to-attendance yields

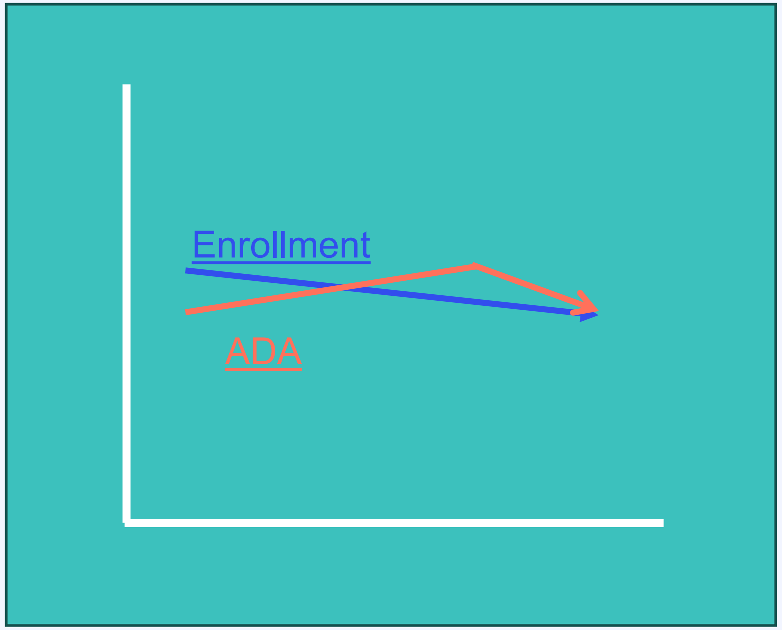


Current Enrollment and ADA Projections

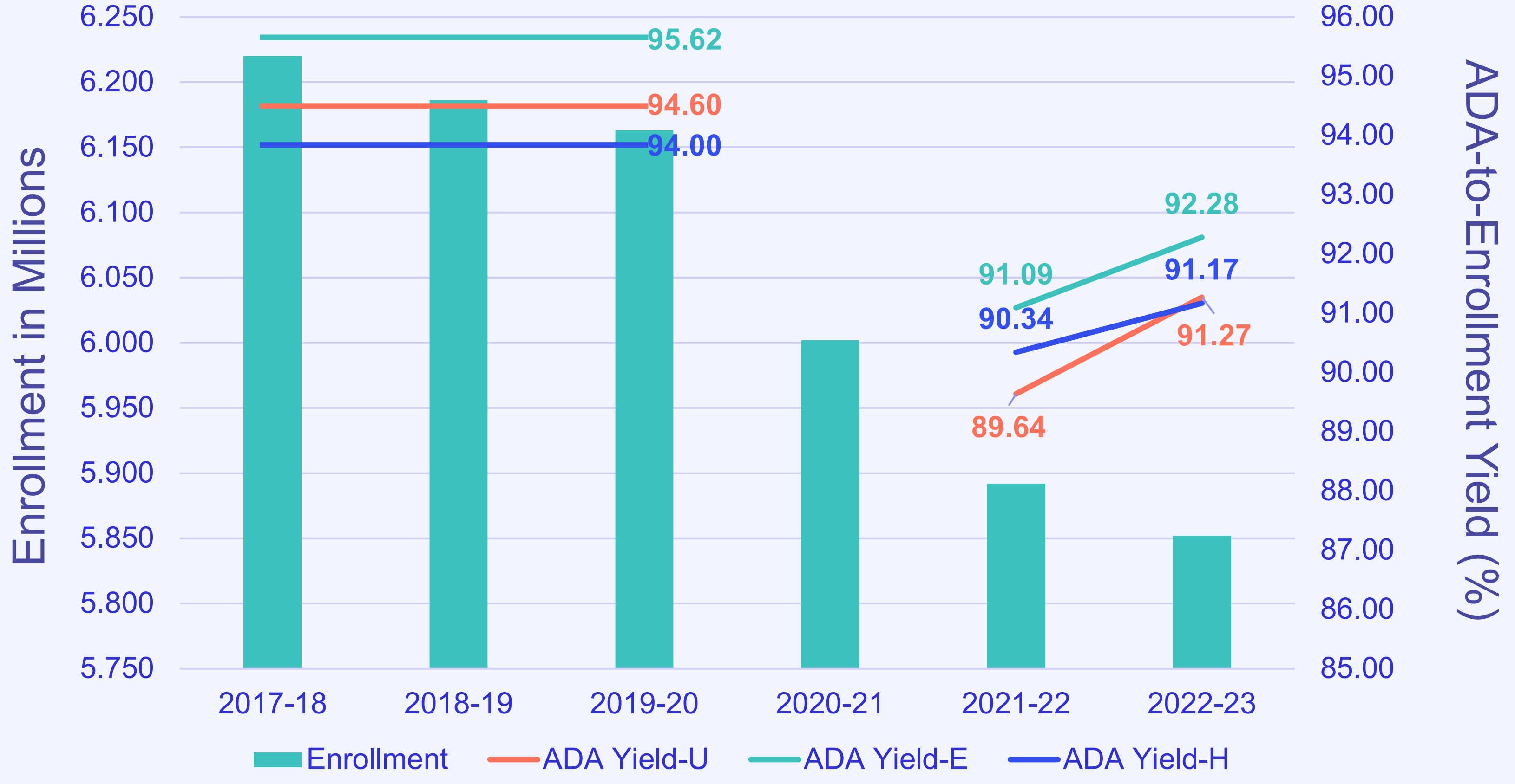
- Enrollment and ADA remain related, but…
- Currently:
  - Enrollment projections are performed the same, with added focus and consideration on local birthrate and migration factors, housing and community employment data
  - Pandemic-era factors are influencing ADA
    - Higher rates of absenteeism; chronic absences are at all time highs
    - Change in ADA computation for apportionment purposes to higher of current, prior or average of three most recent years
      - Prepandemic ADA influences average in 2023-24, but only pandemic-era and post-pandemic influences 2024-25 and beyond

Current Enrollment and ADA Projections (Cont.)

- There are different impacts, and to varying degrees, on enrollment and ADA
  - Enrollment is declining statewide and in over 70% of LEAs
  - ADA may be increasing due to efforts to reestablish prepandemic attendance patterns
  - In 2024-25, funded ADA may drop at faster rate than enrollment is declining



Recent Enrollment and ADA Yield Comparison

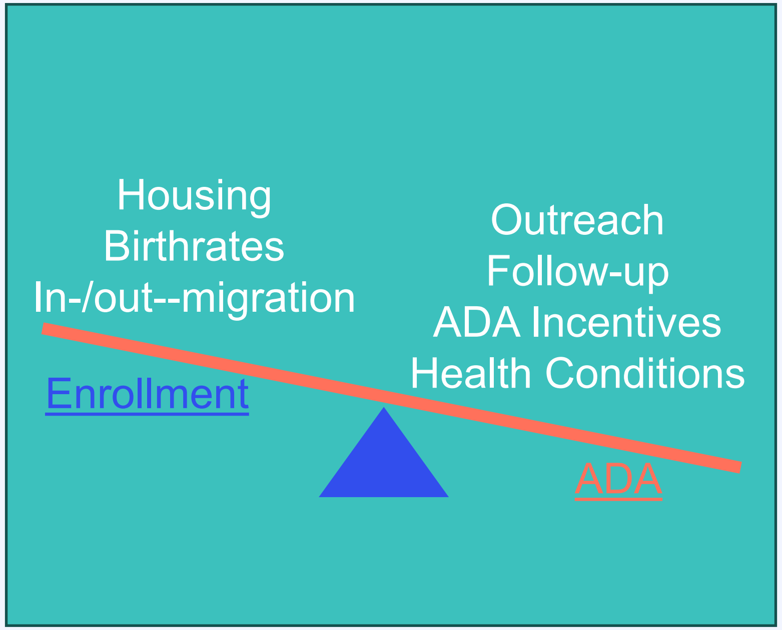


2017-18 to 2019-20 ADA yields are three-year averages;
No ADA was reported in 2020-21

U = unified districts, E = elementary districts, H = high school districts

Anchor Enrollment and ADA Separately

- Project enrollment
- Project ADA
  - But not purely based on the traditional relationship of enrollment to attendance yield
- If the outcome of the two thoughtful projections trend differently from one another
  - Don’t freak out!
  - May cause an exception on the standards and criteria, but simply explain the difference with data; don’t force alignment or a false data point



ESSER

Federal Stimulus Funds

- Federal funding to LEAs through the Elementary and Secondary School Emergency Relief (ESSER) Fund and Governor's Emergency Education Relief (GEER) Fund to address the impact of COVID-19 on elementary and secondary schools
  - Coronavirus Aid, Relief and Economic Security (CARES) Act
    - **ESSER I** and **GEER I** - $2.0B
  - Coronavirus Response and Relief Supplemental Apportions (CRRSA) Act
    - **ESSER II** and **GEER II** - $7.1B
  - American Rescue Plan (ARP) Act
    - **ESSER III** - $15.1B
  - State Expanded Learning Opportunities Grant (**ELO-G**) includes ESSER II and III and GEER II funds

$ shown are allocations to California

Allowable Uses

- Wide range of activities to address diverse needs arising from or exacerbated by COVID-19, or to emerge stronger post-pandemic, including responding to students' social, emotional, mental health and academic needs and continuing to provide educational services

Stimulus Funds Expiration Schedule

Fund	SACS Resource	Allocation	Unexpended To Date	Date Expires
ESSER II	3212	$6.03B	8.42%	9/30/2023
ELO-G (ESSER II)	3216	$670.2M	15.09%	9/30/2023
ELO-G (GEER II)	3217	$153.2M	20.43%	9/30/2023
ESSER III	3213 / 3214	$13.57B	53.52% / 53.06%	9/30/2024
ELO-G (ESSER III Emg)	3218	$437.2M	39.66%	9/30/2024
ELO-G (ESSER III LL)	3219	$753.9M	48.85%	9/30/2024
Homeless Children & Youth II	5634	$55.2M	76.80%	9/30/2024

Source: California Department of Education (CDE), Through June 30, 2023

Implications From Expiring Funds

- Monitoring of spend rates by month, and in some cases by week, as deadline approaches
  - ESSER II and September 2023 deadline is past, should be able to transfer ESSER III expenditures to fill in any gaps for a one hundred percent spend
  - ESSER III and September 2024 deadline has limited flexibility to hit the target
  - Consider ESSER III plan alignment and revise the plan as necessary
- Know what staff are assigned to one-time funding sources
  - Early decisions about the disposition of these staff are essential – reassign, layoff
  - March 15 deadline is unforgiving; the earlier you decide the better for all
- Open commitments (purchases that have not been received) may require modifications as deadline approaches

Thank you!