The Three “Es” to Watch: Economy, Enrollment and ESSER

October 2023
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

- Actual growth rates for different decades:
  - 1950-60: 49.00%
  - 1960-70: 26.30%
  - 1970-80: 18.70%
  - 1980-90: 25.40%
  - 1990-00: 14.10%
  - 2000-10: 14.80%
  - 2010-20: 6.40%
  - Projected growth rates for future decades:
    - 2020-30: -0.50%
    - 2030-40: 1.64%
    - 2040-50: -0.07%

Source: CA Department of Finance

Percent change from prior decade
Population Component Changes

Crude Birth Rate

- 1960: 23.5
- 1980: 17.9
- 2000: 19.9
- 2020: 16.4
- 2022: 15.4

Crude Death Rate

- 1960: 8.5
- 1980: 8.2
- 2000: 7.6
- 2020: 7.1
- 2022: 8.1

Crude Migration Rate

- 1960: 21.3
- 1980: 5.0
- 2000: 13.2
- 2020: 10.2
- 2022: 8.4

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 of 2.10 is considered necessary to avoid population decline.

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

Loss of 470,000 TK-12 students 2004-05 to 2022-23

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
      - Pre-pandemic 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

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

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!