Where do we go from here?

Business and Administrative Services Committee (BASC)
AB 1200 Conference
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Let Us Explore…

- We are somewhere along the journey through the pandemic – not at the beginning and certainly not at the end
- State and federal budgets have showered significant one-time pandemic relief funds on local educational agencies
- The state appears to have, at least temporarily, resurrected categorical programs
- Current year revenues are tracking higher than projected
- Independent study is no longer the quiet program in the far reaches of the district, but is squarely in the crosshairs
- Most districts are experiencing declines in student enrollment
Let Us Explore…

• How is your county approaching the reserve cap?
• How do we guide planning for 2022-23 and beyond?
• How should our review of budgets and interim reports change?

• As we explore and go about our daily work, let’s not forget the context we are operating in this year
What’s different than normal?
- State and local public health
- Recall campaign and regular Nov 2022 election cycle
- An enormous infusion of state and federal dollars – much of it for specific purposes
- Increasingly divisive communities
- Virtual learning influences
Looking Back, Dramatic Improvement Was The Budget Theme

• Revised three-year revenue forecast
  • Revised upward at each major milestone in the 2021-22 budget cycle
  • More than $18.3B from January to enacted budget
• Significant state and federal pandemic-related funding
• New budget uses one-time investments as a hedge against slower growth
• Declining enrollment trends threaten LEA stability
Numerous One-Time Investments

• To hedge against outyear slower Proposition 98 growth, governor’s budget proposal includes numerous one-time investments

• No one can argue about the list, but nothing of significance on the list is one-time in nature if done well

• State is spending 65% and 69%, of K-12 and community college resources, respectively, on one-time programs

• Categorical programs are all about state policy priorities, and the overarching tension around topics like accountability, local control, special interests, unrestricted funds, and maybe election season – usually driven by the availability of a poopload of money
Looking Ahead, Reserved Growth Is The Likely Theme

• Year-to-date August state general fund revenues are beating estimates in the enacted budget by $8.31B (includes May and June 2021)
• Forecasted cost-of-living-adjustments (COLAs) are likely conservative, especially in the early years of the projection period and the influence of rising inflation
• UCLA economic forecast uses words like stable and unspectacular
• Proposition 98 Test 1 – a flat percent of general fund revenues – appears safe for the near term
  • Test 1 is not influenced by changes in average daily attendance (ADA), resulting in higher per-ADA funding level
Looking Ahead, Reserved Growth Is The Likely Theme (Cont.)

• But lots of options on how those added per-ADA funds are apportioned
• Don’t jump to conclusions… let the policy, budget and political process unfold (it’s another election year!)
Declining Population Impacts Enrollment

- California lost population for the first time in state history
  - Birthrates are down further, death rates are up, net migration is down
  - PPIC estimates that total fertility rate (TFR) for 2020 is 1.52, down from 2.20 in 2007; a TFR of 2.1 is considered necessary to avoid population decline
  - Fewer teen pregnancies, higher college going rates, college debt, housing costs and broader economics – such as the struggle of young adults to establish financial independence and their own households – all contribute
    - Average age for first marriage for women has surpassed 30 for first time
    - Percent of women in 20s living with parents is 46%
    - Percent of men in 20s living with parents is 51%
Lots of Talk About Migration Out

• Based on early analysis of 2020 census data, the Public Policy Institute of California (PPIC) reports
  • International immigration has slowed, but generating interest is the large migration out of California to other states
  • During the past decade, 6.1 million people moved to other states, while only 4.9 million moved to California from other states
    • Those that move here are more likely to be working age, employed, have higher education levels and earning high wages – concentrated among young college graduates
    • Those that left California cited jobs (49%), housing (23%), or family (29%) as the primary reason
Percentage of Growth of Calif Population

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Declining Enrollment Trends

• Over 60% of California’s traditional public schools are experiencing declining enrollment
  • Between 2018-19 and 2020-21, noncharter enrollment dropped in every county except one, and that county grew by only .7%
  • Overall, charter schools are growing – now serving 12% of student population
• Kindergarten enrollment averages around 8.5%, but in 2020-21 it represented only 7.7%, the lowest share of enrollment in a decade
• The 10-year (2030-31) forecast of enrollment projects a loss of more than 542,000 students, or 9.03%, with 19 counties declining at a rate greater than the statewide average
Was the Pandemic a Bust or a BIG BUST?

- Pandemic appeared to present short-term spikes in the decline, mainly at lower grades, but...
  - What do current numbers show?
  - Is the pandemic drop short-term or longer-term?
- Headlines
  - “Marin school enrollment down 5% for 2021-22” (IJ, 9/28)
  - “L.A. Unified enrollment drops by more than 27,000 students, steepest decline in years” (LAT, 9/28)
  - “Back at school, some districts struggle with attendance” (Monterey Herald, 10/9)
Local Attention

• While the state trends tell a story, LEAs must focus on their own data
  • Know the data from your community, your region
  • Understand why you have declining enrollment
    • Take action to correct / mitigate those reasons you have control over
  • Understand the revenue / cost relationship applicable to declining enrollment
    • 35-40 cents in direct services – teachers, aides, school site
    • 60-65 cents in indirect services – all other
  • Act early
    • The longer you wait to act, the more painful the adjustment will be
Potential Solutions for Declining ADA

• State budget policy proposals are still a few months away
• There is a heightened awareness of declining enrollment trends
• Is it the number one policy and fiscal consideration for schools?
  • The good news is that when a majority of LEAs share a condition, you can get traction around a common solution / mitigation
• Declining enrollment also brings opportunities
  • Expanded Transitional Kindergarten, early childhood ed programs, etc.
Reserve Cap

• Start by sorting out the 3% and the 10% - often a point of confusion
  • 3% is the threshold of the Proposition 98 reserve (PSSSA) amount compared to total Proposition 98 funding for K-12
  • When the 3% threshold is met, it triggers the applicability of the 10% cap to local district combined assigned and unassigned reserves
• The 3% will be met in the current year, triggering the applicability of the 10% cap in 2022-23
• While likely a tad higher now, in November 2020, the LAO estimated that 129 medium and large districts would be subject to the cap as a result of reserves exceeding 10% of expenditures – forecasted at $1.3B or about one-third of the reserves held by these districts
Reserve Cap

• What are the options for districts?
  • Spend down their reserves
  • Ask the county superintendent for a temporary waiver
  • Reclassify their reserves to avoid the 10% limitation
• What is your county superintendent’s position on waivers?
• FCMAT’s advice is to reclassify reserves to committed funds
  • GASB 54 board policy – pay attention to process and timeline
Reserve Cap

• Examples of commitments that most districts can make – list is endless
  • Supplemental and concentration grant funding to support LCAP
  • Technology refresh
  • Deferred maintenance
  • Deficit spending mitigation measures
  • Equipment replacement
  • Textbook adoption
  • Pension obligations
  • Declining enrollment
Independent Study in the Crosshairs

- Changes to independent study are not rocket science
  - Maybe a bit different than the past, with recognition there were not many topic experts to begin with
- The overarching guide is to do what’s right for students
- Go back and ensure recordkeeping is in place and recorded as prescribed
  - This doesn’t mean go back and create records, but corrections may be appropriate
- Consult with auditors early in planning and implementation to ensure they are on board with your approach
- The state is not in a gotcha mode and truly doesn’t want apportionments back, but follow the rules and ensure learning continuity for students
Funding Cliff

• Does Newton’s law of motion regarding gravity apply to everything?
  • Pandemic ADA hold harmless has expired, under current law funded ADA in 2022-23 will be the higher of 2021-22 or 2022-23 (the long-standing formula)
  • Unduplicated pupil counts were not held harmless, but are affected by both enrollment declines and universal meal programs
  • Employer contributions to pensions are scheduled to increase with the end of a two-year relief provision
  • Current year independent study provisions are designed for one year
  • Pace of one-time spending compared to need and staffing commitments
  • Considerations for maintenance of effort – formal and informal
Questions to Consider at First Interim

• What is the status of one-time funds?
  • What is the program delivery plan?
  • Where is the district according to plan?
  • Normally one-time funds should be used on one-time needs – where is that not happening?
  • What’s the exit plan when the funds run out?
• What are the district’s reserve levels?
  • Equally important, how are they designated?
  • What level of detail and supporting documentation exists to indicate the district’s perspective on their reserves?
Questions to Consider at First Interim (Cont.)

- Enrollment and ADA trends
  - What is the enrollment trend over the past and upcoming three years?
  - What grades are being affected the most?
  - Are historical relationships between enrollment and ADA being maintained?
  - Is there a quarantine / independent study influence that needs to be researched and corrected?
- Unduplicated Pupil Percentage (UPP)
  - What efforts are being made to identify meal eligibly students?
    - 1% down can ruin your whole day
Questions to Consider at First Interim (Cont.)

• Is the district following basic budgeting principles?
  • Consider all funds and sources in developing a financial plan that supports the instructional plan
  • Always use the most restricted resources first; keeping in mind that restrictions come in a variety of flavors – eligible uses, deadlines to spend
  • Look for opportunities to mix and match funding resources to accomplish the goal
AB 1200 Reviews (Cont.)

• Multiyear Financial Projections (MYP)
  • Routinely prepare alternative MYPs that show the fiscal impact of different budget assumptions through each year of the projection period
  • Recommend that for 2021-22 LEAs produce a minimum of two MYPs: one reflective of current circumstances, one with all the pandemic one-time funds removed
  • Pay close attention to the structural environment – the recurring portions of the projection, keeping your eye on the ball one, two and three years out
  • If needed, develop an expenditure reduction plan that can be implemented in a timely manner
Questions
Thank you!