

SCOE BIZ

Business Services

Bulletin No. 23-12

January 26, 2023

To: District and Charter Business Services
From: Sarah Lampenfeld, Director, External Fiscal Services
Subject: January 2023 Edition

Governor's Proposed Budget

On January 10, 2023, the Governor released his proposed State Budget for the upcoming 2023-2024 fiscal year. Governor Newsom's State Budget proposal assumes a slowing of the economy but still growing at the national and state level. The Budget includes a form of risk and uncertainty by proposing to utilize \$1.4 billion in one-time funds to increase LCFF funding, as well as, a mid-year cut of \$1.2 billion to the \$3.5 billion appropriated to the Arts, Music, and Instructional Material Discretionary Block Grant. Some of the major 2023-24 proposed budget components include:

- ✚ 8.13% statutory COLA, applied to the base grants and other education programs funded outside of the LCFF, such as: Special Education, Child Nutrition, and Mandated Block Grant.
- ✚ \$300 million for Equity Multiplier
 - Additional funds for the LCFF intended to close equity gaps based on the percentage of students eligible for federal free meal program by school site. (Percentages: High schools serving at least 85% and Elementary and middle schools serving at least 90%)
- ✚ \$250 million in one-time funds for the literacy Coaches and Reading Specialists Grant Program.
- ✚ Proposed mid-year reduction of \$1.2 billion to Arts, Music, and Instructional Material Discretionary Block Grant.
 - CDE will still send 100% of the allocation for 2022-23; however, it's recommended LEAs hold a third of the funds for possible reduction.
- ✚ Special Education – proposed limit on the amount of additional funding that SELPAs are allowed to retain for non-direct student services before allocating special education base funds to their member LEAs. Waiting on trailer bill for details.

The proposal reduces prior-year deposits to the Proposition 98 Reserves for 2021-22 and 2022-23 by \$278 million and \$1.1 billion, respectively, and assumes a required deposit of \$365 million in 2023-24. Based on the changes, the Proposition 98 reserve balance is greater than 3% of K-12's portion of the minimum guarantee. Thereby, **the cap on non-basic aid school districts with ADA greater than 2,500 remains in effective in fiscal year 2023-24.**

2nd Interim Guidance & Common Message

A separate SCOE Biz containing 2nd Interim guidance and required submissions will be e-mailed out to all business contacts the first week of February, along with the Common Message for 2nd Interim. SCOE will be analyzing fiscal stability of each LEA using the updated assumptions included with the Governor's 2023-24 Proposed Budget.

The School Services of California Dashboard is attached for your reference.

ESSA PPE Reporting

CDE's web-based application for LEAs to submit Every Student Succeeds Act Per-Pupil Expenditures (ESSA PPE) is now available. Login information for the application was sent to each LEA Superintendent and Administrators of direct-funded charter schools listed in the California School Directory in mid-November. **LEAs are expected to submit data to the CDE no later than March 1, 2023.**

Transportation Funding







On December 23rd, CDE updated the Home-to-School Transportation Reimbursement web page, which includes FAQs. The funding implemented by Assembly Bill (AB) 181 and amended by AB 185, provides funding for school districts and county offices of education based on the prior year's eligible transportation expenditures and prior year LCFF transportation add-on funding. Funds will flow through principal apportionment beginning with the 2022-23 Second Principal Apportionment certification (June 2023).

Each school district offering transportation and receiving the funds must adopt a Transportation Plan on or before April 1, 2023. The first year's plan due in April 2023 is intended to address both the current transportation program in 2022-23 and the plan describing the prioritized transportation services it will offer to its identified pupils in fiscal year 2023-24. Only the first year's plan would address two years.

Sonoma County Transportation estimates and template (created based on Ventura COE's template) can be found [here](#).

Federal Cash Management Data Collection (CMDC)

The data collection window for the Federal Cash Management Data Collection (CMDC) System is open. You may report your data at any time during this period. **LEAs must submit cash balance data by January 31st** for the following programs in order to receive funds in the next apportionment for those programs (if you are a Title III Consortium LEA, your cash apportionments flow based on the total combined reporting for all Consortium LEAs):

-  Title I, Part A
-  Title I, Part D
-  Title II, Part A
-  Title III, Immigrant
-  Title III, LEP
-  Title IV

Note: The cash balance is to be reported regardless of the fiscal year from which the funds originated. CMDC information, including instructions, future reporting dates, FAQs, and Login can be found at the CDE Web site <http://www.cde.ca.gov/fg/aa/cm/>.

Federal Quarterly Interest Reporting (due January 31st)

CDE federal program grantees are required to report and remit interest to the CDE at least quarterly. Although grantees are allowed to keep interest amounts up to \$500 per year for administrative purposes, the \$500 is in total for all federal programs, not for each federal program. When reporting and remitting federal interest to the CDE, grantees should specify the time period of interest earning and the federal program resource codes. Interest on federal cash balances should be sent to the CDE at the following address:

California Department of Education
P.O. Box 515006
Sacramento, CA 95851
Attention: Cashier's Office

If no \$ to Remit Email:
cashmanagement@cde.ca.gov

The CDE requests LEAs submit documentation regarding the calculations and the interest rate used. Documentation (once available) for the **current quarter's rate of 1.446%** can be found at <https://sonomacounty.ca.gov/administrative-support-and-fiscal-services/auditor-controller-treasurer-tax-collector/divisions/treasury/publications/interest-apportionment>. A complete list of federally reimbursable programs that should be EXCLUDED from your interest calculations can be found at <https://www.cde.ca.gov/fg/ac/co/reimbursableprograms.asp>. A good report to use for documenting your calculations is the Fiscal24 Resource Cash daily balances. You will need to enter the reporting period (quarter dates), interest rate for the quarter, and specific federal resources you would like to include in the calculation. **Title I, II, III, IV, ELOG (resources 3216, 3217, 3218 and 3219 only), and ESSER II, and III would need to be included, but you may have other non-reimbursable programs.**

CARS – Consolidated Application and Reporting System

The CARS Winter Release of data collections is set to open soon. The deadline for data certification is normally six (6) weeks from the open date. Stay tuned for system availability.

The CDE offers a training webinar for new users, Navigating CARS. The webinar can be accessed at <https://www.cde.ca.gov/fg/aa/co/cars.asp>. Details on changes in reporting for the Winter Release can be found at the same link.

The Fiscal Advisor team will be hosting a CARS workshop on February 15th 8:30 am -10:00 am. This will be a working session to allow CBOs to work and ask questions of the advisor team, if needed.

Minimum Wage Increase

In California, the 2023 minimum wage rate of **\$15.50** an hour for businesses took effect on January 1st regardless of the size of the business. Please find attached SSC's November 10th Fiscal Report on the Minimum Wage Increases Effective January 1, 2023.

Note that Sonoma County Living Wage Ordinance is codified in the Sonoma Municipal Code. Per SCLS, it requires that all "covered employers" comply with the living wage standards. The Code specifically exempts from "covered employers" the following: "Government agencies, including, without limitation, cities, other counties, and state agencies." School districts are

sovereign government entities separate from the County, and are therefore exempt from the ordinance.

IRS Standard Mileage Rate for 2023

Beginning January 1, 2023, the mileage reimbursement rate for business travel is 65.5 cents per mile (up from 62.5 cents in 2022).

Bid Limit Increased for 2023

Effective January 1, 2023, the bid threshold limit for non-construction, competitively bid contracts has increased to \$109,300. This higher bid limit only applies to 1) the purchase of equipment, materials and supplies to furnished, sold, or leased to the school district; 2) services, except construction services; and 3) repairs, including maintenance as defined in Public Contract Code section 20115. Note: The \$15,000 threshold for construction services/public works projects has not changed. CDE's notification letter can be found [here](#).

Transitional Kindergarten FAQs

In Mid-December, CDE posted new Transitional Kindergarten FAQs that focus on issues that impact funding. The FAQs can be found [here](#).

Summer Assistance Program grant

The Classified School Employee Summer Assistance Program (CSESAP) provides up to a dollar for dollar match on amounts withheld from a participating local educational agency's (LEA's) classified school employees' monthly paychecks during the 2023-24 school year. The classified employees' pay withheld and the state match funds will be paid by LEAs to the LEA's eligible employees in the summer months following the 2023-24 school year.

School districts and county offices of education that elect to participate must notify their classified school employees by January 1, 2023, and **the California Department of Education (CDE) by April 3, 2023**. More information can be found on the CDE webpage at <https://www.cde.ca.gov/fg/aa/ca/csesap.asp>. A summary of key dates and requirements that LEAs need to be aware of in implementing the program if the LEA decides to participate in FY24 can be found [here](#).

REMINDERS:

Contact Information and Helpful Web links

- ✚ Stay informed by *joining* CDE's listservs:
 - PASE: join-pase-contacts@mlist.cde.ca.gov(send a blank email)
 - LCFF: join-LCFF-list@mlist.cde.ca.gov(send a blank email)
 - CALPADS: <http://www.cde.ca.gov/ds/sp/cl/listservs.asp>
- ✚ LCFF Information (Funding Overview, FAQs, etc.): <http://www.cde.ca.gov/fg/aa/lc/>
- ✚ LCFF Audit Finding Calculator and Derived Value of ADA: <http://www.cde.ca.gov/fg/au/ag/statecomp.asp>
- ✚ EPA FAQs <http://www.cde.ca.gov/fg/aa/pa/pafaq.asp>
- ✚ Funding Rates and Information ~ Principal Apportionment:
 - <https://www.cde.ca.gov/fg/aa/pa/ratesandinfo.asp>

Determination of Funding Requests for Fiscal Year 2022-23

Charter schools providing nonclassroom-based (NCB) instruction in excess of 20% of its total average daily attendance (ADA) must have an approved funding determination. A charter school's status as NCB or classroom-based is not dependent upon it having or not having an approved funding determination. Rather, a charter school's status as NCB or classroom-based is determined by its reported ADA at its Second Principal (P-2) Apportionment certification.

To be eligible for funding for its NCB ADA, a charter school must submit a funding determination request to the California Department of Education (CDE) and receive approval of its funding determination request from the California State Board of Education (SBE). The request is made by completing the NCB Funding Determination Form, which is located on the CDE NCB Determination of Funding web page at <https://www.cde.ca.gov/sp/ch/nclrbifunddet.asp>.

For existing nonclassroom-based charter schools whose funding determination expires at the end of fiscal year 2022-23 a new request **must be submitted by February 1, 2023**.

Attached is CDE's Determination of Funding Request for FY 2022-23 [letter](#).




Plan Extensions: Educator Effectiveness and Universal Prekindergarten & Implementation Grant

Assembly Bill (AB) 181 revised the deadline of Educator Effectiveness Fund (EEF) Plans to March 31, 2023 versus December 31, 2021. Additionally, AB 181 updated allowable uses for EEF. Additionally, AB 185 extended Universal Prekindergarten grant plans to March 30, 2023. For more information on both of these grants, please see SCOE's 2022-23 [Plans, Templates, and Deadlines Master Calendar](#).

Fiscal Reports by School Services of California

School Services does an excellent job of providing explanations to current topics. If you are a member of School Services of California, you can also see these reports by logging in to view on their web page or subscribe to their email services.

Attached for your convenience are:

-  Overview of the Governor's Proposals for the 2023-24 State Budget and K-12 Education
-  CPI Indicates Inflation Is Slowing
-  CalPERS Rates Projected to Increase

Dates to Remember:

01/27/2023 CALPADS amendment window closes (includes SELPA approval)
01/29/2023 Scheduled System Downtime (Escape offline 8:00 am -12:00 pm)
01/30/2023 Capitol Advisors: Budget Perspectives Workshop (Governor's Budget 2023)
[register here](#)
02/09/2023 HR/ Payroll User Group 9:00 am – 11:00 am Click to RSVP
02/13/2023 Lincoln Day observed – SCOE Closed
02/15/2023 CARS Workshop (working session in computer lab) 8:30 am -10:00 am
02/20/2023 Presidents' Day observed – SCOE Closed
02/23/2023 DBUG

NOTE:

- Want to add something to a DBUG Agenda? Want a topic added to SCOE Biz? Contact DBUG Chair Christina Menicucci
- Documents presented at [DBUG](#) can be found posted at group <http://www.scoe.org/pub/htdocs/fiscal-dbug.html>
- [Workshop manuals](#) and [Fiscal Services/IT forms](#) may be found at <http://www.scoe.org/escape> under the heading of Resources on the left side of the page.

SSC School District and Charter School Financial Projection Dartboard 2023-24 Governor's Budget

This version of the School Services of California Inc. (SSC) Financial Projection Dartboard is based on the 2023-24 Governor's Budget proposal. SSC has updated the cost-of-living adjustment (COLA), Consumer Price Index (CPI), and ten-year T-bill planning factors per the latest economic forecasts. SSC has also updated the Local Control Funding Formula (LCFF) factors. SSC relies on various state agencies and outside sources in developing these factors, but we assume responsibility for them with the understanding that they are general guidelines.

LCFF PLANNING FACTORS					
Factor	2022-23	2023-24 ¹	2024-25	2025-26	2026-27
Department of Finance Statutory COLA	6.56%	8.13%	3.54%	3.31%	3.23%
Planning COLA	6.56%	8.13%	3.54%	3.31%	3.23%

LCFF GRADE SPAN FACTORS FOR 2023-24				
Entitlement Factors per ADA*	TK-3	4-6	7-8	9-12
2022-23 Base Grants	\$9,166	\$9,304	\$9,580	\$11,102
Statutory COLA of 8.13%	\$745	\$756	\$779	\$903
2023-24 Base Grants	\$9,911	\$10,060	\$10,359	\$12,005
Grade Span Adjustment Factors	10.4%	–	–	2.6%
Grade Span Adjustment Amounts	\$1,031	–	–	\$312
2023-24 Adjusted Base Grants ²	\$10,942	\$10,060	\$10,359	\$12,317
Transitional Kindergarten (TK) Add-On ³	\$3,042	–	–	–

*Average daily attendance (ADA)

OTHER PLANNING FACTORS						
Factors		2022-23	2023-24	2024-25	2025-26	2026-27
California CPI		6.00%	3.44%	2.77%	2.49%	2.74%
California Lottery	Unrestricted per ADA	\$170	\$170	\$170	\$170	\$170
	Restricted per ADA	\$67	\$67	\$67	\$67	\$67
Mandate Block Grant (District)	Grades K-8 per ADA	\$34.94	\$37.78	\$39.12	\$40.41	\$41.72
	Grades 9-12 per ADA	\$67.31	\$72.78	\$75.36	\$77.85	\$80.36
Mandate Block Grant (Charter)	Grades K-8 per ADA	\$18.34	\$19.83	\$20.53	\$21.21	\$21.90
	Grades 9-12 per ADA	\$50.98	\$55.12	\$57.07	\$58.96	\$60.86
Interest Rate for Ten-Year Treasuries		3.78%	3.23%	2.79%	2.70%	2.80%
CalSTRS Employer Rate ⁴		19.10%	19.10%	19.10%	19.10%	19.10%
CalPERS Employer Rate ⁴		25.37%	27.00%	28.10%	28.80%	29.20%
Unemployment Insurance Rate ⁵		0.50%	0.20%	0.20%	0.20%	0.20%
Minimum Wage ⁶		\$15.50	\$16.00	\$16.40	\$16.80	\$17.20

STATE MINIMUM RESERVE REQUIREMENTS	
Reserve Requirement	District ADA Range
The greater of 5% or \$75,000	0 to 300
The greater of 4% or \$75,000	301 to 1,000
3%	1,001 to 30,000
2%	30,001 to 400,000
1%	400,001 and higher

¹Applies to Special Education, Child Nutrition, State Preschool, Foster Youth, Mandate Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers and the American Indian Early Childhood Education.

²Additional funding is provided for students who are designated as eligible for free or reduced-price meals, foster youth, and English language learners. A 20% augmentation is provided for each eligible student with an additional 65% for each eligible student beyond the 55% identification rate threshold.

³Funding is based on TK ADA only and is in addition to the adjusted base grant amount. Further, the funding is adjusted by statutory COLA each year.

⁴California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) rates are subject to change based on determination by the respective governing boards.

⁵Unemployment rate in 2022-23 is final based on the 2021-22 Enacted Budget, and the subsequent years' rates are subject to actual experience of the pool and will be calculated in accordance with California Unemployment Insurance Code Section 823(b)(2).

⁶Minimum wage rates are effective January 1 of the respective year.



FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Minimum Wage Increases Effective January 1, 2023

BY CHARLENE QUILAO

BY SUZANNE SPECK

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posted November 10, 2022

California’s minimum wage is projected to increase to \$15.50 per hour for all workers effective January 1, 2023, as triggered by increasing costs due to inflation. Per Labor Code, the minimum wage rate will be adjusted annually for inflation based on the national Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Because the CPI-W exceeded 7%, the first adjusted increase was accelerated; therefore, employees will be guaranteed the \$15.50 rate even if they work for small employers—those employers with 26 employees or less ([Labor Code Section 1182.12\(c\)\(3\)\(A-B\)](#)) and the ongoing increase in the future is caused by [Labor Code Section 1182.12\(c\)\(1\)](#).

Below is a table illustrating minimum wage on an hourly, weekly, monthly, and annual basis. Based on inflation, School Services of California Inc. staff project that the minimum wage will continue to increase by the maximum amount allowed by law through 2028.

Minimum Wage	Effective Date: > 25 Employees	Effective Date: ≤ 25 Employees	Exempt Minimum Salary Weekly/Monthly/Annually
\$14.00/hour	January 1, 2021	January 1, 2022	\$1,120/\$4,853/\$58,240
\$15.00/hour	January 1, 2022	N/A	\$1,200/\$5,200/\$62,400
\$15.50/hour	January 1, 2023		\$1,240/\$5,373/\$64,480
\$16.00/hour	January 1, 2024		\$1,280/\$5,547/\$66,560
\$16.40/hour	January 1, 2025		\$1,312/\$5,685/\$68,224
\$16.80/hour	January 1, 2026		\$1,344/\$5,824/\$69,888
\$17.20/hour	January 1, 2027		\$1,376/\$5,963/\$71,552

\$17.60/hour	January 1, 2028	\$1,408/\$6,101/\$73,216
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The forthcoming increase in the minimum wage highlights important operational considerations to ensure that employers are maintaining their obligation to comply with state and federal laws. Local educational agency human resources departments should review current salary schedules now, to identify salary cells that may fall below the scheduled minimum increase, in addition to preparing for future increases. Keep in mind that increases in the minimum wage also impact the threshold for exemption from the overtime rules of the [Fair Labor Standards Act \(FLSA\)](#). Exempt workers in California must be paid a salary that is at least twice the state’s minimum wage as well as meeting the duties test under the FLSA. Information on overtime exemptions in California can be found on the [Department of Industrial Relations website](#).

Remember that the minimum wage is an obligation of the employer and cannot be waived by any agreement, including collective bargaining agreements. So, even if you find yourselves in the middle of negotiations regarding salary, as employers, you are still obligated to comply with the minimum wage rate for the effective year.

FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

Overview of the Governor's Proposals for the 2023-24 State Budget and K-12 Education



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posted January 10, 2023

Overview of the Governor's Budget Proposals

Today, California seemed to turn the page in State Budget development: from COVID-19 pandemic budgeting since May 2020 to more business as usual. And unfortunately for Governor Gavin Newsom, business as usual comes with a softening economy.

Thankfully, California is better prepared to weather the proverbial storm due to the significant rainy-day deposits and investments made during the good years that allows the state to address an estimated budget gap of \$22.5 billion with relatively little disruption through funding delays, shifts, and some reductions. Perhaps foreshadowing a more gloomy May Revision on the horizon, Governor Newsom purposefully chose *not* to draw from the state's reserve accounts to close the budget gap. He is likely holding that option back in case the economic dam breaks.

For education, Governor Newsom proposes a State Budget to preserve investments made during the boom years; the number of significant changes for 2023-24 can be counted on one hand. However, the changes proposed, as we will detail in this article, are significant for local educational agencies (LEAs) across the state and include a proposed mid-year cut to previously budgeted one-time funds. But at least for now, gone are the litany of new ongoing and one-time categorical programs that have filled the Proposition 98 guarantee during those years.

The Economy and Revenues

Governor Newsom assumes a slowing but still growing economy at the national and state level; however, identified risks to his assumptions are strewn throughout his budget proposal. In fact, the Governor began his press conference standing beside a chart showing a sharp decline in capital gains revenues as a percentage of personal income, which he referred to as the California economy's electrocardiogram, or EKG. This is because the largest source of state General Fund revenues is derived from taxes on personal income, including capital gains. One percent of the state's highest income earners generated over 26% of all gross income and they paid 49% of all personal income taxes in 2020. According to the Governor's Budget Summary, "[t]hese two related phenomena—significant reliance of the General Fund on capital gains and on taxes paid by a small portion of the population—underscore the difficulty in forecasting personal income tax revenue" and, by extension, General Fund revenues.

To underscore the state's reliance on its richest residents, capital gains revenue has made up between 8.5% and 12.6% of total annual General Fund revenues over the last decade. The Governor's Budget assumes a modest reduction in the share of revenues that come from stock market investments in 2023 to 8.3%, consistent with the assumption that the overall economy is cooling (while avoiding a recession). Importantly, the Newsom Administration assumes that Wall Street investors will remain cool-headed and that each of the major market indexes will not decline and instead will grow modestly from their November 2022 levels.

This may prove to be a risky assumption. As it is, the Governor's Budget recognizes a budget shortfall of \$29.5 billion over the three-year budget window (2021-22, 2022-23, and 2023-24). Despite this somber picture, Governor Newsom manages to present a balanced budget proposal without dipping into reserves. If the economy worsens from the assumptions he uses to build his

budget—such as protracted and sustained inflation, slower growth in personal income, and contracting employment—he and lawmakers may need to dip their hands into rainy day funds to avoid untenable budget reductions to programs and services, including public education, that they value.

Relative to the key General Fund drivers, the Governor's Budget makes significant reductions to the "Big Three" tax revenues relative to the 2022-23 Enacted Budget across the three-year budget window, for a total downward adjustment of \$31.7 billion.

**Big Three Tax Revenues
(in millions)**

	2021-22		2022-23		2023-24	
	2022-23 Enacted Budget	Governor's Budget	2022-23 Enacted Budget	Governor's Budget	2022-23 Enacted Budget	Governor's Budget
Personal Income Tax	\$136,497	\$136,762	\$137,506	\$128,905	\$143,755	\$126,695
Corporation Tax	\$46,395	\$45,298	\$38,464	\$38,482	\$42,013	\$39,308
Sales and Use Tax	\$32,750	\$32,915	\$33,992	\$32,851	\$35,145	\$33,599

Again, the Governor's Budget revenue estimates do not forecast a recession—even a mild one—and contain underlying assumptions that would significantly impact state revenues, particularly personal income tax revenues.

The 2022-23 Enacted Budget's reliance on one-time spending (93% of new money was committed to one-time expenses) provides some budget resilience moving into 2023-24. Additionally, reserves will cushion further declines in state revenues. But the Governor's Budget is balanced delicately on what some may say are risky assumptions.

Proposition 98 Minimum Guarantee, Reserve, and Local Reserve Cap

As expected, given trends in state General Fund revenues, the Proposition 98 minimum guarantee for K-12 and community college education has declined relative to the 2022-23 Enacted Budget. Specifically, the Governor estimates the minimum guarantee for fiscal year 2023-24 to be \$108.8 billion, representing a \$1.5 billion reduction compared to Enacted Budget estimates. Test 1 remains operative through the budget window (2021-22, 2022-23, and 2023-24), meaning that public education funding is a simple percentage of General Fund revenues (approximately 38%). The Proposition 98 minimum guarantee decreases by \$4.7 billion over the three-year period.

Proposition 98 Minimum Guarantee

2021-22		2022-23	
2022-23 Enacted Budget	Governor's Budget	2022-23 Enacted Budget	Governor's Budget
\$110.2 billion	\$110.4 billion	\$110.4 billion	\$106.9 billion
Change	(\$200 million)	Change	(\$3.5 billion)

General Fund expenditures toward the minimum guarantee decrease in the Governor’s Budget due to offsetting increases in local property taxes. For 2022–23, the General Fund portion of Proposition 98 is estimated to decrease by \$153 million. Additionally, General Fund expenditures for Proposition 98 decrease by \$1.3 billion in 2023–24. Together, these adjustments result in a General Fund savings of approximately \$1.5 billion, which will be partially encumbered by a required adjustment to the minimum guarantee from transitional kindergarten (TK).

The Governor’s Budget maintains the commitment to expand TK, requiring a “rebench” of the Test 1 minimum guarantee percentage for the increased cost of serving more TK students. The TK rebench increases public education’s share of General Fund revenues from 38.3% to 38.6%. Further, the passage of Proposition 28 (2022), the Arts and Music in Schools—Funding Guarantee and Accountability Act, will require the state to rebench Proposition 98 in 2024–25 for the additional revenue set aside for arts and music instruction in public education.

Proposition 98 Reserve

Deposits to and withdrawals from the Public School System Stabilization Account (Proposition 98 Reserve) are formula-driven and reliant on trends in state General Fund revenues inclusive of capital gains. The Governor’s Budget revises prior-year deposits based on updated revenues, and estimates a required \$365 million deposit in 2023–24. The revised and estimated deposits result in an account balance of \$8.5 billion (down from \$9.5 billion in the 2022–23 Enacted Budget).

2021-22		2022-23	
2022-23 Enacted Budget	Governor’s Budget	2022-23 Enacted Budget	Governor’s Budget
\$4.0 billion	\$3.7 billion	\$2.2 billion	\$1.1 billion
Change	(\$300 million)	Change	(\$1.1 billion)

Despite the reduced deposits in 2021–22 and 2022–23, the 2022–23 Proposition 98 reserve account balance of \$8.1 billion continues to exceed 3% of K-12’s share of the Proposition 98 minimum guarantee, which maintains the cap on local school district reserves in 2023–24.

Local Control Funding Formula and Cost-of-Living Adjustment

The Governor’s Budget proposal estimates, and fully funds, a statutory cost-of-living adjustment (COLA) of 8.13% for the Local Control Funding Formula (LCFF), which is lower than the Legislative Analyst’s Office (LAO) estimated in its November *Fiscal Outlook* report (8.73%). There are still two data points outstanding in order to calculate the final statutory COLA—one anticipated in a matter of weeks and the other at the end of April—so time will tell whether the Administration or the LAO have a clearer crystal ball.

The Governor’s estimated COLA would also be applied to other education programs funded outside of the LCFF, including Special Education, Child Nutrition, Sate Preschool, Foster Youth, Mandate Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education program—as well as county offices of education and community colleges.

LCFF Entitlements for School Districts and Charter Schools

The base grants by grade span for 2023–24 are increased over 2022–23 by the estimated statutory COLA of 8.13%.

Grade Span	2022-23 Base Grant Per ADA*	8.13% COLA	2023-24 Base Grant Per ADA
TK-3	\$9,166	\$745	\$9,911
4-6	\$9,304	\$756	\$10,060
7-8	\$9,580	\$779	\$10,359
9-12	\$11,102	\$903	\$12,005
*Average daily attendance (ADA)			

The TK-3 base grant increase for the class-size reduction (CSR) grade span adjustment is \$1,031 per ADA in 2023-24 and the grade 9-12 base grant per ADA is increased by \$312 in recognition of the need for Career Technical Education (CTE) courses provided to students in the secondary grades.

School districts and charter schools are entitled to supplemental grant increases equal to 20% of the adjusted base grant (including CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free or reduced-price meals program, or in foster care. An additional 65% per-pupil increase is provided as a concentration grant for each percentage of eligible students enrolled beyond 55% of total enrollment, with 15% of the concentration grant to be used to increase the number of adults providing direct services (nurses, teachers, counselors, paraprofessionals, and others) to students.

Equity Multiplier

Recognizing persistent disparities in the outcome data of different student groups, the Governor proposes \$300 million ongoing Proposition 98 funds to establish an Equity Multiplier add-on to the LCFF. The funds will be distributed at the LEA level, but eligibility will be determined by school sites. Elementary and middle schools serving at least 90% of students that are eligible for federal free meals, and high schools serving at least 85% of students that are eligible for federal free meals, would generate the additional funds. LEAs that receive funds under this proposal would be required to use the additional funds on services and supports that directly benefit the eligible school.

To ensure LEAs are focused on addressing student group and school-level equity gaps, amendments to the Local Control and Accountability Plan will be unveiled later this month to complement the new Equity Multiplier LCFF funds. An LEA would be required to include its plan for the use of the Equity Multiplier funds in its LCAP, along with requirements for engagement of parents and communities in deciding how to invest the new funds at the eligible school. Additional anticipated changes will further refine the LCAP and System of Support more generally to better ensure that resources are allocated based on student needs and that related actions and services are effective in closing opportunity and outcome gaps.

This proposal is intended to address a commitment made by the Governor to Assemblymember Akilah Weber (D-La Mesa) last year after her bill to provide funding for the lowest performing student groups, Assembly Bill 2774, was shelved.

Special Education

The Governor's Budget proposes to apply the 8.13% COLA to special education, which would increase the per-ADA rate from \$820 in 2022-23 to \$886.66 in 2023-24. The Governor's summary highlights the significant funding and programmatic progress that's been made under his administration for students with disabilities while noting that the "state's special education system remains administratively complex and would benefit from continued programmatic reforms." With that in mind, the Governor proposes three changes in this area:

- Limiting the amount of additional funding that Special Education Local Plan Areas (SELPAs) are allowed to retain for non-direct student services before allocating special education base funding to their member LEAs

- Stabilizing current SELPA membership by extending the moratorium on the creation of new single-district SELPAs by two years from June 30, 2024, to June 30, 2026
- Increasing fiscal transparency by requiring the California Department of Education to post each SELPA's annual local plan, including their governance, budget, and services plans, on its website

Universal Transitional Kindergarten

The proposed State Budget continues the Governor's commitment to universal transitional kindergarten (UTK) despite leaner fiscal times. As scheduled, access to UTK will be expanded to include all children that turn five years old between September 2 and April 2. The Governor's Budget proposes \$690 million ongoing General Fund to implement this second year of UTK expansion. The Enacted Budget included a new requirement and funding for a student-to-staff ratio of 12:1 in TK classrooms, and the Budget includes \$165 million in ongoing Proposition 98 funding to accommodate the additional staff necessary to maintain this requirement given the additional students that will be served in the 2023-24 school year. In addition to these proposals for the budget year, 2022-23-year UTK investments are updated to reflect current enrollment and attendance data. The state saves approximately \$11 million in the current-year investment for UTK expansion and the 12:1 ratio requirement because of lower student enrollment and attendance numbers since the 2022-23 State Budget was enacted.

Early Childhood Education

The Governor's Budget maintains prior commitments to expand access to California's subsidized child care and preschool system by an additional 200,000 slots, but defers reaching this goal in 2023-24 to 2024-25 in recognition of the fact that not all existing slots have been filled.

While the Governor proposed to increase provider rates by an 8.13% COLA, his proposal provides little detail regarding transitioning California to a new reimbursement rate structure based on a cost-of-care approach, as recommended by the Joint Labor Management Committee in its November 2022 report. COLA results in a General Fund investment of \$301.7 million and \$112 million Proposition 98 investment for the California State Preschool Program (CSPP).

The Governor's Budget also proposes to continue implementation of CSPP policy changes from the 2022-23 Enacted Budget that includes increased provider rates to accommodate additional costs for serving three-year-olds, children with disabilities, dual language learners, and early mental health supports. This includes \$64.5 million Proposition 98 and \$51.8 million General Fund investments to maintain planned implementation in 2023-24. The appropriations accompany a requirement for CSPP providers to ensure that at least 7.5% of children they serve are children with disabilities.

Facilities

As part of the 2022-23 Enacted Budget, the Governor included funding to assist school districts with the modernization and construction of school facilities. While the funding for 2022-23 was appropriated as part of the Budget, no appropriations were made for future years. Instead, the Budget included "intent" language—noting the intention of the Legislature to provide funding in the out years. The Governor's Budget proposes adjustments—either lowering or delaying funding in order to address the state's anticipated budget gap.

The 2022-23 Enacted Budget included \$1.3 billion in 2022-23 for the School Facility Program and intent language for an additional \$2.1 billion appropriation in 2023-24 and \$875 million in 2024-25. The Governor's Budget proposes a decrease of \$100 million for 2023-24, reducing the proposed allocation from \$2.1 billion to \$2.0 billion.

Furthermore, the 2022-23 Enacted Budget appropriated \$100 million for the California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program, with the intent to appropriate an additional \$550 million in 2023-24. The Governor's Budget proposes to delay the \$550 million investment by one year—from 2023-24 to 2024-25.

Lastly, consistent with the language included in the 2022-23 Enacted Budget, the Governor's Budget includes a one-time \$30 million Proposition 98 General Fund investment for the Charter School Facility Grant Program, which provides funding to charter schools to offset annual, ongoing facilities costs. As noted above, the program also receives the 8.13% COLA.

Literacy Categorical Proposals

Recent years have seen multiple sources of funding intended to improve student literacy through professional development, research, and additional staff.

The 2023-24 Governor's Budget proposes to continue investing in student literacy with an additional \$250 million in one-time funds for the Literacy Coaches and Reading Specialists Grant Program for the purpose of expanding the number of high-poverty schools receiving funding for training and hiring literacy coaches and reading specialists.

In addition to the investment of Proposition 98 funds, the proposed Budget includes \$1 million in non-Proposition 98 General Fund to establish a Literacy Roadmap to help LEAs use existing student literacy resources, guidance, and support with efficacy.

Art and Cultural Enrichment

Proposition 28 (2022)

The voter-approved Proposition 28 requires the state to provide arts and music funding for schools outside of the Proposition 98 minimum guarantee beginning with the 2023-24 fiscal year. Annual Proposition 28 funding is required to be equal to 1% of the K-12 share of the minimum guarantee from the prior fiscal year. The Administration estimates that it will cost \$941 million to fully fund the Proposition 28 obligation for the 2023-24 fiscal year. The Administration will likely not provide estimates for Proposition 28 until the May Revision, but you can find School Services of California Inc.'s preliminary estimates for LEAs [here](#).

Arts, Music, and Instructional Materials Discretionary Block Grant Reduction

The 2022-23 Enacted Budget included a one-time investment of \$3.5 billion for the Arts, Music, and Instructional Materials Discretionary Block Grant. However, given the obligation to fund Proposition 28 and the need for one-time funds to cover the costs of the LCFF in 2022-23 and 2023-24, the Governor proposes to reduce the Arts, Music, and Instructional Materials Discretionary Block Grant by \$1.2 billion. This reduction would take this one-time investment from approximately \$3.5 billion down to approximately \$2.3 billion in the current year.

Cultural Enrichment Experiences

The Governor's Budget also includes a one-time investment of \$100 million, or roughly \$200 per 12th grade student enrolled in public school, to enable LEAs to provide high school seniors with access to cultural enrichment experiences across the state by facilitating museum visits, access to theatrical performances, or other participation in extracurricular art enrichment activities.

Retirement Systems

Governor Newsom does not propose additional funding for the California State Teachers' Retirement System (CalSTRS) or the California Public Employees' Retirement System (CalPERS) employer contribution rate relief for LEAs. Based on current assumptions, CalPERS employer contributions would increase from 25.37% to 27.0% in 2023-24, while CalSTRS employer contribution rates remain the same from prior year at 19.10%.

Closing

The Governor's proposals are largely to be expected in a softening economy, with a focus on maintaining programs instead of creating new ones. That said, LEAs are continuing to face local challenges head on, and, with some notable exceptions, the Governor proposes to utilize Proposition 98 funding in a discretionary manner to meet local needs. The exceptions though, of undefined, targeted new LCFF funding and reduced current-year discretionary funds create ambiguity for district planning.

We look forward to diving deep into the Governor's education budget with all of you and helping our local educational leaders and partners operationalize all of what this means for public agencies, staff, students, and local communities at next week's [Governor Budget Workshop](#).

FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

CPI Indicates Inflation Is Slowing



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posted January 12, 2023

The U.S. Bureau of Labor and Statistics released the most current Consumer Price Index (CPI) today, January 12, 2023. For the month of December, the seasonally adjusted CPI decreased 0.1%, with lower gasoline prices being the most significant factor driving the decrease. The unadjusted 12-month CPI increased by 6.5%.

The CPI measures the change in prices paid for goods and services as well as the spending patterns of consumers. The CPI is based on prices of food, clothing, shelter, fuel, transportation, doctors' visits, and other goods and services that people buy on a day-to-day basis across the country. For analysis of the month-to-month trends, the data is seasonally adjusted to consider factors that normally occur at the same time each year, such as weather events and holidays. The unadjusted data is reflective of the prices actually paid by the consumer.

The lower price for gasoline was by far the largest contributor to the decrease as the cost for electricity, natural gas, and food all increased for the month of December. Over the past 12 months, gasoline costs decreased 1.5% while electricity increased 14.3%, natural gas increased 19.3%, and food increased 10.4%.

The most current data is certainly good news indicating that inflation is slowing, although consumers are still feeling the effects in their daily lives. While CPI is not the measure used to determine the cost-of-living adjustment (COLA) for public education, trends in CPI reliably reflect trends in the implicit price deflator. The Governor's Budget includes an assumed 8.13% COLA for public education for the 2023-24 school year.

FISCAL REPORT

PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS

CalPERS Rates Projected to Increase



BY CHARLENE QUILAO

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posted January 20, 2023

The California Public Employees' Retirement System (CalPERS) revised its projected out-year employer contribution rates as of June 30, 2021, and has again adjusted its estimates for future employer contribution rates with increases beginning in 2023-24 as follows:

Year	Prior Adopted Rates per CalPERS	New Projected Rates per CalPERS Actuarial Report ¹
2022-23	25.37%	25.37%
2023-24	25.20%	27.00%
2024-25	24.60%	28.10%
2025-26	23.70%	28.80%
2026-27	22.60%	29.20%
2027-28	22.60%	30.70%

¹[CalPERS Schools Pool Actuarial Valuation Report](#)

The employer contribution rates are influenced by the CalPERS amortization and smoothing policy, which spreads rate changes over a five-year period, as well as changes in actuarial assumptions such as retirement rates, termination rates, mortality rates, rates of salary increase, and inflation.

The CalPERS Board is set to adopt the 2023-24 employer contribution rate at its Board meeting in April. Meanwhile, School Services of California Inc. (SSC) recommends that the above updated rates should be used for local educational agency Second Interim reporting. These rates have been included in our 2023-24 Governor's Budget SSC Financial Projection Dartboard.