

Second Interim Financial Report Fiscal Year 2023-24

Board of Education

March 12, 2024

Agenda

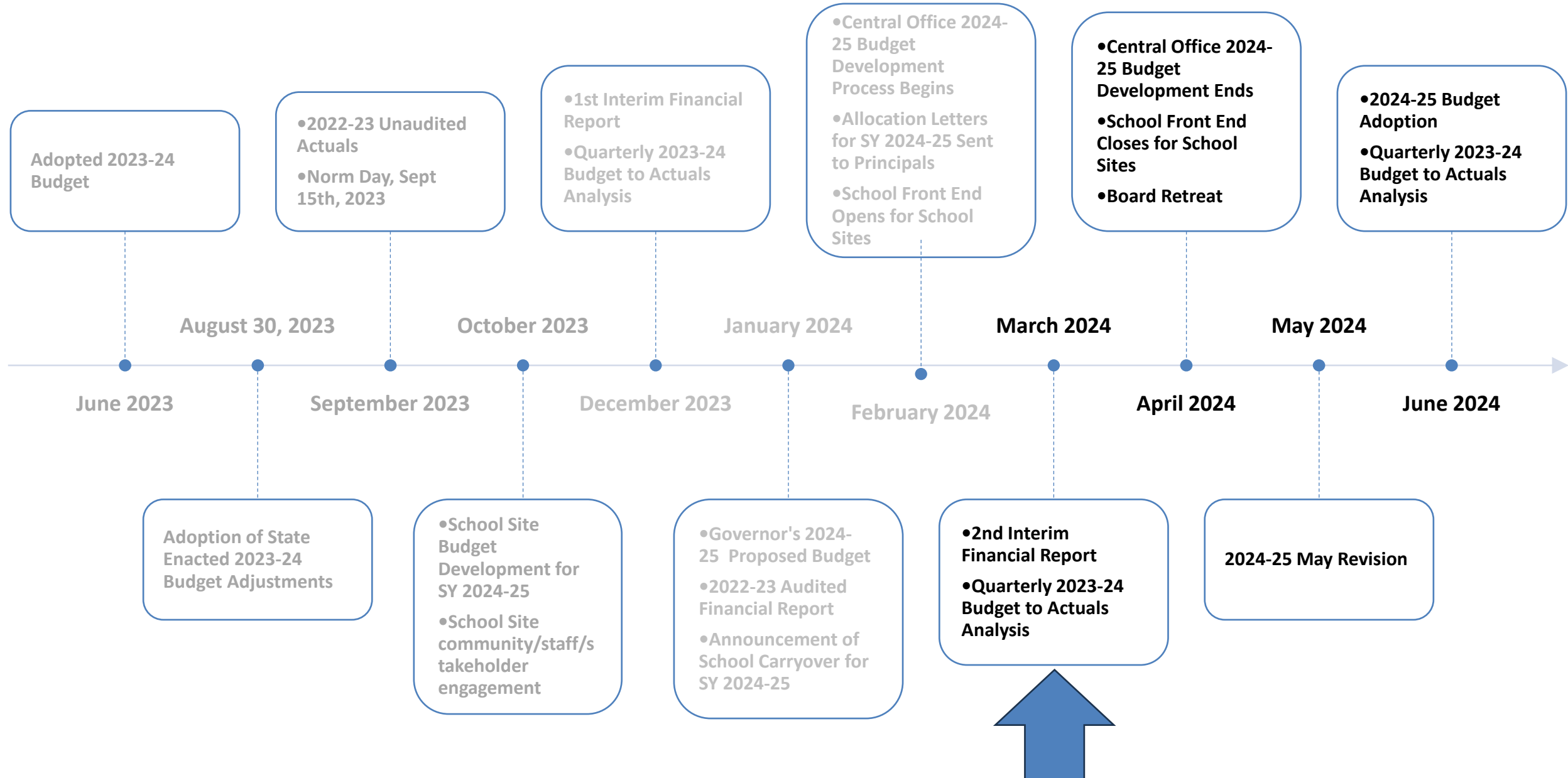
- Overview of 2nd Interim
- Budget Timeline
- Multi-Year Projection
- State Outlook

Purpose of a Second Interim

- The Second Interim Financial Report is a midyear update to the current fiscal year 2023–24 General Fund budget and a forecast of the next two fiscal years.
- Local educational agencies (LEAs) are required to file two reports during a fiscal year (interim reports) on the status of the LEA's financial health. The second interim report is due **March 15** for the period ended January 31.
 - A *positive* certification indicates that based on current projections, the District will meet its financial obligations for the current fiscal year and two subsequent years.
 - A *qualified* certification indicates that the District may not be able to meet its financial obligations for the current or two subsequent fiscal years.
 - A *negative* certification indicates that the District will not be able to meet its financial obligations for the current or subsequent fiscal year.

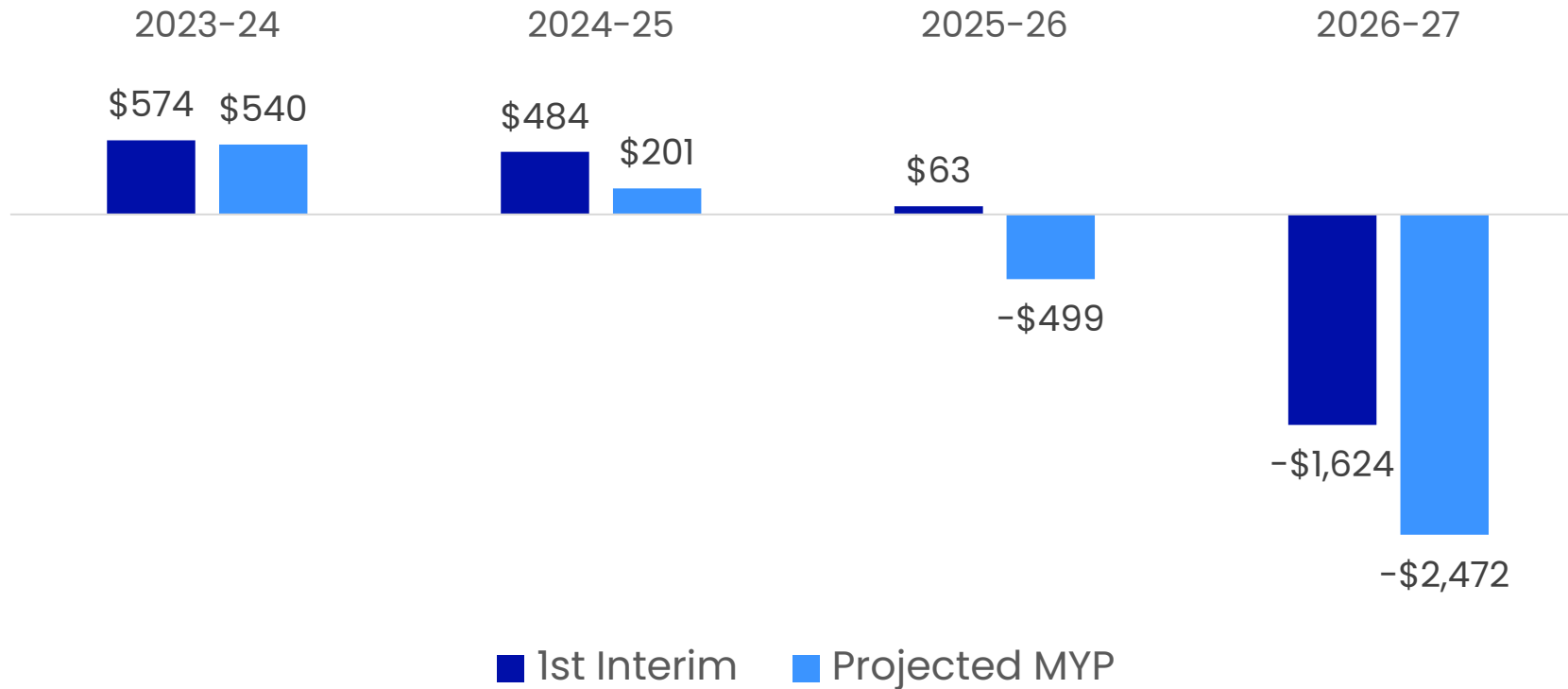
Based on current available information, staff recommends that the Board certify as **“Positive”**, meaning the District is able to meet obligations for the current year and the next two years

Budget Timeline



Impact on MYP of Governor's Proposed Budget

Unassigned/Unappropriated Ending Balances
(Amounts in millions)



Fiscal impacts reflected through 2026-2027:

- 2024-25 Statutory COLA at 0.76%: **-\$600M**
- 2025-26 Statutory COLA at 2.73% : **-\$64M**
- 2026-27 Statutory COLA at 3.11%: **-\$4M**
- Cost of CSEA Agreement: **-\$182M**

Second Interim Highlights

- The Second Interim Financial Report projects a General Fund (unassigned / unappropriated) ending balance of **\$804.5 million** in 2023–24.
 - This ending balance is \$228.3 million higher than reported at the First Interim in December 2023.
- The multi-year changes in expenditures and revenues result in a cumulative ending balance of **\$72.2 million by the end of 2025–26**.
 - This is an increase from the \$63.2 million reported at First Interim in December.

As always, these projections are a point in time reflection of what is currently known about actual and planned spending.

Important Context for Second Interim

Increase to the 2023–24 Unassigned/Unappropriated ending balance largely due to one-time revenue recognition of FEMA reimbursement for COVID–19 testing and vaccination expenses, and an increase in the fair market value of cash investments.

Note: More context on all ending balances can be found on page 6 of the Second Interim Financial Report.

Major New Factors Reflected in Multi-Year Projection

Since the last presentation to the Board on the First Interim, the following **major new factors have been incorporated** into the Multi-Year Projection:

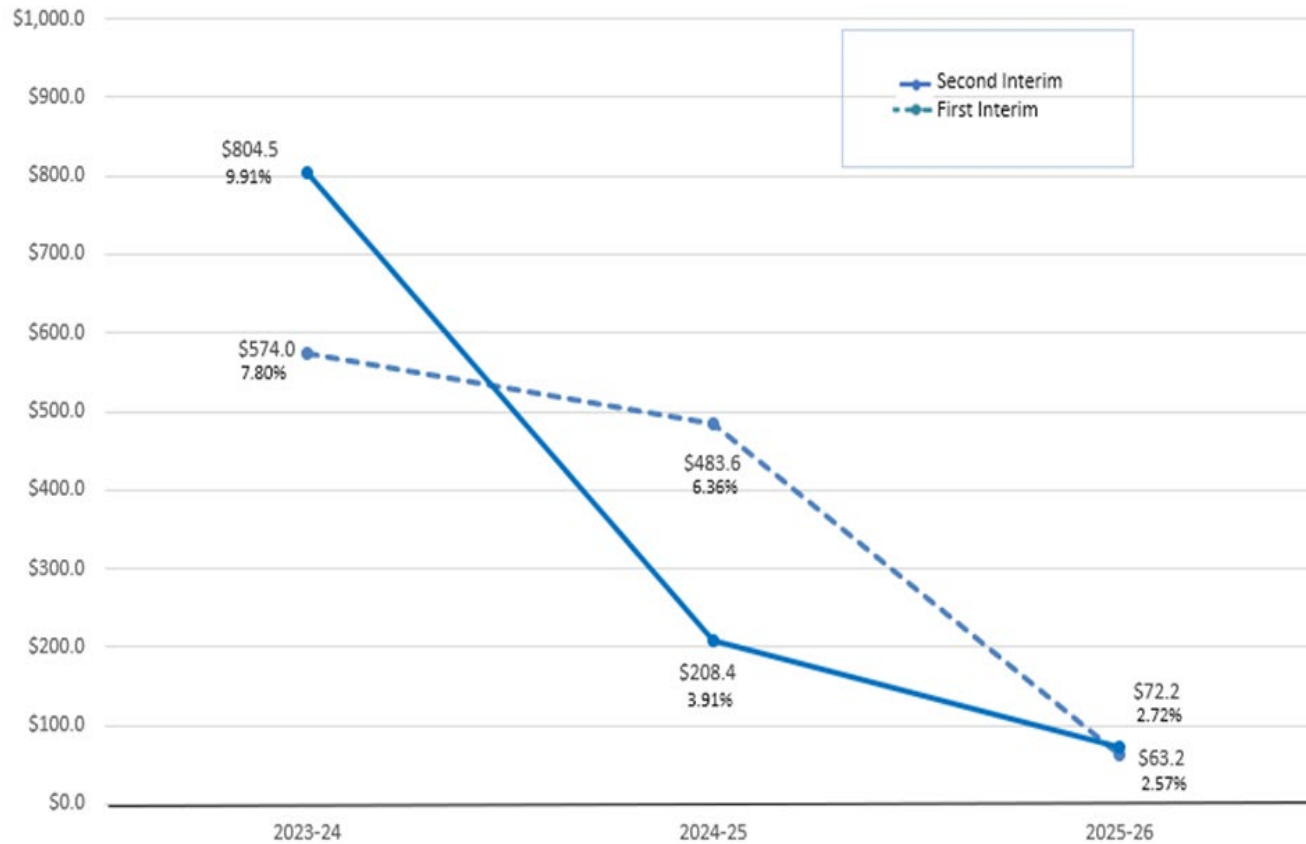
- Lower COLA in 2024-25 and 2025-26
- Revenue recognition of FEMA Reimbursement in 2023-24

Enrollment/ADA% Used in Multi-Year Projection

	2023-24	2024-25	2025-26
Enrollment (TK-12)	412,341 Updated at 1 st Interim	403,453 Updated at 2 nd interim (+1,019)	392,023 Updated at 2 nd interim (+529)
ADA%	90% May be updated at June Budget	90% May be updated at June Budget	90% May be updated at June Budget

Multi-Year Projection Unassigned/Unappropriated Balances

Unassigned/Unappropriated General Fund Ending Balance
Amounts in Millions



(in millions)	2023-24	2024-25	2025-26
1 st Interim Estimated Balances	\$574.0	\$483.6	\$63.2
2 nd Interim Estimated Balances	\$804.5	\$208.4	\$72.2
Cumulative Change	\$230.5	(\$275.2)	\$9.0

Components of Ending Balances

Item	Description	Examples
Non-Spendable	Balances not in spendable form	Inventory, prepaids
Restricted	Balances restricted by law, such as grants	Expanded Learning Opportunities Program (ELOP)
Committed	Balances constrained by Board Resolution for a specific use	Reserve for Compensation, Reserve for Labor Agreements, SENI Carryover
Assigned	Balances designated by the District for a specific use	General Fund School Carryover
Reserve for Economic Uncertainties (REU)	Reserve (2%) required by the state	
Unassigned	Balances not restricted, committed, or intended for a specific use	

Multi-Year Projection: Ending Balances

Components of General Fund Ending Balance
(Amounts in Millions)



Components of General Fund Ending Balance

Fiscal Year 2023-24	1st Interim	2nd Interim	Change
Non-Spendable – Inventory/Prepays/Revolving cash	\$48.0	\$48.0	\$0
Restricted	1,846.1	1,831.2	(14.9)
Committed	2,460.4	2,902.7	442.3
Assigned	417.7	441.6	23.9
Unassigned			
Reserve for Economic Uncertainty	244.9	244.9	0
Undesignated	574.0	804.5	230.5
Total	\$5,591.1	\$6,272.9	\$681.8

Amounts in Millions

- Commitments include Compensation, Labor Agreements, and Inflation Protection

Budget Balancing Principles

- Student learning and equity
- Mitigate impact on schools and students
- Mitigate impact on employees, avoid RIFs
- Align to Strategic Plan
 - Create a runway for the implementation of solutions
 - Consider budget-to-actuals
- Protect the long-term viability of the District

Investments in Total Compensation and Staffing

- Increased compensation for District staff
- Maintained health and welfare benefits at no cost to employees
- No RIFs for 2023–24
- No RIFs for 2024–25 contingent on implementation of budget balancing solutions
- Class size reduction by 2 in all academic, TK–12 classes
- Additional college counselors in all high schools with 900+ students
- Allocation of PSWs, PSAs, Academic Counselors, and Psychologists
- Additional professional development for both certificated and classified staff

Investments in Academic Supports

- SENI maintained at \$700 million
- Continuation of intervention acceleration strategies
- Sustained investment in key strategies and innovations, such as greening, dual language education, community schools, and BSAP
- Allocation of Cultural Arts Passport funding
- Continued implementation of new District structures and systems to focus on supports for highest need, priority schools

New Allocations in 2024-25 and Beyond

Starting in 2024-25, schools will receive an expanded level of centrally-allocated staffing support:

	2024-25	2025-26	2026-27
Class Size Reduction Teachers	\$95 M	\$178 M	\$178 M
PSAs/PSWs	\$93 M	\$93 M	\$93 M
Other Positions/Costs	\$45 M	\$45 M	\$45 M
TOTAL	\$232 M	\$316 M	\$316 M

Sustaining Valued Investments

- SENI and other major equity-based allocations and resources in support of our highest need students total \$1.15 Billion
- Sustained allocations for these programs are maintained for 2025-26 and 2026-27
- **Reserving these amounts, absent other reductions, results in a projected negative Unassigned/Unappropriated ending balance in 2026-27**

Equity-Based Allocations and Resources

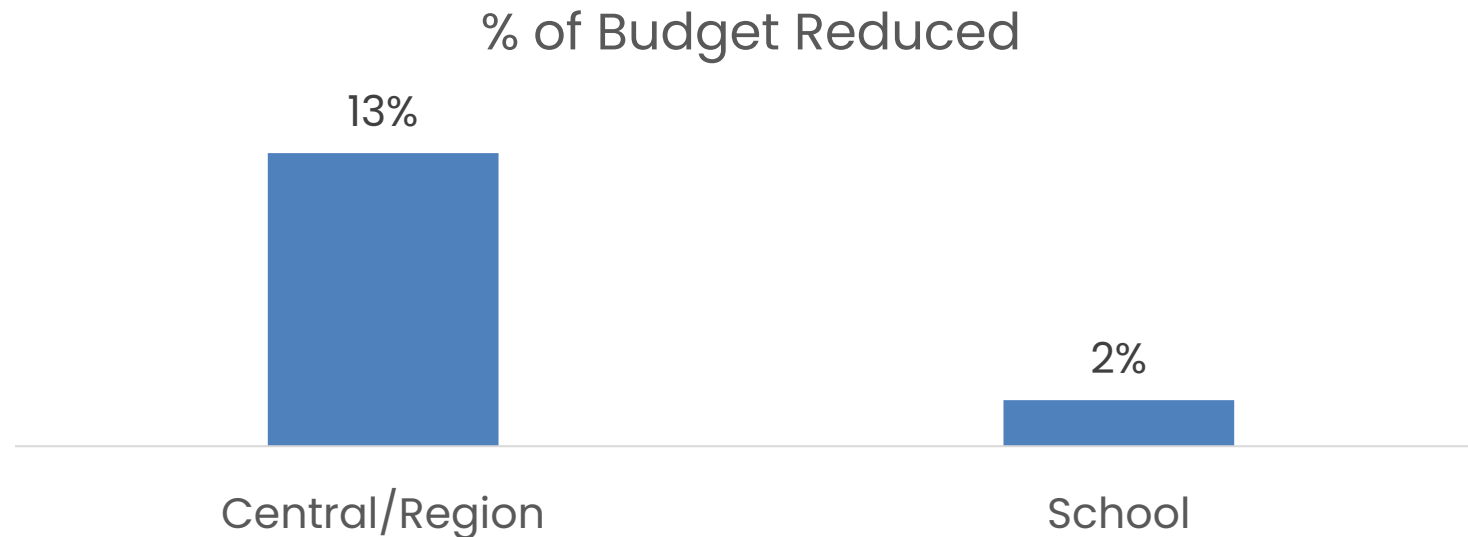
Schools will also receive additional resources allocated based on student equity and needs

	2024-25
Black Student Achievement Plan (BSAP)	\$125 M
Interventionists and Aides for Priority Schools	\$57 M
Prop 28 Arts Funding	\$77 M
Cultural Arts Passport (CAP)	\$84 M
Specialized Student Support Program for Foster / Unhoused Students	\$44 M
Multilingual Multicultural Academic Language Coach (MMALC) Supports	\$33 M
Equity Multiplier	\$21 M
Humanizing Education for Equitable Transformation (HEET)	\$10 M
TOTAL	\$450 M

District-Wide Solutions

The fiscal challenges facing the District necessitate District-wide solutions that are equitable and consistent with Budget Balancing Principles

- Central budgets were realigned after an in-depth review of budget-to-actuals
- Region budgets were realigned to increase instructional and operational coherence and accountability

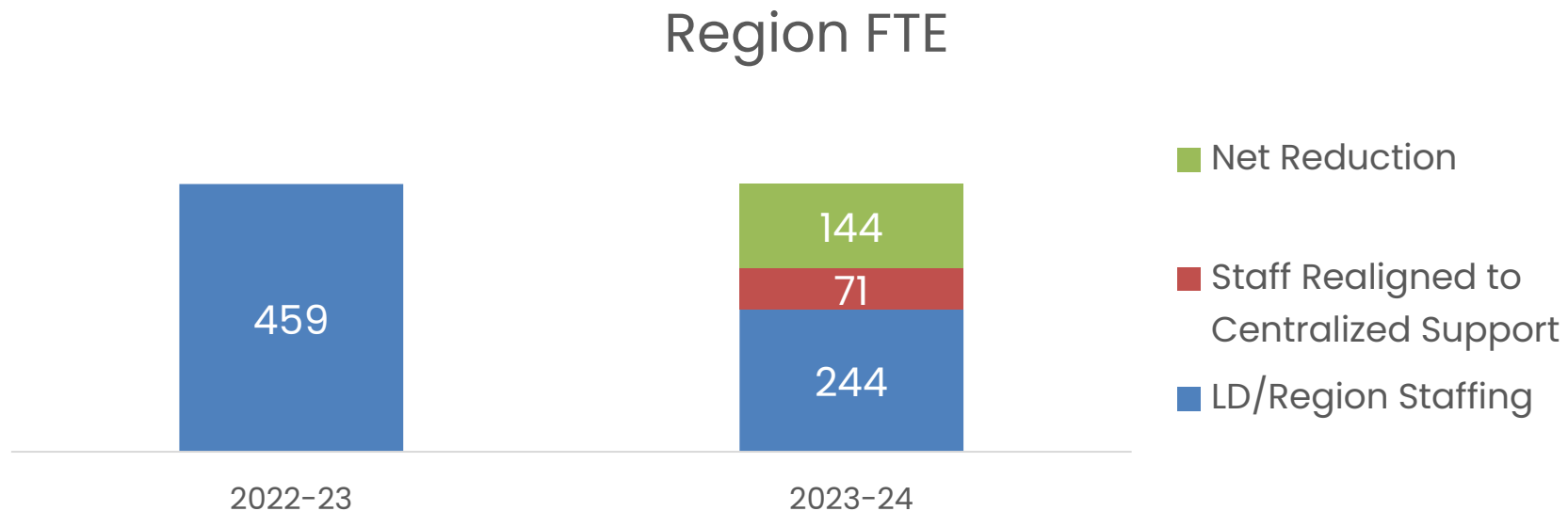


Central Reductions

Region Realignment:

6 Local Districts consolidated into 4 Regions, increasing instructional and operational coherence and accountability

- Realignment resulted in a net reduction of 144 FTE
- Total budget reduction in 2023-24 of **\$55M**



Central Reductions

Central Office Budget Review:

As with schools, an in-depth review of budget-to-actuals at Central Offices was conducted, resulting in:

- Closure of 258 central office positions in 2023-24, totaling **\$18M**
- Reductions in non-payroll central budgets of **\$30-\$70M**

Central Reductions

Procurement Centralization:

Procurement processes have been further centralized to ensure best practices and compliance, resulting in:

- Decrease in year-over-year purchase orders and procured items of **\$37M** district-wide

School Budget Changes

<i>(amount in millions)</i>	2024-25
Carryover (70%)	(\$382)
New Position Allocations	\$232
Total Reductions	(\$150)

Total School GF Operational Budget	\$7,542
% Reduced	-2%

School Budget Changes

<i>(amount in millions)</i>	2024-25
New Position Allocations	\$232
Total Reductions	\$232

Total School GF Operational Budget	\$7,542
% Reduced/Increased	+3%

Central Budget Changes

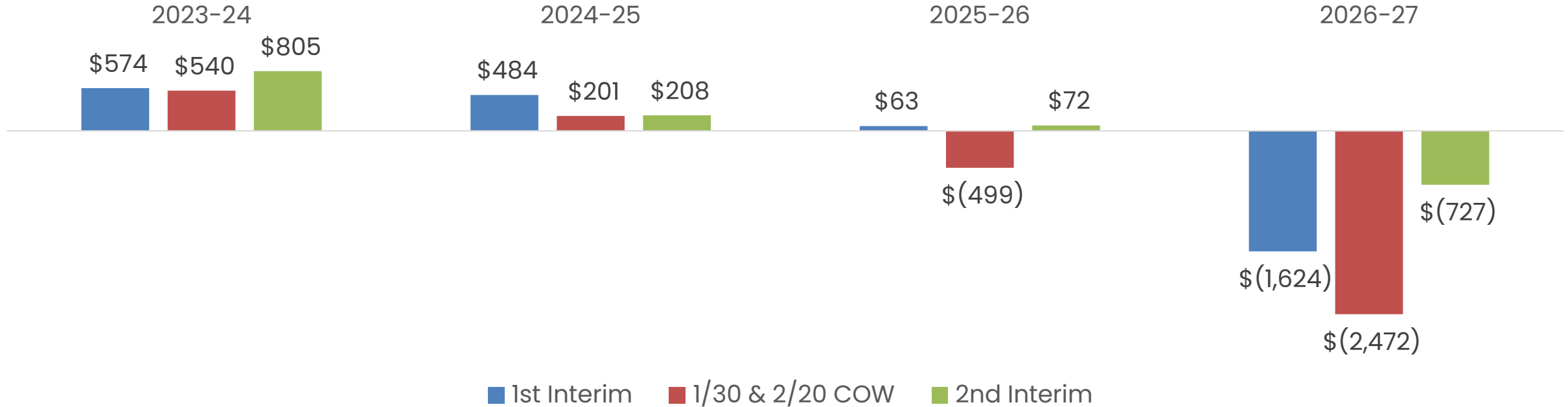
<i>(amount in millions)</i>	2023-24	2024-25
Region Realignment	(\$55)	(\$26)
Central Office Reductions	(\$48)	(\$48)
Total Reductions	(\$103)	(\$74)

Total GF Central/Region Budget	\$810	\$810
% Reduced	-13%	-9%

Multi-Year Projection Unassigned/Unappropriated Balances

In total, \$600M reserved for allocation to support ongoing investments in 2025-26 and 2026-27, contingent on fiscal conditions

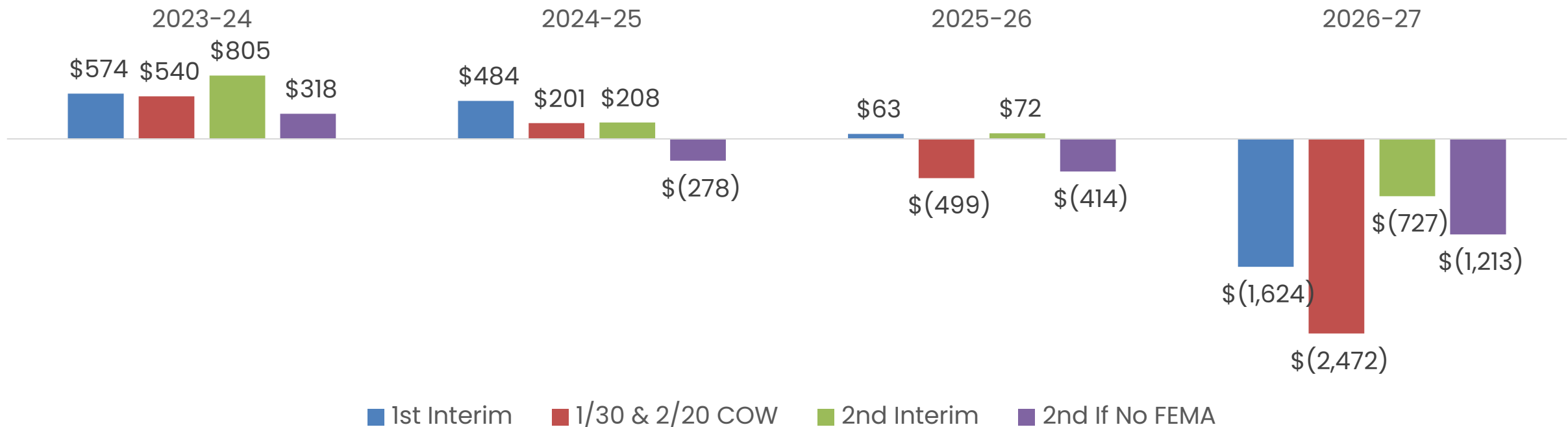
Unassigned/Unappropriated Ending Balances
(Amounts in millions)



Multi-Year Projection Unassigned/Unappropriated Balances

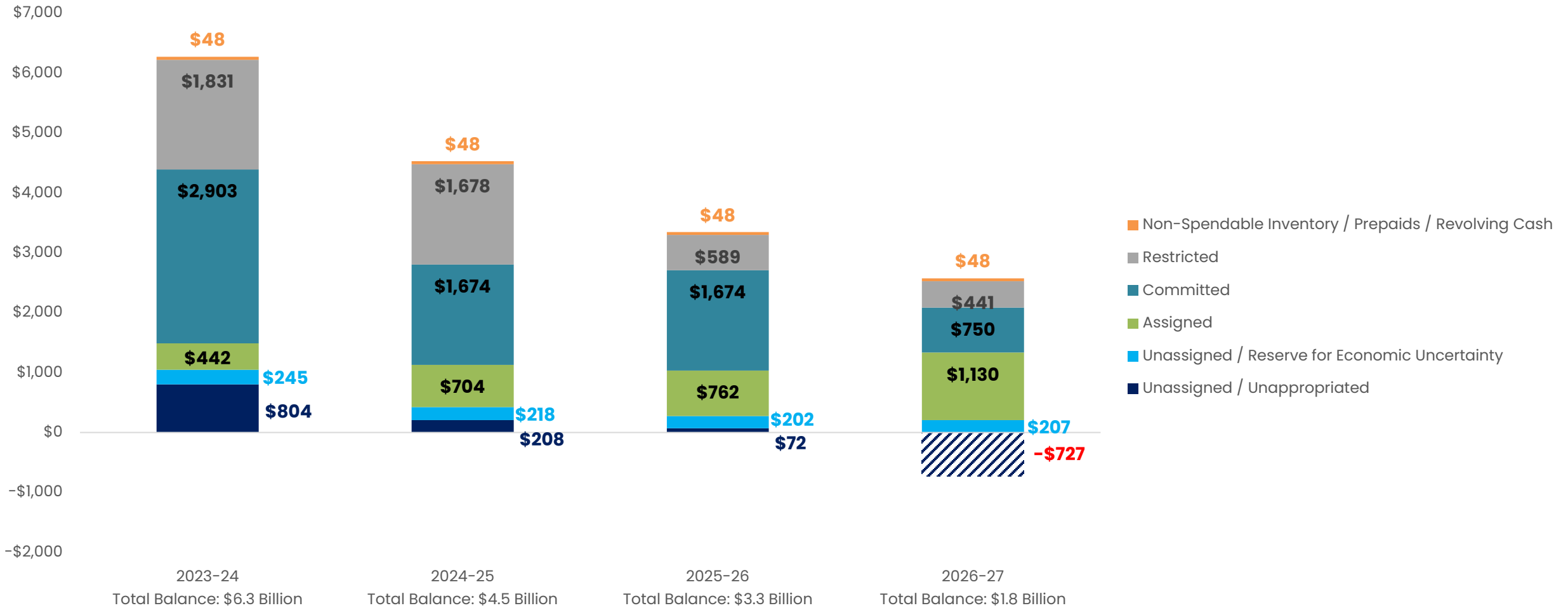
Unassigned/Unappropriated ending balances would be lower without the one-time FEMA reimbursement:

Unassigned/Unappropriated Ending Balances
(Amounts in millions)



Multi-Year Projection: Ending Balances

Components of General Fund Ending Balance
(Amounts in Millions)



Factors Not Reflected in Multi-Year Projection

- Future changes in total compensation
- Potential further reduction in state and federal funding
- Additional OPEB Trust contributions
- Potential new major programmatic investments
- Revenue impact of higher attendance

State Fiscal Outlook

- Legislative Analyst's Office (LAO) February 2024 Overview of Prop 98 and K-12 Education projects that the state is facing a \$73 billion shortfall (compared to a \$58 billion shortfall the LAO projected in January upon the release of the Governor's Proposed Budget).
- LAO expressed concerns with Governor's proposed estimate of the Prop 98 guarantee for K-12 education funding, as well as Governor's solutions for the budget shortfall.
- LAO recommendations include:
 - **Eliminate all spending increases, including the COLA** (already lowered to 0.76% in Governor's Proposed Budget).
 - **Temporarily reduce ongoing programs** such as the Expanded Learning Opportunities Program (ELOP) and the Special Education Early Intervention Grant.
 - **Pause new grants**, such as the Career Technical Education Incentive Grant Program.
 - Make changes to other ongoing programs to generate savings (and reduce District funding), such as reducing school transportation and school nutrition reimbursement rates.
 - Use the Prop 98 Reserve to address the 2022-23 shortfall.

Looking Ahead

Board Retreat on April 29, 2024, with budget topics to include:

- Defining the District's "Base Budget"
- Major strategic investments
- Trade-offs to address out-year projected negative ending balance
- Understanding school level allocations and resources

Questions?