

Governor's Proposals for the 2017-18 State Budget and K-12 Education

Presented to the
Board of Trustees

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Themes for the 2017-18 Governor's Budget

- Economic conditions continue to define options for the state
- Proposition 98 still controls education funding
- We expect major political and legislative challenges, particularly at the federal level
- The Local Control and Accountability Plan (LCAP) continues to evolve
- Execution of the Budget will present operational issues in several areas
- The road behind us has been filled with highs and lows – the road ahead will be equally uncertain



Economic Growth, Now and Later

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- All year long, the Administration has been warning of slower economic growth
 - Lower than expected state revenues
 - Continued forecasts for low growth in Proposition 98
 - The Governor over-contributed to the state's Rainy Day Fund
- We have been concerned that the top 1%, who pay half of the personal income tax and all of the Proposition 30 taxes, may not be doing as well as expected
- The November elections appear to have provided new stimuli to the economy
 - The stock market has soared
 - State and local school facility bonds were approved and will create new jobs
 - Passage of Proposition 55 will continue the high-bracket income tax supporting education funding



Proposition 98 Growth, Now and Later

- Stable or expanding economic conditions increase prosperity for the population – and increase tax revenues for the state
 - Taxes drive Proposition 98 obligations to schools
 - Revenue projections dictate the rate at which the state moves toward the Local Control Funding Formula (LCFF) full implementation targets
- Passage of Proposition 55 maintains, but does not increase, education funding above the Proposition 30 level
 - Proposition 55 is a replacement for Proposition 30, not an addition to it
- However, variability in education funding from lowered economic forecast and tax revenues more than offset the benefit of Proposition 55
- The state continues to meet the minimum Proposition 98 guarantee – and nothing more



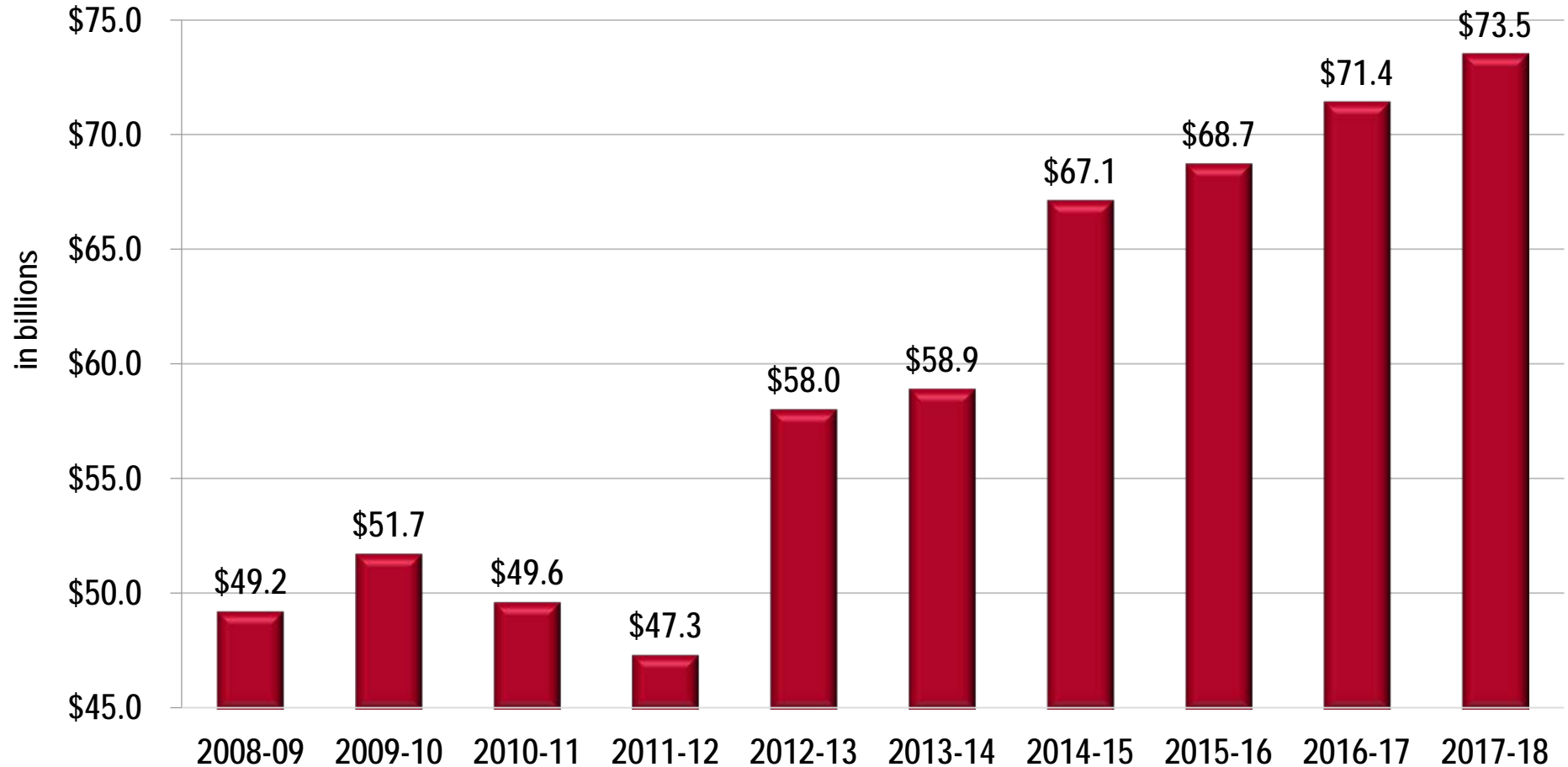
Proposition 98

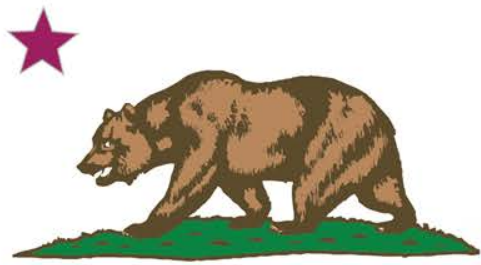
- The Governor's Budget proposes a revised current-year Proposition 98 guarantee of \$71.4 billion
 - A decrease of \$506 million from the enacted Budget due to lower-than-expected General Fund tax revenues, which declined by \$5.8 billion over the three-year budget period
- The Budget proposes Proposition 98 funding of \$73.5 billion in 2017-18, down \$953 million from the forecast level accompanying the enacted Budget
 - Funding is based on Test 3 (per capita General Fund revenues, plus 0.5%)
 - The average daily attendance (ADA) is expected to drop slightly by 0.01%
- Maintenance Factor increases by \$264 million for a total of \$1.6 billion by the end of 2017-18
 - Due to the operation of Test 3



Proposition 98

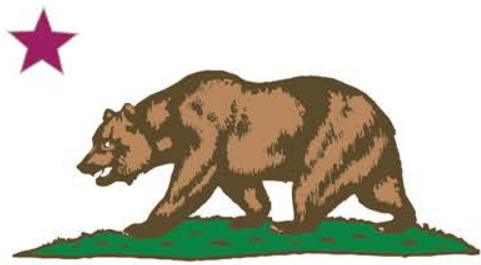
Proposition 98 Funding Over Time 2008-09 to 2017-18





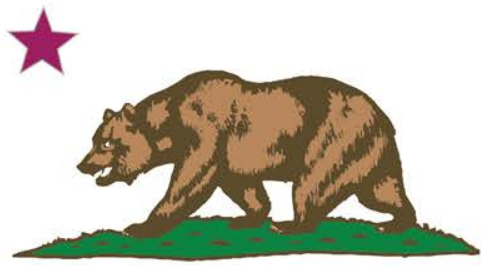
Proposition 98 and the Major K-12 Proposals

- The Governor's Budget proposal includes:
 - \$744 million for LCFF gap closure
 - \$422.9 million for the K-12 portion of Proposition 39 (2012) – Clean Energy Jobs Act
 - \$287 million for discretionary one-time uses
 - \$200 million for the Career Technical Education Incentive Grant (CTEIG) Program
 - \$93 million to support projected charter school ADA growth
 - \$58.1 million for categorical programs' cost-of-living adjustment
 - \$8.5 million for the Mandate Block Grant (MBG) to reflect the addition of the Training for School Employee Mandated Reporters program



Transition from Proposition 30 to Proposition 55

- Proposition 55 extends the temporary personal income tax increase first enacted by Proposition 30
- While the higher tax rates for high-income earners will be extended for an additional 12 years (through 2030), the sales tax increase expired at the end of 2016
 - However, the Department of Finance (DOF) forecast of General Fund revenues for the 2016-17 Budget Act assumed expiration of both taxes
 - The passage of Proposition 55, therefore, has resulted in higher projected state revenues commencing in 2018-19
 - Any revenue boost will be realized in the second half of the year, with the full effects experienced in 2019-20



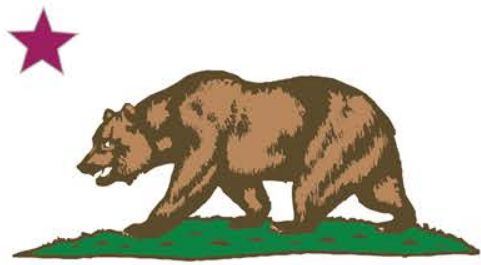
Cap on District Reserves

- The four conditions that could ultimately trigger the cap on district reserves are:
 - Fully pay outstanding Maintenance Factor of \$6.2 billion from 2014-15
 - Not met: \$543 million outstanding at the end of 2017-18
 - Proposition 98 funding based on Test 1
 - Not met: Funding based on Test 3 in 2017-18
 - Fully fund ADA growth/decline and statutory COLA
 - Met: ADA decline of 0.01% and statutory COLA of 1.48% fully funded
 - Capital gains tax revenues account for more than 8% of tax revenues
 - Met: Capital gains revenues account for 8.8% of tax revenues in 2017-18
- While the cap on district reserves will not be imposed in the near future, this remains a looming threat to district budgets and should be repealed or significantly amended



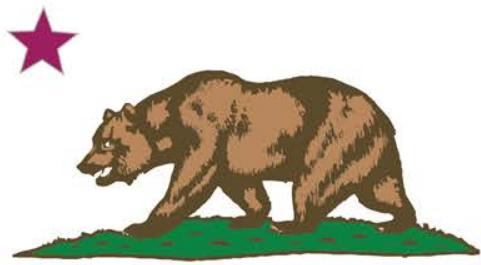
2017-18 Local Control Funding Formula

- The Budget proposes \$744 million for continued implementation of the LCFF
- New funding is estimated to close the gap between 2016-17 funding levels and LCFF full implementation targets by 23.67%
- 96% of the gap closed in the first five years, but...
 - No change from 2016-17
 - New LCFF allocation only sufficient to pay cost of the COLA increase to the grade span per-ADA rates
- The LCFF base grant targets are adjusted for an estimated 1.48% COLA in 2017-18
- 2017-18 LCFF growth provides an average increase in per-pupil funding of \$132 per ADA
 - District increase is \$111 per ADA



One-Time Discretionary Funds

- The Governor's Budget proposes \$287 million in one-time funds for school districts, COEs, and charter schools in 2017-18
 - This equates to approximately \$48 per ADA
 - Expenditure of these funds is determined by the local governing board and can be used for any one-time purpose
- Like prior years, these funds will offset local educational agencies' (LEAs') outstanding mandate reimbursement claims on a dollar-for-dollar basis
- Because all LEAs receive these one-time discretionary funds, regardless of their outstanding mandate claims, in our view these funds should not be counted as meeting this state constitutional obligation



What Does the LCFF Mean for (Insert LEA Name)?

Lowell Joint – 2017-18		
2017-18 LCFF Per ADA Funding	Projected ^(funded) 2017-18 ADA	Projected 2017-18 LCFF Total Revenue
\$7,992	3,066	\$ 24,455,768

Note: Please use the SSC LCFF Simulator to generate your LEA's unique numbers to insert in the table above.

Discretionary Funds – ONE TIME	Total
\$48 (one-time) X 2016-17 P2 ADA =	\$ 147,000



CalPERS Rate Increases

- The employer contribution to CalPERS is proposed to increase to 15.8% in 2017-18, up from 13.888% in 2016-17
- “Classic” members continue to pay 7.0%
 - New members pay 6.0%, which may fluctuate from year-to-year based on the PEPRA requirement to pay half the normal cost rate
- Estimates of the resulting future contribution rate increases for school employers are as follows:

Actual	Projected				
2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
13.888%	15.8%*	18.7%*	21.6%*	24.9%*	26.4%*

*CalPERS provided these estimates in January 2017 after the reduced returns were incorporated



CalSTRS Rate Increases

- Employer rates are increasing to 14.43% in 2017-18, up from 12.58% in 2016-17
 - No specific funds are provided for this cost increase
- Under current law, once the statutory rates are achieved, CalSTRS will have the authority to marginally increase or decrease the employer contribution rate

CalSTRS Rates

Year	Employer	Pre-PEPRA Employees	Post-PEPRA Employees
2016-17	12.58%	10.25%	9.205%
2017-18	14.43%	10.25%	9.205%
2018-19	16.28%	10.25%	9.205%
2019-20	18.13%	10.25%	9.205%
2020-21	19.10%	10.25%	9.205%



Next Steps

● State level

- Budget committee hearings
- Next update – May Revision
- State Budget by June 30

● Local level

- Second Interim Report will be presented March 6
- Adopted Budget (and LCAP) presented for review June 12
- Adopted Budget (and LCAP) approval requested June 26



Updated Multi-Year Projection

	13-14	14-15	15-16	16-17	17-18	18-19
	UA	UA	UA	FI/Gov's Bgt	Projected	Projected
LCFF Funded Percentage			91%	96%	96%	97%
LCFF COLA	1.57%	0.85%	1.02%	0.00%	1.48%	2.40%
GAP Funding	11.78%	29.97%	52.20%	54.84%	23.67%	53.85%
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Income	23,133	25,440	29,301	29,084	28,699	29,427
Expenditures	24,221	25,876	27,320	29,364	29,199	30,144
Net Operating	(1,088)	(436)	1,981	(280)	(500)	(717)
Other Sources/Uses	0	0	0	0	0	0
Net Fund Balance Change (operating loss)	(1,088)	(436)	1,981	(280)	(500)	(717)
Beginning Balance 7/1	4,657	3,569	3,133	5,114	4,834	4,334
Ending Balance 6/30	3,569	3,133	5,114	4,834	4,334	3,617
Fund Balance Components						
Stores/Revolving Cash	27	10	10	10	10	10
Restricted - Supplemental Grant Increases ABOVE COLA	251	213	0	0	0	102
Restricted - Categorical Funds/LCFF Increase ABOVE COLA	0	11	366	0	0	186
Designations (Board Restricted (i.e. schools carryover, etc.))	201	250	1,249	1,560	1,579	1,579
Amount Needed to meet Reserve	727	796	1,366	1,468	1,460	1,507
Amount Above/(Below) Desired Reserve Level	2,363	1,853	2,123	1,796	1,285	233
Percentage Ending Balance before restrictions	15%	12%	19%	16%	15%	12%
Percentage Available Above Reserve Level	10%	7%	8%	6%	4%	1%