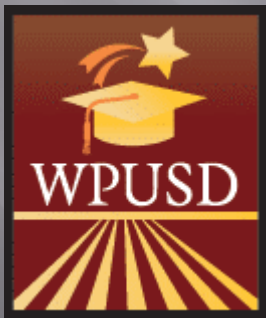


# GOVERNOR'S PROPOSALS FOR THE 2016-17 STATE BUDGET AND K-12 EDUCATION



Western Placer Unified School District  
Board of Trustees - January 19, 2016

# Themes for the 2016-17 Governor's Budget

- ▣ Governor steps up fiscal caution by predicting recession
- ▣ DOF models “modest” recession into alternative economic forecast
  - Indicates possible \$55 billion cumulative revenue loss by 2019-20
  - Assumes no Prop 30 extension
- ▣ Governor will oppose spending on new programs
- ▣ Governor's rhetoric aimed at claims that poverty and early education programs go unaddressed
- ▣ Unresolved health care and transportation funding issues may dominate budget deliberations
- ▣ K-12 budget is among the least complicated and most predicable in recent memory
- ▣ Budget will maintain focus on implementing LCFF and another healthy shot of flexible one-time funding

# Governor's Overall Budget Proposal

- ▣ \$122.6 billion GF spending (including transfers)
- ▣ \$3.11 billion Prop 2 transfer, plus an additional \$2 billion to the Budget Stabilization Account
- ▣ State General Fund expenditures:
  - K-12 41.8%
  - Health/HS 27.5%
  - Higher Ed 11.9%
  - Corrections 8.7%
  - Natural Resources 2.3%
  - Other 7.8%

# State Revenues

- ▣ Governor assumes about 6% growth in GF revenues (Governor's 2016-17 Budget over 2015-16 Budget Act)
  - Personal Income tax 7.9%
  - Sales and Use tax 2.8%
  - Corporation tax 5.9%
- ▣ Prop 30 revenues will taper off
  - Quarter-cent sales tax increase (high-earners) expires end of 2018
- ▣ Capital gains revenue remains highly volatile
- ▣ Increases in revenue trigger automatic Prop 2 transfers

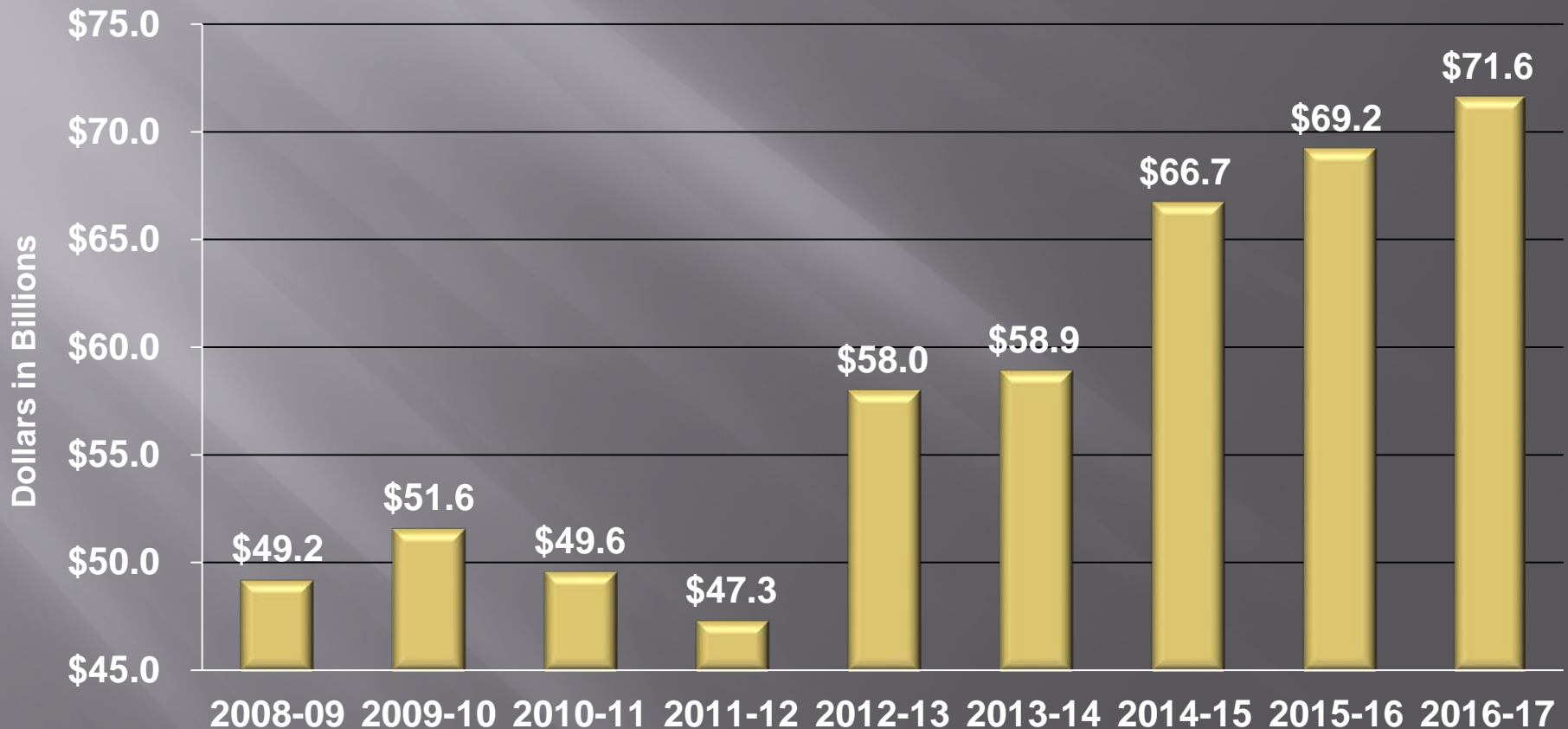
# Proposition 98 Funding

- ▣ The Governor's Budget proposes a revised current year Proposition 98 guarantee of \$69.2 billion
  - An increase of \$766 million from the enacted Budget related to an increase in the per capita personal income
- ▣ The Budget proposes Proposition 98 funding of \$71.6 billion in 2016-17, up \$2.4 billion (3.5%) from the revised 2015-16 level
  - Funding is based on per capita General Fund revenues, plus 0.5%, estimated at 2.88%
  - ADA is expected to drop slightly by 0.08%
- ▣ Maintenance Factor is fully repaid in 2015-16 with a payment of \$810 million
- ▣ General Fund support for schools slows compared to non-Proposition 98 programs: 2% increase versus 8.4% for all other programs in 2016-17



# Proposition 98 Funding Over Time

## Proposition 98 Funding 2008-09 to 2016-17



# Proposition 98 and the Major K-12 Proposals

- ▣ The Governor's Budget proposal includes:
  - \$71.6 billion for Prop 98 (\$63.2 billion in K-12)
  - \$2.8 billion for Local Control Funding Formula (LCFF) gap closure
  - \$1.6 billion for an Early Education Block Grant (not new funding)
  - \$1.2 billion for discretionary one-time uses (mandate claims offset)
  - \$61 million to support projected charter school average daily attendance (ADA) growth
  - \$30 million in one-time funds to provide academic and behavioral supports
  - \$22.9 million for categorical programs' COLA (0.47%)
  - \$20 million for charter school startup grants
  - -\$15.5 million for Special Education ADA decreases

# 2016-17 Local Control Funding Formula

- ▣ Budget proposes \$2.8 billion for continued implementation of the LCFF
- ▣ New funding is estimated to close the gap between 2015-16 funding levels and LCFF full implementation targets by 49.08%
- ▣ 85% of the gap closed in the first four years
  - Reaching to 95% of the targeted funding levels
- ▣ The LCFF base grant targets are adjusted for an estimated 0.47% COLA in 2016-17
- ▣ 2016-17 LCFF growth provides an average increase in per-pupil funding of 5.6%, or \$489 per ADA
  - Individual results will vary



# 2016-17 LCFF Target Funding Factors

- ▣ The K-12 COLA is 0.47% for 2016-17, and is applied to the LCFF base grants for each grade span

Grade Span	2015-16 Base Grant per ADA	0.47 % COLA	2016-17 Base Grant per ADA
K-3	\$7,083	\$33	\$7,116
4-6	\$7,189	\$34	\$7,223
7-8	\$7,403	\$35	\$7,438
9-12	\$8,578	\$40	\$8,618

# 2016-17 LCFF Target Funding Factors

- ▣ Two grade span adjustments (GSAs) are applied as percentage increases against the adjusted base grant, also receiving the benefit of a 0.47% COLA in 2016-17
  - Grade K-3 – 10.4% increase for smaller average class enrollments
  - Grades 9-12 – 2.6% increase in recognition of the costs of Career Technical Career (CTE) coursework

Grade Span	2016-17 Base Grant per ADA	GSA	2016-17 Adjusted Grants
K-3 (10.4%)	\$7,116	\$740	\$7,856
4-6	\$7,223	--	\$7,223
7-8	\$7,438	--	\$7,438
9-12 (2.6%)	\$8,618	\$224	\$8,842

# Dept. of Finance COLA and Gap Funding Percentage

Following are the assumptions as calculated by the Department of Finance (DOF) for the Governor's 2016-17 Budget:

Fiscal Year	COLA	Gap Closed
2015-16	1.02%	51.97%
2016-17	0.47%	49.08%
2017-18	2.13%	45.34%
2018-19	2.65%	6.15%
2019-20	2.72%	34.21%

# One-Time Discretionary Funds

- ▣ The Governor's Budget includes \$1.28 billion in fully discretionary one-time Proposition 98 funding
  - Equal to about \$214 per ADA
- ▣ The Governor suggests the one-time funds may be used to support investments in:
  - Content standards implementation, technology, professional development, induction programs for beginning teachers, and deferred maintenance
- ▣ This is not a mandate and the funds can be used for any one-time purpose
  - However, any funds received will offset state obligations for any local educational agency (LEA) with outstanding mandate reimbursements, consistent with the approach used in the 2014 and 2015 Budget Acts

# CalSTRS Rate Increases

- ▣ Employer rates are increasing to 12.58% in 2016-17, up from 10.73% in 2015-16
  - 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
2015-16	10.73%	9.20%	8.56%
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%

\*Public Employees' Pension Reform Act (PEPRA)



# CalPERS Rate Increases

- ▣ The employer contribution to CalPERS is proposed to increase to 13.05% in 2016-17 from 11.847% in 2015-16
- ▣ Estimates of the resulting future contribution rate increases for school employers are as follows:

## CalPERS Rates

Actual	Projected				
<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
11.847%	13.05%	16.6%*	18.2%*	19.9%*	20.4%*
*CalPERS provided these estimates in 2014 and has not yet issued revised estimates					

# State Lottery

- ▣ The Lottery Commission will provide updated projections for the 2016-17 fiscal year in June 2016
  - Until the projections are provided, we recommend budgeting the 2015-16 rates per ADA
  - \$181 per ADA
    - ▣ \$140 for unrestricted Lottery revenue
    - ▣ \$41 for Proposition 20 revenues

# Special Education

- ▣ The Governor's proposed 2016-17 State Budget for special education includes a 0.47% COLA
  - Estimated at \$2.50 per ADA
- ▣ Only one of the dozens of recommendations contained in the California Special Education Task Force report is included in the budget proposal
  - \$30 million in one-time funds is included to expand the Systems of Learning and Behavioral Supports initiative
    - ▣ Builds on the \$10 million included in last year's State Budget that will be allocated to one or two COEs to provide technical assistance to LEAs using the Multi-Tiered System of Supports (MTSS)

# SSC Financial Projection Dashboard

Factor		2015-16	2016-17	2017-18	2018-19	2019-20
Statutory COLA		1.02%	0.47%	2.13%	2.65%	2.72%
COLA on state and local share only of Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers/American Indian Early Childhood Education		1.02%	0.47%	2.13%	2.65%	2.72%
California Consumer Price Index		1.90%	2.22%	2.52%	2.62%	2.52%
California Lottery	Base	\$140	\$140	\$140	\$140	\$140
	Proposition 20	\$41	\$41	\$41	\$41	\$41
Interest Rate for Ten-Year Treasuries		2.21%	2.40%	2.75%	2.80%	2.70%
CalPERS Employee Rate (projected)		11.847%	13.05%	16.60%	18.20%	19.90%
CalSTRS (Employee Rate (statutory))		10.73%	12.58%	14.43%	16.28%	18.13%

# What's Proposed for the Rest of the Budget?

- ▣ What the State Budget proposes outside of education:
  - A supplemental deposit of \$2 billion into the state's Rainy Day Fund
  - A tax reform package that includes a replacement managed care organization tax (which is expiring this year) for three years
  - Flat tuition for University of California, California State University, and the California Community Colleges
  - \$807 million for deferred maintenance of levees, state parks, universities, community colleges, prisons, state hospitals, and other state facilities
  - A \$3.1 billion Cap and Trade Expenditure Plan for programs that support clean transportation and benefit disadvantaged communities
  - Provides \$380 million for the second year of the Earned Income Tax Credit



# What's Not in the State Budget?

- ▣ Unfortunately, many critical issues are missing from the Governor's State Budget proposal:
  - No proposal for a statewide school facilities bond or program, although Governor Brown notes his perceived downsides of the current school facilities program
  - No new funding to address the increased employer contributions to the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS)
  - No new funding for transportation

# School Facilities

- ▣ Governor Brown criticizes the Californians for Quality Schools' \$9 billion school bond initiative as perpetuating the “deficiencies of the existing program” and adding an additional \$500 million in annual debt service
- ▣ Governor Brown invites a dialogue with the Legislature and education stakeholders

“ . . . to shape a future state program focused on districts with greatest need, while providing substantial new flexibility for districts to raise the necessary resources for their facilities needs.”

—*Governor's Budget Summary, 2016-17*

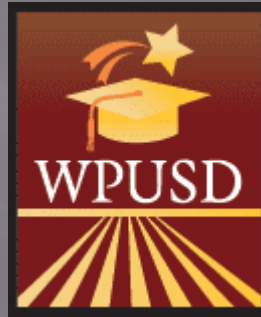
# Next Steps

## ▣ State level

- Budget committee hearings
- Next update – May Revision

## ▣ District level

- Second Interim Report - March 2016
- District Attendance Reporting (P-2) – April 2016
  - 2015-16 Actual P-2 ADA may drive change in 2016-17 Projected Funded ADA
- Governor's May Revision – May 2016



# QUESTIONS & COMMENTS