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Western Placer Unified School District

Governor's 2017-18 May Revision

May 16, 2017

2017-18 May Revision - Overview

THEME OF MAY UPDATE

Governor Brown released his budget revision May 11, 2017, continuing to urge the Legislature to not spend beyond current investments on anti-poverty and education programs. Standing next to budget charts that outline deficit years outweighing surplus years by 7 to 1 and the possible fiscal constraints should the federal healthcare changes take effect, Governor Brown continued to make the case for building up the state's rainy day fund and tempering expectations.

In January, the Governor's proposed budget indicated a \$5.8 billion lower than expected revenue forecast compared to the enacted 2016 Budget. May Revision adjusts revenues upward by \$2.5 billion, but continues to outline a \$3.3 billion decline in revenues from a year ago. The uptick in revenues means that K-12 education will not face a deferral and will receive additional dollars towards the Local Control Funding Formula.

ECONOMIC OUTLOOK

The Governor's May Revision once again sets a somber tone, emphasizing that it will be critical for our state to be prepared for financial risks beyond the state's control. The Governor's budget continues to assume federal funds and policies remain in place for the upcoming year, but highlights that should the repeal of the Affordable Care Act take effect, the state would lose about \$4.3 billion by 2020, which would increase to \$13 billion in 2027. Such a reduction in federal funding would necessitate a reduction in funding for core state programs, while threatening access to healthcare services to 5 million Californians.

State General Fund Revenue Changes Since January

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State Revenues

While not at the level that education has experienced in the past, revenue projections are once again up as part of the May Revision compared to the Governor's January Budget. Personal income tax and corporation tax revenues are up \$2.9 billion and \$400 million, respectively, while sales tax revenues are down \$1.2 billion due to weak cash receipts. These factors reduce the forecast for 2016-17 by \$225 million compared to the January Budget, but increase the 2017-18 forecast by \$1.9 billion. Total General Fund revenues are projected to be \$118.5 billion in 2016-17 and \$125.9 billion in 2017-18.

General Fund Revenue Sources (Dollars in Million)

	Revised 2016-17	January 2017-18	May 2017-18	% Change from 2016-17
Personal Income Tax	\$83,161	\$85,866	\$88,961	7%
Sales Tax	24,494	25,179	24,470	-0.1%
Corporate Tax	10,210	10,878	10,894	6.7%
Insurance Tax	2,483	2,368	2,538	2.2%
Alcoholic Beverage Taxes & Fees	375	372	377	0.5%
Insurance Tax	79	65	65	-17.7%
Motor Vehicle Tax	24	24	24	0.0%
Other	727	431	358	-50.8%
Subtotal	\$121,553	\$125,183	\$127,687	5%
Transfer to <u>BSA</u> /Rainy Day Fund	-3,013	-1,156	-1,775	-41.1%
Total	\$118,540	\$124,027	\$125,912	6.2%

K-12 Proposal – Overview

- ❑ **Proposition 98.** The Governor calculates the 2017-18 Proposition 98 guarantee at \$74.6 billion, up about \$1.1 billion compared to January. This number is almost exactly what the LAO estimated in November 2016.
- ❑ **Local Control Funding Formula.** Provides \$1.4 billion Local Control Funding Formula, an additional \$661 million from January's Proposal. Brings the formula to 97 percent of full implementation.
- ❑ **One-Time Discretionary Funding.** Provides \$1 billion in one-time discretionary funding (approximately \$170 per ADA), an additional \$750 million from January's Proposal, and to be used to implement the state-adopted academic standards, professional development, and teacher induction costs. Like prior years, these funds offset local educational agencies' outstanding mandate claims. However, for 2017-18, the entire \$1 billion comes with a catch: The funds are not scheduled to be disbursed until May 2019 (2018-19 FY). The Governor's intent of holding onto the funds is to ensure that Proposition 98 is not over appropriated as a result of lower-than-expected revenues in the 2017-18 fiscal year.
- ❑ **Apportionment Deferrals.** Deferrals of \$859 million, as proposed in January, have been rescinded as a result of additional resources available from the 2015-16 and 2016-17 fiscal years. State aid payments in the month of June 2017 are back to their original schedule.
- ❑ **Cost-of-Living Adjustments (COLA).** Increases slightly from the 1.48% estimated in January to 1.56%.

K-12 Proposal – LCFF GAP Closure Estimates

LCFF Gap Closure Estimates – May 2017 (Dollars in Millions)

	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>
LCFF Funding - State	\$2,942	\$1,387	\$2,015	\$1,472	\$1,857
Gap Closure	55.03%	43.97%	71.53%	73.51%	100.00%
<i>Gap Closure - Jan 17</i>	<i>55.28%</i>	<i>23.67%</i>	<i>53.85%</i>	<i>68.94%</i>	<i>100%</i>
COLA	0.00%	1.56%	2.15%	2.35%	2.57%
<i>COLA – Jan 2017</i>	<i>0.00%</i>	<i>1.48%</i>	<i>2.40%</i>	<i>2.53%</i>	<i>2.66%</i>

Other Program and Spending Adjustments

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- **Educator Workforce:** The Governor notes modest expenditures made in the 2016 Budget Act to support Commission on Teacher Credentialing (CTC) programs, but proposes no new state spending to deal with the educator shortage. The May Revision does propose to reallocate some federal funds to address recruitment and retention issues.
- **Special Education:** The May Revision notes that the Dept. of Finance held four special education stakeholder meetings over the last few months, and indicates that the Administration will assess the information received and spend additional time to examine “a path forward that will maximize resources to serve students while increasing transparency and accountability.” In other words, no changes for special education funding or programs this year.
- **Child Care and State Preschool:** The 2016 Budget Act began to implement a three-year plan to increase provider reimbursement rates and add additional full-day State Preschool slots. In January, the Governor proposed “pausing” the implementation of the plan during 2017-18 due to lower than expected projected revenue growth. With the improvement in revenue projections, the May Revision no longer proposes a pause, and provides funding consistent with the original three-year implementation plan.

CalSTRS and CalPERS

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School districts and county offices of education continue to feel the pressure of rising CalSTRS/CalPERS employer costs, which offset (and for some school agencies, eliminate) modest growth in funding.

While the Governor proposes a **\$6 billion** supplemental payment to CalPERS with a loan from the Surplus Money Investment Fund to reduce the State's unfunded liabilities, there is no similar proposal to assist local school agencies.

K-12 School Facilities Program

Governor Brown will support Proposition 51 fund expenditures when both the grant agreement and audit requirements are in place.

- **Grant Agreement.** The Office of Public School Construction has been tasked to develop a grant agreement that will be approved by the State Allocation Board at their next meeting.
- **K-12 Audit Guide.** The Administration is proposing trailer bill language to require local independent auditors to verify that local educational agencies participating in the School Facilities Program have appropriately expended state resources.
- The State Allocation Board is scheduled to take action on the proposed grant agreement at its May 2017 meeting.

Closing Thoughts on May Revision

- All in all, the May Revision is better for public education than the January Budget. But only enough to offer slightly better prospects for maintaining programs. There is little room for growth in program costs or new programs.
- The best education plans have always shared the characteristics of good reserves, conservative budgeting, and rigorous setting of priorities. That will continue to be true over the next few years under the Governor's plan.

Next Steps

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- State level
 - ▣ Budget Committees conduct broad overview
 - ▣ LAO issues detailed review of Governor's May Revision
 - ▣ Budget Subcommittee process
 - ▣ Negotiations between the Governor and Legislature
 - ▣ On time budget - June 15th requirement

- Local level – WPUSD
 - ▣ **June 6, 2017 Board Meeting** – Public Hearing of WPUSD Local Control and Accountability Plan (LCAP) and 2017-18 Preliminary Budget
 - ▣ **June 20, 2017 Board Meeting** – Adopt WPUSD Local Control and Accountability Plan (LCAP) and 2017-18 Adopted Budget
 - ▣ State Budget Approval - 45-day District budget revision if material changes from Adopted Budget

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Questions?