

Governor's Proposals for the 2018-19 State Budget

**Ocean View School District
January 23, 2018**



School Services of California, Inc.
Capital Advisors Group, LLC

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California Economy

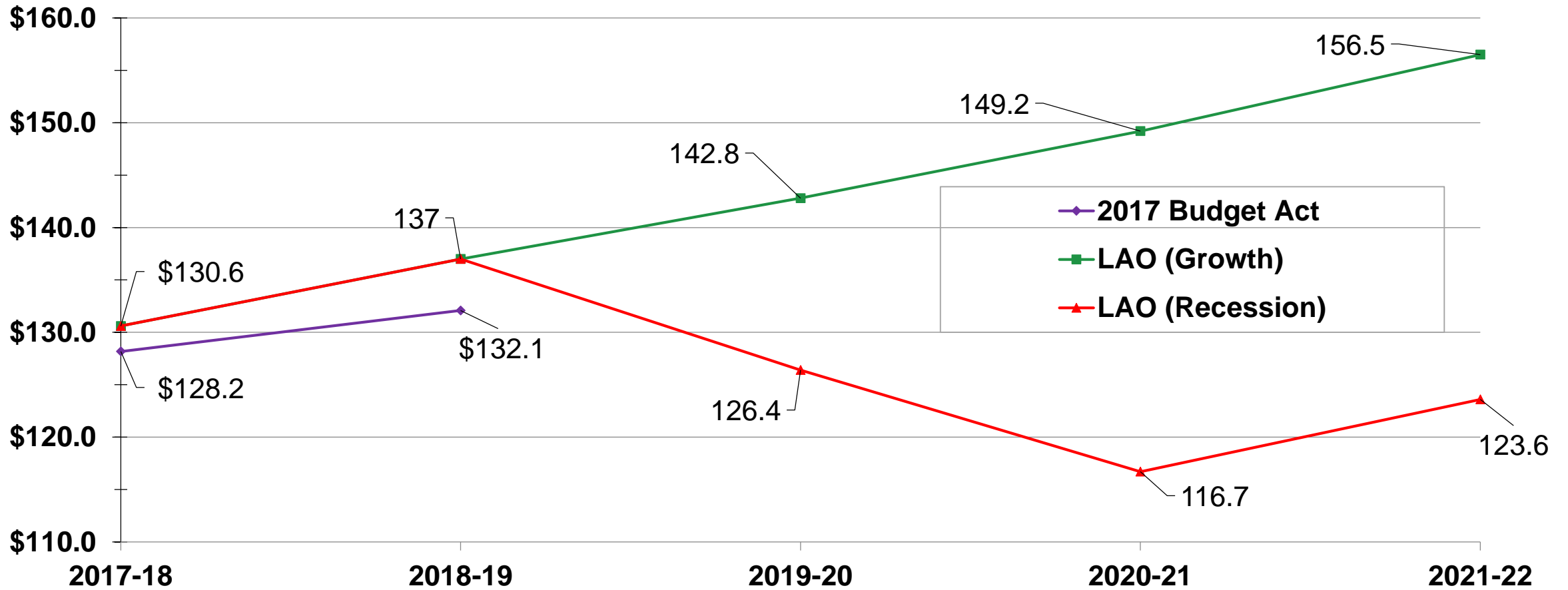
- **California economy is slowing down**
- **How the new federal tax plan will affect California is still up in the air**
- **California leaders strongly opposed the recent federal tax overhaul, claiming that California is already a donor state**
- **According to the LAO, California pays more in taxes than it receives in expenditures from the federal government**
- **The 2018-19 State Budget includes continuing or expanding investments to combat poverty, expand access to healthcare, and keep the costs of higher education affordable**
- **The Budget also includes investments to maintain and improve the state's infrastructure and to combat climate change**



State General Fund Revenues Projected

(billions of dollars)

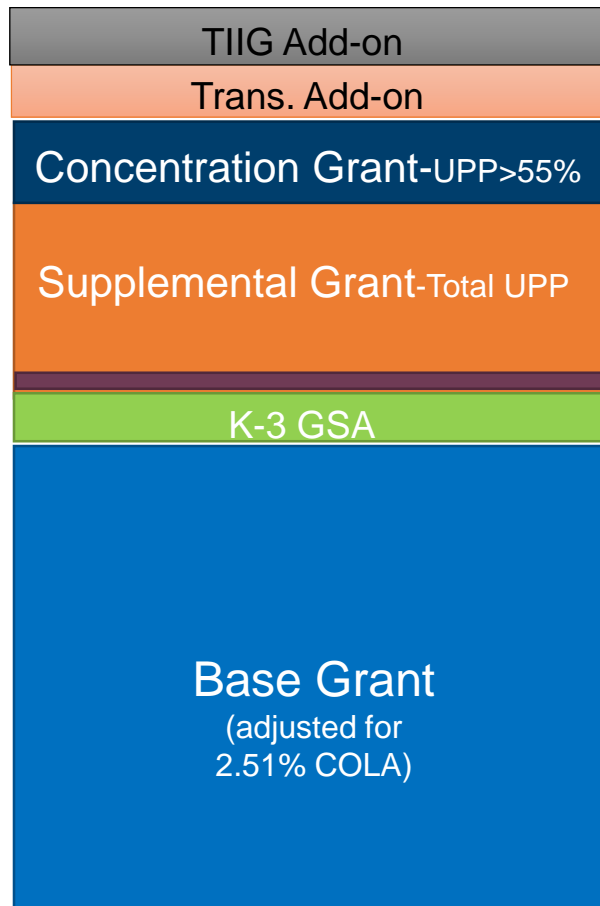
Sunny 2018, Cloudy 2019





LCFF in One Chart

Entitlement Target



2018-19 Funding



← 9-12 GSA

2017-18 Funding



LCFF Gap Closure

(billions of dollars)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Transition Funding	\$2.067	\$4.722	\$5.994	\$2.942	\$1.362	\$2.883
GAP Closure	12.00%	30.16%	52.56%	56.08%	44.97%	100%
COLA	1.57%	0.85%	1.02%	0.00%	1.56%	2.51%
Percent of Target Funded	72%	80%	90%	96%	97%	100%

The LCFF Target was recalculated on an annual basis contingent on the transition funding allocation to the LCFF.



What's Next for LCFF?

- **Total funding in LCFF at the end of 2018-19: \$60.3 billion**
- **LCFF full implementation means we end the transitional funding system that bridged Revenue Limits and LCFF**
 - **Base Grants get COLA; Supplemental/Concentration Grants and GSAs change accordingly**
 - **No more “Gap” funding – generally funded at Target**
 - **Potential for deficitting (new gap) in a downturn**
- **24-1 class size in K-3 enforced, unless exempted**
- **COLAs projected from 2.41% to 3.17% through 2022-23**



2018-19 Local Control Funding Formula and One-Time

- **The Budget proposes nearly \$3 billion for full implementation of the LCFF**
 - **Two years ahead of the intended 2020-2021 implementation date**
- **New funding is estimated to completely close the gap between 2017-18 funding levels and LCFF full implementation**
- **The LCFF base grant targets are adjusted for an estimated 2.51% COLA in 2018-19**
- **Because of the Administration's conservative revenue projections each year, the state again experienced significant one-time revenues**
 - **The Governor's Budget proposes an additional \$1.8 billion in one-time funds for 2018-19**
 - **This equates to approximately \$295 per ADA**
 - **Expenditure of these funds is determined by the local governing board and can be used for any one-time purpose**



2018-19 LCFF Target Funding Factors

- The K-12 COLA is 2.51% for 2018-19 and is applied to the LCFF base grants for each grade span
- Achieve full funding of the base grant targets two years early

Grade Span	2017-18 Base Grant Per ADA	2.51% COLA	2018-19 Base Grant Per ADA
K-3	\$7,193	\$181	\$7,374
4-6	\$7,301	\$183	\$7,484
7-8	\$7,518	\$189	\$7,707

- State law will require that the LCFF base grants only receive a COLA once full funding is achieved



2018-19 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 2.51% COLA in 2018-19
 - Grade K-3 – 10.4% increase for smaller average class sizes

Grade Span	2018-19 Base Grant Per ADA	GSA	2018-19 Adjusted Base Grant
K-3	\$7,374	\$767	\$8,141
4-6	\$7,484	–	\$7,484
7-8	\$7,707	–	\$7,707



2018-19 LCFF Target Funding Factors for OVSD

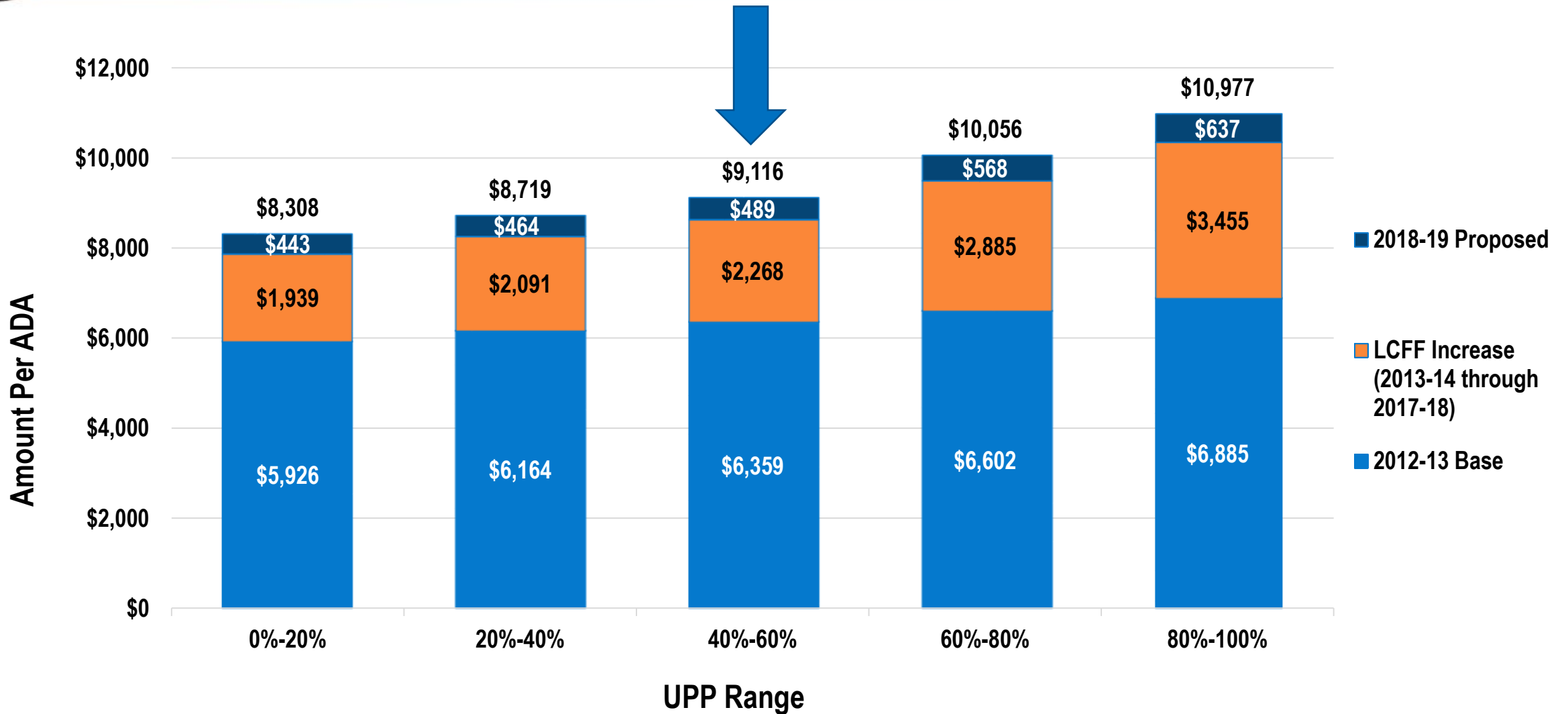
- Supplemental and concentration (S/C) grants are calculated based on the percentage of an LEA’s enrolled students who are English learners (EL), free and reduced-price meal program eligible, or foster youth – the unduplicated pupil percentage (UPP)

Grade Span	2018-19 Adjusted Grants Per ADA	X 20% Supplemental Grant	X Total OVSD UPP *	2018-19 Adjusted	2018-19 Increase > 1 st Interim
K-3	\$8,141	\$1,628	\$796	\$8,937	\$32
4-6	\$7,484	\$1,497	\$732	\$8,216	\$29
7-8	\$7,707	\$1,541	\$753	\$8,460	\$30

* Different for each district – OVSD projected 48.85%



Transitioning to Full Funding of LCFF Entitlements





Special Education

- **The Governor proposes modest one-time and ongoing funding for special education programs, including:**
 - **2.51% cost-of-living increase, estimated at \$13.58 per ADA**
 - **\$100 million in one-time funding for districts to implement programs to increase and retain special education teachers**
 - **\$167.2 million in one-time funds focused on increasing availability of programs for low income children age 0-5, including children with disabilities**
 - **No funding is proposed to increase and equalize AB 602 base rates**
- **Special Education costs increase as overall funding declines and student needs increase**
- **No mechanism in place to increase funding based on student needs**



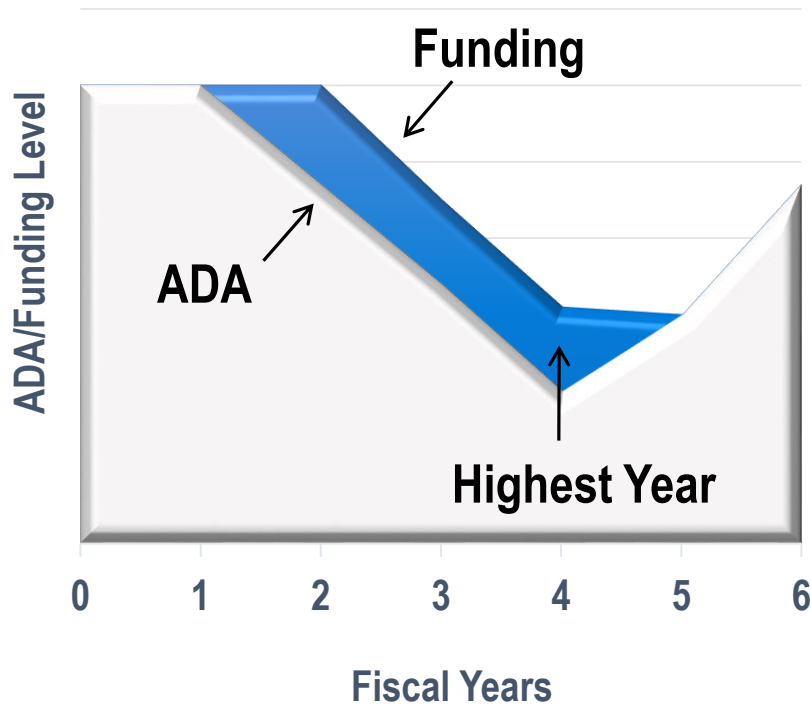
What's Not in the Education Budget?

- **The 2018-19 Budget proposal provides no funding for the following critical items:**
 - **Increasing the LCFF base grant target to reach the funding level of the top ten states**
 - **The growing local obligations for the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) unfunded liability**
 - **Home-to-School Transportation programs**
 - **Increasing and equalizing Assembly Bill (AB) 602 base funding rates for special education**



Declining Enrollment

Example:



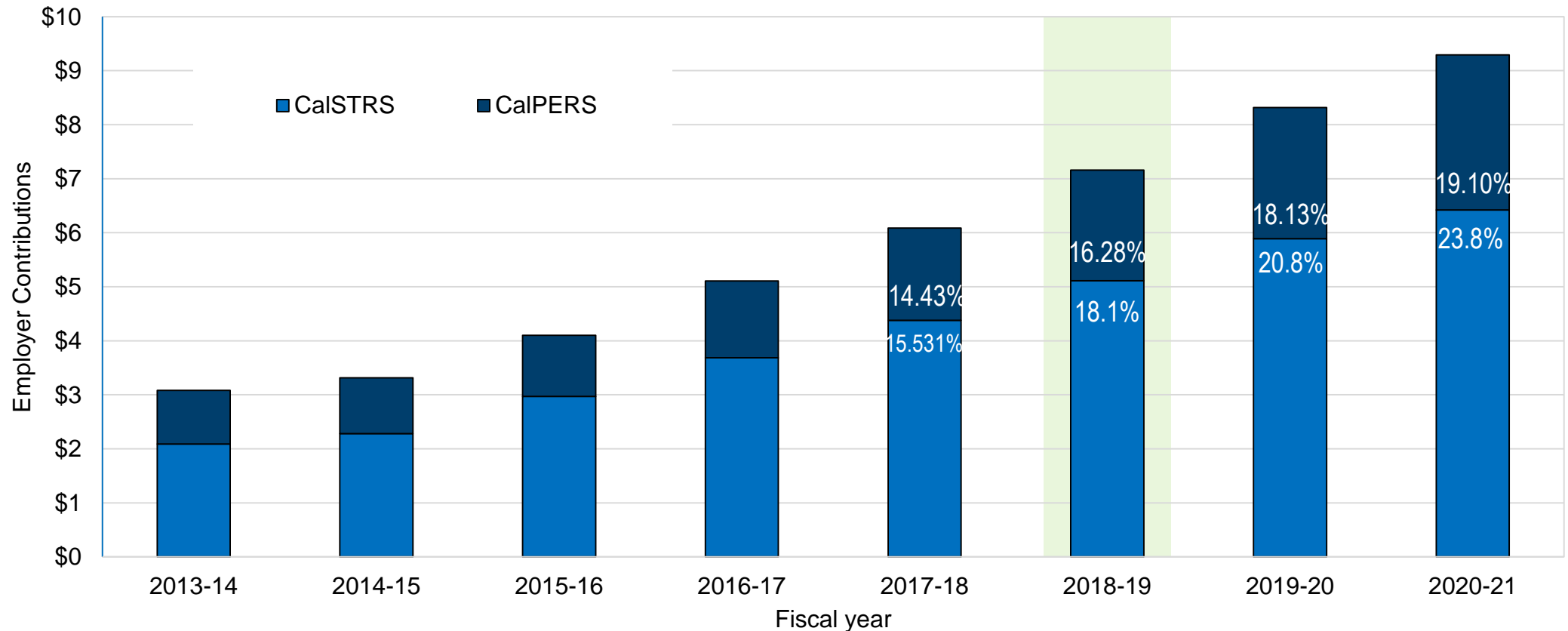
Impact of ADA Decline

- Declining enrollment funding only delays – it doesn't relieve – the need for budget reductions
- Budget/Program increases will be lost in years of decline unless there are budget reductions equal to the revenue loss
- A budgeting crisis will also occur at the turnaround: more students, no more dollars



CalSTRS & CalPERS: Employer Contribution Rates

Projected Annual K-12 Employer Contributions
in billions



- **\$1.07 billion is the average year-over-year pension cost increases for each of the next three years**



The Good News and Challenges

- **A continuation of the state's conservative budgeting produces**
 - **Higher than anticipated funding in 2018-19**
 - **Catch up increases for Proposition 98 for prior years**
 - **Significant one-time unrestricted dollars for all districts**
- **However, future increases flatten out and are well below projected cost increases**
 - **In a 2% to 3% COLA environment, CalSTRS/CalPERS, step and column, and health and welfare increases cost more than the new revenues**
 - **The MYPs are likely to show continued deficits in the third year for most districts, particularly those with declining enrollment**



Key Messages for Ocean View School District

- 1. The Governor's Administration has been warning of slower economic growth, and the next recession.**
- 2. Step and column, CalSTRS and CalPERS employer contributions are still increasing, and contributions to restricted programs continue to increase.**
- 3. Notwithstanding state revenue increases, declining enrollment has had a negative impact on District funding.**
- 4. Economic cycles drive a need for sustainable systems, including substantial reserves and the ability to reduce programs in the event the District loses state or local funding.**
- 5. Multiyear projections (MYPs) continue to show the need for budget reductions to balance budgets in the out years.**
- 6. Bottom line, the District will have difficulty sustaining commitments made in prior years even with projections of higher state revenue in the next fiscal year.**



What's Next

- **January through May:**
 - **The Governor's Budget marks the beginning of the process, not the end**
 - **Budget subcommittees review**
 - **LAO issues detailed review of Governor's plan – expect support for spending restraint and slightly higher revenue forecast**
- **March – 2nd Interim Budget**
- **May Revision**
- **On-time State budget by June 15**



Questions?