May Revise Budget Presentation

Ocean View School District

May 23, 2017

Presented by:

Carol Hansen, Ed.D., Superintendent
Michael Conroy, Ed.D., Deputy Superintendent
Joe Webber, Director of Fiscal Services

Proposition 98 Still Governs the Level of Funding

- **While Proposition 98 continues to rise, the rate of increase is much lower than has been experienced over the last few years**
- **Past years have started with low revenue forecasts that got better**
  - This year, Governor Jerry Brown's 2017-18 January forecast was lower than stated in the 2016-17 Adopted Budget
  - However, the May Revision once again reflects higher revenues for 2017-18 than the January Budget due to increases in personal income and corporation taxes
- **Both one-time and ongoing revenues to education grow above the January forecast for 2017-18**
  - And the proposed deferral is eliminated

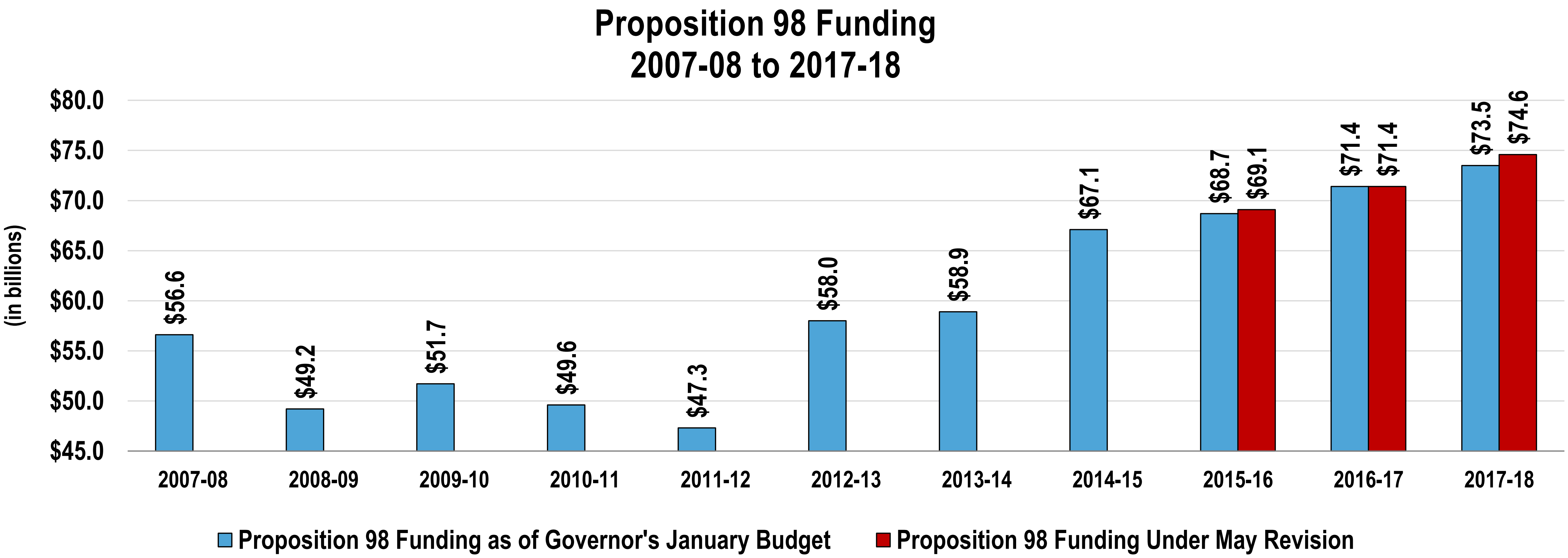
Prop 98 Theme: The Good, the Bad & the Ugly

The Good:
- No deferral
- 2015-16 and 2016-17 Guarantees hold
- 2017-18 Guarantee up by $3.2 billion (consistent with economic forecast)

The Bad:
- Statutory supplemental appropriation related to Test 3B is eliminated from 2016-17 to 2020-21 (-$347 million in 2016-17, and $867 million fro 2018-19 thru 2020-21)

The Ugly:
- All of the one-time funding for 2017-18 (approx. $1 billion) is a contingent appropriation, with funds only available in May 2019 if the Prop 98 Guarantee for 2017-18 remains at $74.6 billion of higher
- Jerry Brown will no longer be Governor

Proposition 98 Funding



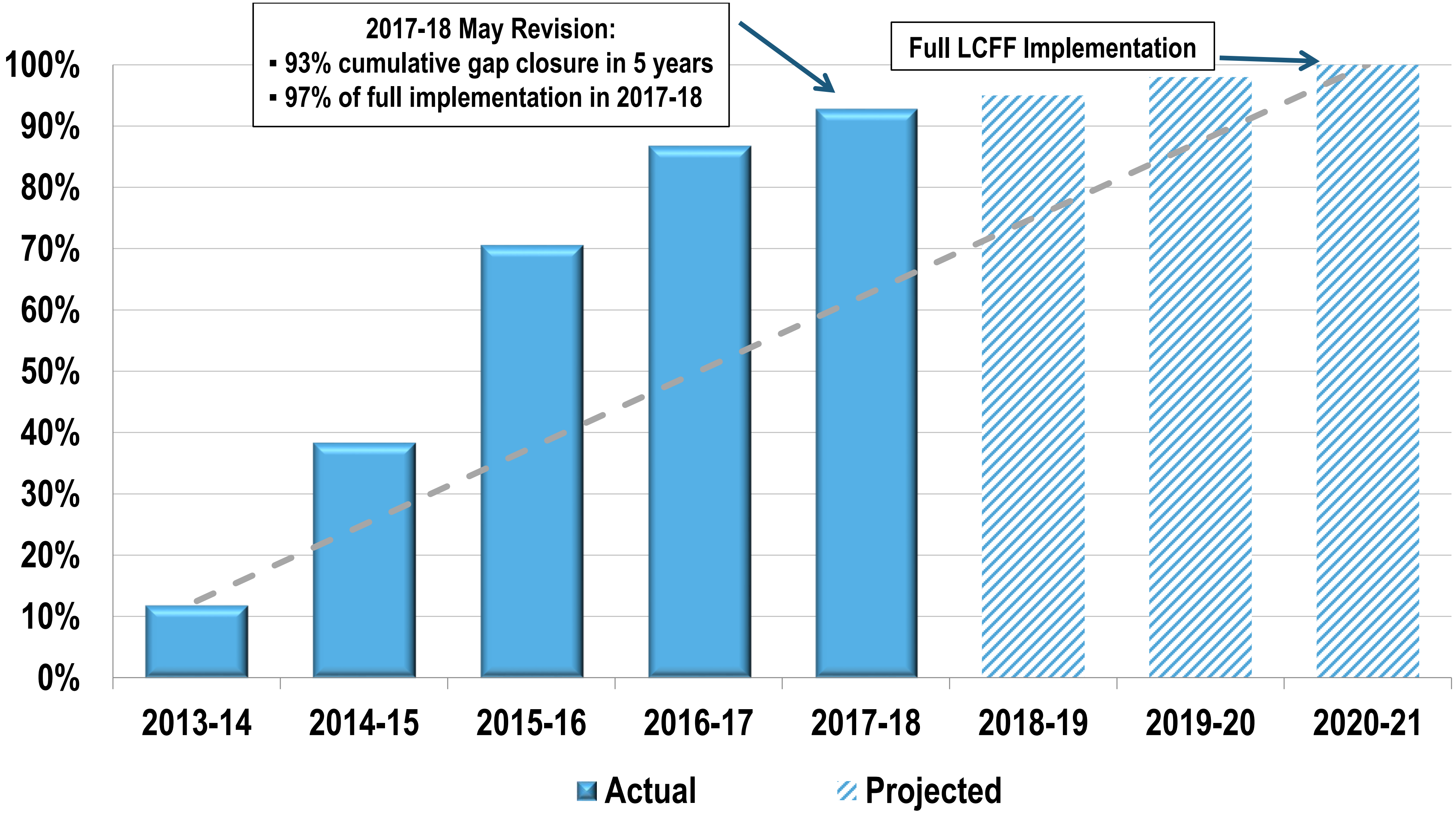
Source: 2017-18 Governor’s Budget Summary, pg. 18 and 2017-18 May Revision, pg. 4

January Budget vs. May Revision

Item	January Budget	May Revision
LCFF Gap Funding	23.67% or $744 million	43.97% or $1.4 billion
Proposition 98 Minimum Funding Guarantee 2015-16 2016-17 2017-18	$68.7 billion $71.4 billion $73.5 billion	$69.1 billion $71.4 billion } $3.2 B $74.6 billion
2017-18 COLA	1.48%	1.56%
One-Time Discretionary Funds for 2017-18	$287 million $48 per ADA	$1.01 billion* $170 per ADA

*Not received until May 2019

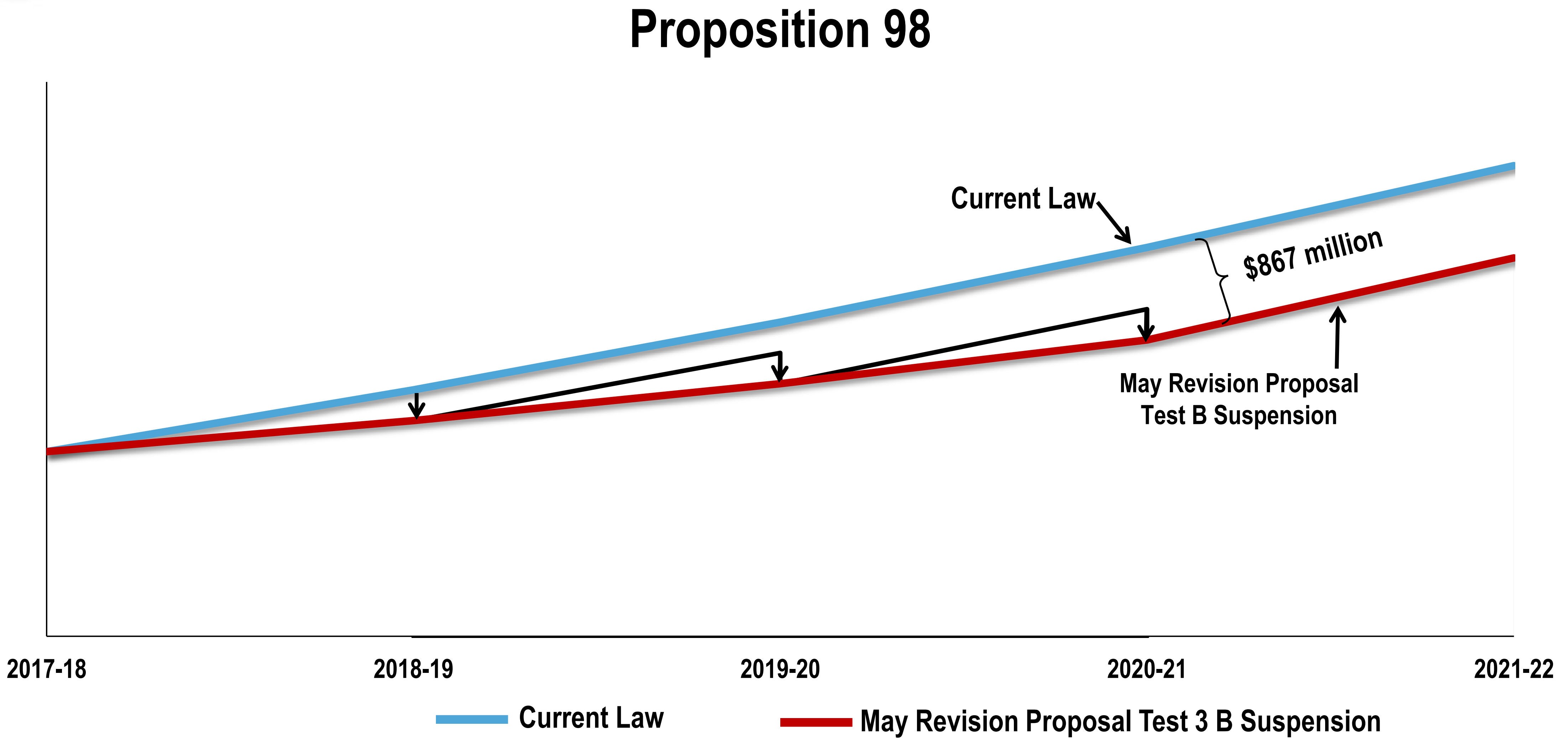
Progress Toward LCFF Implementation



Implications for Education Funding

- **The Administration continues to signal that the next recession is just around the corner**
  - The Governor was quick to point out that the current recovery is the third longest in the post-war period and if there is not a recession within the next two years it would be historic
  - However, the Budget forecast does not project a recession and, in fact, reflects continued growth over the next four years
- **The largest impact to education is the proposed suspension of the statutory Proposition 98 Test 3B supplemental appropriation of $347 million for 2016-17, and an estimated $867 million over the three-year period from 2018-19 through 2020-21**
  - Although funding reduced through this mechanism will be automatically added to the maintenance factor obligation, there are still unanswered questions on how this strategy will affect future Proposition 98 funding

Proposition 98 Funding Loss



One-Time Discretionary Funds

- As a result of modest revenue increases since the release of the January Budget, the May Revision proposes an increase in discretionary one-time funding of just under $750 million

	January Budget	May Revision
Per-ADA	$48	$170
Total	$287 million	$1.01 billion

- But, the Governor proposes to hold ***all*** of the funds until May 2019!
- Funds can be used for any one-time expenditure as determined by a local governing board
  - No one-time funds apportioned in 2017-18

CalPERS Employer Contribution Rate Increases

- The California Public Employees' Retirement System (CalPERS) Board adopted an employer contribution rate of 15.531% for 2017-18, almost 2% higher than the current-year rate of 13.888%
- While the new projected rates are slightly lower than those previously released by CalPERS, they are still significant annual increases that will add to the squeeze on base revenues
- CalPERS Board also adopted the contribution rate for employees subject to the Public Employees' Pension Reform Act (PEPRA)
  - Currently, PEPRA members are contributing 6%, which will increase to 6.5% for 2017-18
  - "Classic" members continue to pay 7.0%

Year	Previously Released Employer Contribution Rates	Employer Contribution Rate*	OVSD Projected Impact (@ 2nd Interim)
17-18	15.8%	15.531%	$317,757
18-19	18.7%	18.1%	$321,021
19-20	21.6%	20.8%	$313,405
20-21	24.9%	23.8%	TBD
21-22	26.4%	25.2%	TBD
22-23	27.4%	26.1%	TBD
23-24	28.2%	26.8%	TBD
24-25	N/A	27.3%	TBD

*Actual for 2017-18

Funding CalSTRS

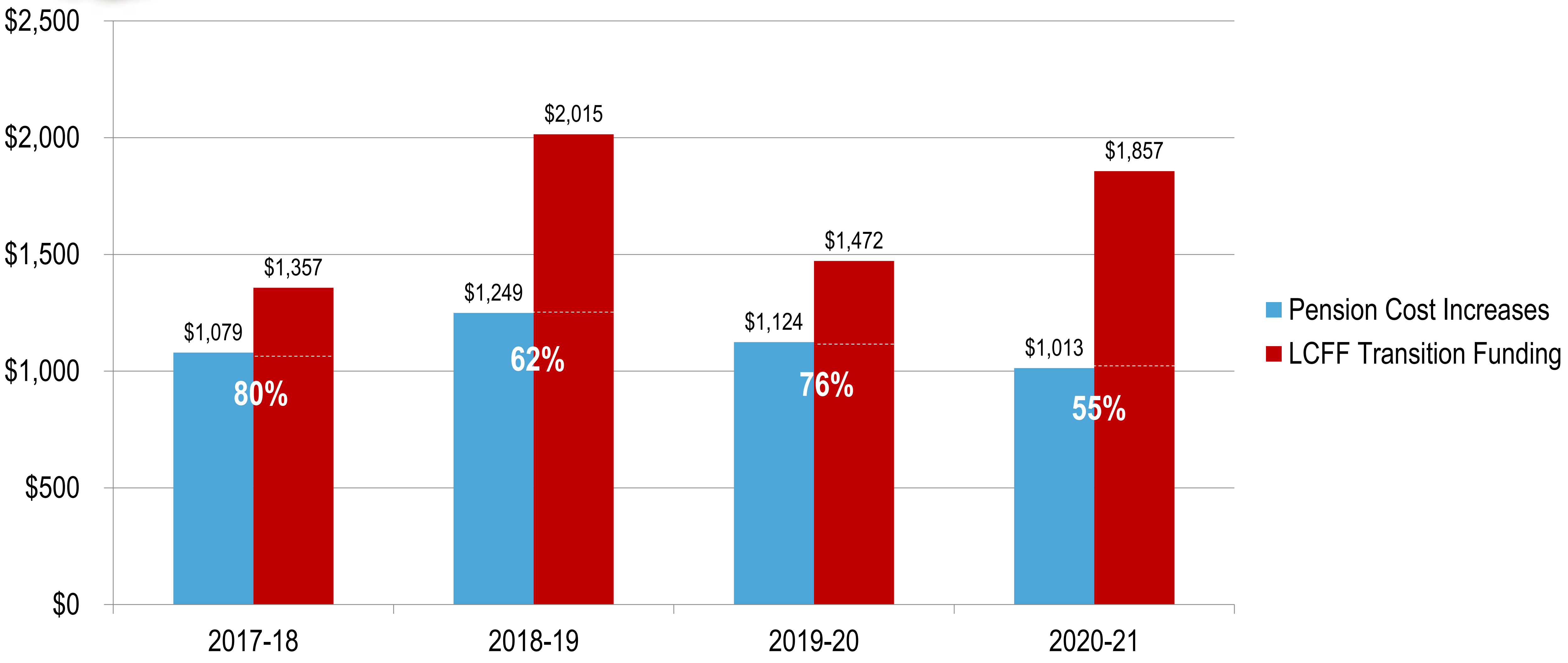
- **Employer rates are increasing to 14.43% in 2017-18, up from 12.58% in 2016-17**
  - No specific funds are provided for this cost increase
- **Under Education Code Section 22950.5, once the statutory rates are achieved, the California State Teacher's Retirement System (CalSTRS) will have the authority to marginally increase or decrease the employer and state contribution rate**
  - CalSTRS cannot increase rates by more than 1% in a year and cannot exceed 12% overall, until the remaining unfunded actuarial obligation is eliminated

Year	Employer Contribution Rate	OVSD Projected Impact (@ 2nd Interim)	Pre-PEPRA* Employees	Post-PEPRA** Employees
16-17	12.58%	$751,339	10.25%	9.205%
17-18	14.43%	$741,601	10.25%	9.205%
18-19	16.28%	$740,543	10.25%	9.205%
19-20	18.13%	$744,884	10.25%	9.205%
20-21	19.10%	TBD	10.25%	9.205%

* First hired on or before December 31, 2012

** First hired on or after January 1, 2013

Projected Pension Cost vs LCFF Transition Funding



Preparing for the Slowdown

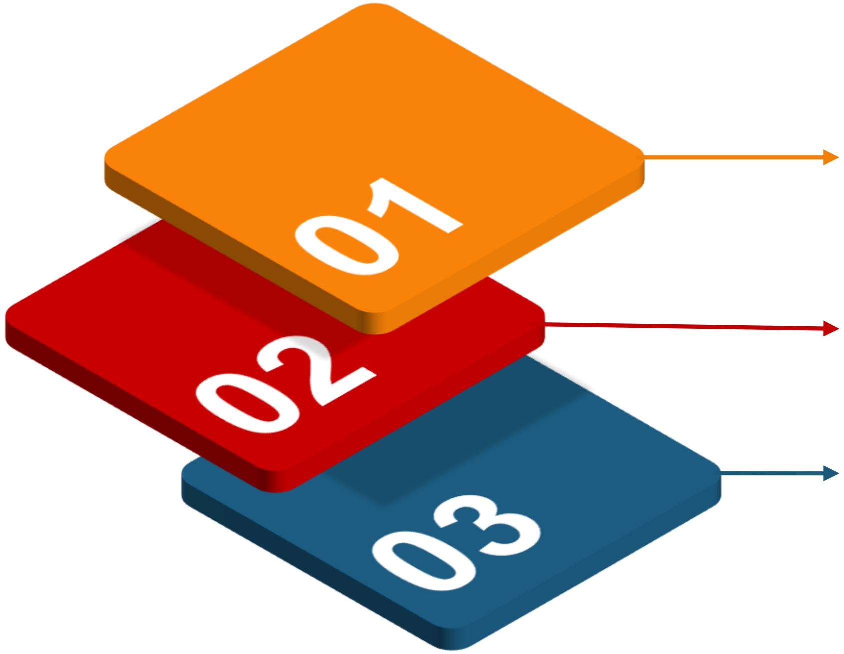
- **The Governor is preparing for slower economic growth by:**
  - Building a substantial reserve
  - Avoiding new ongoing commitments
  - Paying down debt
  - Downsizing some governmental operations
  - Seeking new revenue sources
- **All of these strategies are conceptually also possible for educational agencies**
- **Suggestions to control expenditures include:**
  - Accurate position control and staffing formulas
  - Avoidance of excessive settlements at the bargaining table
  - Commitments to maintain existing programs before adding new ones
  - Use of capital expenditures to make facilities more efficient and reduce operating costs

Multiyear Projections

- **Multiyear projections (MYPs) are required by AB 1200 (Chapter 1213/1991) and AB 2756 (Chapter 52/2004)**
- **Recognize that MYPs are *projections*, not forecasts**
  - Projections will change any time the underlying factors change –
    - Plan to adjust as conditions change
  - Projections are the mathematical result of today's decisions based on a given set of assumptions

Final Thoughts

- The Governor has broadly declared that 2016-17 is likely to be the last "good year" for now
- In January, the Governor explained that a few good years are always followed by a greater number of bad years where we dismantle the progress we have made



Governor Brown used this as a rationale for a conservative spending model for the state

This rationale also applies to school districts

Now is the time to be consolidating gains and maintaining programs at today's higher levels

Questions?