

DRAFT

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

**Ocean View School District
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Purpose of Presentation

- **Review major themes of the 2017-18 Governor's Budget**
 - **California Economy and growth impact to K-12 education**
 - **Proposition 98**
 - **The Local Control and Accountability Plan (LCAP) continues to evolve**
 - **Re-establishment of apportionment deferrals**
 - **Execution of the Budget will present operational issues in several areas**



Economic Growth, Now and Later

2

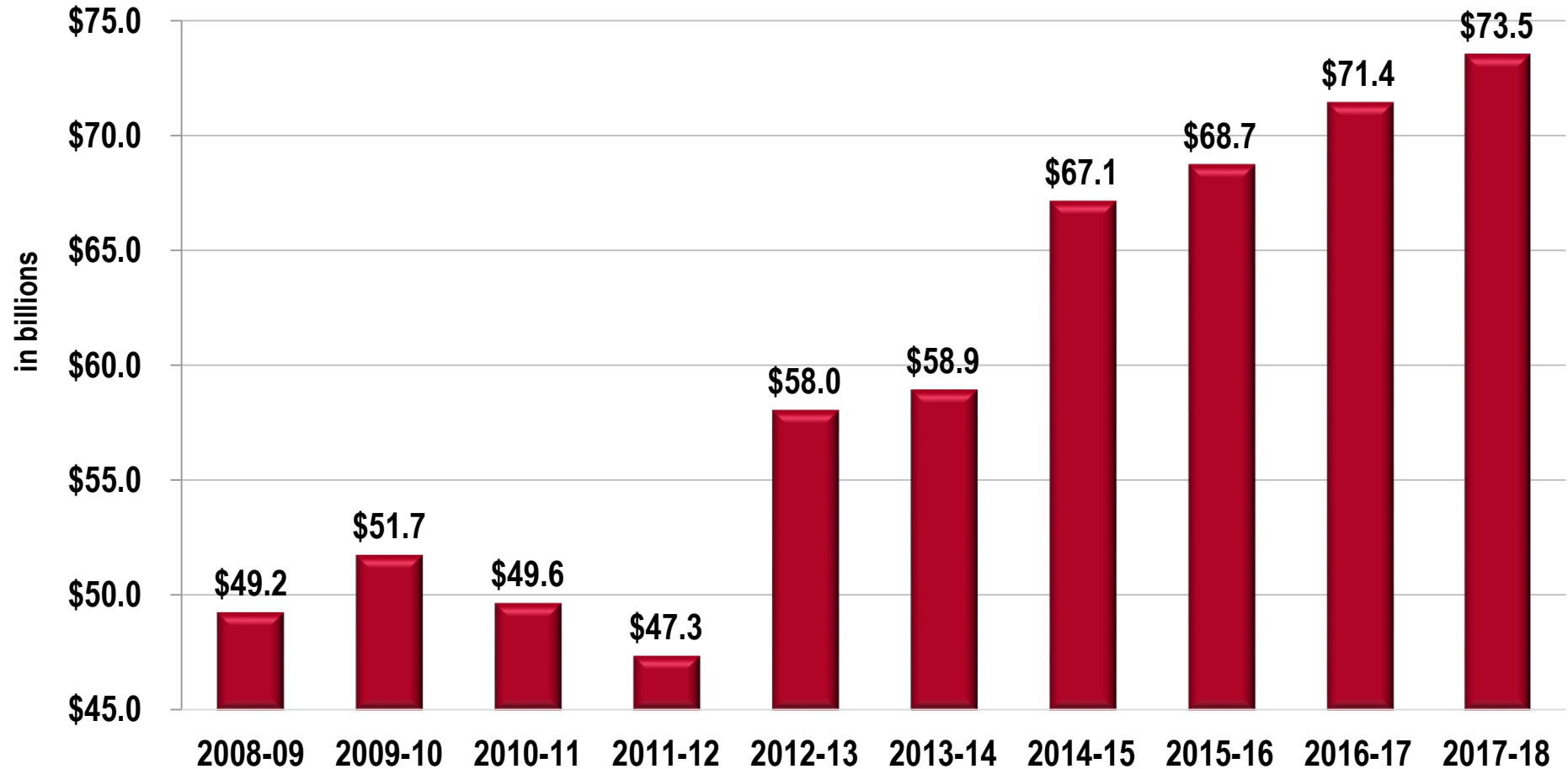
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- **All year long, the Administration has been warning of slower economic growth**
 - **Lower than expected state revenues**
 - **Continued forecasts for low growth in Proposition 98**
 - **The Governor over-contributed to the state's Rainy Day Fund**
- **Concern 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 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**



Proposition 98

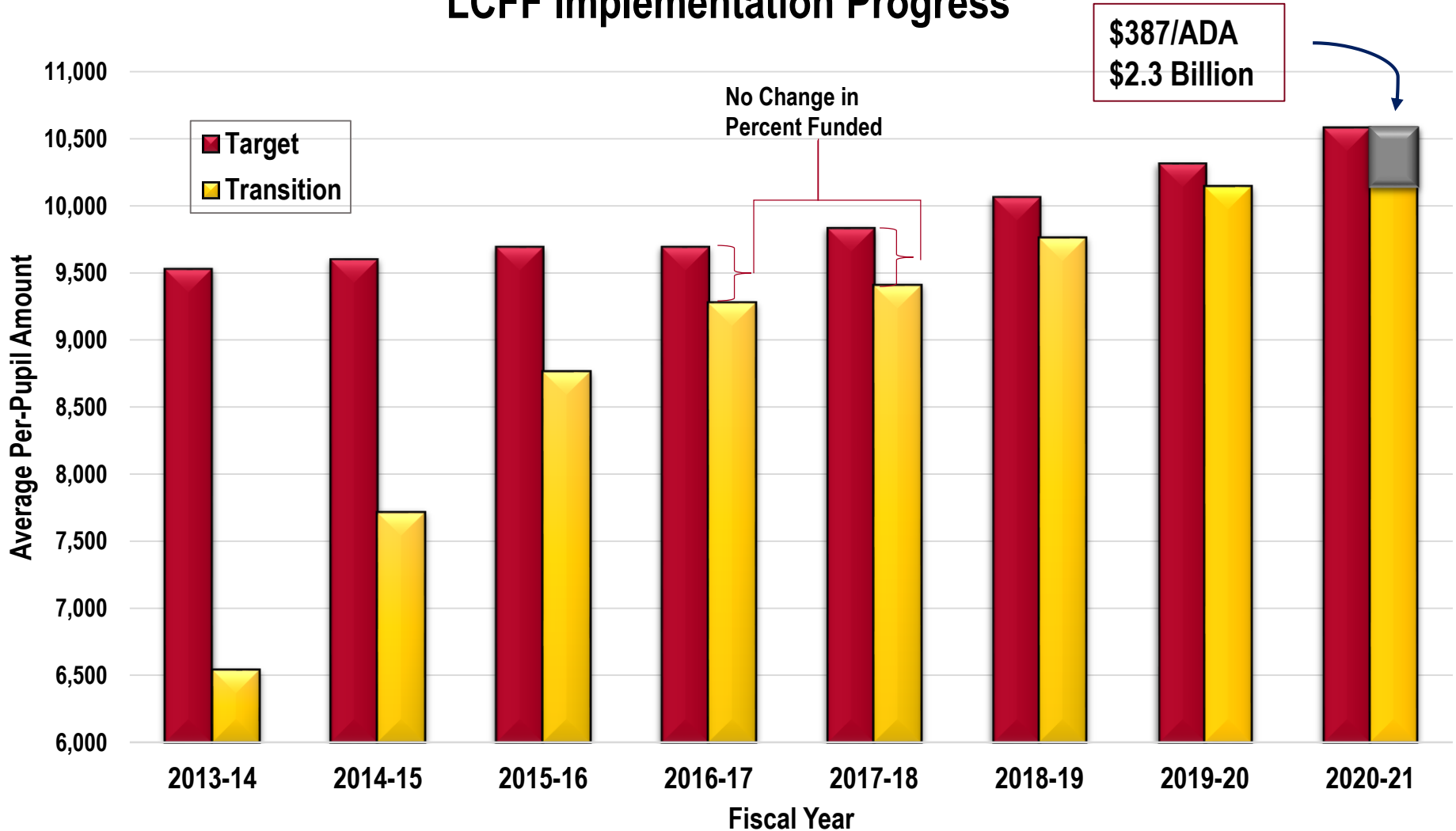
Proposition 98 Funding Over Time 2008-09 to 2017-18





What's Ahead

LCFF Implementation Progress





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**
 - **Individual results will vary**



2017-18 LCFF Target Funding Factors

- The K-12 COLA is 1.48% for 2017-18, and is applied to the LCFF base grants for each grade span. The K-12 COLA for 2016-17 is 0%.
- Two grade span adjustments (GSAs) are applied as percentage increases against the adjusted base grant, also receiving the benefit of a 1.48% COLA in 2017-18
 - Grade K-3 – 10.4% increase for smaller average class enrollments

Grade Span	2015-16 Base Grant per ADA	2016-17 Base Grant per ADA	1.48% COLA	2017-18 Base Grant per ADA	GSA	2017-18 Adjusted Base Grant
K-3	\$7,083	\$7,083	\$105	\$7,188	\$748	\$7,936
4-6	\$7,189	\$7,189	\$106	\$7,295	-	\$7,295
7-8	\$7,403	\$7,403	\$110	\$7,513	-	\$7,513



Apportionment Deferrals

- **The Governor's State Budget proposes to re-establish apportionment deferrals, shifting \$859.1 million in LCFF costs from June 2017 to July 2017**
 - **DOF officials indicate that this deferral will be paid along with the July 2017 apportionment**
 - **Results from reductions to the Proposition 98 guarantee in 2015-16 and 2016-17**
 - **Rather than reduce each month's apportionment, the entire amount is taken in June**
- **Recall that, in 2015-16, the Governor eliminated the final piece of outstanding deferrals by shifting an \$897.2 million deferred payment from July 2016 back to June 2016 as part of his plan to pay down the wall of debt**
- **How bad did deferrals get in the past?**
 - **In 2011-12, inter-year deferrals reached a peak of \$9.5 billion, or about 20% of the annual payment to schools**



Multiyear Projections – Final Considerations

- **CalSTRS and CalPERS employer contributions are still increasing**
- **Health and welfare contributions are increasing**
- **Contributions to restricted programs continue to increase**
- **Declining enrollment will continue to make it difficult to balance the budget**
- **Education will be receiving 40% vs. 90% of new state revenue once the Maintenance Factor is paid off**
- **Expectations are for COLA-only years after the LCFF target is reached**
- **The reserve cap, if implemented, demands a balanced budget**



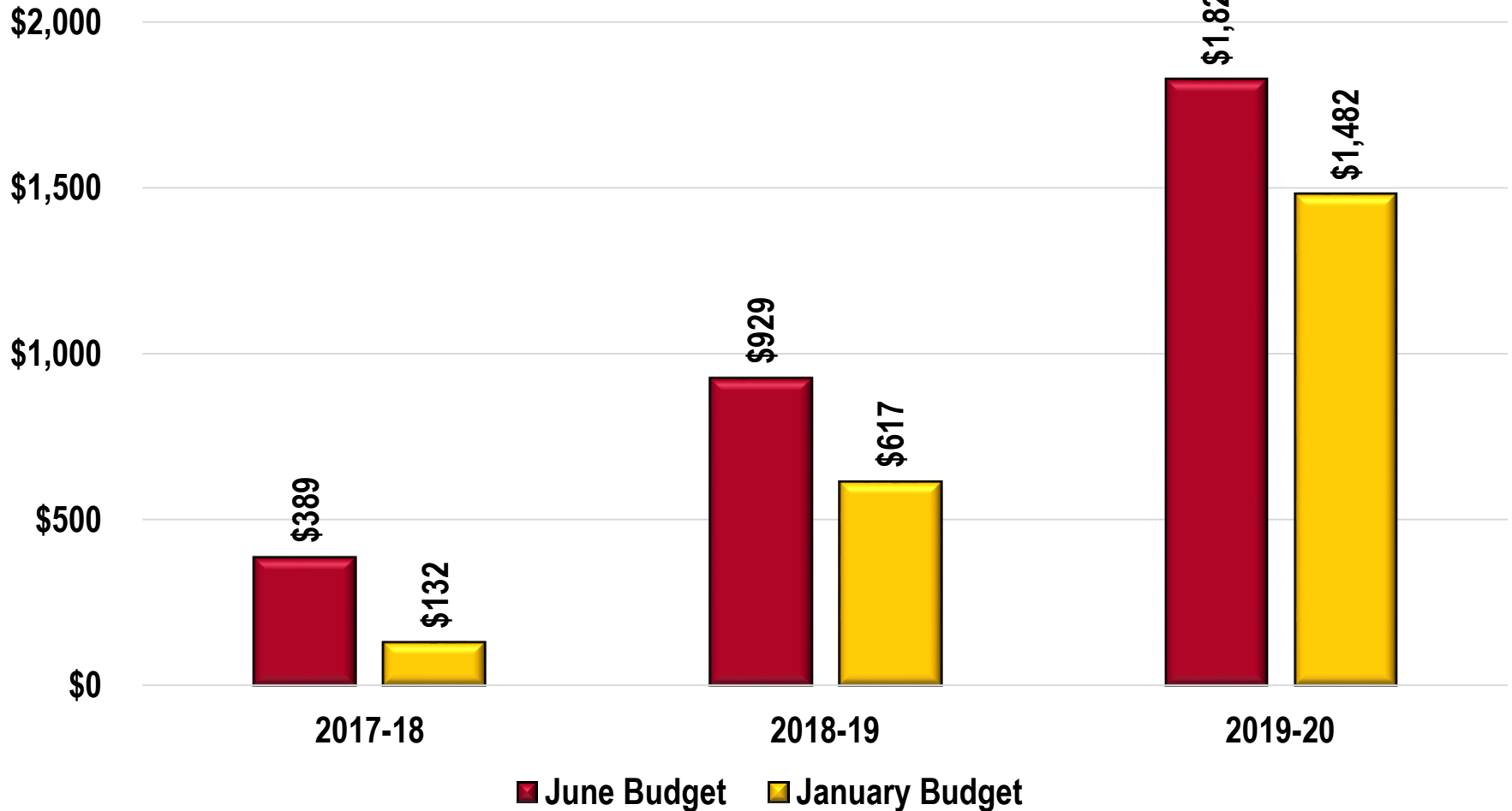
Multiyear Projections – Final Considerations

- **Even with the addition of the Proposition 55 taxes in the out years, education funding is now projected to be below earlier forecasts**
- **Erosion in the state’s revenue forecasts consume all of the gains from Proposition 55**
- **The cause of most school district insolvencies can be traced to a bad financial decision made during prosperous times that came back to bite the district during lean financial times, so caution is key**
 - **Resist using future revenue projection dollars to justify paying for ongoing expenditures in the current year**
 - **A future recession is predicted – the timing is unknown**
 - **Gap funding percentage is not guaranteed in law**



Examples of Changes in MYPs

Cumulative New Dollars Per ADA
(Average District)





Operational Challenges - Revenue vs. Cost 11

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- On the natural, costs continue to rise
 - Step and column
 - Health and welfare
 - CalPERS/CalSTRS contributions
- Declining enrollment also results in revenue losses
- Ongoing revenues rise by only 1.48% for 2017-18
- Ongoing costs for most districts are likely to exceed 4%
- New revenues will not cover new costs
 - And it gets worse in the out years
- There is no new “targeted money” for gap closure in 2017-18



Operational Challenges

- **Passage of school facility bonds provide opportunities**
 - **\$9 billion in state bonds**
 - **\$22 billion in local school facility bonds**
 - **Prepare to build and expect delays in DSA**
- **Multiyear projections (MYPs) continue to show that most LEAs will be making budget reductions to balance budgets in the out years**
 - **Build reserves for the lean times**
- **Manage cash to handle the resurrected deferral**
- **Bottom line, most districts will have difficulty sustaining commitments made in prior years in the face of lower state revenue projections**



Next Steps

- **State level**
 - **Budget committee hearings**
 - **Next update – May Revision**
- **Continue Negotiations with OVTA & CSEA**
- **Local level**
 - **Second Interim Report -- March 7**
- **Sale of Measure R bonds**
- **2017-18 Budget & LCAP Adoption -- June**