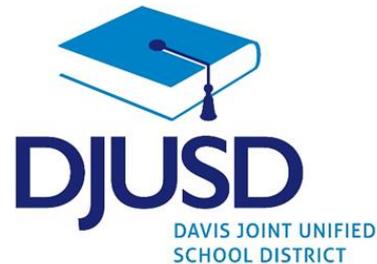


Governor's Proposals for the 2017-18 State Budget and K-12 Education

Davis Joint Unified School District
February 2, 2017



An Employee-Owned Company



Themes for the 2017-18 Governor's Budget

- **Economic conditions continue to define options for the state**
- **Proposition 98 still controls education funding**
- **We expect major political and legislative challenges, particularly at the federal level**
- **The Local Control and Accountability Plan (LCAP) continues to evolve**
- **Execution of the Budget will present operational issues in several areas**
- **The road behind us has been filled with highs and lows – the road ahead will be equally uncertain**





Economic Growth, Now and Later

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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
- We have been concerned 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
 - Passage of Proposition 55 will continue the high-bracket income tax supporting education funding





Proposition 98 Growth, Now and Later

- **Stable or expanding economic conditions increase prosperity for the population – and increase tax revenues for the state**
 - **Taxes drive Proposition 98 obligations to schools**
 - **Revenue projections dictate the rate at which the state moves toward the Local Control Funding Formula (LCFF) full implementation targets**
- **Passage of Proposition 55 maintains, but does not increase, education funding above the Proposition 30 level**
- **Variability in education funding from lowered economic forecast and tax revenues more than offset the benefit of Proposition 55**
- **The state continues to meet the minimum Proposition 98 guarantee – nothing more**





Proposition 98

- **The Governor's Budget proposes a revised current-year Proposition 98 guarantee of \$71.4 billion**
 - **A decrease of \$506 million from the enacted Budget due to lower-than-expected General Fund tax revenues, which declined by \$5.8 billion over the three-year budget period**
- **The Budget proposes Proposition 98 funding of \$73.5 billion in 2017-18, down \$953 million from the forecast level accompanying the enacted Budget**





Proposition 98 and the Major K-12 Proposals

- **The Governor's Budget proposal for 2017-18 includes:**
 - **\$744 million for LCFF gap closure**
 - *Down from projected \$2.2 Billion at First Interim (66% drop)*
 - *DJUSD LCFF Budget projection reduced by \$1.5 Million*
 - **\$287 million for discretionary one-time uses**
 - *DJUSD impact of \$368,000 of one-time funding*
 - *Down from \$1.6 million in 2016-17*
 - **\$200 million for the Career Technical Education Incentive Grant (CTEIG) Program**
 - *One-time, requires on-going district matching funds of 200% (\$2.00 for every \$1.00 received from this program); not currently planned or budgeted in District projection*



2017-18 Local Control Funding Formula

- The Budget proposes only \$744 million for continued implementation of the LCFF
- 2017-18 LCFF growth provides an average increase in per-pupil funding of \$132 per ADA
 - *DJUSD projected increase is \$97 per-pupil (73% of State average)*
- 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 target grade span rates
- The LCFF base grant targets are adjusted for an estimated 1.48% COLA in 2017-18



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**
 - **Results from reductions to the Proposition 98 guarantee in 2015-16 and 2016-17**
 - **This means that \$0.9 billion of the projected \$2.1 Billion 2017-18 increase in Proposition 98 funding is covering prior year district allocations**
- **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 it get?**
 - **In 2011-12, inter-year deferrals reached a peak of \$9.5 billion, or about 20% of the annual payment to schools**



One-Time Discretionary Funds

- The Governor's Budget proposes \$287 million in one-time funds for school districts, COEs, and charter schools in 2017-18
 - This equates to approximately \$48 per ADA (*DJUSD funding of \$368,000*)
 - Expenditure of these funds is determined by the local governing board and can be used for any one-time purpose
- Like prior years, these funds will offset local educational agencies' (LEAs') outstanding mandate reimbursement claims on a dollar-for-dollar basis
 - According to the Legislative Analyst's Office (LAO), \$1.9 billion in claims will remain outstanding at the end of the current year
- Because all LEAs receive these one-time discretionary funds, regardless of their outstanding mandate claims, in our view these funds should not be counted as meeting this state constitutional obligation



What Does the LCFF Mean for DJUSD

DJUSD – 2017-18		
2017-18 LCFF Per ADA Funding	Projected 2017-18 ADA	Projected 2017-18 LCFF Total Revenue *
\$8,183	7,721	\$63,185,661

* \$1.1 Million projected increase

Source: FCMAT LCFF Calculator with Department of Finance assumptions

Discretionary Funds – ONE TIME	Total
\$48 (one-time) X 2016-17 P2 ADA =	\$368,000



CalPERS Rate Increases

- The employer contribution to CalPERS is proposed to increase to 15.8% in 2017-18, up from 13.888% in 2016-17
- Members continue to pay 6.0% - 7.0% depending on type (PEPRA/“Classic”)
- Estimates of the resulting future contribution rate increases for school employers, which reflect the reduction in the investment return rate, are as follows:

Actual	Projected			
2016-17	2017-18	2018-19	2019-20	2020-21
13.888%	15.8%	18.7%	21.6%	24.9%
\$330,000	\$310,000	\$470,000	\$480,000	\$550,000



CalSTRS Rate Increases

- **Employer rates are increasing to 14.43% in 2017-18, up from 12.58% in 2016-17**
 - **Employees continue to pay 9.205% to 10.25% depending on plan type (Post/Pre PEPRA)**
- **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 Rate	Annual Increase
2016-17	12.58%	\$750,000
2017-18	14.43%	\$750,000
2018-19	16.28%	\$750,000
2019-20	18.13%	\$760,000
2020-21	19.10%	\$400,000



2017-18 Budget Considerations LCFF

Projected Net Revenue Change	\$1,090,000	1.76%
Required (State/Local) Expenditures:		
Restricted maintenance contribution (State required)	\$50,000	0.1%
Increased pension costs (State required)	\$1,060,000	1.7%
Net step and column (Local required)	\$500,000	0.8%
LCAP Supplemental Services (State required)	\$70,000	0.1%
Teacher staffing including Class Size (State/Local required)	\$70,000	0.1%
Other Cost Increases	\$40,000	0.1%
Other Goals, Programs and Services:		
Deficit spending reduction (fiscal responsibility)	\$0	0.0%
Collective Bargaining Agreement	-	-
All other services/goals	-	-
Total Projected Expenditure Changes	\$1,790,000	2.9%
Revenue less expenditures	(\$700,000)	-1.1%



2017-18 Budget Planning





Key Budget Drivers



- Enrollment/ADA

- The majority of DJUSD funding is from per pupil attendance
- Enrollment has been stable with projected increases from housing projects



- State per pupil funding for the Local Control Funding Formula

- LCFF funding is 72% of the District revenue
- The only major source of annual on-going funding increases
- LCFF funding needs to increase 3% just to cover annual projected cost increases



- Staffing for programs and services

- Averages 85% of District Operating Budget



- Deficit Spending and Reserves

- The District is responsible to maintain adequate reserves to remain fiscally solvent including the ability to manage deficit spending





- **Need to analyze multiple scenarios to test multi-year fiscal health over the Adoption Budget planning period**
 - **“Plan for the worst, hope for the best”**
- **Three planning scenarios**
 - **Department of Finance LCFF with DJUSD enrollment growth (Best Case)**
 - **Department of Finance LCFF with DJUSD enrollment flat (Middle Case)**
 - **School Services LCFF (COLA only funding) with DJUSD enrollment flat (Worst Case)**
- **Budget planning dashboard**

Good	Budget Increase or Challenge Area Mitigation
Caution	Possible Future Budget Challenge Area
Bad	Budget Challenge Area

Department of Finance LCFF with DJUSD Enrollment Growth (Best Case)



Student Daily Attendance (ADA)	2017-18	2018-19	2019-20
a. Student Attendance Total (ADA)	7,721	7,767	7,804
b. Student Attendance Total (ADA) Change	42	46	37

State LCFF Revenue Funding	2017-18	2018-19	2019-20
LCFF Revenue Change	\$1,090,609	\$2,588,832	\$2,756,057
a. Per Student Rate Change \$	\$97	\$285	\$313
b. Per Student Rate Change %	1.2%	3.5%	3.7%
c. Funding Change from Per Student \$ Change	\$785,487	\$2,249,976	\$2,472,746
d. Funding Change from ADA Change	\$305,122	\$338,856	\$283,311

Staffing Costs - Employer Pension Costs	2017-18	2018-19	2019-20
Pension Increases	\$1,060,000	\$1,220,000	\$1,240,000
a. STRS Employer \$ Cost Increase	\$750,000	\$750,000	\$760,000
b. PERS Employer \$ Cost Increase	\$310,000	\$470,000	\$480,000

Fiscal Indicators	2017-18	2018-19	2019-20
a. Operating Deficit - / Surplus +	(\$1,600,000)	(\$900,000)	(\$300,000)
b. Operating Deficit Change	(\$700,000)	\$700,000	\$600,000
c. Reserve for Economic Uncertainties %	7.7%	6.5%	6.0%
c1. Required Reserve for Economic Uncertainties %	3.0%	3.0%	3.0%
c2. District Reserve for Economic Uncertainties %	4.7%	3.5%	3.0%
d. Other Designated Reserves %	0.0%	0.0%	0.0%

School Services LCFF with DJUSD

Enrollment Flat (Worst Case)



Student Daily Attendance (ADA)	2017-18	2018-19	2019-20
a. Student Attendance Total (ADA)	7,679	7,679	7,679
b. Student Attendance Total (ADA) Change	-	-	-

State LCFF Revenue Funding	2017-18	2018-19	2019-20
LCFF Revenue Change	\$772,641	\$1,407,539	\$1,558,491
a. Per Student Rate Change \$	\$97	\$180	\$199
b. Per Student Rate Change %	1.2%	2.2%	2.4%
c. Funding Change from Per Student \$ Change	\$772,641	\$1,407,539	\$1,558,491
d. Funding Change from ADA Change	\$0	\$0	\$0

Staffing Costs - Employer Pension Costs	2017-18	2018-19	2019-20
Pension Increases	\$1,060,000	\$1,220,000	\$1,240,000
a. STRS Employer \$ Cost Increase	\$750,000	\$750,000	\$760,000
b. PERS Employer \$ Cost Increase	\$310,000	\$470,000	\$480,000

Fiscal Indicators	2017-18	2018-19	2019-20
a. Operating Deficit - / Surplus +	(\$1,900,000)	(\$2,300,000)	(\$2,800,000)
b. Operating Deficit Change	(\$1,000,000)	(\$400,000)	(\$500,000)
c. Reserve for Economic Uncertainties %	7.3%	4.5%	1.3%
c1. Required Reserve for Economic Uncertainties %	3.0%	3.0%	1.3%
c2. District Reserve for Economic Uncertainties %	4.3%	1.5%	0.0%
d. Other Designated Reserves %	0.0%	0.0%	0.0%

Department of Finance LCFF with DJUSD Enrollment Flat (Middle Case)



Student Daily Attendance (ADA)	2017-18	2018-19	2019-20
a. Student Attendance Total (ADA)	7,679	7,679	7,679
b. Student Attendance Total (ADA) Change	-	-	-

State LCFF Revenue Funding	2017-18	2018-19	2019-20
LCFF Revenue Change	\$772,641	\$2,202,072	\$2,446,713
a. Per Student Rate Change \$	\$97	\$285	\$313
b. Per Student Rate Change %	1.2%	3.5%	3.7%
c. Funding Change from Per Student \$ Change	\$772,641	\$2,202,072	\$2,446,713
d. Funding Change from ADA Change	\$0	\$0	\$0

Staffing Costs - Employer Pension Costs	2017-18	2018-19	2019-20
Pension Increases	\$1,060,000	\$1,220,000	\$1,240,000
a. STRS Employer \$ Cost Increase	\$750,000	\$750,000	\$760,000
b. PERS Employer \$ Cost Increase	\$310,000	\$470,000	\$480,000

Fiscal Indicators	2017-18	2018-19	2019-20
a. Operating Deficit - / Surplus +	(\$1,900,000)	(\$1,600,000)	(\$1,300,000)
b. Operating Deficit Change	(\$1,000,000)	\$300,000	\$300,000
c. Reserve for Economic Uncertainties %	7.3%	5.3%	3.8%
c1. Required Reserve for Economic Uncertainties %	3.0%	3.0%	3.0%
c2. District Reserve for Economic Uncertainties %	4.3%	2.3%	0.8%
d. Other Designated Reserves %	0%	0%	0%



- Need to analyze multiple scenarios to test multi-year fiscal health over the Adoption Budget planning period
 - “Plan for the worst, hope for the best”
- *Assuming that DJUSD does not approve future cost increases not currently budgeted or projected, the District has adequate reserves to cover immediate deficit spending impact from lower State funding from the Governor’s January Budget and flat ADA (average daily attendance)*
- If the State funding increases continue to remain low (below 3%), the District will need to develop a plan to reduce and/or eliminate deficit spending
 - Need to monitor Department of Finance projections at Adoption Budget and January Budget 2018-19
 - DJUSD will need to analyze and address at Interim Budgets in 2017-18



Next Steps



● State level

- Budget committee hearings
- Next update – May Revision
- State Budget Adoption June 15

● DJUSD

- Enrollment Review February 16
- Second Interim Budget Planning March 2
- Second Interim Report due by March 16
- District Budget Adoption June 30