

May Budget Update



Davis Joint Unified School District
June 2, 2016





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Proposition 98 Still Governs the Level of Funding

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- **Proposition 98 is rising, but at a much lower rate**
 - The boost from the maintenance factor is nearly gone
- **Past years have started with low revenue forecasts that got better**
 - This year the Governor's January forecast is higher than the May Revision revenues
 - We have previously reported that one of these years the Governor's forecast would be high – this is the year!
- **However, both one-time and ongoing revenues to education grow slightly above the January forecast for 2016-17**



Preparing for the Slowdown

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- The May Revision projects that the Local Control Funding Formula (LCFF) will be 95.7% implemented in 2016-17
 - At full implementation the supercharged increases are over, all local educational agencies (LEAs) just get a cost-of-living adjustment (COLA)
- The Department of Finance (DOF) projections assume:
 - Proposition 30 is allowed to expire
 - Very low COLAs for the next few years
 - Much lower growth in Proposition 98
- Now is the time to start preparing for slower growth





Proposition 98 Funding Will Slow



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- Compared to the 2011-12 Proposition 98 guarantee, funding in 2016-17 will have increased \$24.6 billion to \$71.9 billion under the May Revision
- These gains are largely attributed to the repayment of the Proposition 98 Maintenance Factor, an amount equivalent to the loss of funds imposed on K-14 education during the recession
- A restoration, not a repayment
- According to the May Revision, \$908 million in Maintenance Factor payments will remain at the end of 2016-17
 - \$155 million outstanding with another \$746 million newly created
- Conclusion: Proposition 98 funding will slow considerably once the Maintenance Factor has been fully paid
 - Growth will likely be in the range of 2% to 4% annually



Implications for Education Funding



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- The Administration is signaling that economic slowdown is just around the corner
 - The May Revision warns that the current economic expansion has already exceeded the average postwar expansion by over a year
- Slow to no growth in the income tax and the sales tax, which together account for 90% of General Fund revenues, will slow LCFF funding significantly as Proposition 30 revenues fade
 - *The May Revision is built on the assumption that no new revenues are on the horizon and the extension of Proposition 30 would simply allow the state to eliminate deficit spending, but will not provide new monies for new programs*
- *If a recession occurs and Proposition 30 is not extended, state revenues could drop below prior-year levels, and cuts to education could be on the table again*

January Budget vs. May Revision

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Item	January Budget	May Revision
LCFF Gap Funding	49.08% or \$2.8 billion	54.84% or \$2.9 billion
Proposition 98 Minimum Funding Guarantee		
2014-15	\$66.7 billion	\$67.2 billion
2015-16	\$69.2 billion	\$69.1 billion
2016-17	\$71.6 billion	\$71.9 billion
2016-17 COLA	0.47%	0.00%
One-Time Discretionary Funds for 2016-17	\$1.2 billion \$214 per average daily attendance (ADA)	\$1.4 billion \$237 per ADA

2016-17 Local Control Funding Formula

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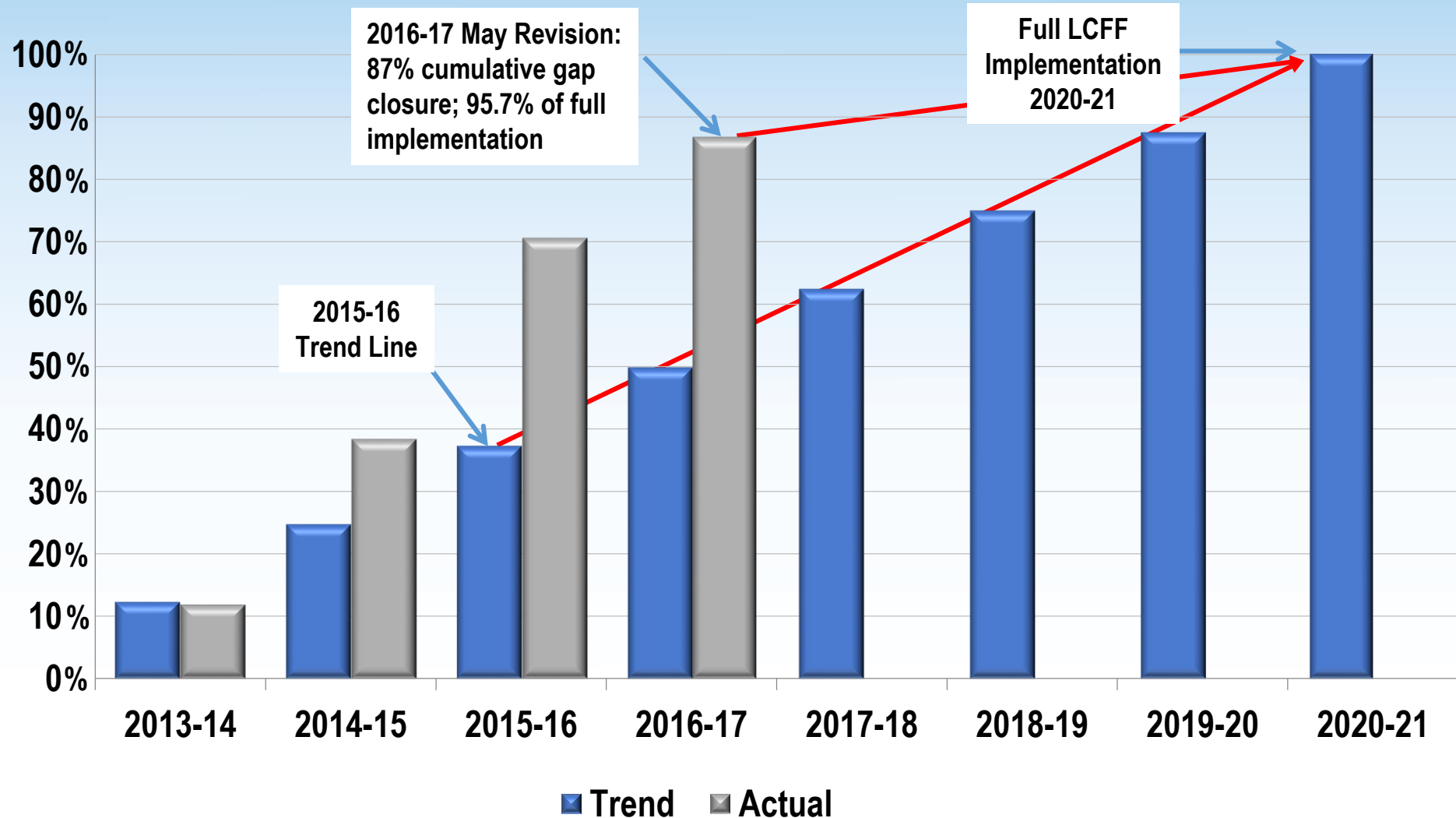
- May Revision proposes nearly \$2.9 billion for continued implementation of the LCFF, \$154 million above the January level
- New funding is estimated to close the gap between 2015-16 funding levels and LCFF full implementation targets by 54.84% ↑
 - 87% of the gap closed in the first four years
 - Reaching to 95.7% of the targeted funding levels in 2016-17
- No COLA on the LCFF base grant targets ↓
- 2016-17 LCFF growth provides an average increase in per-pupil funding of 5.94%, or \$520 per ADA
 - DJUSD increase of 4.8%, or \$372 per ADA ↑





Progress Toward LCFF Implementation

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Discretionary Funds

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- The discretionary funds proposed in 2016-17 to pay prior-year mandate claims are scored by the state as payments for the oldest mandates
 - But use of the funds is completely discretionary
- Paying down debt continues to be a priority of Governor Brown and his Administration
- The DOF estimates the state would have an outstanding mandate payment backlog of about \$1.6 billion for schools at the end of 2016-17
 - The \$1.4 billion one-time appropriation in Governor Brown's May Revision will significantly reduce the state's obligation
- Plan to include one-time revenues for discretionary funds in the 2016-17 budget
- The revenue projection should be based on 2015-16 P-2 ADA projections
 - \$237 per ADA (estimated) ↑

What does the May Revise mean for DJUSD?

DJUSD– 2016-17		
2016-17 LCFF Per ADA Funding	Projected 2016-17 ADA	Projected 2016-17 LCFF Total Revenue
\$8,075	7,668	\$61,920,150

Projected increase of \$2.8 million



Discretionary Funds – ONE TIME	Total
\$237 (one-time) X 2015-16 P2 ADA =	\$1,816,000 

DJUSD projected use for curriculum standards implementation and technology as presented at Second Interim Budget



CalSTRS Rate Increases

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- **Employer rates are increasing to 12.58% in 2016-17, up from 10.73% in 2015-16**
 - **No specific funds are provided for this cost increase**
- **Under current law, once the statutory rates are achieved, the California State Teachers' Retirement System (CalSTRS) will have the authority to marginally increase or decrease the employer and state contribution rate**

CalSTRS Rates

Year	Employer	Rate Change
2015-16	10.73%	1.85%
2016-17	12.58%	1.85%
2017-18	14.43%	1.85%
2018-19	16.28%	1.85%
2019-20	18.13%	1.85%
2020-21	19.10%	1.85%

CalPERS Rate Increases

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- The employer contribution to the California Public Employees' Retirement System (CalPERS) was expected to increase to 13.05% in 2016-17 from 11.847% in 2015-16
 - The actual employer contribution rate for 2016-17 is higher than anticipated, at 13.888%
 - Fortunately, out-year estimated contribution rates have been lowered since they were last released in 2014

CalPERS Rates

Actual		Estimated			
2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.847%	13.888%	15.50%	17.10%*	18.60%*	19.80%*
.08%	2.04%	1.61%	1.60%	1.50%	1.20%

*CalPERS-provided estimates, April 2016

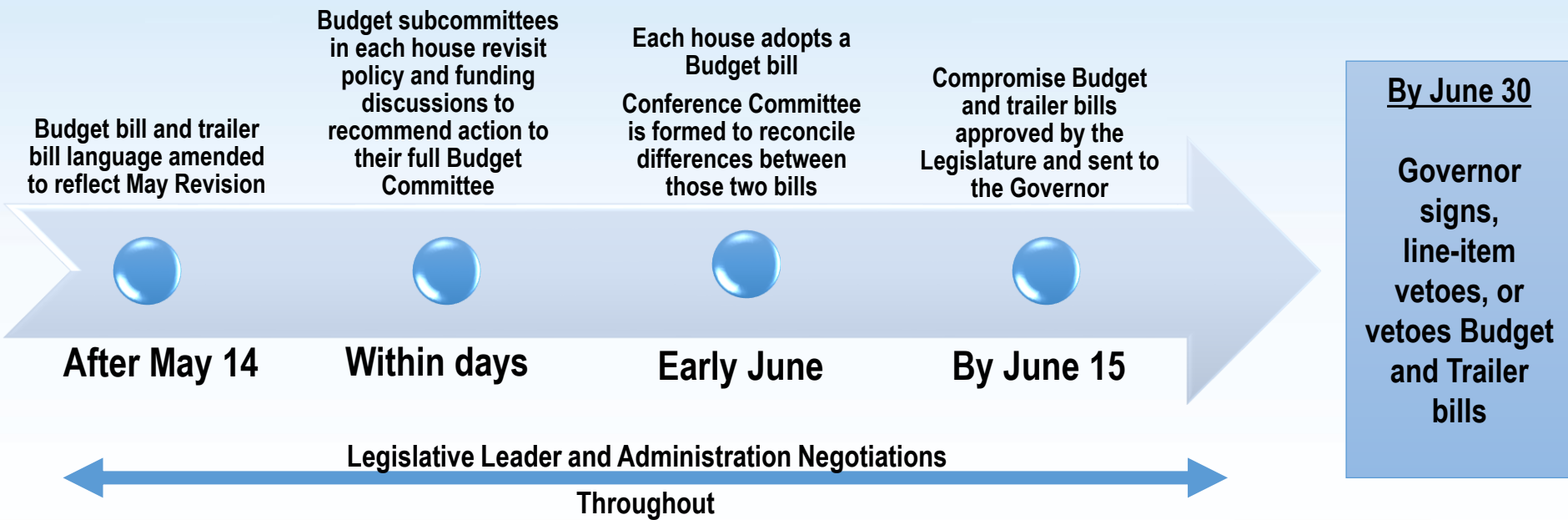
2016-17 DJUSD Budget Considerations LCFF

Projected Funding Uses:	\$'s	% Change and Use
Projected Net LCFF Revenue Change	\$2,790,000	4.72%
Required (State/Local) Expenditures:		
Restricted maintenance contribution (State required)	\$80,000	0.1%
Increased pension costs (State required)	\$1,060,000	2.0%
Net step and column (Local required)	\$400,000	0.7%
LCAP Supplemental Services (State required)	\$180,000	0.3%
Teacher staffing including Class Size (State/Local required)	\$130,000	0.2%
Other Cost Increases	TBD	TBD
Other Goals, Programs and Services:		
Deficit spending reduction (fiscal responsibility)	\$0	0.0%
Collective Bargaining	\$1,190,000	2.2%
All other services/goals	\$0	0.0%
Total Projected Expenditure Changes	\$3,040,000	5.7%
Revenue less expenditures	(\$250,000)	-0.5%

Enacting the State Budget – CliffsNotes™ Version

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- While the State Budget process is complicated and covers six months, here's the CliffsNotes™ version of the process between the May Revision and the new fiscal year



Reserves Analysis



Reserve Components



● Non-Spendable

- Revolving Cash, Inventory, Pre-paid expenditures

● Restricted

- Restricted use by funding source (Not included in reserve calculation %)

● Committed

- Committed for a specific purpose by Board vote

● Assigned

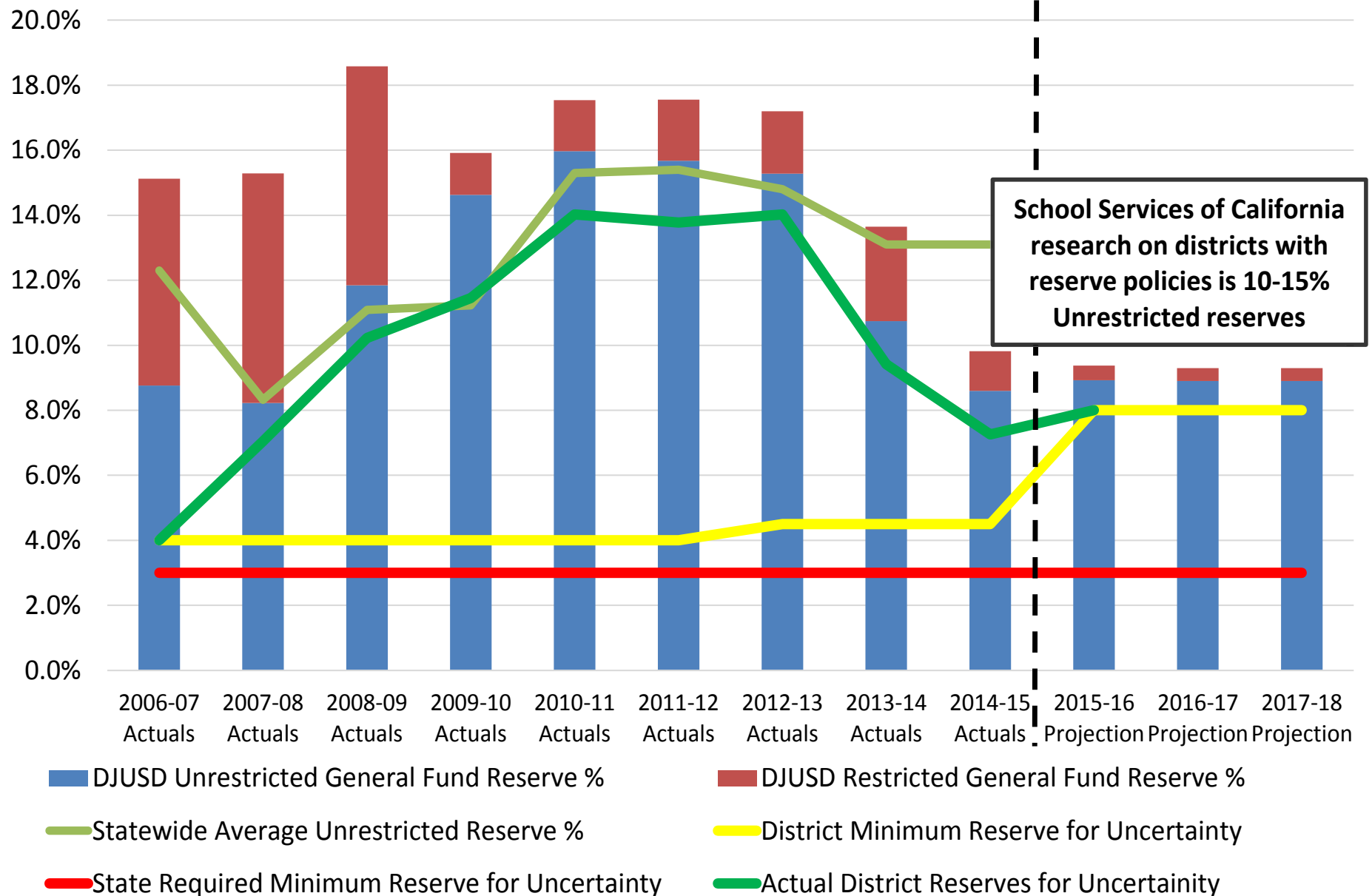
- Assigned for a specific purpose as part of the budgeting process
- Uses include setting aside for future year expenditures/liabilities

● Unassigned/Unappropriated

- State required minimum reserve for economic uncertainties - 3%
 - Not for use as a spending reserve; to support an adequate reserve level for unknown events
 - Not considered adequate for the defined purpose by FCMAT (Fiscal Crisis Mgmt. Assistance Team)
 - Use of this reserve puts district into fiscal oversight by County Office of Education
- Local board policy minimum reserve for uncertainties - 5% additional recommended
 - To support an adequate reserve level for unknown events
 - Inline with past fiscal practice over the last 8 years

DJUSD General Fund Reserve Levels with Projected Parcel Tax Renewal

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Questions?