

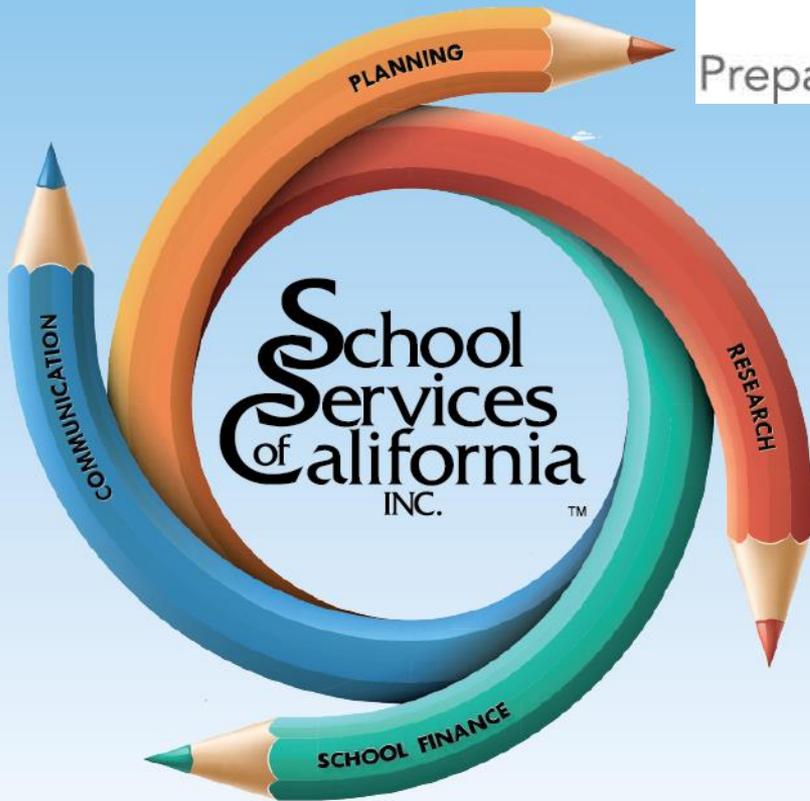


EAST SIDE

HIGH SCHOOL DISTRICT

Silicon Valley

Preparing every student to thrive in a global society.



Budget Advisory Committee - FY 2016-17 Governor's May Revision Update

**Marcus Battle, Associate Superintendent, Business and Operations &
Karen Poon, Director of Finance
May 23, 2016**



Proposition 98 Still Governs the Level of Funding

- **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**
 - **SSCAL had 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

- 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
- SSCAL indicated that 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**



5 Implications for Education Funding

- **The Governor has signaled that an 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

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

Statutory COLA Goes to Zero

- The Governor's January Budget estimated the 2016-17 statutory COLA for K-12 education programs at 0.47%
- Based on actual Implicit Price Deflator factors available for the May Revision, the inflation adjustment rounds to zero – NO increase over 2015-16 funding levels
- What's the impact?
 - COLA isn't applied to the LCFF, but that doesn't directly affect LCFF growth, which is based on the funds appropriated for the transition to full implementation and the Proposition 98 minimum guarantee
 - LEAs already at their LCFF targets (i.e., fully implemented) will see the modest January increase disappear

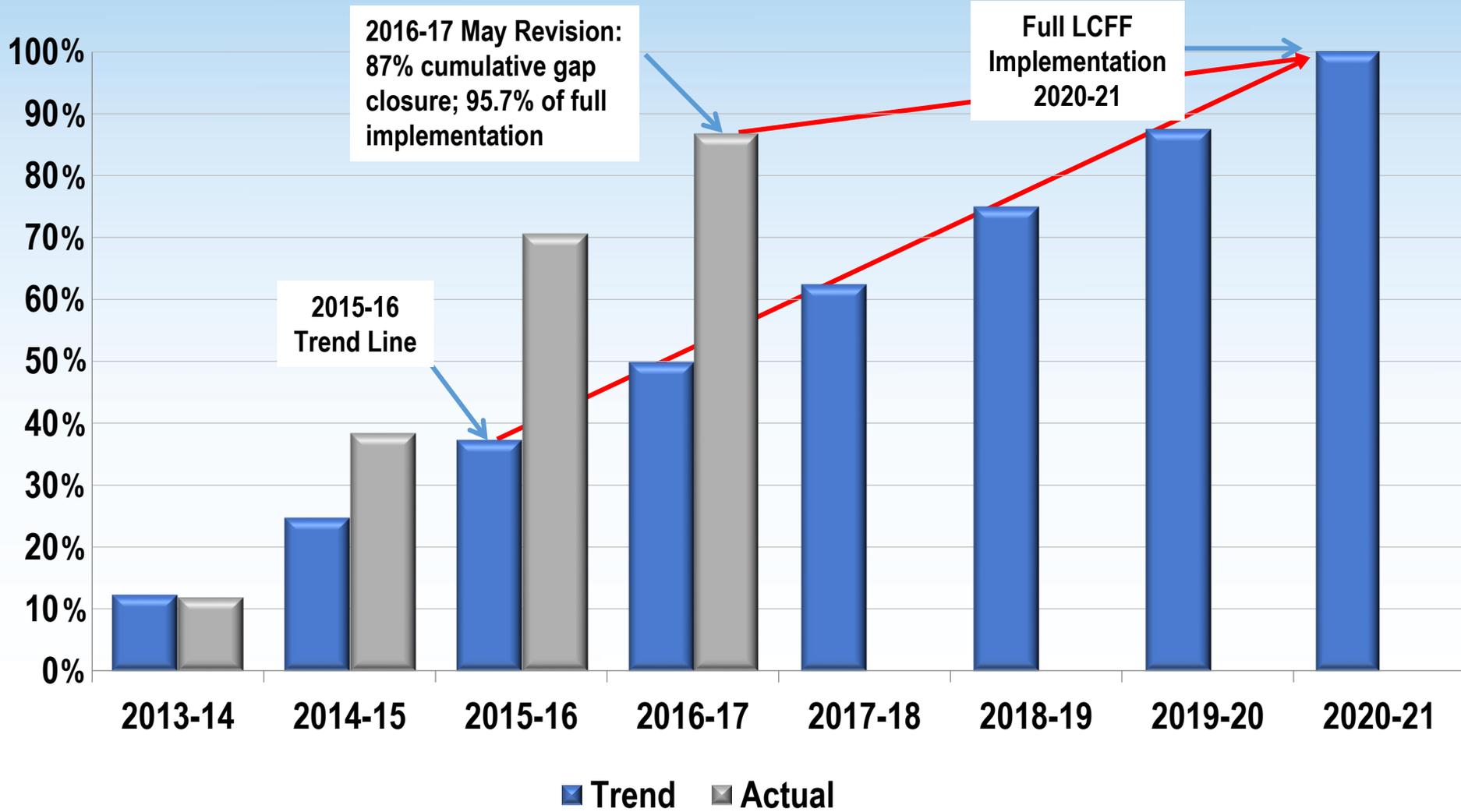
2016-17 Local Control Funding Formula

- 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
 - Individual LEA results will vary widely





Progress Toward LCFF Implementation



2016-17 LCFF Target Funding Factors

- Since the COLA is zero for 2016-17, the LCFF target base grants for each grade span are unchanged from 2015-16

Grade Span	2015-16 Base Grant Per ADA	0.00% COLA	2016-17 Base Grant Per ADA
K-3	\$7,083	–	\$7,083
4-6	\$7,189	–	\$7,189
7-8	\$7,403	–	\$7,403
9-12	\$8,578	–	\$8,578



2016-17 LCFF Target Funding Factors

- Two grade span adjustments (GSAs) are also unchanged from 2015-16
 - Grade K-3 – 10.4% increase for smaller average class enrollments
 - Grades 9-12 – 2.6% increase in recognition of the costs of Career Technical Education coursework

Grade Span	2016-17 Base Grant Per ADA	GSA	2016-17 Adjusted Grants
K-3 (10.4%)	\$7,083	\$737	\$7,820
4-6	\$7,189	–	\$7,189
7-8	\$7,403	–	\$7,403
9-12 (2.6%)	\$8,578	\$223	\$8,801

2016-17 LCFF Target Funding Factors

- Supplemental and concentration grants, based on the Unduplicated Pupil Percentage (UPP) are also unchanged from 2015-16 because no COLA is applied to the LCFF base grants

Grade Span	2016-17 Adjusted Grants Per ADA	20% Supplemental Grant – Total UPP	50% Concentration Grant – UPP Above 55%
K-3	\$7,820	\$1,564	\$3,910
4-6	\$7,189	\$1,438	\$3,595
7-8	\$7,403	\$1,481	\$3,702
9-12	\$8,801	\$1,760	\$4,401



Discretionary Funds

- 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
- As in previous years, the Governor has included 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)



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What Does the LCFF Mean for (LEA Name)?

East Side Union High School District – 2016-17		
2016-17 LCFF Per ADA Funding	Projected 2016-17 ADA	Projected 2016-17 LCFF Total Revenue
\$9,821	22,322.55	\$219,239,288

Note: Amounts Based on the BASC LCFF Calculator.

Discretionary Funds – ONE TIME	Total
\$237 (one-time) X 2015-16 P2 ADA =	\$5,289,522



CalSTRS Rate Increases

- **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	Pre-PEPRA* Employees	Post-PEPRA* Employees
2015-16	10.73%	9.20%	8.56%
2016-17	12.58%	10.25%	9.205%
2017-18	14.43%	10.25%	9.205%
2018-19	16.28%	10.25%	9.205%
2019-20	18.13%	10.25%	9.205%
2020-21	19.10%	10.25%	9.205%

*Public Employees' Pension Reform Act (PEPRA)

CalPERS Rate Increases

- 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%*

*CalPERS-provided estimates, April 2016

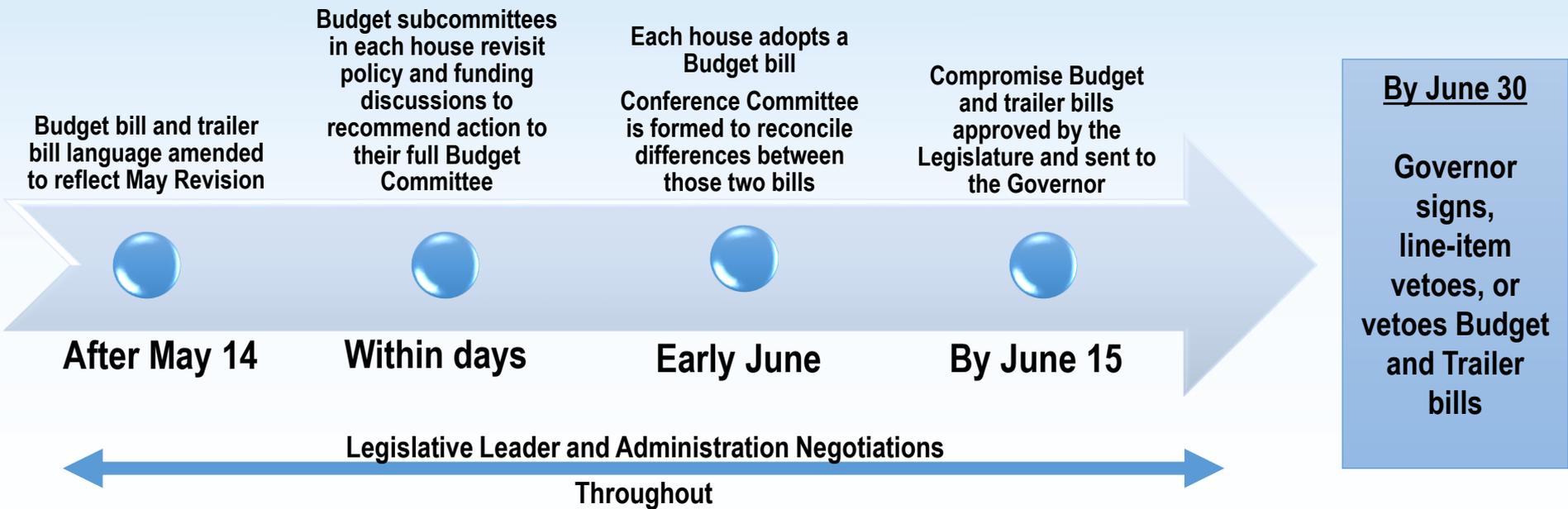
- “Classic” members continue to pay 7.00%
 - New members continue to pay 6.00%, which may fluctuate in the future based on the PEPRA requirement to pay half the normal cost rate



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





Questions?