

Overview of the 2018-19 May Revision

Themes for the May Revision

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- **As Governor Jerry Brown completes his second term, this May Revision is his final opportunity to craft a State Budget proposal**
 - ◇ **And the last statutorily required revision to his 2018-19 proposed Budget, prior to adoption of local educational agency (LEA) budgets and the enactment of the State Budget in June**
- **Current-year state revenue collections through April are approximately \$4 billion higher than the January forecast, causing speculation on the impact on K-14 education funding, for both this year and next**
- **May Revision revenue forecast through 2018-19 is increased by \$8 billion, but as we expected, the impact to the Proposition 98 minimum guarantee is minor**
- **Meanwhile, expenditures continue to rise, causing a huge squeeze for LEAs**
- ◇ **In response, we are seeing many LEAs deficit spending and making expenditure reductions, including layoffs**

Does the LCFF Restore Lost Purchasing Power?

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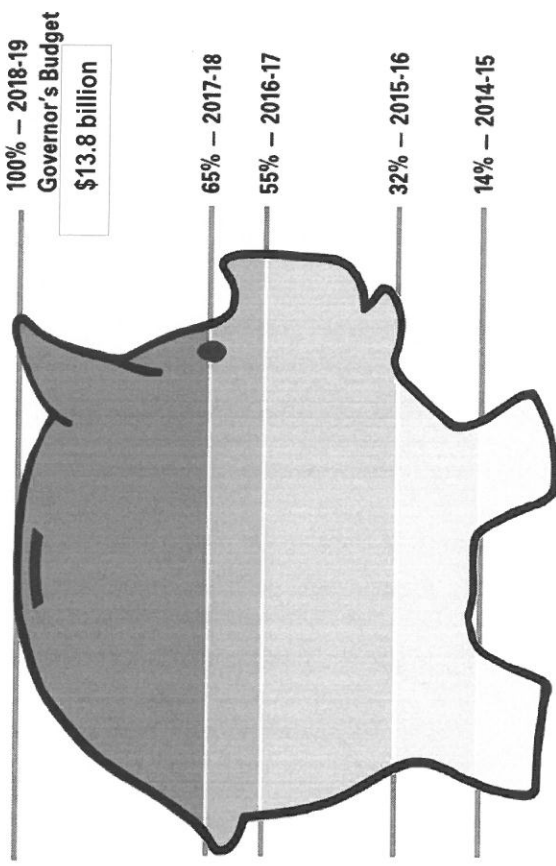
- Reaching full implementation of the LCFF in six years is no small achievement, thanks to a rebounding economy, strong tax revenue growth, and provisions of Proposition 98 requiring restoration of cuts imposed during the downturn
- However, the LCFF addresses an LEA's revenues – what about its costs over the same period?
 - ◇ Employer contribution rates to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) have increased each year to address the unfunded liability of these pension systems
 - ◇ Our analysis finds that, of the \$20 billion in new funding provided through the LCFF, approximately \$2.8 billion, or 14%, has been used to fund these costs
 - Employer rate increases will continue well beyond full implementation of the LCFF
- Since full funding of the LCFF has not been adjusted for these local costs, purchasing power will not be fully restored

Rainy Day Fund

- The May Revision maintains the Governor’s January proposal to provide a supplemental deposit to fully fill the Rainy Day Fund in 2018-19
- The May Revision includes a modest \$306 million increase from the January proposal, bringing the Rainy Day Fund to \$13.8 billion in 2018-19 (the maximum allowed by the State Constitution)

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Filling Up the Rainy Day Fund Before the Next Recession

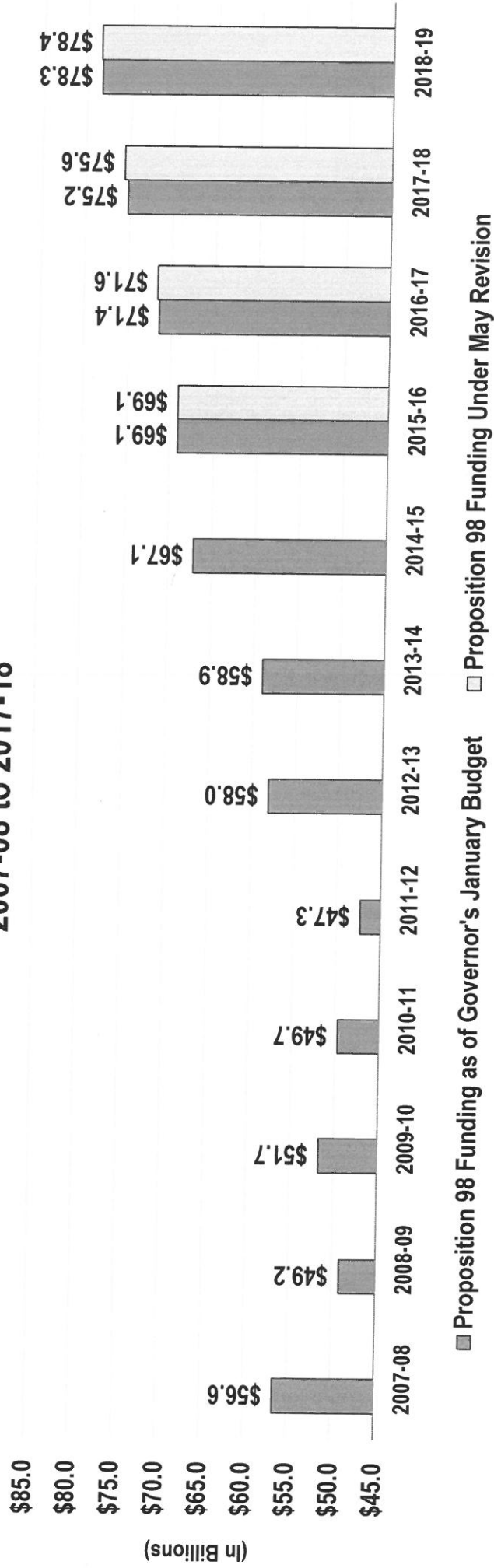


Source: Governor’s Budget Summary – 2018-19

Proposition 98 Funding

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Proposition 98 Funding
2007-08 to 2017-18



Source: 2018-19 Governor's Budget Summary, pg. 6 and 2018-19 May Revision, pg. 6

January Budget vs. May Revision

Item	January Budget	May Revision
LCFF Gap Funding	100% or \$2.9 billion	100% or \$3.2 billion
Proposition 98 Minimum Funding Guarantee 2016-17 2017-18 2018-19	\$71.4 billion \$75.2 billion \$78.3 billion	\$71.6 billion \$75.6 billion \$78.4 billion
2018-19 COLA	2.51%	2.71%
One-Time Discretionary Funds for 2018-19	\$1.8 billion \$295 per ADA	\$2.02 billion \$344 per ADA

2018-19 Local Control Funding Formula

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- **May Revision proposes \$3.2 billion for funding beyond full implementation of the LCFF – \$320 million above the January level**
- **New funding closes the gap from 2017-18 funding levels**
 - ◇ **100% gap closure in six years**
 - ◇ **100% of the targeted funding levels in 2018-19**
- **2.71% COLA and additional LCFF funding in 2018-19, for a total increase of 3.00% on the LCFF base grant targets**
- **2018-19 LCFF growth provides an average increase in per-pupil funding of 6.2%, or \$587 per ADA, beyond 2017-18 level**
 - ◇ **Individual results will vary widely**

Local Control Funding Formula 2.0

- **AB 2808 (Muratsuchi, D-Torrance)** would increase the LCFF per-student funding targets beginning 2019-20 fiscal year, after the current LCFF targets are met
 - ◇ Would set funding level targets above the national average
- Base grants would set as follows:

Grades	Amount
Kindergarten and grades 1-3	\$11,799
4-6	\$11,975
7-8	\$12,332
9-12	\$14,289

Statutory COLA at 2.71%

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- **Categorical programs outside of the LCFF will see a 2.71% COLA increase**
- **As costs continue to rise, these programs will see adjustments only for COLA (and ADA for Special Education):**
 - ◇ **Special Education**
 - ◇ **Foster Youth**
 - ◇ **American Indian Education Centers**
 - ◇ **American Indian Early Childhood Education Programs**
 - ◇ **Child Nutrition**

One-Time Discretionary Funds

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- **The May Revision includes an increase in one-time discretionary funding to LEAs by \$286 million from the January Budget, bringing the total to \$2.04 billion (\$344 per ADA)**
 - ◆ **One-time funds offset outstanding local mandate claims**
 - ◆ **One-time funds may, but are not required to, be used for state standards implementation, teacher induction, technology, infrastructure, and deferred maintenance needs**

Career Technical Education – Legislative Proposal

- The Legislature has responded by introducing AB 1743 (O'Donnell, D-Long Beach), which would extend the existing CTE Incentive Grant program indefinitely
 - ◇ The current \$200 million program sunsets on June 30, 2018
 - ◇ AB 1743 would provide \$500 million annually
 - Remains competitive and requires a matching grant
 - Includes funding for technical assistance and adds several new requirements, including data reporting and ongoing program evaluation provisions
- AB 1743 has 27 Assembly and Senate joint and co-authors and is supported by several school agencies, statewide education groups, and business community organizations

Federal Programs

- In March 2018, President Trump signed the Fiscal Year (FY) 2018 spending bill that increased education funding nationally by over \$2.6 billion
 - ◊ Title IV Block Grant receives a \$1.1 billion increase nationally, the largest increase of all the Title programs
 - Funds can be used for school safety, educational technology, among other things
 - ◊ Funding for ESSA (Title I) and Special Education Individuals with Disabilities Education Act (IDEA) increase by nearly \$300 million each nationally
 - ◊ Title II professional development is flat funded
- The Governor's May Revision reiterates California's relationship with the federal government has never been more uncertain, noting the increasing federal deficit "caused by the tax bill will also create more pressure for the federal government to cut spending programs through rescissions or some other mechanism"

Transparency Around LCAP Expenditures

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- **The May Revision maintains the proposal for a budget summary document but emphasizes that it is intended for parents – LCFF Budget Overview for Parents**
- ◇ **In addition, there are proposed investments in the Community Engagement Initiative and the proposed website to report the total amount of S/C funding provided to each LEA under the LCFF**
- **Deliberate efforts aimed at improving the ability of parents and community members to be engaged partners in the LCAP process**
- **LEAs should be working collaboratively with their stakeholders to have a shared understanding of the LEA's needs and how LCFF dollars are used to meet those needs**

CalSTRS Rate Increases

- Employer rates are increasing to 16.28% in 2018-19, up from 14.43% in 2017-18
 - ◊ No specific funds are provided for this cost increase
- Under current law, once the statutory rates are achieved, CalSTRS will have the authority to marginally increase or decrease the employer contribution rate
- Recently, the CalSTRS Board increased the contribution rate for post-PEPRA employees from 9.205% to 10.205% effective July 1, 2018

CalSTRS Rates			
Year	Employer	Pre-PEPRA Employees	Post-PEPRA Employees
2017-18	14.43%	10.25%	9.205%
2018-19	16.28%	10.25%	10.205%
2019-20	18.13%	10.25%	10.205%
2020-21	19.10%	10.25%	10.205%

CalPERS Rate Increases

- CalPERS Board adopted an employer contribution rate of 18.062% for 2018-19, 2.531% higher than the current-year rate of 15.531%
- CalPERS Board also adopted the contribution rate for new employees
 - ◆ Currently, new members are contributing 6.5%, which will increase to 7.0% for 2018-19
 - ◆ Classic members continue to pay 7.0%

Year	Previously Released Employer Contribution Rates	Employer Contribution Rate*
2018-19	17.7%	18.062%
2019-20	20.0%	20.8%
2020-21	22.7%	23.5%
2021-22	23.7%	24.6%
2022-23	24.3%	25.3%
2023-24	24.8%	25.8%
2024-25	25.1%	26.0%

*Actual for 2018-19

Mandate Block Grant

- All school districts, charter schools, and COEs are eligible to participate in the Mandate Block Grant (MBG), notwithstanding the applicability of state mandates on their operations
- LEAs that opt into the MBG can plan for the following rates per ADA, inclusive of the 2.71% COLA, in all three years of the MYP:

Grade Span	School Districts	Charter Schools	COEs
K-8	\$31.16	\$16.33	\$32.21
9-12	\$59.83	\$45.23	\$60.88

- We recommend LEAs weigh the benefits of receiving money now from the MBG versus an unfunded receivable with no time-certain reimbursement