

Mount Pleasant Elementary School District

State Budget Update

April 18, 2018



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Services
of California
INC.™
An Employee-Owned Company

Presented by

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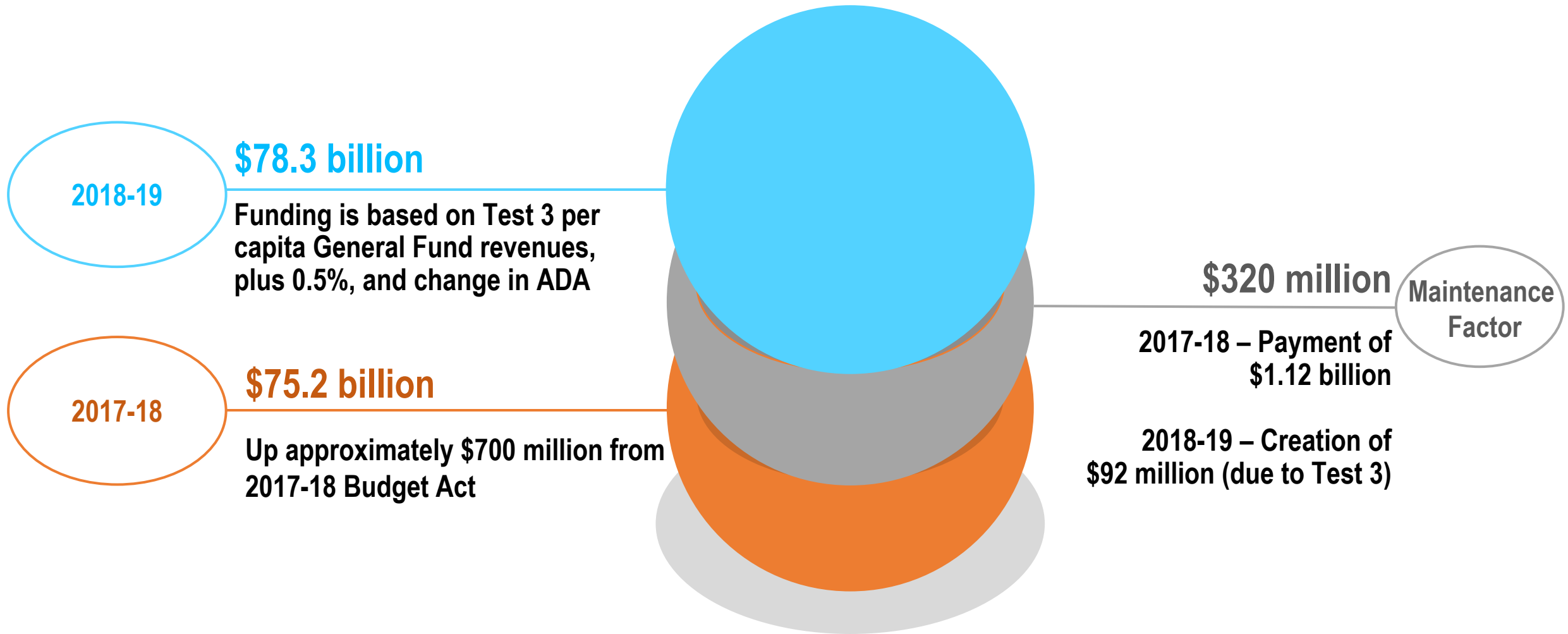


Proposition 98

- **With the enactment of Proposition 98 in 1988, voters amended the State Constitution to set a minimum funding level for K-12 education and community colleges**
- **Both state General Fund and local property tax revenues apply toward meeting the Proposition 98 minimum guarantee**
- **The minimum guarantee is determined by one of three tests that depend upon several inputs, including changes in K-12 attendance, per capita personal income, and per capita General Fund revenue**
 - **Test 1: share of General Fund revenues**
 - **Test 2: changes in per capita personal income**
 - **Test 3: per capita General Fund revenue growth, plus 0.5%**
- **The 2018-19 guarantee is based on Test 3, the change in per capita General Fund revenues plus 0.5%, and the change in K-12 average daily attendance (ADA)**



Proposition 98





Don't Expect a Big May Revision

- **In recent years, the May Revision has provided a big boost in Proposition 98 funding above the January proposal**
 - **This year could be different**
- **The minimum funding guarantee rises if General Fund revenues increase if Test 1 or Test 3 is operative**
 - **For the current year, Proposition 98 funding is based on Test 2**
 - **For 2018-19 funding is based on Test 3, but there is less than \$100 million in upward potential**
- **A slight downward revision in the ADA projections reduces Proposition 98 funding by \$250 million in 2018-19, according to the Legislative Analyst's Office (LAO)**



2018-19 Local Control Funding Formula

- **The State Budget proposes nearly \$3 billion for full implementation of the Local Control Funding Formula (LCFF)**
 - **Two years ahead of the intended 2020-2021 implementation date**
- **New funding is estimated to completely close the gap between 2017-18 funding levels and LCFF full implementation**
- **The LCFF base grant targets are adjusted for an estimated 2.51% cost-of-living adjustment (COLA) in 2018-19**
- **2018-19 LCFF growth provides an average increase in per-pupil funding of an estimated \$550 per ADA, or 5.8%**
 - **Individual results will vary**



Department of Finance's LCFF Forecast

- **The Governor's Budget proposes an increase of nearly \$3 billion for LCFF implementation in 2018-19, which will achieve full funding of the base grant targets two years early**
 - **The Governor's original proposal was for an eight-year implementation timeline for the LCFF, placing full implementation in 2020-21**
 - **Throughout the implementation period, funding increases outpaced a straight-line implementation schedule**
 - **The 2017-18 Budget Act funded the LCFF at 97% of target**
 - **The Governor's Budget indicates that over \$17 billion in new funds have been provided under the LCFF since 2013-14**
- **State law will require that the LCFF base grants receive a COLA, based on the implicit price deflator for state and local governments (i.e., the statutory COLA)**



Legislation to Increase LCFF Funding Targets

- **Assembly Bill (AB) 2808 (Muratsuchi, D-Torrance) would increase the LCFF base grant funding targets by nearly 60%, commencing in the 2019-20 budget year**
 - **The measure makes no appropriation, leaving the decision to increase funding for the next governor**
- **The measure passed out of the Assembly Education Committee on a 5-0 vote on April 11, 2018**
- **The bill has no registered opposition and is supported by various local educational agencies (LEAs) and public school associations including the Association of California School Administrators, the California Association of School Business Officials, the California School Boards Association, and the California Teachers Association**



One-Time Discretionary Funds

- **The Governor's Budget proposes \$1.8 billion in one-time discretionary funds for school districts, county offices of education, and charter schools in 2018-19**
 - **This equates to approximately \$295 per ADA**
 - **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 the LEA outstanding mandate reimbursement claims on a dollar-for-dollar basis**
 - **According to the Department of Finance, less than \$1 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, it's our view these funds should not be counted as meeting this state constitutional obligation**



Senate's Amendment to One-Time Funding Proposal

- **The Senate is proposing to redirect \$1 billion of the Governor's \$1.8 billion in one-time discretionary funds to increase LCFF funding in 2018-19**
- **According to the LAO, \$1 billion is indeed proposed from ongoing funds and therefore could be used to supplement the Governor's LCFF proposal**
- **As always, School Services of California, Inc., advises that one-time funds should never be budgeted for ongoing purposes**
 - **Adding to the uncertainty is the competing claims on these funds within the Legislature and the Administration**
 - **A final resolution of this proposal won't likely be known until the State Budget is enacted in late June**



Special Education

- **The Governor proposes modest one-time and ongoing funding for Special Education programs, including:**
 - **2.51% COLA increase, estimated at \$13.58 per ADA**
 - **The 2018-19 estimated AB 602 Statewide Target Rate increases to \$554.57**
 - **\$100 million in one-time funding for LEAs to implement programs to increase and retain Special Education teachers**
 - **\$167.2 million in one-time funds to establish an “Inclusive Education Expansion Program,” focused on increasing availability of programs for low income children ages 0-5, including children with disabilities**
 - **No funding is proposed to increase and equalize AB 602 base rates**



Legislation to Increase Special Education Funding

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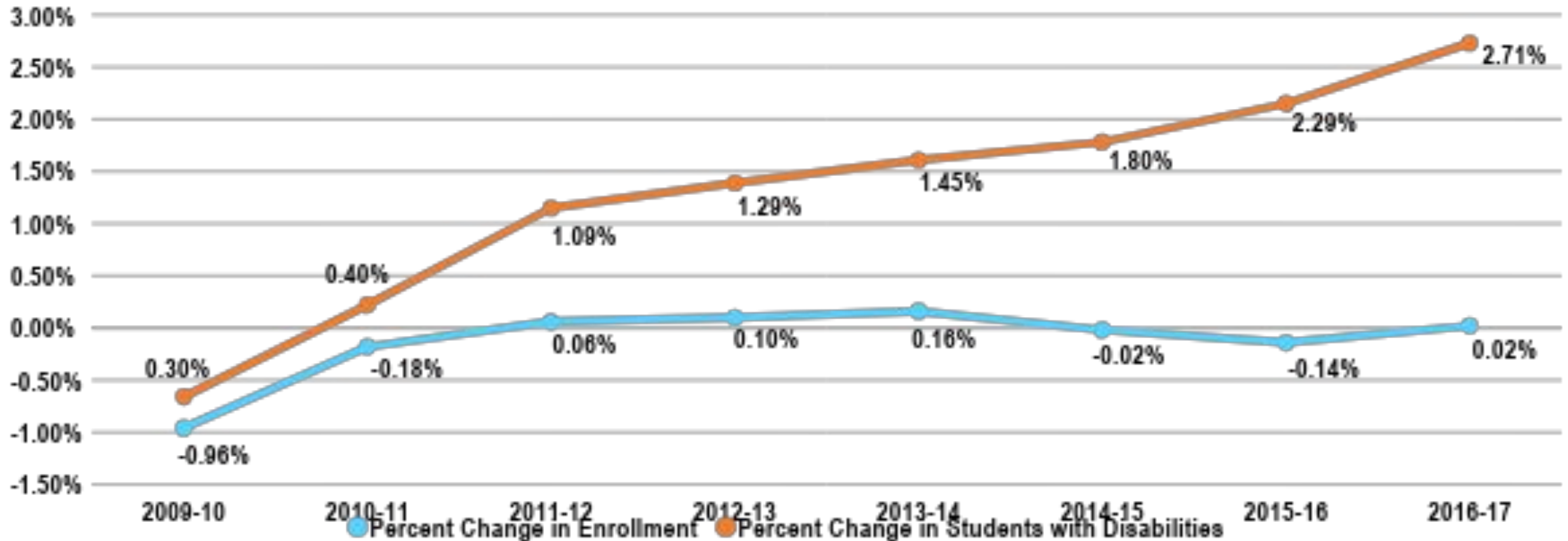
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- **AB 3136 (O'Donnell, D-Long Beach) would provide funding for students with special needs by making significant changes to the Special Education funding system, including**
 - **Establishing a funding mechanism to support Special Education preschool programs by adding a proxy for preschoolers in the AB 602 funding formula**
 - **Equalizing AB 602 rates to the 95th percentile**
 - **Providing a supplemental grant to support students with greater needs, including students who are on the autism spectrum, blind, visually impaired, and intellectually disabled**
- **On April 11, 2018, the measure passed out of the Assembly Education Committee on a 6-0 vote**



Historic Percentage Change in Enrollment vs. Growth in SWDs

Historic Percent Change in Enrollment and Students with Disabilities (SWDs)





CalPERS Rate Increases

- The employer contribution to the California Public Employees’ Retirement System (CalPERS) is proposed to increase to 18.1% in 2018-19, up from 15.531% in 2017-18
- “Classic” members continue to pay 7.0%
 - New members pay 6.0%, which may fluctuate from year to year based on the Public Employees’ Pension Reform Act (PEPRA) requirement to pay half the normal cost rate
- 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				
2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
15.531%	18.1%	20.8%	23.8%	25.2%	26.1%



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, the California State Teachers' Retirement System (CalSTRS) will have the authority to marginally increase or decrease the employer contribution rate**

CalSTRS Rates

Year	Employer	Pre-PEPRA Employees	Post-PEPRA Employees
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%



Proposition 98: Has School Funding Improved?

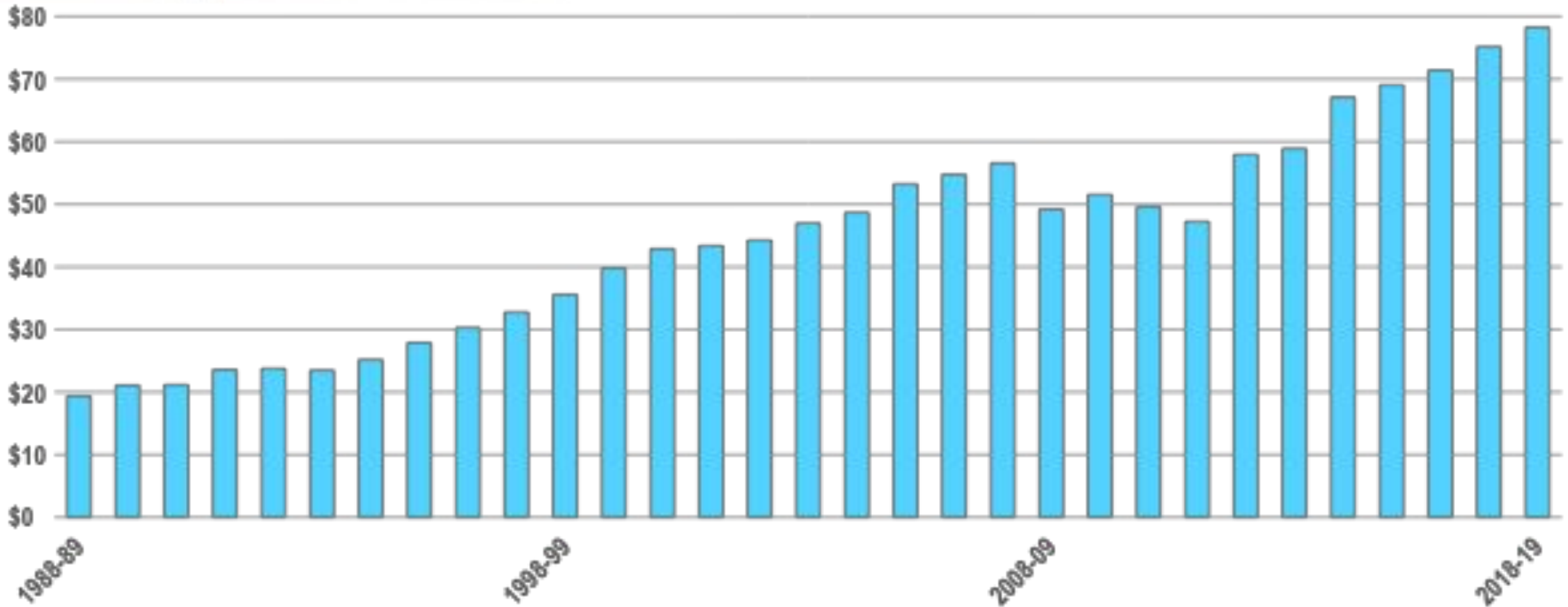
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- **Enacted by state voters in November 1988, Proposition 98 amended the State Constitution to establish a minimum funding guarantee for K-12 education and the community colleges**
 - **The formulas take into consideration changes in workload as measured by ADA and inflation as measured by (1) the change in per capita personal income or (2) the change in General Fund revenues**
 - **Proponents argued that Proposition 98 would take politics out of school finance**
- **According to a report by the LAO, over the period during which Proposition 98 has been in effect, “There is no evidence that school funding is higher as a result of the formulas”**
 - **The formulas fail to address “real world” developments and there is no evidence that school funding decisions are any less political**

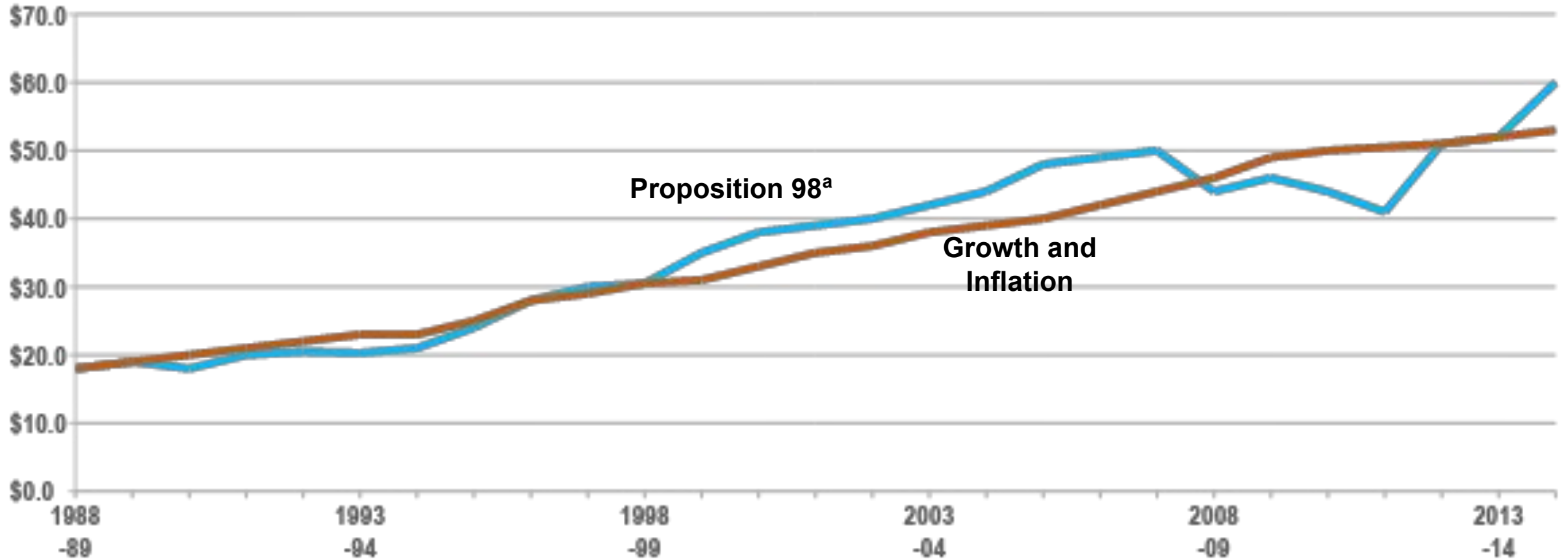


Proposition 98 Funding





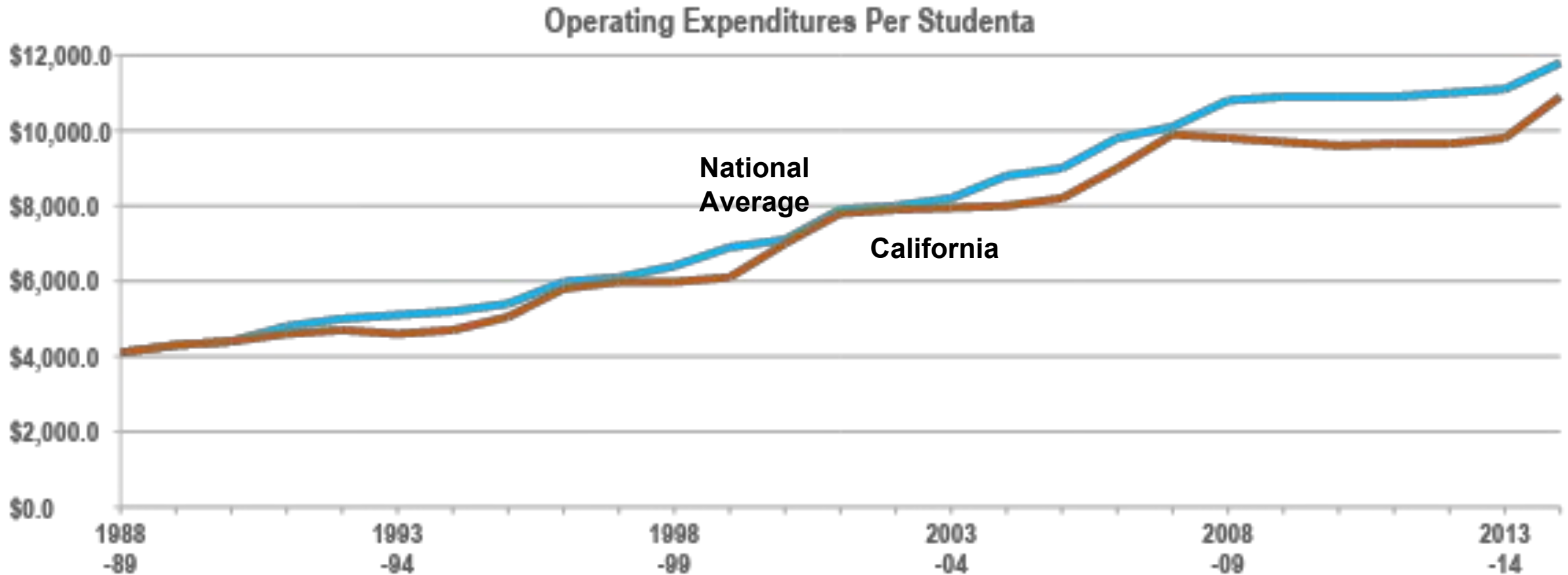
Proposition 98 vs. Enrollment Growth and Inflation



^aIncludes all Proposition 98 funding except the amount going to the California Community Colleges
Source: LAO, *A Historical Review of Proposition 98*, page 25, January 2017



California's Proposition 98 vs. the Rest of the Nation



^aReflects spending data reported by the U.S. Census Bureau. Amounts for 1988-89 to 1990-91 have been adjusted for comparability with subsequent years. Amounts shown for 2014-15 reflect an LAO estimate.

Source: LAO, *A Historical Review of Proposition 98*, page 17, January 2017

- **The state's economy will drive state tax revenues, with an increasing reliance on the high-income earners**
 - **Greater volatility in state revenues should be expected**
- **The Legislature and Governor set the state's spending**
 - **State General Fund support for K-12 education has been weak because of flat or declining K-12 enrollment and consistently strong property tax growth**
 - **Most other state programs have seen larger increases in General Fund support**
 - **The Legislature rarely funds education above the Proposition 98 minimum guarantee**
 - **Policy discussion regarding the needs of K-12 education are rare; funding the Proposition 98 target substitutes for meaningful budget priority setting**



The Outlook for the Future – The Voters

- **California voters have consistently identified public education as their top budget priority**
 - **The Lottery was sold to voters as benefitting education**
 - **Proposition 98 was approved by voters, notwithstanding the opposition of most state political leaders**
 - **Recently, voters approved Propositions 30 and 55, the temporary tax on high-income earners**
 - **Voters were told this was a tax to save K-12 education from cuts; the reality is that these tax revenues benefit all General Fund programs**
 - **Voters approved Proposition 51, the K-14 education bond program**
- **A direct appeal to voters through the initiative process may be the only way to substantially improve funding for California's K-12 education system**



Thank you