

2015 Governor's May Revision Update

Piedmont Unified School District

Board of Education

June 10, 2015



The Economics Are Different This Year

© 2015 School Services of California, Inc.

- Normally, state job growth and increases in national Gross Domestic Product (GDP) fuel economic recovery
- This year's gains are different; they are fueled by:
 - A reinvigorated California **real estate market**
 - Continued record-level returns on **stocks, bonds, and capital gains taxes**
 - **Job growth** is a positive factor, but **insufficient** to account for the bulk of the gains
- While sales and income taxes show large gains, it is **capital gains** that supercharge state revenues and drive Proposition 98 up
- Under Proposition 2, a substantial portion of the capital gains over 8% will go to the "Rainy Day Fund" – the Governor proposes \$1.9 billion

The Big News – 2015-16 Provides the Highest Increase in Education Funding Ever!

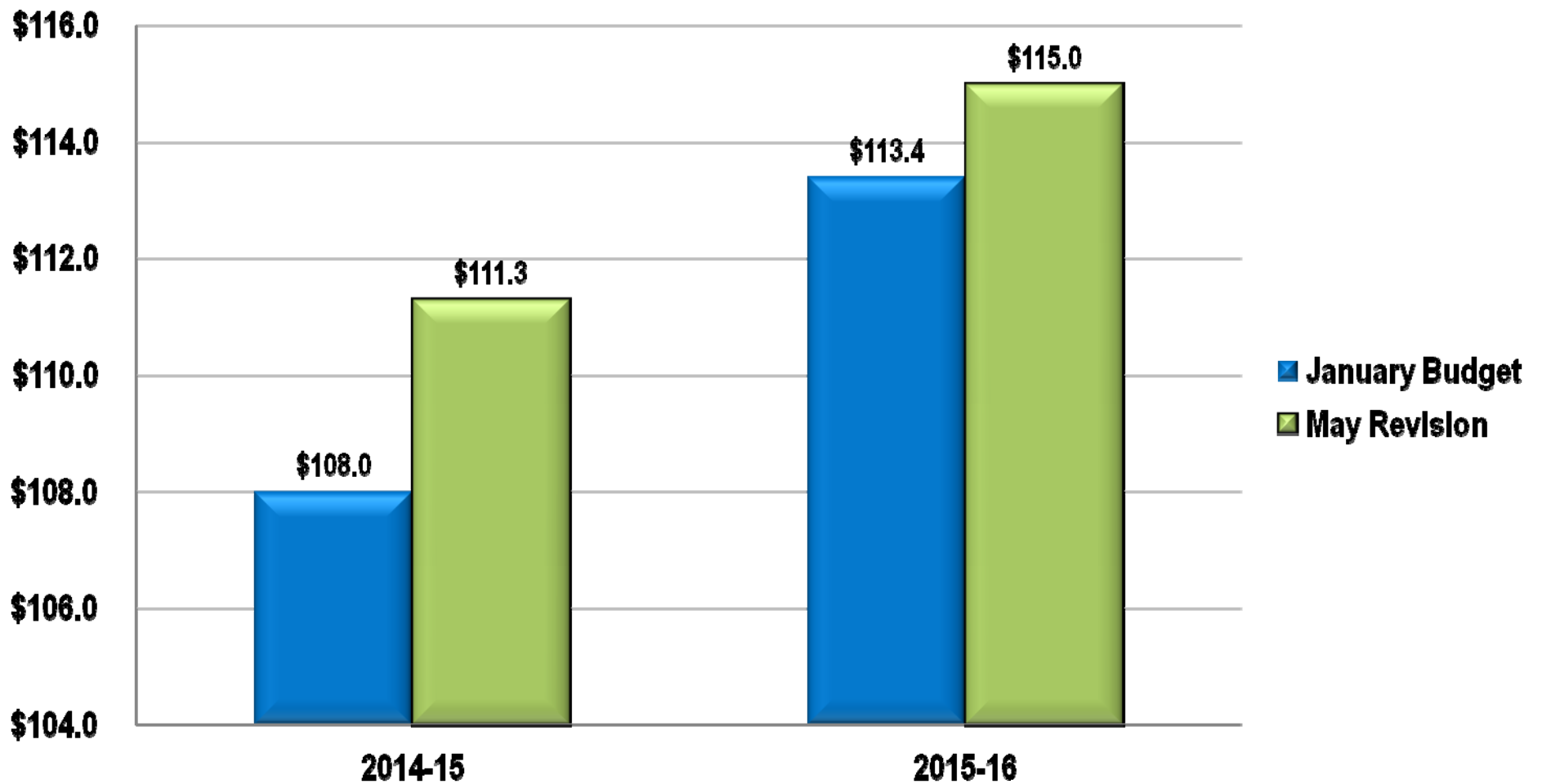
- January 2015 Governor's Proposed Budget:
 - \$4.75 billion already provided in the 2014-15 enacted Budget for the Local Control Funding Formula (LCFF)
 - \$2.1 billion already provided for 2015-16 LCFF growth
- The May Revision provides:
 - An additional \$3.1 billion for education funding in 2014-15 , but treated as **one-time dollars (Note: estimated at \$601/ADA, but PUSD has already recognized \$180/ADA at Second Interim)**
 - An additional \$4 billion to growth funding in 2015-16, for a total of \$6.1 billion
 - Gap closure rate goes from 32.19% to 53.08%
- The state is making rapid progress toward full implementation of the LCFF due to increased state revenues from the combination of a rapidly recovering California economy and Proposition 30 temporary taxes



General Fund Revenues 2015-16

© 2015 School Services of California, Inc.

**General Fund Revenues
(In Billions)**





General Fund Budget Summary 2015-16

© 2015 School Services of California, Inc.

	2014-15	2015-16
Prior-Year Balance	\$5,589	\$2,359
Revenues and Transfers	<u>\$111,307</u>	<u>\$115,033</u>
Total Resources Available	\$116,896	\$117,392
Non-Proposition 98 Expenditures	\$64,929	\$65,892
Proposition 98 Expenditures	<u>\$49,608</u>	<u>\$49,416</u>
Total Expenditures	\$114,537	\$115,308
Fund Balance	\$2,359	\$2,084
Reserve for Liquidation of Encumbrances	\$971	\$971
Special Fund for Economic Uncertainties	\$1,388	\$1,113
Budget Stabilization Account/Rainy Day Fund	\$1,606	\$3,460

- Revenues and transfers increase 3.2%, while expenditures increase by less than 1%
- The May Revision proposes over \$3.4 billion in the Budget Stabilization Account
- The May Revision maintains over \$1.1 billion in the Reserve for Economic Uncertainties

Source: 2015-16 May Revision, page 10



Political Issues

© 2015 School Services of California, Inc.

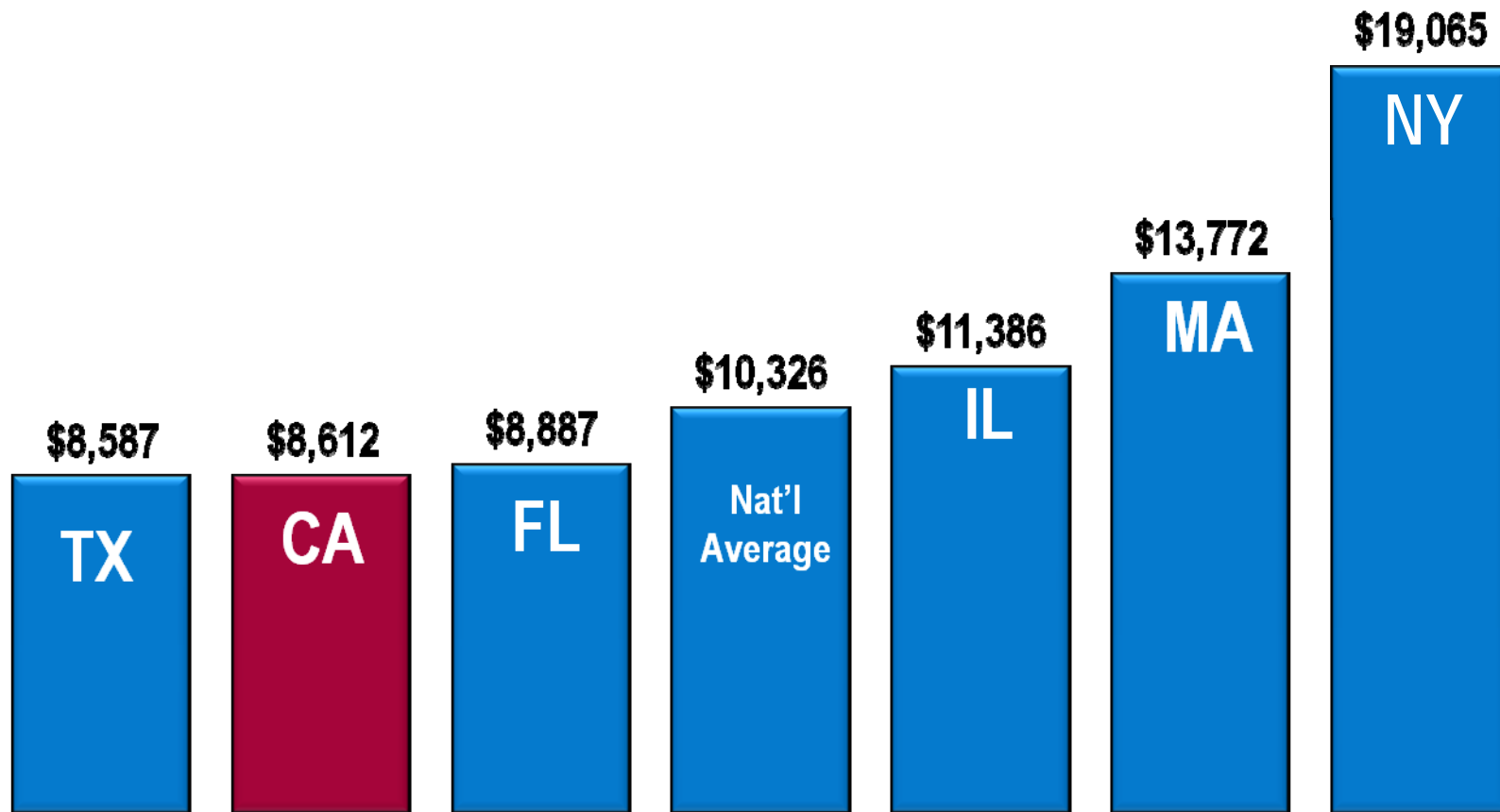
- The Constitution requires that schools get big funding increases this year and next – can the state afford it?
- Yes!
 - Schools get the lion’s share of unanticipated state revenue growth, but nothing is taken away from noneducation programs to pay for it
 - **2015-16 growth in Proposition 98 funding is wholly supported by increased local property tax revenues, not state aid**
 - State General Fund spending for Proposition 98 actually drops by nearly \$200 million in 2015-16 from 2014-15
 - Proposition 98 is a complicated formula, in part because of protections built in for the state
 - Test 3, and “spike” protection, tempers Proposition 98 growth in 2015-16, freeing money for other state priorities



Spending by State

© 2015 School Services of California, Inc.

Average Expenditures per Pupil 2011



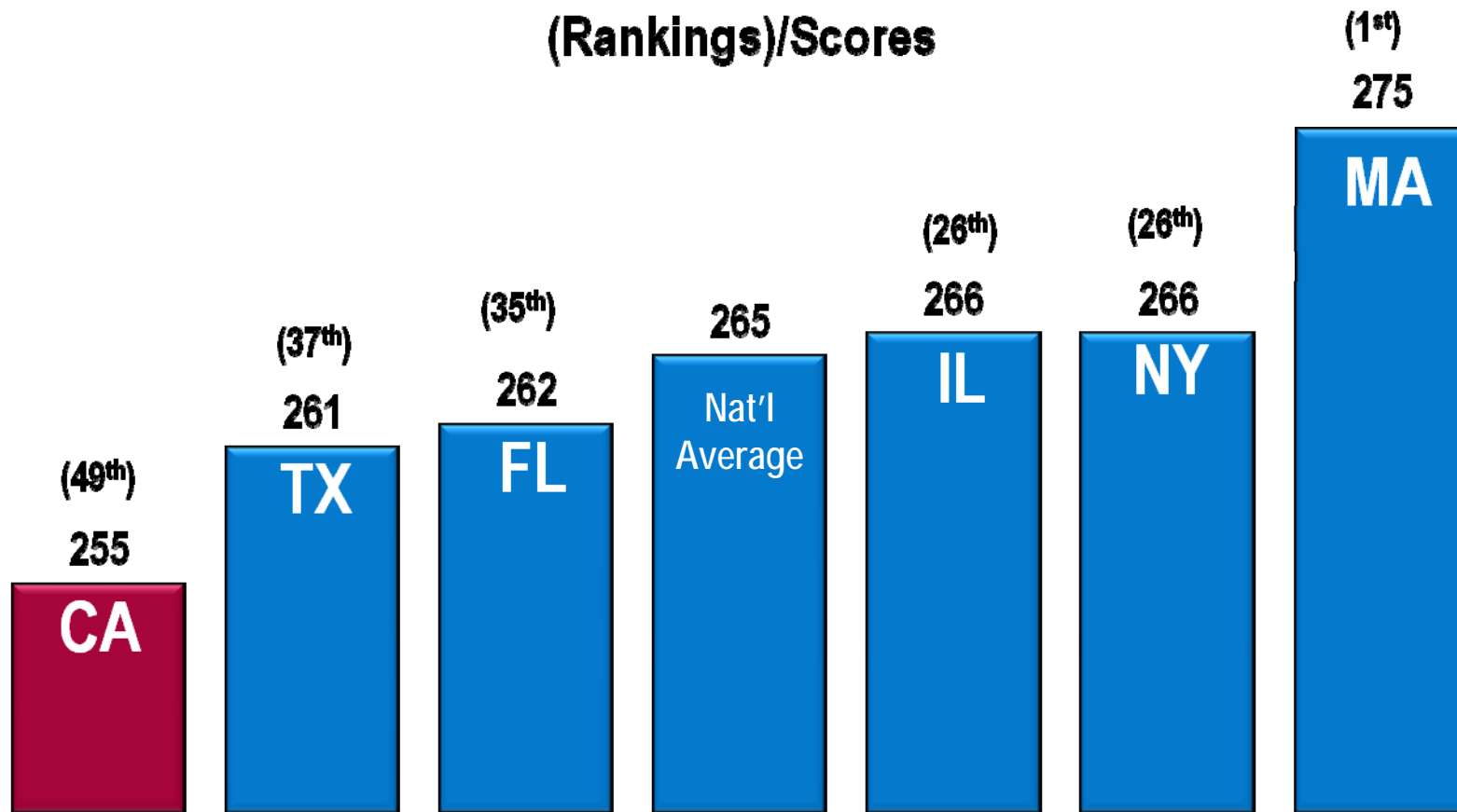
Source: National Center for Education Statistics



National Assessment of Educational Progress (NAEP) – Reading

© 2015 School Services of California, Inc.

NAEP Reading – Grade 8 2011 (Rankings)/Scores

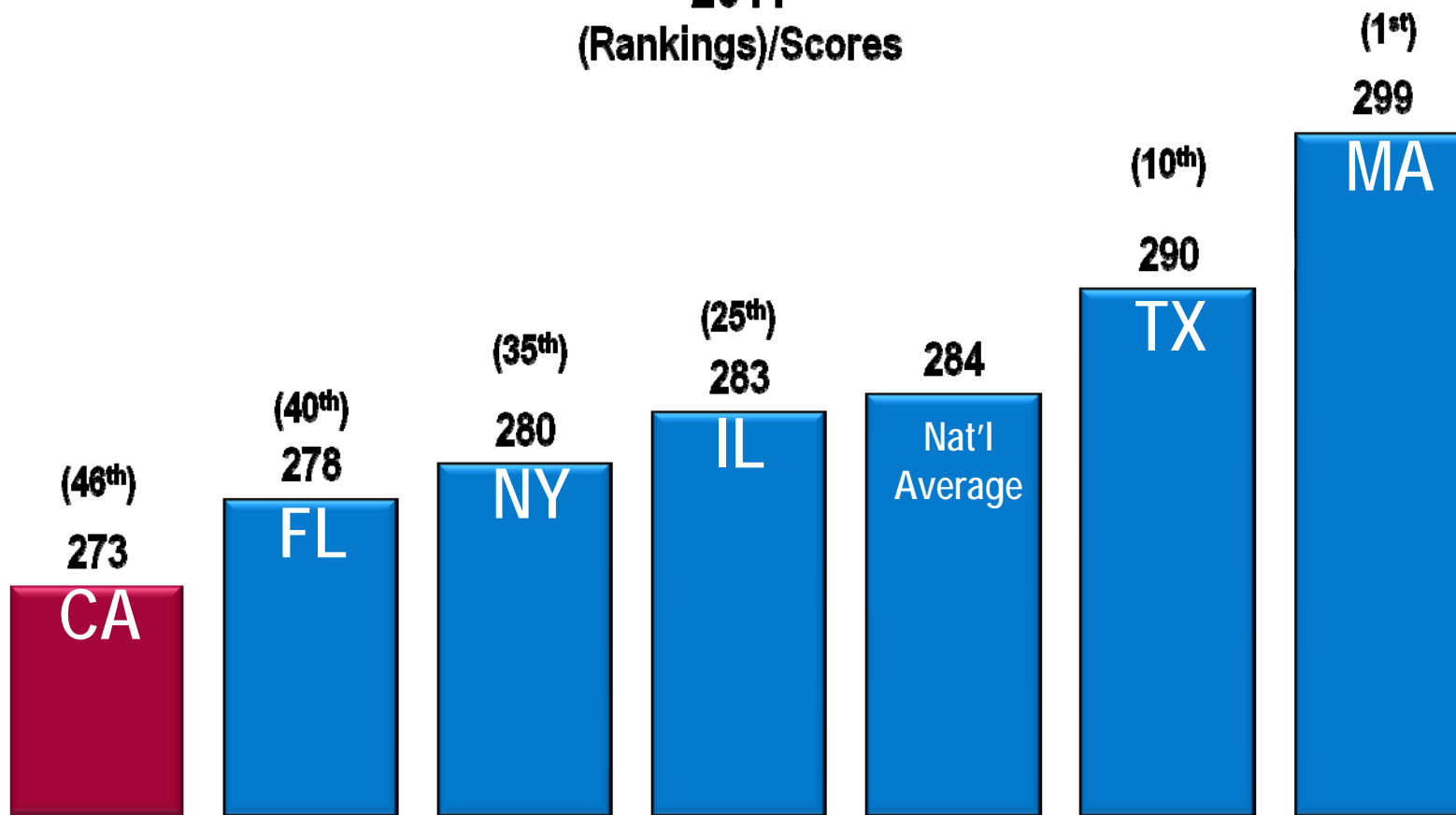




NAEP – Mathematics

© 2015 School Services of California, Inc.

NAEP Mathematics – Grade 8 2011 (Rankings)/Scores





Challenges for Education

© 2015 School Services of California, Inc.

- A. Proposition 98 Funding will slow: Level of gain for education proposed by the Governor rapidly extinguishes the maintenance factor; only \$772 million remains in 2015-16
- The current 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)
 - 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 as opposed to the current average annual gain of above 9% (average of 9.7% for 2015-16)
 - In future years, the non education side of the Budget can expect real gains, even without manipulation of Proposition 98
- B. Under the current law, the Governor does not meet his commitment to restore purchasing power to the 2007-08 level at full implementation of the LCFF, even with the higher funding he has proposed
- The employer's share of California Public Employee's Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) cost increases consumes **25%** of all new dollars
 - As a result, by full implementation, **\$4.5 billion is shifted from salaries and benefits to retirement costs**



January Budget vs. May Revision

© 2015 School Services of California, Inc.

Item	January Budget	May Revision
LCFF Gap Funding Percentage	32.19%	53.08%
Proposition 98 Minimum Funding Guarantee		
2014-15	\$63.2 billion	\$66.3 billion
2015-16	\$65.7 billion	\$68.4 billion
2015-16 COLA	1.58%	1.02%
One-time Discretionary Funds for 2015-16	\$1.1 billion \$180 per ADA	\$3.5 billion \$601 per ADA



Impact to Piedmont Unified School District : Difference between January Proposal vs. May Revision

© 2015 School Services of California, Inc.

Item	January Budget	May Revision
LCFF Gap Funding Percentage	32.19%	53.08%
PUSD	\$ 0	<i>Additional \$636k in 2015-16; and another \$684k in 2016-17</i>
One-time Discretionary Funds for 2015-16	\$1.1 billion \$180 per ADA	\$3.5 billion \$601 per ADA
PUSD	\$468,720 at Second Interim	<i>Additional \$1.1 M one time funds</i>



SSC Financial Dartboard

© 2015 School Services of California, Inc.

Factor	2014-15	2015-16	2016-17	2017-18
Statutory COLA	0.85%	1.02%	1.60%	2.48%

LCFF Factors

Factor	2014-15	2015-16	2016-17	2017-18
SSC LCFF Gap Funding Percentage	29.97%	53.08%	12.62%	18.24%
Department of Finance (DOF) LCFF Gap Funding Percentage	29.97%	53.08%	37.40%	36.74%

Factors for All Scenarios

Factor	2014-15	2015-16	2016-17	2017-18
California Consumer Price Index	1.40%	2.20%	2.40%	2.60%
Ten-year Treasuries	2.20%	2.40%	2.80%	3.00%
CalPERS	11.771%	11.847%	13.05%	16.60%
CalSTRS	8.88%	10.73%	12.58%	14.43%



Committed vs. Assigned Fund Balance

© 2015 School Services of California, Inc.

- Fund Balance, Committed: The portion of fund balance representing resources whose use is constrained by limitations self-imposed by the LEA through *formal* action of its highest level of decision-making authority. The constraints can be modified or removed only through the same process by which they were imposed. The action imposing the constraint must be made by the end of the reporting period. The actual amounts may be determined at a later date, prior to the issuance of the financial statements.
- Fund Balance, Assigned: The portion of fund balance representing resources that are intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed. Intent may be established either by the LEA's highest level of decision-making authority or by a designated body or official. Constraints giving rise to assigned fund balance may be imposed at any time before the financial statements are issued. *The constraints may be modified or removed by a process less formal than is required to remove constraints* that give rise to committed fund balance. In governmental fund types other than the general fund, this is the residual fund balance classification.