



# SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item 11.2

**Meeting Date:** January 19, 2017

**Subject:** 2017-2018 Governor's Budget Proposal

- Information Item Only
- Approval on Consent Agenda
- Conference (for discussion only)
- Conference/First Reading (Action Anticipated: \_\_\_\_\_)
- Conference/Action
- Action
- Public Hearing

**Division:** Business Services

**Recommendation:** Receive for information a review of the Governor's Budget proposal for 2017-2018.

**Background/Rationale:** The budget cycle is an evolutionary process that is refined as new information becomes available. As the district executes the current year budget, the process begins to develop the budget for the next fiscal year. The first event of the new budget cycle is the presentation of the Governor's Proposed Budget that becomes public in January of each year.

**Financial Considerations:** Board review and preparation for actions required to effectively balance the 2017-2018 and 2018-2019 budgets.

**LCAP Goal(s):** Family and Community Empowerment; Operational Excellence

**Documents Attached:**

1. Executive Summary

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| <p><b>Estimated Time of Presentation:</b> 10 Minutes<br/><b>Submitted by:</b> Gerardo Castillo, CPA, Chief Business Officer<br/><b>Approved by:</b> José L. Banda, Superintendent</p> |
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# Board of Education Executive Summary

## Business Services

2017-2018 Governor's Budget Proposal

January 19, 2017



### I. OVERVIEW/HISTORY:

The Governor's Budget Proposals for 2017-18 changed from the positive theme that has existed over the past three years for public education. Within the first 30 seconds of his press conference on the 2017-18 State Budget, Governor Jerry Brown dashed hopes for any continuation of that trend. The Governor referred to the fact that California has the most progressive tax structure and, therefore, the most unreliable revenues, in the nation. Our reliance on the top 1% of taxpayers gives us tremendous revenue volatility, both up and down.

The Governor is projecting barely enough growth in the Proposition 98 guarantee to fund the meager 1.48% cost-of-living adjustment (COLA) estimated for 2017-18. This leaves no room for additional gap closure, so the funded level of the Local Control Funding Formula (LCFF) would remain flat for 2017-18.

The Governor's Budget presents a picture that we have seen before—though not in a number of years—and not a welcomed one. While we have grown accustomed to seeing understated General Fund revenues when compared with receipts to date and projections, this year's Budget shows that revenues are lower than projected. The revenue forecast is \$5.8 billion lower than expected and the state is experiencing a current-year shortfall in the Medi-Cal program, both which contribute to the lower than expected revenues as compared to the 2016 Budget Act adopted in June 2016.

The Governor asserted that even a moderate recession could quickly produce huge deficits in the State Budget. The Budget tells state-funded agencies to prepare for the next downturn, build state-level reserves, but leaves local school districts without relief on the reserve policy.

The Budget proposes a Proposition 98 guarantee of \$73.5 billion, a decrease of \$953 million, relative to the 2016-17 Budget Act. The main points of the governor budget for LEAs are:

#### **Cost-of-Living Adjustment and Average Daily Attendance**

The estimated statutory COLA for K-12 education programs in 2017-18 is 1.48%, and is applied to the LCFF base grant targets, as well as other education programs that are funded outside of the LCFF. Those programs include Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and the American Indian Early Childhood Education program, all of which are proposed to receive the statutory COLA.

Statewide, ADA is expected to decrease only slightly in 2017-18, by 645 ADA from 2016-17 levels to an estimated ADA of \$5,958,288.

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### Local Control Funding Formula

The Governor's 2017-18 Budget continues implementation of the LCFF with an infusion of \$744 million, the amount needed to fund the statutory COLA. The LCFF provides funding to transition all LEAs toward target funding levels, and provides supplemental revenues through percentage weighting factors to increase or improve services for students who are not English language proficient, who are from low-income families, or who are in foster care.

#### LCFF Target Entitlements for School Districts and Charter Schools

The target base grants by grade span for 2017-18 are increased over 2016-17 by 1.48% to reflect the estimated statutory COLA:

| Grade Span | 2016-17 Target Base Grant Per ADA | 1.48% COLA | 2017-18 Target Base Grant Per ADA |
|------------|-----------------------------------|------------|-----------------------------------|
| TK-3       | \$7,083                           | \$105      | \$7,188                           |
| 4-6        | \$7,189                           | \$106      | \$7,295                           |
| 7-8        | \$7,403                           | \$110      | \$7,513                           |
| 9-12       | \$8,578                           | \$127      | \$8,705                           |

Up through the 2016-17 fiscal year, the Administration has made significant strides to reach the full funding targets of the LCFF. With 2016-17's gap closure funding, the LCFF is now roughly 96% of the way towards full implementation. Although the Governor's 2017-18 Budget proposal makes no additional progress toward LCFF full funding, the proposal prevents erosion in LCFF implementation by proposing funding equal to the cost of the COLA increase on LCFF target rates. However, the proposed funding is significantly less than the \$2.2 billion the Administration previously estimated would be provided for 2017-18.

Pupil transportation and Targeted Instructional Improvement Grants continue as separate add-ons to the LCFF allocations and do not receive a COLA.

Reminder: LCFF is designed to distribute additional funds to all school districts over time, but with particular emphasis on improving the level of support for English Learners, Foster Youth, and students in poverty. The implementation plan for LCFF continues to assume that it will be fully funded by 2020-21.

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### Proposition 39

Approved by voters in 2012, Proposition 39 requires the state to use half of the increased revenues from corporate taxes (not to exceed \$550 million each year) for K-12 and community college energy efficiency projects. The state is obligated to do this through the end 2017-18; thus, this Budget contains what may be the last appropriation for this purpose. The Governor's 2017-18 Budget includes \$422.9 million to support school district and charter school energy projects and \$3 million for community college energy projects.

### Career Technical Education

The Governor's 2017-18 Budget Proposal includes \$200 million for CTE Incentive Grant funding, representing the final installment of the three-year grant program. Governor Brown notes, "Commencing with 2018-19, schools will support the full cost of these programs within their LCFF allocations."

### Federal Programs

There are significant funding unknowns facing K-14 education at the federal level resulting from the November 2016 election. For K-14 education, the same level of funding in 2017-18 as provided in 2016-17, that is, unless Congress and incoming President Donald Trump elects to increase or decrease funding. Additionally, the fate of some of the recently approved Every Student Succeeds Act regulations are now in flux due to legislation approved by Congress that would allow for the rescission of controversial regulations and with President-elect Trump's vow to reduce regulations.

### Discretionary Funds

The Governor's Budget Proposal includes \$287 million (compared to \$1.2 billion in 2016-17) in one-time Proposition 98 for discretionary funding. The allocation amounts to about \$48 per ADA, equivalent to \$2.04 million for SCUSD. For 2016-17 the amount was \$8.1 million for SCUSD.

### Pension Cost Increases

- Employer costs for retirement benefits for both the California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) are projected to nearly double over the next several years.
  - CalSTRS - From 8.25% in 2013-14 to 19.1% in 2020-21
  - CalPERS – From 11.442% in 2013-14 to 20.4% in 2020-21
- No new funding to address the increased district costs for retirement and no new funding for transportation.

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Overall, State Budget for public education is significant lower than expected just one month ago.

Declining enrollment, increased operating expenses and uncertain future state resources are the key issues facing Sacramento City Unified School District. The development of future budgets will be influenced by external variables such as the State Budget and enrollment changes. Internal factors of compensation and number of employees must be commensurate with the number of students. Sacramento City Unified School District must think long term and be vigilant in monitoring all expenditures to avoid fiscal distress.

## II. Driving Governance:

- Education Code section 42130 requires the Superintendent to submit two Interim Reports to the Board of Education during each fiscal year. The first report shall cover the financial and budgetary status of the district for the period ending October 31. The second report shall cover the period ending January 31. All reports required shall be in a format or on forms prescribed by the Superintendent of Public Instruction.
- Education Code section 42131 requires the Board of Education to certify, in writing, whether the district is able to meet its financial obligations for the remainder of the fiscal year and, based on current forecasts, for the future fiscal year. Certifications shall be based on the Board's assessment of the district budget. Certifications shall be classified as positive, qualified or negative. This education code section also outlines the role of the County Office of Education.
- Education Code Sections 44919, 44951 and 44955 require school districts to provide notice on or before March 15<sup>th</sup> to certificated employees who are designated for layoff for the subsequent year. The final decision for layoff must occur before May 15<sup>th</sup>.
- Education Code Sections 45114, 45115, 45117, 45298 and 45308 require school districts to provide not less than 45 days' notice to classified employees of a layoff.
- Education Code section 42127 requires the Governing Board of each school district to adopt a budget on or before July 1. The budget to be adopted shall be prepared in accordance with Education Code section 42126. The adopted budget shall be submitted to the County Office of Education. The County Office of Education determines if the district will be able to meet its financial obligations during the fiscal year and ensures a financial plan that will enable the district to satisfy its multiyear financial commitments.

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### III. Budget:

Budget projections remain extremely fluid at this point in terms of the budget process. The Governor's Budget Proposals do not mark the end of the Budget cycle—they mark the beginning. The Legislature will push for improvements in other areas of the Budget, as they did the last couple of years. The Governor will again be tested, but he has proven that he can stand his ground. The difference this year is that there are no new revenues to discuss.

Staff attended the Budget Conference on January 17<sup>th</sup> and is still reviewing the details.

Most of the information provided in this document is obtained from School Services of California and Capitol Advisory Group.

### IV. Goals, Objectives and Measures:

Maintain a balanced budget for 2016-2017 and continue to follow the timeline to ensure a balanced 2017-2018 and 2018-19 budget.

### V. Major Initiatives:

- Support implementation of LCFF and the LCAP process.
- Fiscal stability for 2016-17, 2017-2018 and outlying years.
- Focus expenditures to provide the best possible academic outcome.

### VI. Results:

Required Board actions will take place in order to ensure a balanced Adopted Budget is in place on or before July 1, 2018.

### VII. Lessons Learned/Next Steps:

- Follow the approved calendar with adjustments made as necessary.
- Continue to monitor the state budget and its impact on the district finances.
- Meet and communicate with bargaining unit partners.
- Continue to provide updates to the board, parents, community and staff.