



SACRAMENTO CITY UNIFIED SCHOOL DISTRICT BOARD OF EDUCATION

Agenda Item 11.4

Meeting Date: June 1, 2017

Subject: 2017-2018 Governor's May Revision Update

- 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 information on the Governor's May Revision Budget Proposal for Fiscal Year 2017-2018 for actions required to effectively balance the 2017-2018 and 2018-2019 budgets.

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 to develop the budget for the next fiscal year begins. 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. The 2017-18 budget will be based on the Governor's May Revise Budget. Staff attended a conference on May 17, 2017 to learn the details of the Governor's Proposal and present updated information to the Board. The LCAP and budget must align.

Financial Considerations: N/A

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

Documents Attached:

1. Executive Summary

Estimated Time of Presentation: 10 minutes

Submitted by: Gerardo Castillo, CPA, Chief Business Officer

Approved by: José L. Banda, Superintendent

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



I. OVERVIEW/HISTORY:

Governor Jerry Brown released the May Revision 2017-18 proposed State Budget on Thursday, May 11th, 2017. Staff attended the May Revision Workshops on May 17th and 22nd, 2017 and the majority of this executive summary is from what staff learned at these workshops. The May Revision represents the final statutory opportunity for the Governor to update his economic projections prior to enactment of the State Budget in June. Sacramento City USD will develop the 2017-18 Budget based on the May Revision.

Governor Jerry Brown's May Revision paints a somewhat brighter fiscal picture than what he offered in his January Budget proposal. However, he noted that the state has increased spending by billions of dollars over the last several years, especially for education. He warned that we're starting to press the envelope with regard to the length of our current economic recovery, noting that the longest recovery on record is ten years, and we're now in our eighth year of growth. He emphasized exercising fiscal restraint due to this looming recession and pressures from Washington D.C. He cautioned that if the American Health Care Act ("Trumpcare"), or a similar bill were to become law, it would cost California billions of dollars.

He stressed that he did not want to return to the practices of prior Administrations in which new programs were added during the good times but have "the rug pulled out" from people receiving these services when the economy turned south. Without predicting such a recession, he stated that the Department of Finance (DOF) has forecast a \$55 billion revenue shortfall over three years even with a recession of "moderate intensity."

The largest part of the District's revenues is from Local Control Funding Formula (LCFF); therefore we will review this funding source in more detail.

As a reminder, the main premises of the LCFF when it was introduced were as follows:

- Restoration of precession purchasing power to the 2007-08 level by 2020-21
- Redistribution of funding among LEA's to fund additional services to targeted students and closed the achievement gap
- Greater Local control over programs and resources

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



Because of increase costs for California State Teachers' Retirement System (CalSTRS), California Public Employees' Retirement System (CalPERS), special education, transportation and other nondiscretionary spending, it appears that purchasing power will not be fully restored. As funding increases slow down, LEAs are finding that "local control" of budget cuts is difficult.

The hope for higher revenues has not materialized in the current year as previously projected. However, while not at the level that education has experienced in the past, revenue projections for 2017-18 are once again up as part of the May Revision in comparison to the Governor's January Budget. While the Governor continues to stress the likelihood of a recession in the near future, the forecast does not project a recession and in fact reflects continued growth over the next four years.

This is great news for Sacramento City Unified School District (SCUSD), especially since SCUSD was in a budget reduction mode from 2002-03 school year thru 2013-14. During these years, the district reduced expenditures, enhanced revenues, or used one-time funds for a total of \$150 million dollars to maintain balanced budgets. FY 2014-15 was the first year in several years that SCUSD did not incur reductions, and the first time since FY 2007-08 that positive certification was presented to Sacramento County Office of Education. Maintaining a positive certification requires fiscal discipline. The majority of the increased revenues during the last couple of years have been used to reinstate programs and positions previously cut.

The Governor's message is to plan for the effects of the next recession, whenever it may be. Governor Brown highlighted last month revenues and year-to-date weak sales tax receipts, which he estimates at \$1.2 billion below January projections.

The key points of the Governor's Budget are provided below:

- While Proposition 98 funding continues to rise, the rate of increase is much lower than it has been experience over the last few years.
- The May Revision once again reflects higher revenues for 2017-18 than the January Budget, but with a twist. LEA's are not expected to receive the one-time revenues until May 2019.
- One-time funds will be allocated to LEA's only if State meets targets. SCUSD cannot plan on these funds because conditions must first be met.
- The COLA increases to 1.56% in the May Revision compared to 1.48% at the Governor's January Budget.

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



- The Budget proposes a Proposition 98 guarantee of nearly \$1.4 billion in additional funding allocated through the Local Control Funding Formula (LCFF), up \$661 million from the January Budget proposal.
- 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.
- The Department of Finance staff estimates that the additional funding proposed in the budget will eliminate 43.97% of the remaining gap between the 2017-2018 funding level and the LCFF funding target for each school district.
- The K-12 COLA is 1.56% for 2017-18 and it is applied to the LCFF based on base grade spans as follows:

Grade Span	2016-17 Base Grant Per ADA	1.56% COLA	2017-18 Base Grant Per ADA
K-3	\$7,083	\$110	\$7,193
4-6	\$7,189	\$112	\$7,301
7-8	\$7,403	\$115	\$7,518
9-12	\$8,578	\$134	\$8,712

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



- Categorical programs outside of the LCFF will see a 1.56% COLA increase and include Special Education, Child Nutrition, Child Development, Foster Youth and Preschool. As costs continue to rise, these programs will see adjustments only for COLA.
- The May Revision proposes an increase of \$750 million in one-time discretionary funds compared to January.
- At the January Governor's Budget Proposal, we were estimating about \$48 per ADA in one-time funds. The May Revision shows an increase of \$170 per ADA. This is a one-time increase equivalent to about \$4.7 Million for SCUSD. But, the Governor proposes to hold off releasing the funds until May 2019. SCUSD will not book it for 2017-18 Budget.
- Funds can be used for any one-time expenditure as determined by the Board.

Special Education:

- The Governor's 2017-18 May Revision includes funding to pay for the small increase in the statutory COLA for special education.
- The COLA is now estimated to be 1.56%, up from the 1.48% projected in the Governor's January proposal.
- The estimated rate is \$8.31 per ADA.
- Negligible funding increases to mental health and out-of-care funding.
- The Governor states that his office will, "spend additional time in the coming months examining these issues to chart a path forward that will maximize resources to serve students while increasing transparency and accountability."

Career Technical Education:

- The Governor's 2017-18 May Revision does not provide any additional funding for Career Technical Education (CTE) from what was proposed in the January Budget.
 - The January Budget proposal includes the final installment of \$200 million for the three-year program that began in 2015.

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



- This continues a planned reduction of \$100 million from the 2016-17 funding level.
 - Local matching grant requirement for 2017-18 is \$2 for every \$1 provided by the state.
 - School districts will be responsible for maintaining programs from their LCFF funding going forward.
- The Assembly Budget Subcommittee on Education has recommended a joint Education and Budget Subcommittee hearing in the fall of 2017 to discuss the future of CTE.

Child Care and State Preschool

- The May Revision includes funding to provide nearly 3,000 additional full-day state preschool slots as agreed to in last year's State Budget.
- Clarifying intent with the Governor's January proposal to promote alignment between State Preschool and Transitional Kindergarten programs, the May Revision specifies that:
 - Higher ratios can be used when a teacher is credentialed and has 24 Early Childhood Education (ECE) credits.
 - The authority to be exempt from Title 22 commences on July 1, 2018.
 - Children with special needs above the income ceiling can only be enrolled after all other eligible three- and four-year-olds are enrolled.

Teacher Workforce

- The 2016-17 Enacted Budget included investments to recruit new teachers and streamline teacher preparation programs.
- The programs included funding for:
 - Integrated Bachelor of Arts and credential programs
 - Programs that assist classified staff interested in becoming teachers to earn their teaching credentials

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



- State recruitment campaign
- While we await details, the May Revision proposes to leverage the flexibility of the ESSA and calls for the use of federal dollars to further last year's efforts.

Federal Every Student Succeeds Act

The Education Programs that SCUSD expects to have for 2017-18 are:

Title I: Support for low-income students. A reduction of about 7%

Title II: Professional development. A reduction of about 5% (Trump Administration proposal eliminates for 2018-19).

Title III: Support for English learners. A reduction of about 5%

Title IV: 21st Century Community Learning Centers. A competitive grant that will not continue for 2017-18 (Trump Administration proposal eliminates for 2018-19).

Pension Cost

- 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 28.2% in 2023-2024
- No new funding to address the increased district costs for retirement and more than 25% of the new LCFF is used to cover pension cost increases.

Overall, we are satisfied that there are no budget cuts for education included in the Governor's May Revision. Funding is however only part of the equation, declining enrollment, increased operating expenses and uncertain future state resources are the key issues facing the 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 be vigilant in monitoring all expenditures to avoid fiscal distress.

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



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 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.

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 have a lot to say about the Governor's priorities. This would be the fourth year in a row that the Governor has made public education his highest priority. The Legislature will push for improvements in other areas of the Budget, especially due to the Federal Reduction such as Medicare.

IV. GOALS, OBJECTIVES AND MEASURES:

Maintain a balanced budget for 2017-2018 and continue to follow the timeline to ensure a balanced 2018-2019 budget and beyond.

Board of Education Executive Summary

Business Services

May Revision and Budget Workshop for 2017-18

June 1, 2017



V. MAJOR INITIATIVES:

- Support implementation of LCFF and the LCAP process.
- Fiscal stability for 2017-18, 2018-2019 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, 2017.

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 Board, Community, bargaining unit partners.