

GLENDALE UNIFIED SCHOOL DISTRICT

February 2, 2016

INFORMATION REPORT NO. 2

TO: Board of Education

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SUBJECT: **Governor's 2016-17 January Budget Proposal**

State Revenues

The Governor's Budget Proposal reflects an overall growth in the economy which is much stronger than past years, but it also highlights the risk of recession. The Department of Finance points to falling unemployment rates, improving housing markets, and increased consumer demand for durable goods. At the national level, the gross domestic product is projected to climb steadily in 2015 to about 2.6% and increase slightly to 2.8% in 2016.

The State has a steady improvement in the revenue outlook when compared to the assumptions in the 2015-16 Budget Act. As a result, the Governor reflects a 2.6% increase in revenues, equal to an additional \$4.6 billion above the revised current-year level. The Department of Finance has identified the strong performance of the stock market and capital gains as the primary factor producing the unexpected new revenues for both the current year and 2016-17. However, rising gains from the stock market are very volatile from year to year and cannot be relied upon for consistent projections over time, as it has been shaken by recent events in China and around the world. Additionally, the Governor's Budget reflects growing concern for a recession, which even a moderate one could hit the State hard.

Summary of Education Funding

The improving economy has lifted the required minimum funding for K-14 education, increasing 2015-16 by \$766 million from the enacted budget level. For 2016-17, the Budget projects that the Proposition 98 guarantee will grow to \$71.6 billion, which is a \$2.4 billion increase above the 2015-16 level. Some of the major K-12 proposals include the following:

- \$2.8 billion for Local Control Funding Formula (LCFF) gap closure, which equates to a gap funding rate of 49.08%.
- \$1.6 billion for an Early Education Block Grant (not new funding)

- \$22.9 million to fund a 0.47% statutory COLA for the remaining categorical programs. COLAs for core discretionary fund are included in the LCFF target entitlement calculation.
- \$1.2 billion discretionary one-time uses.
- \$365.4 million for the K-12 portion of Proposition 39 (2012) – Clean Energy Jobs Act.

In spite of the increases, General Fund support for schools slows compared to non-Proposition 98 programs: 2% increase versus 8.4% for all other programs in 2016-17. **Based on the studies done by California School Board Association (CSBA), despite recent school funding increases and improved state budget, the gap between actual funding and what is needed to fully fund education has grown to between \$22 billion and \$42 billion.**

Local Control Funding Formula (LCFF) and Remaining Categorical Programs

As stated earlier, the Governor’s 2016-17 Budget continues LCFF funding with \$2.8 billion of additional Proposition 98 revenues. The proposed increase will close the 2016-17 funding gap for each school district compared to 2015-16 level by approximately 85%, and results in an average increase of 5.6% or \$489 per ADA. Actual percentage and per-ADA increases for individual school districts will vary depending on the LEA gap between current funding and the full implementation target.

The LCFF provides funding to transition all school districts 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 socioeconomic families, or children who are in foster care.

The estimated 2016-17 target Base, CSR, CTE, Supplemental and Concentration grant amounts are listed below:

- **Base Grant** - varies by grade level (TK-3...4-6...7-8...9-12).

Factors	TK-3	4-6	7-8	9-12
Grade Span Base Grant per ADA	\$7,116	\$7,223	\$7,438	\$8,618
Class Size Reduction & Career Tech. Education	\$740			\$224

- TK-3 grants are increased by approximately \$740 in recognition of the benefit of negotiated class size not to exceed 26 to 1 per school site.

- **Per Student Supplemental Grant** - 20% of the base grant for each enrolled student who is an English learner, eligible for the Free and Reduced-Price Meals Program, or in foster care. **(The District's current range of unduplicated count for these three groups is approximately 55.88%).**
- **Per Student Concentration Grant** – an additional 50% would be provided for each eligible student enrolled that exceeds 55% of total enrollment. **(The District's current range in excess of 55% for these three groups is approximately 0.88%).**

For Glendale USD, the 2016-17 LCFF calculation results in increased funding of \$10.3 million or 5.0% when compared to 2015-16 revenue. This is a net change of \$420 per ADA, reflecting a 0.47% COLA and 49.08% GAP, equating to **\$8,536** per ADA.

Funding for most categorical programs was consolidated into the LCFF in 2013-14. State categorical programs outside the LCFF, including Special Education and Child Nutrition are provided with the 0.47% COLA in the Governor's Budget. The proposed budget does not include any additional funding in 2016-17 for Common Core State Standards, school facilities bond, an increased employer contribution for CalSTRS and CalPERS, or transportation.

Local Control Accountability Plan (LCAP)

The LCFF moves school districts away from a system of rule/audit compliance to a system of accountability based on local needs and measured by progress towards annual goals. The LCAP is the mechanism used to determine if school districts are meeting their goals.

Glendale USD regularly revisits LCAP goals (with LCAP committee), which are in line with the eight State priorities. The Glendale USD's LCAP plan affirms that we are increasing and improving services to our unduplicated pupils. Ultimately, the District's goal is to improve outcomes for our unduplicated pupils and close the achievement gap for all.

One-Time Discretionary Funding

The Governor's Budget Proposal includes \$1.2 billion in discretionary one-time Proposition 98 funding which equates to \$214 per ADA. This equates to approximately \$5.4 million for GUSD. The funds are unrestricted and the use of the dollars is discretionary. The Governor suggests the one-time funds be used to support investments in content standards implementation, technology, professional development, induction program for beginning teachers, and deferred maintenance. Consistent with prior year proposals, the funds provided will offset outstanding mandate reimbursement claims.

Early Education Block Grant (not new funding)

The Governor's Budget proposes a \$1.6 billion for Early Education Block Grant by consolidating various preschool programs and Transitional Kindergarten in an effort to reduce the administration and programmatic challenges inherent in these programs, allowing greater financial flexibility, and ensuring that no LEA receives less funding under the block grant than was received under prior funding models. Program details should be available by the May Revision. However, there is a growing concern that if Transitional Kindergarten is folded into the Block Grant then it will no longer be funded by ADA and no longer be part of LCFF funding, which could potentially have a negative effect on GUSD's future year budget.

California State Teachers' Retirement System (STRS) and California Public Employees' Retirement System (PERS)

Due to growing unfunded liability of STRS and PERS, the employer contribution costs for both CalSTRS and CalPERS are projected to double over the next several years. CalSTRS will increase from 8.25% to 19.1% by 2020-21, and CalPERS will increase from 11.442% to 20.4% by 2020-21. **Since the 2016-17 State Budget Proposal does not address these cost increases for school districts, the base grant will need to cover increased operating expenses, including the employer's share of CalSTRS and CalPERS increases.**

Conclusion

Based upon the most recent expenditure data available for 2012-13, California ranks 46th in per pupil spending adjusted for regional cost differences. Per Pupil Expenditure of \$8,216, a rank of 46th in the nation, is a poor investment in California's students. The current LCFF model provides some increases in funding, but because California's expenditures have been lagging, the increases will not likely keep pace with education spending nationwide in the coming years.

While the proposed State budget forecast appears promising, it is important to remember the growing concerns for a recession. The Governor estimates that three years into an even moderate recession could hit California very hard and very quickly, accumulating the State deficit to up to \$55 billion.

Due to the ongoing effect of negotiated salary increases for 2014-15 and 2015-16, along with CalSTRS and CalPERS rate increases, the District is now projecting that in the fiscal years 2018-19 and 2019-20 the Unrestricted General Fund adjusted balance will be a negative \$11.7 million and \$28 million, respectively, despite using future year revenues. As a result, the District **will be unable** to meet its financial obligation if not rectified. If the future year revenues do not materialize, then the adjusted balance will be even worse than projected above. Therefore, it is prudent for Glendale USD to be conservative in multi-year fiscal planning.

The next steps for Glendale USD for the remainder of the 2015-16 fiscal year are as follows:

- Second Interim Budget Report – March 15, 2016
- Allocation of Supplemental/Concentration Grant Funds To Programs (LCAP)
- Evaluate State May Revise Budget Impacts
- Board Adoption of 2016-17 District Budget on June 21, 2016

To Support 2015-16 Board Priority No. 2 - “Use Board adopted budgetary principles to maintain District fiscal integrity and stability of instruction and programs.”