

GLENDALE UNIFIED SCHOOL DISTRICT

February 3, 2015

DISCUSSION REPORT NO. 2

TO: Board of Education
FROM: Dr. Richard M. Sheehan, Superintendent
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SUBJECT: **Governor's 2015-16 January Budget Proposal**

State Revenues

The Governor's Budget Proposal reflects an overall economy that is slowly recovering from the "Great Recession". The Department of Finance points to falling unemployment rates, improving housing markets, and increased consumer demand of durable goods. At the national level, the gross domestic product is projected to pick up in 2015 to about 2.6% and increase slightly to 2.8% in 2016.

The State has a significant improvement in the revenue outlook when compared to the assumptions in the 2014-15 Budget Act. As a result, the Governor reflects a 4.9% increase in revenues, equal to an additional \$5.3 billion above the revised current-year level. The Department of Finance has identified the strong performance of the stock market as the primary factor producing the unexpected new revenues for both the current year and 2015-16. However, rising gains from the stock market are very volatile from year to year and cannot be relied upon for consistent projections over time. Additionally, the Governor's Budget reflects downward revisions in the future tax collections from sales and corporate taxes resulting in even greater reliance on the income tax.

Summary of Education Funding

The improving economy has lifted the required minimum funding for K-14 education, increasing 2013-14 by \$1.5 billion and 2014-15 by \$2.3 billion. For 2015-16, the Budget projects that the Proposition 98 guarantee will grow to \$65.7 billion, which is a \$2.5 billion increase above the 2014-15 level. Some of the major K-12 proposals include the following:

- \$1.0 billion in one-time Proposition 98 funding in 2014-15 to eliminate all remaining outstanding deferral debt for K-12.
- \$4.048 billion in additional funding for school districts to continue implementation of LCFF, which equates to an average increase of 8.7%.

- \$320.1 million to support energy efficiency projects in schools consistent with Proposition 39.
- \$71.1 million to fund a 1.58% statutory COLA for the remaining categorical programs. COLAs for core discretionary funding are included in the LCFF target entitlement calculation.
- \$273.4 million for the Emergency Repair Program (one-time funds).
- \$250 million for one-time CTE incentive grants (each of the next three years).

Local Control Funding Formula (LCFF) and Remaining Categorical Programs

As stated earlier, the Governor’s 2015-16 Budget continues LCFF funding with \$4.0 billion of additional Proposition 98 revenues. The proposed increase will close the 2015-16 funding gap for each school district compared to 2014-15 level by approximately 58%, and results in an average increase of 8.7% or \$675 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 move all school districts toward a finance system that allocates similar amounts per ADA as base grants within four grade spans, and also provides additional percentage increases for Class Size Reduction, Career-Technical Education, and Supplemental /Concentration grants on behalf of students that are not English language proficient, low income families, students with disabilities, or are in foster care. As a result, LCFF funding total amounts between school districts of similar size may greatly differ due to differences between student language and income levels.

The estimated 2015-16 target Base, CSR, CTE, Supplemental and Concentration grant amounts are listed below:

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

Factors	K-3	4-6	7-8	9-12
Grade Span Base Grant per ADA	\$7,122	\$7,228	\$7,444	\$8,625
Class Size Reduction & Career Tech. Education	\$741			\$224

- K-3 grants are increased by approximately \$741 in recognition of the benefit of lower class sizes at 24 to 1.

- **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 56%).**
- **Per Student Concentration Grant** – 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 1%).**

For Glendale USD, the 2015-16 LCFF calculation results in increased funding of \$14.5 million or 8.0% when compared to 2014-15 revenue. This is a net change of \$589 per ADA and a total \$7,789 per ADA, reflecting a 1.58% COLA and 32.19% GAP.

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 1.58% COLA in the Governor's Budget. The proposed budget does not include any additional funding in 2015-16 for the implementation of the Common Core State Standards.

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 system on how school districts will be measured in meeting their goals.

Glendale USD has already established the LCAP goals, which are in line with the eight State priorities. The Glendale USD's LCAP plan to measure the progress towards these goals was approved on June 17, 2014. There is an on-going implementation and monitoring of the LCAP plan throughout the year.

State Mandate Reimbursements

The Governor's Budget Proposal contains no changes to the funding level of the Mandate Block Grant, and there are no changes proposed to the list of state mandates. The Budget continues the long-term plan to pay down the \$5.4 billion debt owed to school districts, community colleges, and local governments for prior mandates over several years, to be completed by the end of 2017-18. The Governor's Budget Proposal provides more than \$1.1 billion in discretionary one-time Proposition 98 funds to pay down this debt.

School Facilities Bond

While the Governor's Budget does not identify funding for a school construction state assistance program, the Budget outlines two broad principles for the next school facilities proposal that

align closely to the tenet of the LCFF, which are: (1) enhanced local control and flexibility, and (2) targeting resources to areas of need.

Routine Restricted Maintenance Account

Starting in 2008-09, LEAs could reduce the amount deposited into a routine restricted maintenance account through 2014-15. Beginning in 2015-16 districts will again be required to contribute a minimum amount equal to or greater than 3% of the total General Fund expenditures. This will require the Glendale Unified School District to transfer an additional \$1.1 million from the General Fund to the Restricted Maintenance account in future years beginning in 2015-16.

California Clean Energy Jobs Act - Proposition 39

The California Clean Energy Jobs Act, approved by voters in 2012, can be used by school districts to undertake energy efficient measures by construction or modernization of energy efficient buildings, purchasing energy efficient equipment, and creating renewable energy projects. The Governor proposes to allocate \$368 million of energy efficiency funds in 2015-16 for school districts, community colleges, California Conservation Corp and the Workforce Investment Board, and a one-time appropriation of \$273.4 million to retire the State's obligation under the Williams Settlement Agreement.

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

Due to growing unfunded liability that STRS and PERS are facing, 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 2015-16 State Budget Proposal does not address these cost increases for school districts, in most cases, the base grant will need to cover increased operating expenses, including the employer's share of CalSTRS and CalPERS increases.**

Proposition 2 – Cap on Reserves

The passage of Proposition 2 and enactment of SB 858 resulted in a hard cap on school reserves. This requires districts to cut their reserves to no more than twice the minimum reserve in the year following a contribution to the Proposition 98 reserve. The goal is for greater transparency in the districts' budgets. Districts are required to provide additional disclosure of reserves, identifying the amount of any assigned and unassigned ending fund balances above the minimum reserve for economic uncertainties recommended by the State, along with a statement of reasons for the reserve level. The four conditions that could impose the cut to district reserves are: maintenance

factor, test 1 funding, full funding for enrollment growth and COLA, and capital gains reserves must exceed 8% of state General Fund reserves.

Based on the Legislative Analyst's Office (LAO) analysis, the specific risks to school districts that lower their reserves in accordance with the SB 858 cap are: the cap, for most districts, allows only 17.8 days of payroll, emergency facility repairs and unexpected costs will place the district in a precarious position, districts with reserves below the cap are more likely to be flagged for fiscal intervention (according to FCMAT), and districts with a lower reserve could have their credit rating reduced, increasing the cost of borrowing money. So the LAO's recommendation is, "We recommend the Legislative repeal the reserve cap."

Conclusion

While the proposed State budget forecast appears promising, it is important to remember that the economy is about 5 years into a very slow recovery from the "Great Recession", and most historical recovery cycles only last about 5 years. Given LCFF is proposed to reach full funding in 8 years, an economic down turn, stock market swings, or shifting State budget priorities can put a strain on school funding during the implementation time line.

Also, Proposition 30, approved by voters in November 2012, temporarily increased the State sales tax and income tax rates for high-income earners to address state revenue. If not extended, the State sales tax increase will expire in 2016 and the income tax increase will expire in 2018. 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 2014-15 fiscal year are as follows:

- Second Interim Budget Report – March 15, 2015
- Allocation of Supplemental/Concentration Grant Funds To Programs (LCAP)
- Evaluate State May Revise Budget Impacts
- Board Adoption of 2014-15 District Budget on June 16, 2015

To Support 2014-15 Board Priority No. 2 - "Use Board adopted budgetary principles to maintain District fiscal integrity and stability of instruction and programs."