

GLENDALE UNIFIED SCHOOL DISTRICT

February 6, 2018

INFORMATION REPORT NO. 7

TO: Board of Education
FROM: Winfred B. Roberson, Jr., Superintendent
SUBMITTED BY: Steve Dickinson, Chief Business and Financial Officer
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SUBJECT: **Governor's 2018-19 January Budget Proposal**

State Revenues

The Governor's Budget Proposal presents a rosy picture, with revenues higher than projections. Total State revenues are higher year over year, and the economy continues to grow, though modestly. The higher revenues, as expected, are due largely to an increase in personal income tax collections, with sales and use tax also seeing an increase over those estimated by the Department of Finance (DOF) in the adopted 2017-18 Budget Act. However, Governor Brown also warned of the dire consequences of a recession, especially given the State's volatile tax system. As a result, he is again highlighting the need to build up the State's Rainy Day Fund.

Summary of Education Funding

For the current year, the Governor's Budget proposes higher revenues than projected in the Adopted 2017-18 Budget Act. The current year Proposition 98 guarantee is now estimated at \$75.2 billion, up approximately \$700 million from the enacted level. For 2018-19, the Governor's Budget proposed a Proposition 98 guarantee of \$78.3 billion, an increase of \$3.1 billion year over year. Some of the major K-12 proposals include the following:

- \$2.9 billion for Local Control Funding Formula (LCFF) full implementation, which equates to a gap funding rate of 100%, two years ahead of the intended 2020-2021 implementation date.
- A 2.51% statutory COLA for the remaining categorical programs. COLAs for core discretionary fund are included in the LCFF target entitlement calculation.
- \$1.8 billion for discretionary one-time uses
- \$167.2 million for Child Care and State Preschool to expand inclusive care and education settings for children up to 5 years old

- \$100 million for teacher workforce to increase and retain Special Education teachers
- \$10 million Special Education Local Plan Areas (SELPA) to work with COEs to provide LEAs with technical assistance to improve student outcome as part of the statewide system of support

Local Control Funding Formula (LCFF) and Remaining Categorical Programs

As stated earlier, the Governor’s 2018-19 Budget continues LCFF funding with \$2.9 billion to fully implement the LCFF two years earlier than originally projected. The 2018-19 LCFF growth provides an average increase in-per-pupil funding of \$550 per ADA. Actual 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 2018-19 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	\$7,374	\$7,484	\$7,707	\$8,931
Class Size Reduction & Career Tech. Education	\$767			\$232

- TK-3 grant is approximately \$767 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 3-year average range of unduplicated count for these three groups is approximately 54.26%).**

- **Per Student Concentration Grant** – an additional 50% would be provided for each eligible student enrolled that exceeds 55% of total enrollment. **Since the District's current range is less than 55%, the District is NOT entitled to any Concentration Grant.**

For Glendale USD, the 2018-19 LCFF calculation results in an estimated increased funding of \$4.4 million over the First Interim projection. The total increase year over year is \$12 million. This is a net change of \$479 per ADA year over year, reflecting a 2.51% COLA and 100% GAP, equating to **\$9,212** 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 2.51% COLA in the Governor's Budget. The proposed budget does not include any additional funding in 2018-19 for Common Core State Standards, 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 \$1.8 billion in discretionary one-time Proposition 98 funding which equates to \$295 per ADA. This equates to approximately \$7.2 million for Glendale USD. The funds are unrestricted and the use of the dollars is discretionary. Consistent with prior year proposals, the funds provided will offset outstanding mandate reimbursement claims.

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% in 2013-14 to 19.1% by 2020-21, and CalPERS will increase from 11.442% in 2013-14 to 25.2% by 2021-22. **Since the 2018-19 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

Even though the Governor's State Budget presents a rosy picture, it is important to remember that he is concerned about the possibility of a recession. It is just a matter of time. California is a "donor state," meaning we give the federal government more than we get back. Despite significant improvements in school funding since the end of the Great Recession, California schools are still funded significantly below the national average.

It is prudent to remember that the Governor's Proposed Budget provides NO funding for critical programs and obligations, including:

- NO funding to address the growing obligation for CalSTRS and CalPERS unfunded liability
- NO funding to increase the LCFF base grant target to reach the funding level of the top ten states
- NO new funding for Home-to-School Transportation Programs
- NO Funding to increase and equalize Assembly Bill (AB) 602 base funding rates for Special Education

It is important to remember that once LCFF is fully implemented in 2018-19, the future year increases will be COLA only increases.

Due to the continuous increase in the CalSTRS and CalPERS rates, as well as, the growing structural deficit, the District is now projecting out 4 years and at First Interim found that in the Fiscal year 2020-21 Unrestricted General Fund adjusted balance will be negative \$17 million, even with the complete use of LCFF growth in 2017-18 and partial use of the LCFF growth in the out years, as well as, the use of solvency savings of \$7.5 million in 2017-18 and 2018-19 that still needs to be materialized. If the solvency savings are not materialized and continued in future years, the District will have either a qualified or negative certification. As a result, the District **will be unable** to meet its financial obligation in those future years if not rectified. Therefore, it is prudent for Glendale USD to be conservative in multi-year fiscal planning.

Multi-Year Projections – Final Considerations:

- CalSTRS and CalPERS contributions are still increasing
- Health and welfare contributions are increasing
- Contributions to restricted programs continue to increase
- Flat enrollment will continue to make it difficult to balance the budget

- Expectations are for COLA only years after 2018-19
- Federal funds for various state-administered programs could be cut given the new direction of the new president
- Governor Brown has managed the State's finances as if a recession is just around the corner – and so should we:
 - Maintain or build our reserves
 - Develop realistic MYPs
 - Adjust expenditure in line with realistic revenue assumptions

The next steps for Glendale USD for the remainder of the 2017-18 fiscal year are as follows:

- Second Interim Budget Report – March 15, 2018
- Evaluate State May Revise Budget Impacts
- Board Adoption of 2018-19 District Budget on June 19, 2018