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Budget Perspectives Workshop 2019-20 Governor's Budget

Initial Thoughts

- “It can't get much better for Gavin Newsom as California's next governor. But it's almost certain to get worse.” – Los Angeles Times
- Need to recognize potential of large budget surplus and likelihood of an economic downturn
- Newsom's first budget proposal attempts to balance fiscal prudence and progressive ambitions
- Major focus on budget resiliency, but also on expanding access to the “California Dream” through investments and high goals in early learning/child care, education, health care, housing, and social services
- Funding outside of Prop 98 for school employer CalSTRS contributions is a big win for schools
- Federal economic and political uncertainty impacting California (federal education programs funded through Sept. 2019, national lunch program funded through Feb.)

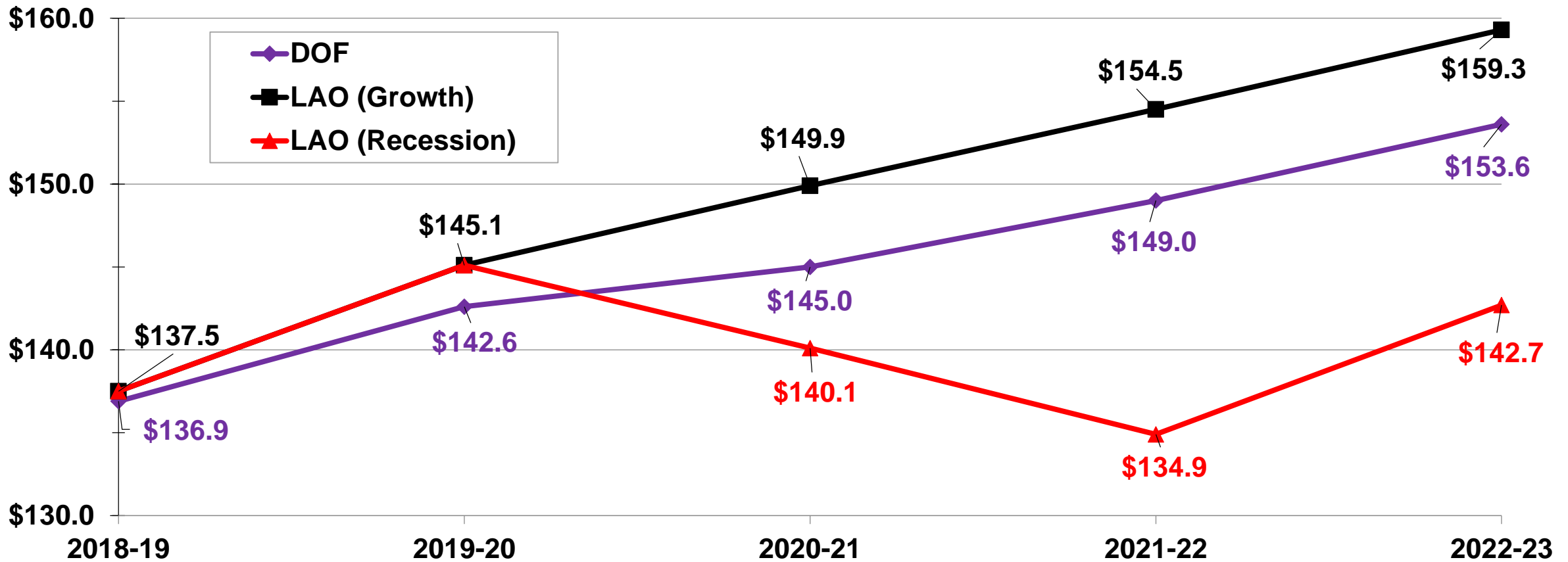


UCLA's Economic Outlook

- UCLA economists forecast a "3-2-1" economy
 - 3% gross domestic product (GDP) growth 2018
 - 2018 second quarter U.S. GDP was 4.1%
 - 2% GDP growth in 2019
 - 1% GDP growth in 2020
 - 1% GDP is considered by economists as already in a recession
- However, as the economy slows, the chances of a recession increase
 - One-sixth chance of a recession in 2019
 - One-third chance of a recession in 2020

Projected State General Fund Revenues

(Dollars in Billions)



Newsom's Twist on Brown's Fiscal Legacy

\$13.6 billion to build budget resiliency and pay down liabilities, including:

- \$4.8 billion to build reserves
- \$4.8 billion to pay down the state's unfunded retirement liabilities
 - \$3 billion for CalPERS
 - \$1.8 billion for CalSTRS (Prop 2)
- \$4 billion to eliminate debts and reverse deferrals
 - \$700 million to eliminate deferral of 4th quarter CalPERS payment

K-12 Education Budget

Governor's Budget 2019-20

CalSTRS Relief for School Employers

Part 1: Immediate Relief

- \$700 million (one-time, non-Prop 98) applied over two years
- Intended to reduce statutory rate increases for employers
- Starting in 2021–22, employer rate set by CalSTRS board

Part 2: Prepayment to Achieve Long-Term Savings

- \$2.3 billion to pay down employers' unfunded liability (one-time, non-Prop 98) of approximately \$35 billion
- Projected to reduce employer contribution rate 0.5% (ongoing)
- Projected to save employers \$6.9 billion over the next three decades



Projected Employer Contribution Rates

CalSTRS

CalPERS

Fiscal Year	Current (per AB 1469)	Proposed (per Jan. Budget)	Effect of Jan. Budget
2018-19	16.28	16.28	
2019-20	18.13	17.1	-1.03
2020-21	19.1	18.1	-1.0
2021-22*	18.2*	17.7*	-0.5
2022-23	18.2*	17.7*	-0.5
2023-24	18.2*	17.7*	-0.5
2024-25	18.2*	17.7*	-0.5
2025-26	18.2*	17.7*	-0.5

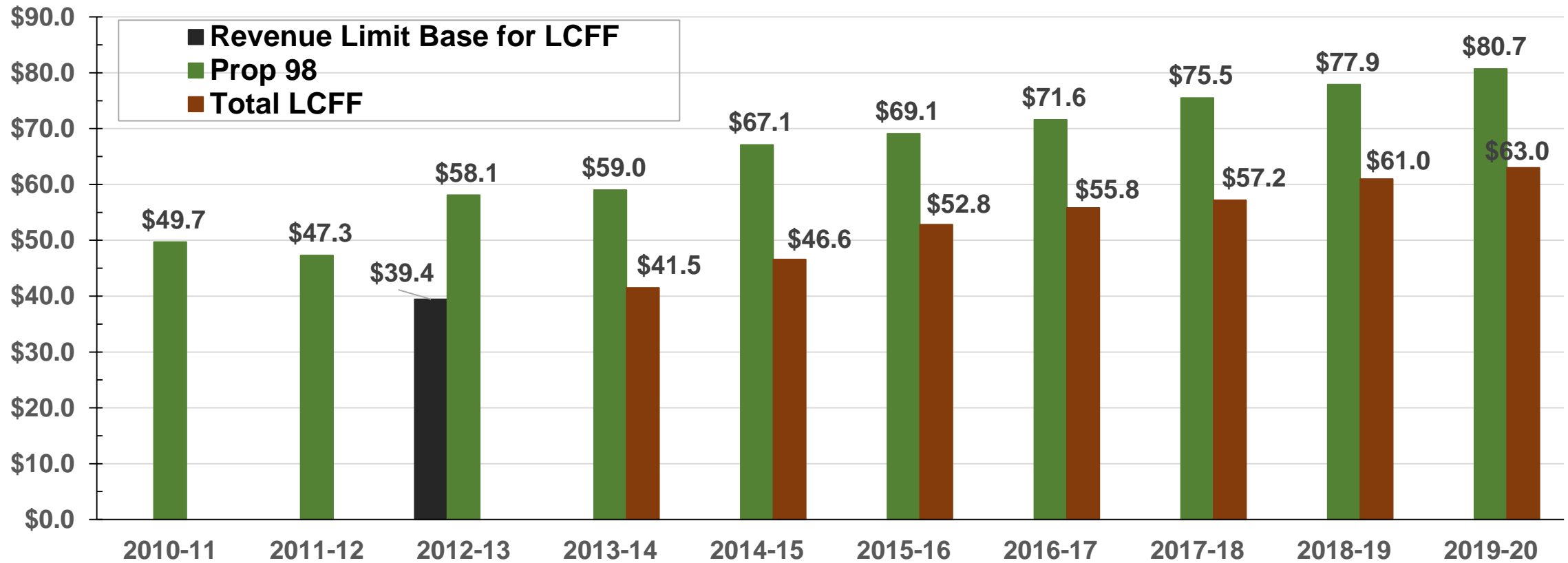
Fiscal Year	Projected Rates
2018-19	18.062
2019-20	20.7*
2020-21	23.4*
2021-22	24.5*
2022-23	25.0*
2023-24	25.5*
2024-25	25.7*
2025-26	25.5*

* Projected, set by CalSTRS board

- Post Public Employees' Pension Reform Act (PEPRA) employee rate 10.205%
- Pre-PEPRA employee rate 10.25%

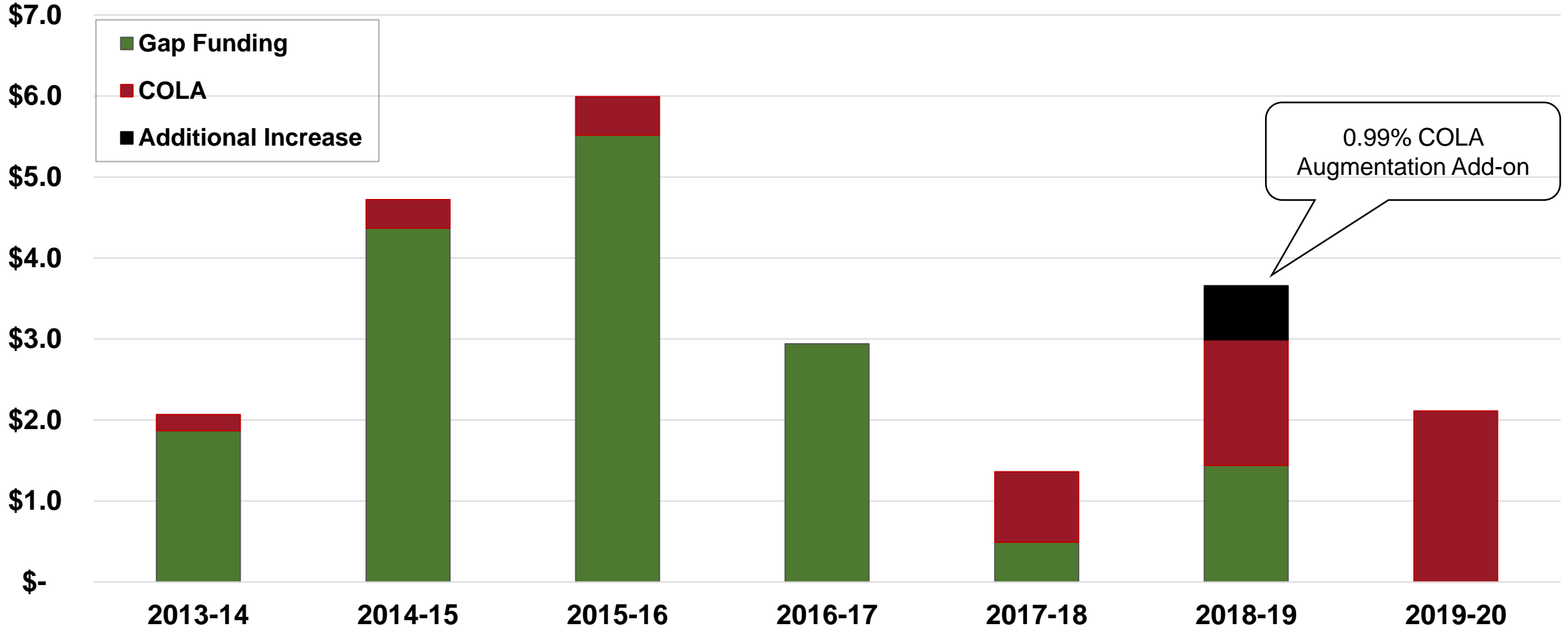
Prop 98 and LCFF Funding

(Dollars in Billions)



Increases in LCFF Funding

(Dollars in Billions)





Projected COLA Rates

Fiscal Year	1 st Interim Rates	Governor's Budget Proposal
2018-19	3.70%	3.70%
2019-20	2.57%	3.46%
2020-21	2.67%	2.86%
2021-22	3.42%	2.92%

District LCFF Entitlement Targets

- Base Grant per ADA (with 3.46% COLA)
- Grade Span Adjustments – 10.4%
- Supplemental Grant = 20% of Adjusted Base Grant
- Target Instructional Improvement Grant (TIIG) and Home School Transportation Add-ons remain constant



District "Cost of Opening the Doors" Projected Annual Increases w/ Governor's Budget Proposal and Projected Declining Enrollment

Combined General Fund Increased Costs	2019-20 (Projected)	2020-21 (Projected)	2021-22 (Projected)	3-Yr Cumulative (Projected) Total
Step & Column	\$705,525	\$717,697	\$722,188	\$2,145,410
CalSTRS	\$330,125	\$405,517	(\$163,706)	\$571,936
CalPERS	\$400,304	\$410,085	\$167,225	\$977,613
+ / - Revenue <i>Funding Projections Over Prior Year</i>	(\$1,146,656)	\$144,401	\$503,675	(\$498,580)
Net Budget Impact	(\$2,582,610)	(\$1,388,898)	(\$222,032)	(\$4,193,540)



Impact of Governor's Budget Proposal & Projected Declining Enrollment

GF Unrestricted LCFF MYP	2018-19 1st Interim	2019-20 Projected	2020-21 Projected	2021-22 Projected
1st Interim	\$71,171,131	\$70,974,352	\$71,836,940	\$72,651,087
LCFF Governor's Budget Proposal	\$71,171,131	\$71,575,905	\$72,582,846	\$73,054,441
LCFF Revised Enrollment/ADA	\$71,171,131	\$71,601,336	\$71,745,737	\$72,249,412
Difference 1st Interim & LCFF Revised ADA		\$626,984	(\$91,203)	(\$401,675)

Other Key Budget Issues and Programs

Governor's Budget 2019-20

Special Education

- \$576 million for expanded services and school readiness support
 - \$390 million ongoing and \$186 million one-time
 - Proposes concentration grants for school readiness and early intervention (LCFF needs based model)
- \$127.6 million for 3.46% COLA
 - Funding for equalization of rates is not included in the Budget

School Facilities

- Prop 51 (2016) bond sales
 - \$1.5 billion proposed for 2019-20: \$906 million over current year
 - \$1.2 million to fund staff positions at the Office of Public School Construction to expedite application processing
- Full-Day Kindergarten Facilities Grant Program
 - \$750 million to help implement universal full-day kindergarten
 - Intended to build on Gov. Brown's \$100 million in current year

Challenges

- Declining enrollment continues to have a negative impact on District funding.
- Future Funding – Declining Enrollment, LCFF COLA only, slow down of Prop 98 growth and costs rise.
- Low COLA environment impacts programs that require contributions.
- Continued encroachment to the Unrestricted General Fund.
- No one-time discretionary funds proposed as in previous years.
- No revenue funding source for District-required STRS and PERS increasing pension contributions.
- Increases in STRS & PERS contributions and Step and Column costs outpace any new revenues.
- Structural Deficit – requires continued budget reduction forecasting. There is a need for substantial reserves.

What's Next

- Budget subcommittee hearings ongoing
- Second Interim report due by March 19, 2019, for school districts
- May Revision on or before May 15
- Final budget deal by June 15