

Governor's Proposed Budget for 2018-19

JANUARY 25, 2018



Presentation Overview

- State Budget Process
- Proposition 98
- Goals of the Local Control Funding Formula (LCFF)
- Major K-12 Proposals
- Rainy Day Fund
- What's Not in the Budget?
- STRS/PERS Rate Increases
- Cautions / Unknowns

State Budget Process

The State Budget process spans six months . . .

- January 10: Governor introduces the State Budget Proposal
- February: Budget trailer bills are released which provide critical details to the January proposal
- Early Spring: Budget subcommittees analyze the Governor's and legislative proposals
- Mid May: Release of the May Revision
 - District budget is based on the May Revision
- June: Adoption on the State Budget

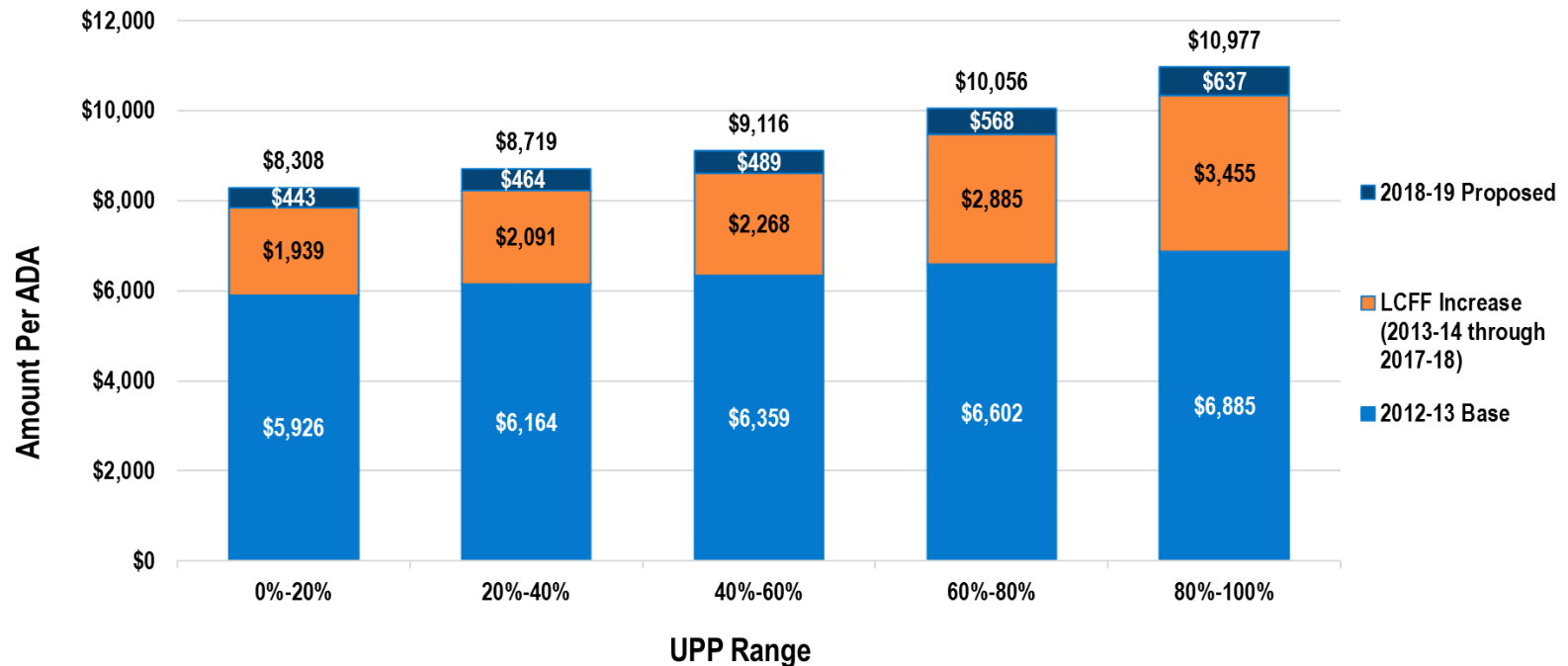
What is Proposition 98?

- With the enactment of Proposition 98 in 1988, voters amended the State Constitution to set a minimum funding level for education
- Both state General Fund and local property tax revenues apply toward meeting the Proposition 98 minimum guarantee
 - The higher the property taxes, the less the state contributes
- When property tax growth is strong (mid to late 1980's), the state's funding obligation is lower. Prop 98 set the floor, and that's exactly what we now receive

Goals of the LCFF

- Restore purchasing power to 2007-08 levels
 - A redistribution of funds, not additional funding
- No district receives less than 2012-13 funding
- Core funding is the same for all district, equalization of funding
- More services for higher needs students, equity
- Full implementation by 2020-21

Transitioning to Full Funding of LCFF Entitlements

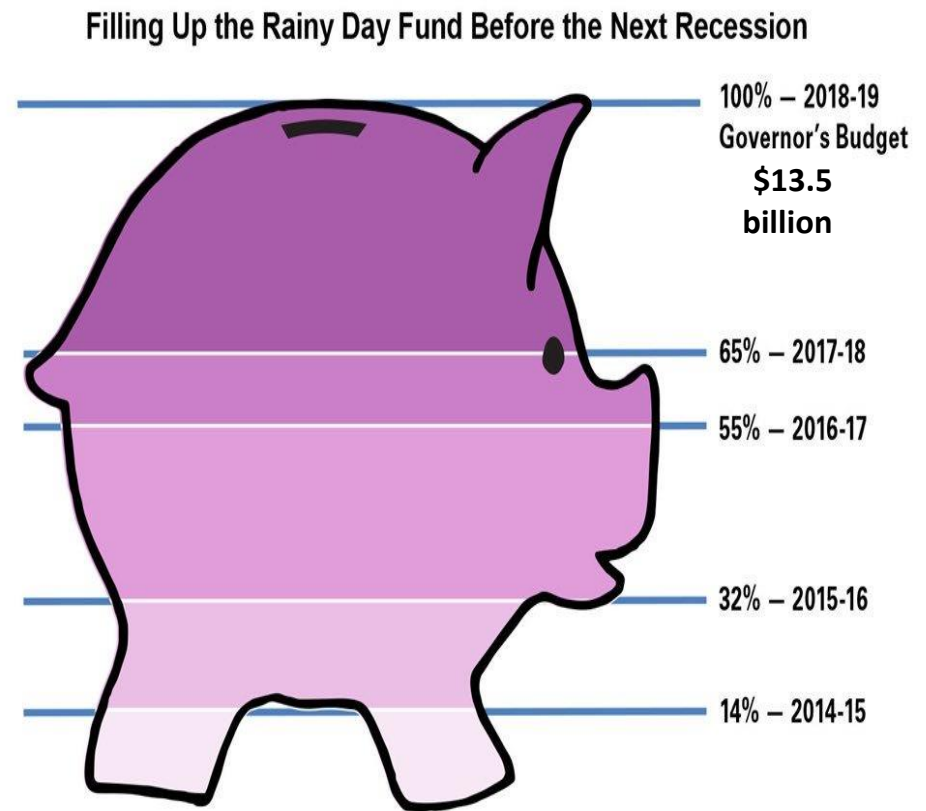


Major K-12 Proposals

- Fully fund LCFF in 2018-19, 2 years ahead of schedule
- One-time discretionary funds
- Mandate Block Grant rates \$31.10/ADA
- Cost of living adjustment (COLA) is 2.51%
 - LCFF base grants
 - Special Education
 - Child care provider reimbursement rates
- Special Education: \$100 million in one-time funding to implement programs to increase and retain special education teachers
- New Inclusive Early Education Expansion Program: ensures access to early education programs (ages 0-5) for students with disabilities who live in low-income areas

Rainy Day Fund

- Governor proposed \$3.5 billion supplemental deposit into the state's Rainy Day fund – above the \$1.5 billion that is required by law – to fully fund the Rainy Day Fund
- \$13.5 billion in 2018-19 (the maximum allowed by the constitution)
- State's Rainy Day Fund is 10%



What's Not in the Budget?

- The 2018-19 Budget proposal provides no funding for the following critical items:
 - Increasing the LCFF base grant target to reach the funding level of the top ten states
 - Growing local obligations for the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) unfunded liability
 - Home-to-School Transportation programs
 - Increasing and equalizing Assembly Bill 602 base funding rates for special education

CalSTRS Rate Increases

- Employer rates are increasing to 16.28% in 2018-19, up from 14.43% in 2017-18
- No specific funds are provided for this cost increase

CalSTRS Rates

Year	Employer	Pre-PEPRA Employees	Post-PEPRA Employees
2017-18	14.43%	10.25%	9.205%
2018-19	16.28%	10.25%	9.205%
2019-20	18.13%	10.25%	9.205%
2020-21	19.10%	10.25%	9.205%

CalPERS Rate Increases

The employer contribution to CalPERS is proposed to increase to 18.1% in 2018-19, up from 15.531% in 2017-18

“Classic” members continue to pay 7.0%

- New members pay 6.0%

Estimates of the resulting future contribution rate increases for school employers, which reflect the reduction in the investment return rate, are as follows:

Actual	Projected				
2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
15.531%	18.1%	20.8%	23.8%	25.2%	26.1%

Cautions & Unknowns

- If the U.S. pulls out of NAFTA, impact to California would be significant in both loss of revenue and loss of jobs
- Capital Gains Revenues & Personal Income Tax – volatile funding sources of state revenue
- New Federal Tax Plan
- Legalization of Marijuana
- Wildfire and Flood Relief

Comments/Questions?

