

# 2018-19 Budget Workshop

Melody Canady, Asst. Supt., Business & Fiscal Services

Gerardo Cruz, Director of Fiscal Services

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# Topics of Discussion

- State Economy and Budget
- Education Budget
- What This All Means for SMMUSD



# The California Economy

- **California is slowing down**

- Good job markets and constrained housing markets have combined to create slow growth in the state
- However, given the tight labor market, employers will likely continue to raise pay to attract and retain workers, with hourly wages also rising due to the statutory annual increases in minimum wage

- **How the new federal tax plan will affect California is still up in the air**

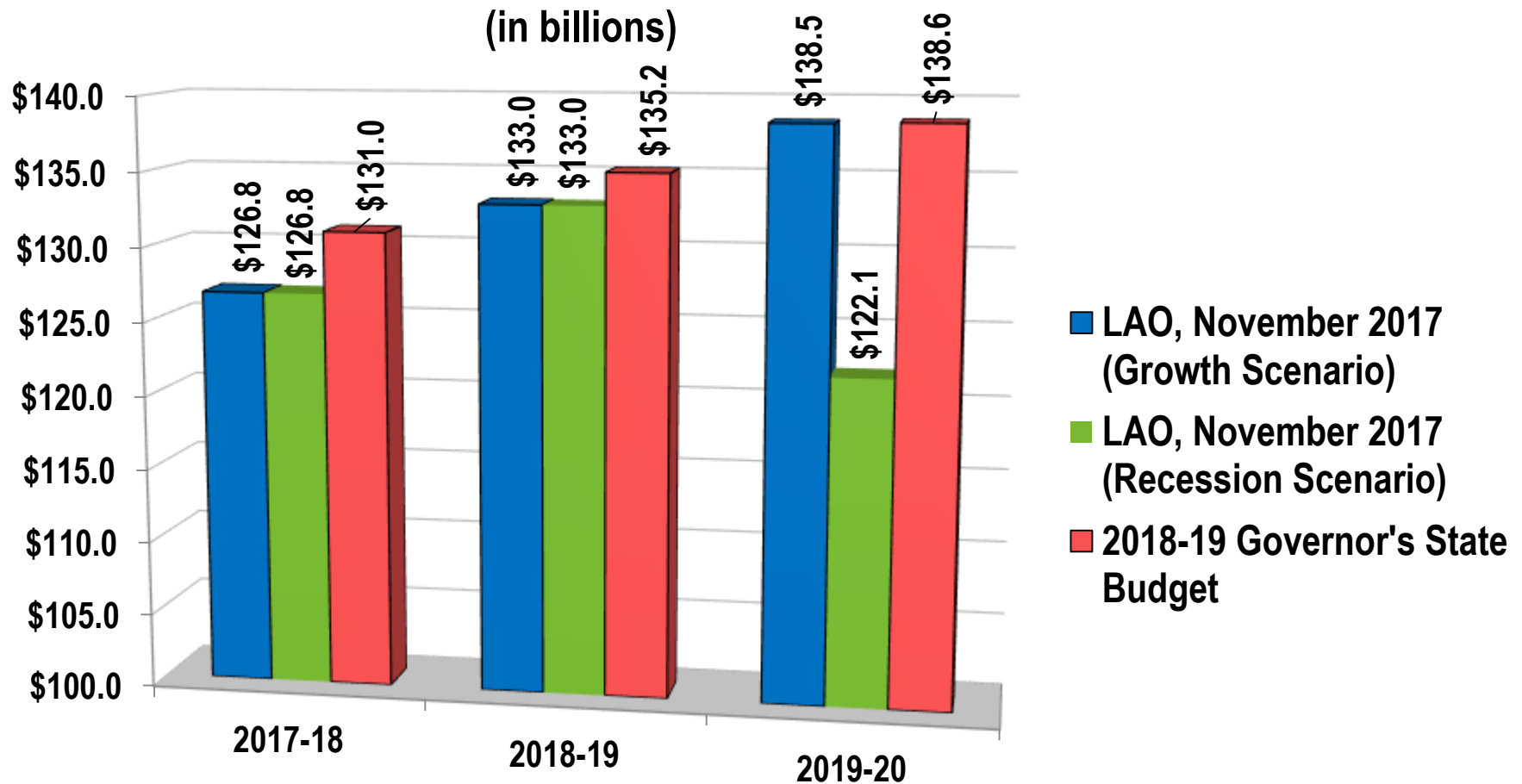
- High-income earners have some flexibility on when they realize income and pay certain expenses that will translate into state revenue

- **Revenue from Cannabis**

- Will projected tax revenues come to pass – with or without proposed federal enforcement?

# Big Three Revenues

## Personal Income Tax, Sales & Use Tax, Corporation Tax





# State Budget

*Investments, Rainy Days, and Risks*

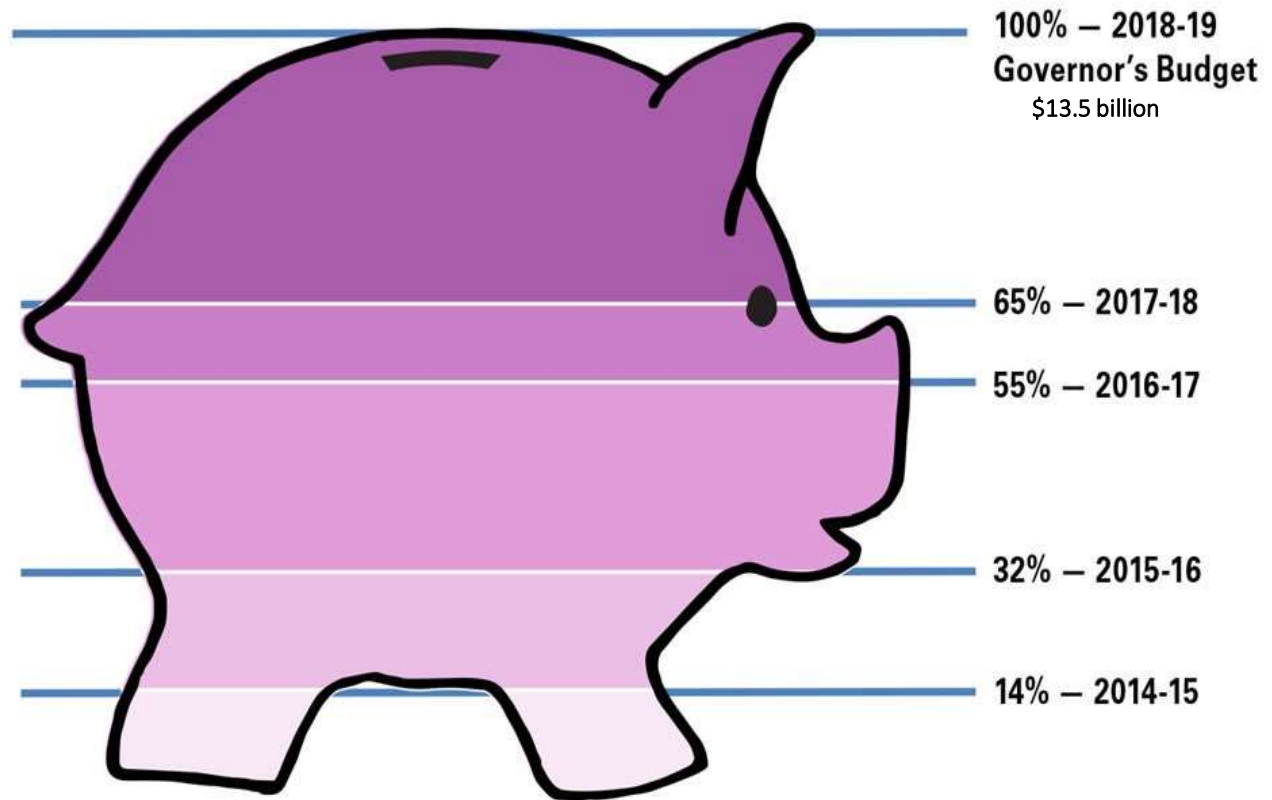


# What's Proposed for the State Budget?

- The 2018-19 State Budget includes continuing or expanding investments to combat poverty, expand access to healthcare, and keep the costs of higher education affordable
- The Budget also includes investments to maintain and improve the state's infrastructure and to combat climate change
- Most notable investment in the rest of the budget, is the Governor's proposed \$3.5 billion supplemental deposit into the state's Rainy Day fund

# Saving for a Rainy Day!

## Filling Up the Rainy Day Fund Before the Next Recession





# What's Not in the Budget?

- Due to late actions by lawmakers in Washington D.C., the State Budget does not include:
  - The \$4 billion in unanticipated PIT revenue as a result of taxpayers choosing to pre-pay their 2018 taxes to maximize federal deductions
  - Any budget year or out-year estimate of the impact of the new federal tax law, particularly the change in the federal deduction of state and local taxes
  - Any changes in federal healthcare programs, including:
    - *Additional changes to the Affordable Care Act (ACA), which has been the target of Republican lawmakers and President Trump since the 2016 election*



# Risks to the State Budget



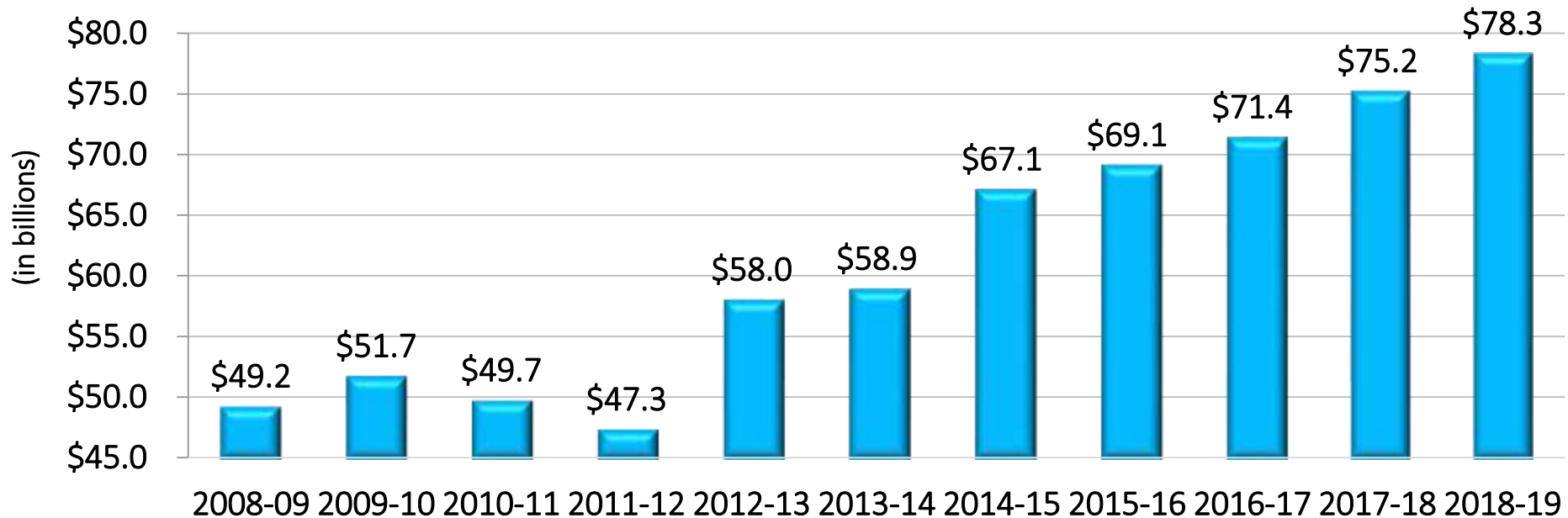


# Education Budget

*Prop 98, K-12 Proposals, One-Time vs.  
Ongoing, Reserve Cap, and LCFF for 18-19*

# Proposition 98

Proposition 98 Funding Over Time  
2008-09 to 2018-19





# Major K-12 Proposals

|                 |   |   |
|-----------------|---|---|
| \$2.9 billion   | ● | <b>Fully fund LCFF</b> (2.51% COLA and 2 yrs. ahead of schedule)  |
| \$1.8 billion   | ● | <b>One-time discretionary funding</b> (\$295 per ADA paid as mandated reimbursements)                         |
| \$212 million   | ● | <b>Strong Workforce Program to establish a K-12 specific component</b>  |
| \$167.2 million | ● | Child Care and State Preschool to expand inclusive care and education settings for children up to 5 years old |
| \$100 million   | ● | Teacher Workforce to increase and retain special education teachers   |

# Major K-12 Proposals



\$59.2 million

County offices of education (COEs) to facilitate the improvement of school districts identified as being in need of differentiated assistance

\$10 million

**Special Education Local Plan Areas (SELPAs) to work with COEs to provide LEAs with technical assistance to improve student outcomes as part of the statewide system of support (2.51% COLA)**

\$6.5 million

**California Collaborative for Educational Excellence**

\$6.2 million

COEs for cost-of-living adjustment (COLA) and ADA changes



# What's Not in the Education 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 (Assembly Bill pending)
  - The 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 (AB) 602 base funding rates for special education

# Amendments to District Reserve Cap

- Senate Bill (SB) 751 (Chapter 674/2017) was signed into law by Governor Brown in October 2017 which made changes to Proposition 2

- According to the Governor's Budget, the district reserve cap will not be triggered in 2018-19

## Proposition 2

Imposed in any fiscal year immediately after a fiscal year in which a transfer is made into the Public School System Stabilization Account (PSSSA)

Applies to a combined assigned and unassigned ending fund balance based on the size of the district

## SB 751

Imposed in a fiscal year immediately after a fiscal year in which funds in the PSSSA equal or exceed 3% of the Proposition 98 funding for school districts for that fiscal year

Applies to a combined assigned or unassigned ending balance, in the General Fund (01) and the Special Reserve Fund for Other Than Capital Outlay (17), of 10% of those funds for all districts

Requires the State Superintendent of Public Instruction to notify districts and COEs when these conditions are met and when they are no longer met

Exempts basic aid districts and districts with fewer than 2,501 ADA

Technical amendment needed so that the application of the 10% cap is implemented as intended



# Unrestricted Fund Balance – Statewide Averages

- 2015-16 was the first time in four years that the average unrestricted fund balance increased
  - Due in large part to significant one-time mandate funding (\$530 per ADA)

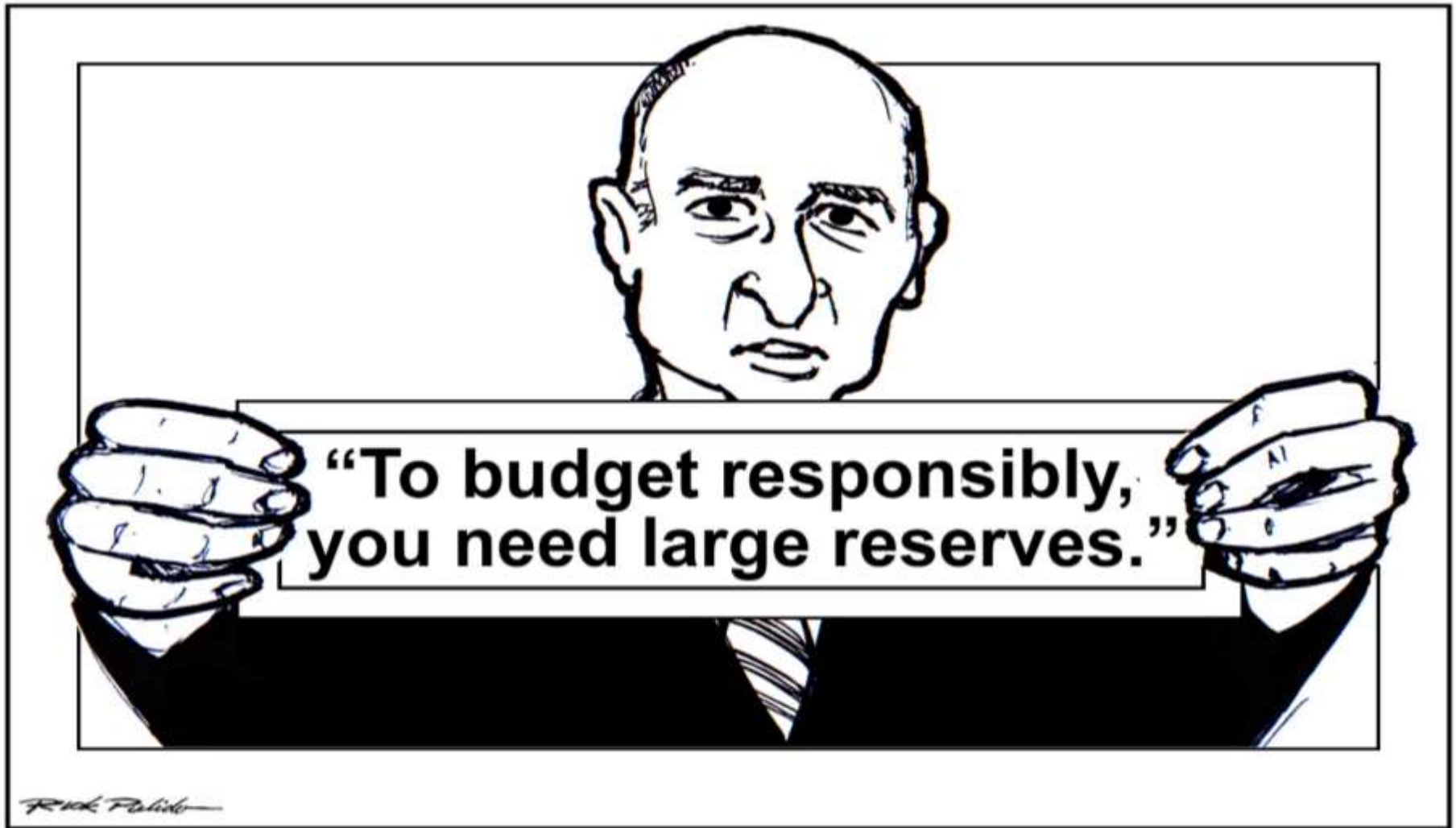
| 2015-16 Average Unrestricted General Fund, Plus Fund 17;<br>Ending Balances as a Percentage of Total General Fund Expenditures, Transfers,<br>and Other Uses |        | Change From Prior<br>Year* |
|--|--------|----------------------------|
| Elementary School Districts  | 21.54% | 2.58%                      |
| High School Districts  | 17.19% | 2.33%                      |
| Unified School Districts   | 16.45% | 3.36%                      |
| SMMUSD Reserve (as of 2017-18 1 <sup>st</sup> Int)   | 15.27% | 1.82%                      |

Source: Statewide certified data

\*Increase relative to the reserve levels of 2014-15









# CalPERS Rate Increases

- 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%   |



# 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
- Under current law, once the statutory rates are achieved, CalSTRS will have the authority to marginally increase or decrease the employer contribution rate

| 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%               |



## What this all means for SMMUSD

*Prop 98, K-12 Proposals, One-Time vs.  
Ongoing, Reserve Cap, and LCFF for 18-19*



# The SMMUSD Story

- We are a district that:
  - Serves a diverse population
  - Is high achieving
  - Has high expectations and sets challenging goals
  - Is expected by the community to excel
  - Has exceptional programs for students that include music, arts, STEM, preschool to name a few
  - Is proud of the high quality of teaching and learning that is demonstrated in classrooms across the District
  - Is innovative and creative
  - Has a persistent achievement gap being addressed by our Excellence through Equity initiative



# The SMMUSD Story continued

## ■ Community support for the District includes:

- Parents, PTAs, and Booster Clubs
- Education Foundation
- District Advisory Committees
- Cities of Santa Monica and Malibu
  - *Master Facility Agreements*
  - *Prop Y and GSH*
- Communities of Santa Monica and Malibu have passed tax measures (Measures BB/ES and Measure R)
- Property values causing the District to become a minimum state aid district, receiving LCFF revenues greater than our entitlement
- Ability to lease District owned properties for in excess of \$2.0 million annually



# Good Budget News for SMMUSD

- State Proposition 55 – Income Tax on the Wealthy
  - Continued receipt of Economic Protection Act (EPA) funds
- Measure GSH – City of Santa Monica Sales/Transaction Tax
  - Measure GS – 50% to schools
- Measure V – SMC Facility Bond
  - Support for JAMS Auditorium
  - Will receive \$20 million upon completion of project



# Sources of One-Time Funding

- Since 2014-15, we have experienced several significant amounts of one-time funds
  - \$13M from the State action to eliminate Redevelopment Agencies
  - \$9.9M in State funded prior year Mandated Cost payments
- The chart below shows the historical one-time discretionary funding per ADA

|        | 2014-15   | 2015-16     | 2016-17     | 2017-18<br>Proposed | 2018-19<br>Proposed |
|--------|-----------|-------------|-------------|---------------------|---------------------|
| State  | \$67      | \$529       | \$214       | \$48                | \$295               |
| SMMUSD | \$720,250 | \$5,646,546 | \$2,238,226 | \$491,088           | \$3,018,145         |



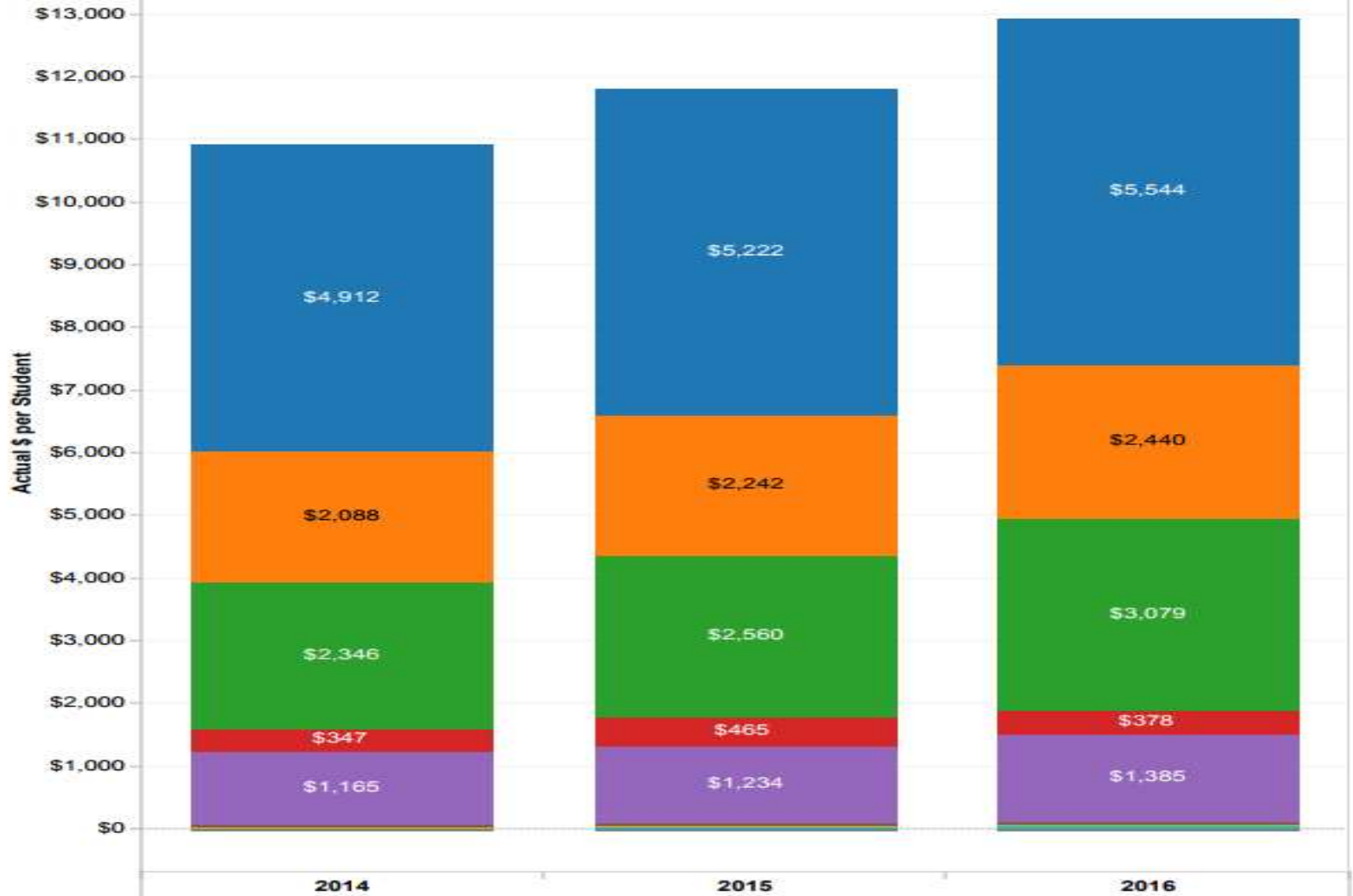


# Our expenditures

- Our salaries and benefits (86% of the budget) are competitive with neighboring districts
  - Between 2015-16 and 2016-17, SMMUSD provided a combined salary schedule increase in excess of 8.0%
  - Health and Welfare costs have increased between 6% and 7% each year
  - CalSTRS and CalPERS pension costs continue to increase dramatically and will exceed 19% and 26% respectively by 2020-21

## Actual - \$ Per Student

Santa Monica-Malibu Unified



Certificated Salaries  
Employee Benefits  
Other Operating Exp.

Classified Salaries  
Supplies



# SMMUSD Per Student Spending by Year

| Fiscal Year | \$ Spent per Student | % Change over prior year |
|-------------|----------------------|--------------------------|
| 2009-10     | 9,798                |                          |
| 2010-11     | 9,842                | .4%                      |
| 2011-12     | 10,378               | 5.4%                     |
| 2012-13     | 10,310               | (.7%)                    |
| 2013-14     | 10,883               | 5.6%                     |
| 2014-15     | 11,764               | 8.1%                     |
| 2015-16     | 12,885               | 9.5%                     |



# Comparable Districts

Beverly Hills

Culver City

El Segundo

Las Virgenes

Manhattan Beach

Palos Verdes

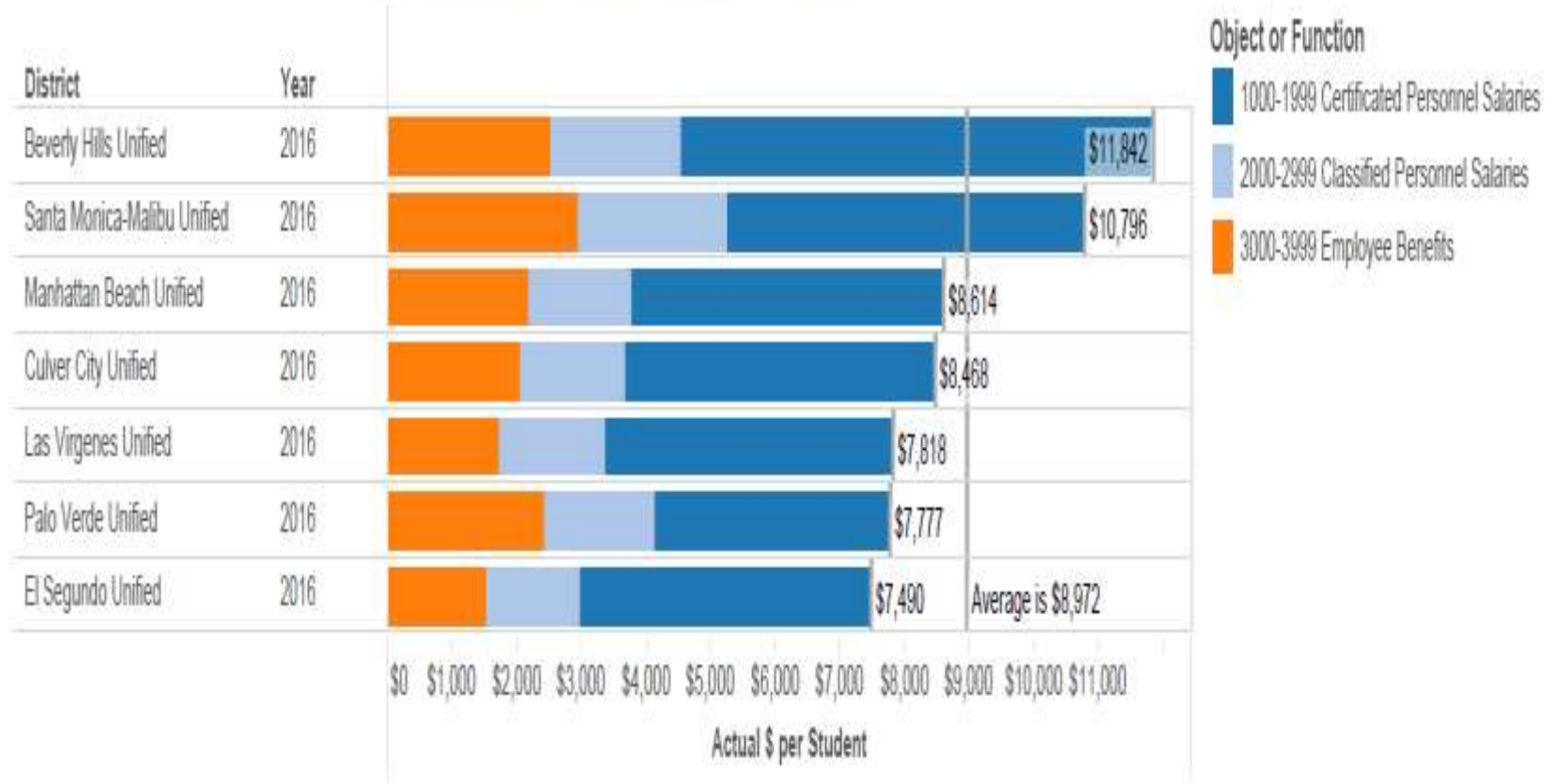
Santa Monica-Malibu

## Line Item Spending Comparison

District(s): Beverly Hills Unified, Santa Monica-Malibu Unified, Manhattan Beach Unified and 4 more

Source: California Department of Education Financial and Enrollment Data

Note: "Current Expense of Education" is defined by CA DOE



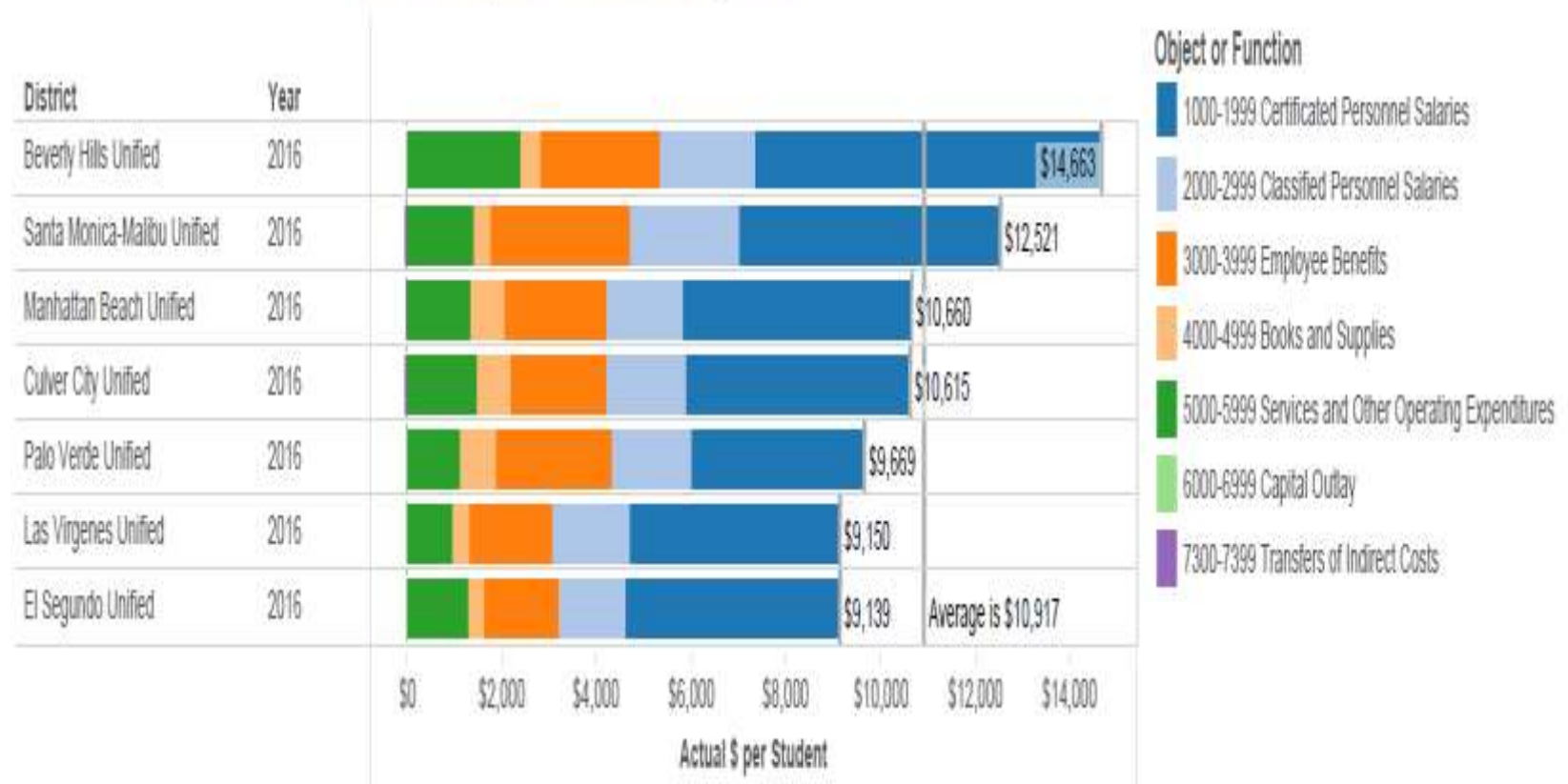
Salary and Benefit Spending per Student

## Line Item Spending Comparison

District(s): Beverly Hills Unified, Santa Monica-Malibu Unified, Manhattan Beach Unified and 4 more

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Total Spending per Student



# Multi-year Projections

- 5 Year Multi-year Projections
- What is not included in multi-year
  - GSH Expenditures that are not yet accounted for in the MYP for 18-19 or the out years:
    - Deferred Maintenance
    - Technology
  - Child Development Services
    - *Seaside Preschool currently accounted for in the amount of \$500K and \$200K for the Infant Toddler Center (ITC) in all years of MYP).*



# Conclusions and Next Steps

- SMMUSD continues to work on controlling deficit spending
- LCFF will be fully funded as of 2018-19
- STRS/PERS will continue to rise with no relief from State budget
- Bond Oversight – Examine change orders
- Over the next few weeks, staff will be meeting with school site and/or department heads to establish recommendations for the Board to consider in early March
  - Example of what we will concentrate on the following:
    - *Staffing formulas*
    - *SERP/Attrition*
    - *Onetime funds*
    - *Contributions*