"Empowering Students for Success"

Capistrano Unified School District

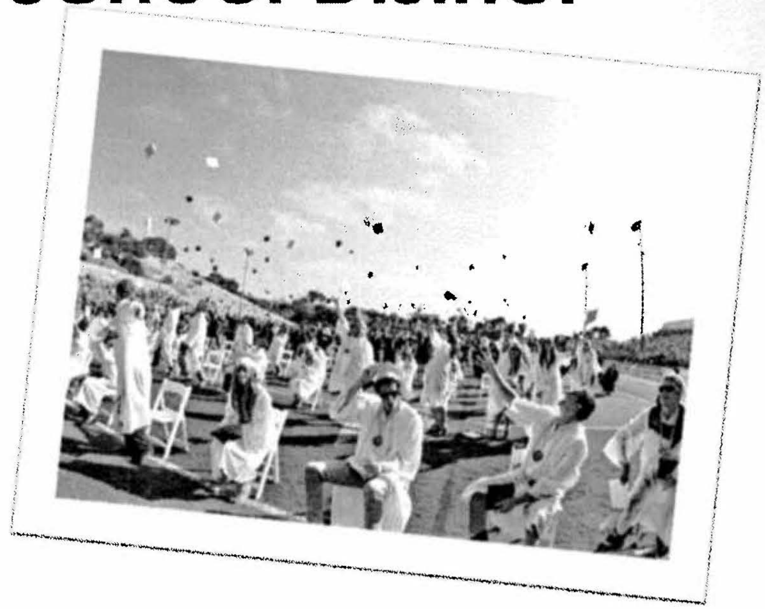
2015-2016 Governor's May Revised Budget

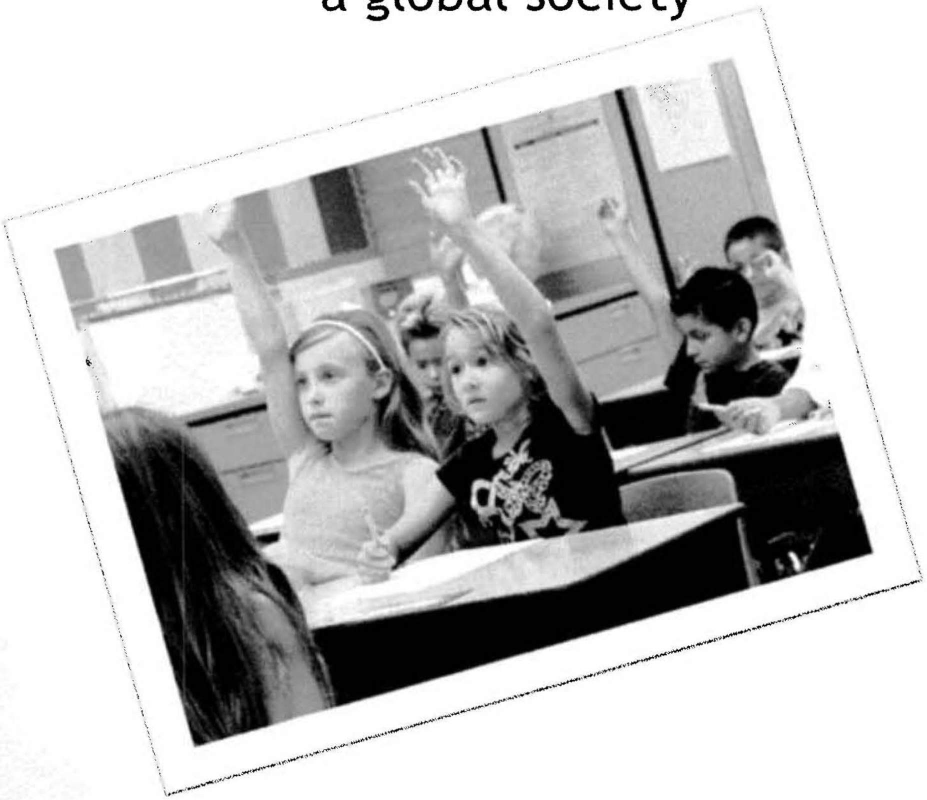
May 27, 2015

Capistrano Unified School District

Vision

Educated, responsible, and confident citizens succeeding in a global society





Mission

The Capistrano Unified School District, with support from our community, prepares students to achieve academic and personal success while becoming responsible citizens and lifelong learners

CAPISTRANO UNIFIED SCHOOL DISTRICT

Economic Outlook

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Economy Still Showing Growth

- Both national and state economies continue to improve
- Economic activity is up
- Stronger job growth
- Real estate prices continue to climb
- The stock market continues to hit new highs
- Generates high levels of capital gains potential
- State revenues are strong

Source: School Services of California

U.S. Unemployment Rate

Source: U.S. Bureau of Labor Statistics

The California Economy

- California's economic recovery is trending similarly to the nation's, benefitting from:
  - Improved job growth
  - Slow but recovering wage earnings
  - Growing confidence in the economy from businesses
- Proposition 30 continues to be a source of state income, generating $7 billion to $8 billion in combined sales and personal income taxes
- **There are still concerns**
  - The economic effect of the drought is still unknown
  - Job growth in the innermost California communities still lags way behind the nation and other areas of the state
  - The strength of the U.S. dollar could slow growth
  - Rising gas prices could hinder domestic consumer spending
  - The recession ended in 2009. Although a tepid recovery, it is one of the longest on record

Source: School Services of California, Inc.

Governor's May Revised Budget

2015-2016 Fiscal Year

CAPISTRANO UNIFIED SCHOOL DISTRICT

Governor's May Revised Budget

- May Revise Summary
  - With state revenue growth and the Proposition 98 guarantee, the Governor's 2015-2016 May Revision builds on his January Proposal by:
    - providing additional increased funding to further implement the Local Control Funding Formula (LCFF) and
    - provides school agencies with significant additional one-time discretionary funding.
  - The remaining increased funding primarily goes toward paying down state debts and making deposits into the state's Rainy Day Fund.
    - Of the increased $6.7 billion in revenues, the May Revision spends $5.5 billion on education and makes an additional $633 million investment into the Rainy Day Fund (for a total deposit of $1.9 billion).
  - The Governor is committed to establishing and maintaining stability for education funding.

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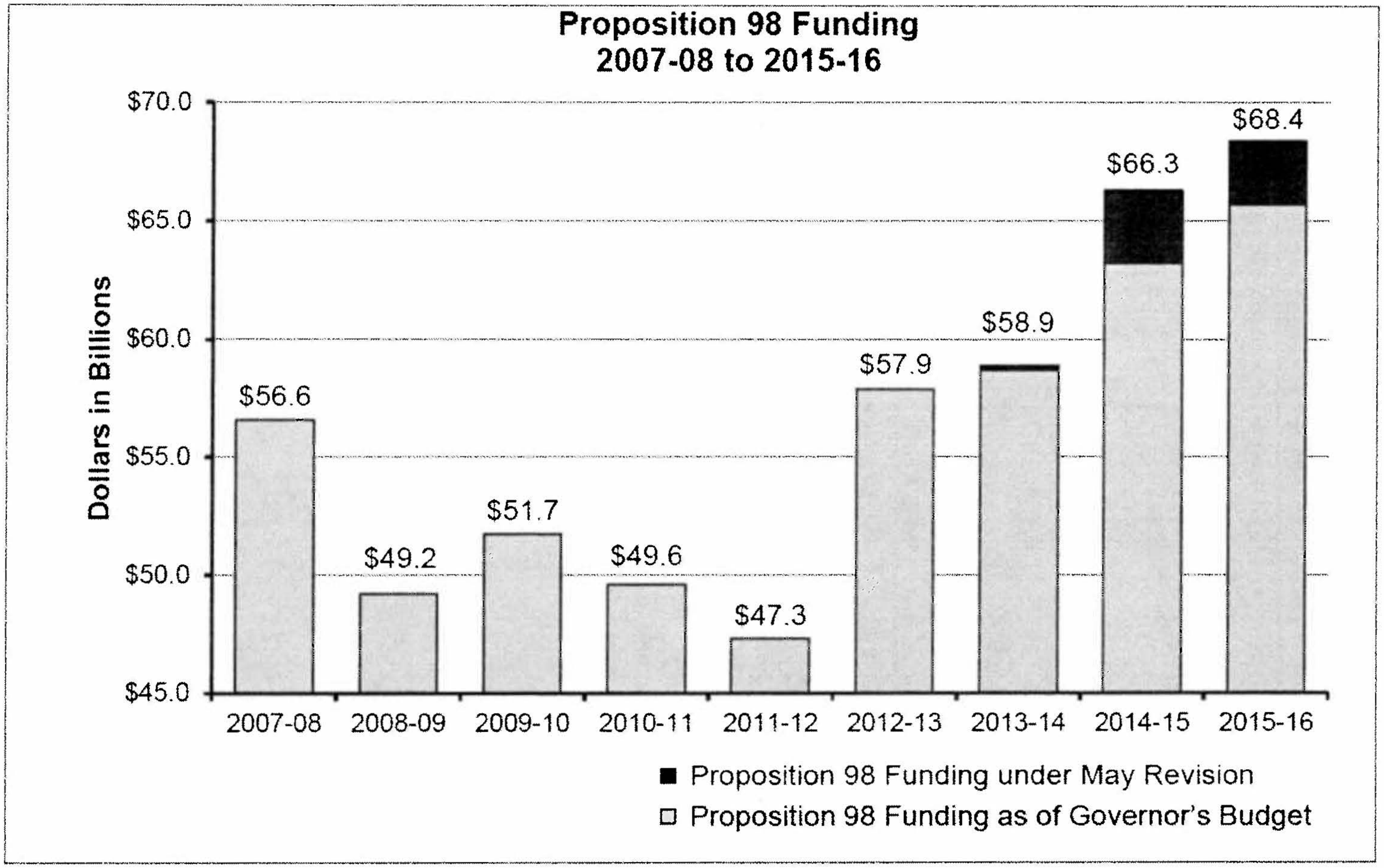
Compared to January Proposal



Source: California Department of Finance

May Revised Budget Details

- Proposition 98 and the Maintenance Factor
  - The May Revision shows Proposition 98 funding increasing $6.1 billion over a three-year period ($241 million in 2013-2014, $3.1 billion in 2014-2015, and $2.7 billion in 2015-2016). In the current year, the minimum guarantee will reach $66.3 billion and increase to $68.4 billion in 2015-2016.
  - The May Revision also acknowledges that the Proposition 98 maintenance *factor—the amount owed to K-14 education to restore the cuts imposed during the recession*—will almost be fully repaid in 2015-2016. Only $772 million will remain at the end of the budget year. As recently as June 2014, the Administration estimated that the maintenance factor totaled $6.6 billion.
- Local Reserve Cap
  - The passage of Proposition 2 (2014) added an additional requirement that would place limits on the level of reserves a school district could maintain when certain conditions exist.
  - Based on the May Revision Proposal, all of the conditions for implementation of those limitations will <u>not</u> be met in 2015-2016 and, therefore, the cap will <u>not</u> be triggered.

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May Revised Budget Details

- Local Control Funding Formula (LCFF)
  - In total, the Governor proposes to provide $6.1 billion to further implement LCFF, up an additional $2.1 billion since January.
  - It is estimated this will provide an estimated gap closure percentage of 53.08% applied to the difference between a school district's floor funding level and the LCFF target entitlement.
  - In addition, the 2015-2016 targets for base grants are increased from 2014-2015 levels by the **statutory cost-of-living adjustment (COLA) of 1.02%, down from the 1.58% estimated in January**.
  - **Additional $15.1 million in additional gap funding for 2015-2016** or about $311 per student.
- One-Time Discretionary Funds
  - The Governor's May Revision provides an additional $2.4 billion in discretionary one-time funds, adding to the $1.1 billion from January, for a total of $3.5 billion for school districts or an estimated $601 per ADA.
  - For CUSD, the amount increases this **one-time mandate reimbursement** from $8 million in the January proposal to **$28 million** in the May revised proposal.
  - The May Revision suggests that LEAs prioritize these funds for professional development, teacher induction, and instructional materials and technology but funds may be used for "any one-time purpose, as determined by the governing board"

CAPISTRANO UNIFIED SCHOOL DISTRICT

May Revised Budget Details

- Career Technical Education
  - The Governor's January Budget proposed $250 million in one-time funding in each of the next three years for a transitional CTE Incentive Grant Program and required a one-to-one local/state match
  - The May Revision proposes additional funding and increasing match requirements as follows:

Year	Increase from January	Total Funding Proposed	Local/State Match Requirement
2015-16	**$150 million**	**$400 million**	**1:1**
2016-17	**$50 million**	**$300 million**	**1.5:1**
2017-18	**<$50 million>**	**$200 million**	**2:1**

  - Governor notes, "It will better to allow schools to transition to entirely using their own discretionary funds by 2018-2019"

Source: School Services of California, Inc.

May Revised Budget Details

- Adult Education
  - In January 2015, the Governor proposed $500 million for Adult Education Block Grants. The Governor's May Revision builds on this proposal by making adjustments based on stakeholder feedback such as eliminating the creation of allocation boards, requiring more robust but less frequent planning, and providing for a more stable funding stream for Adult Education programs.
- School Facilities
  - There were no changes for facilities as compared to the January proposal. In January:
    - The Governor expressed his belief that the ability of the State to fund construction needs is unsustainable and in line with the principles of the LCFF which are enhanced local control and targeting resources to areas of needs he proposed the following reforms:
      - Increasing the Proposition 39 caps of $30 or $60 per $100,000 in assessed valuation to match the rate of inflation since the passage of Proposition 39
      - Reform developer fees to implement a single fee for specific projects, which is higher than level II but lower than level III
      - Allow the use of routine restricted maintenance funds to be used for new construction and modernization

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May Revised Budget Details

- Home-to-School Transportation
  - There are no new proposals to provide additional funds for Home-to-School Transportation programs. However, beginning in 2015-2016, the Governor's May Revision proposes to shift transportation funding that previously went directly to a joint powers agency (JPA) to the JPA's member districts. Member districts will be required to use the funds received on transportation expenditures in the district or through support of the JPA.
- Revenue Deferrals
  - The May Revise reiterates that by the end of 2014-2015, all outstanding deferrals for school districts will be eliminated.
  - Although this doesn't provide districts more money to spend, it does reduce the amount of money that districts need to borrow to manage cash flow.

CAPISTRANO UNIFIED SCHOOL DISTRICT

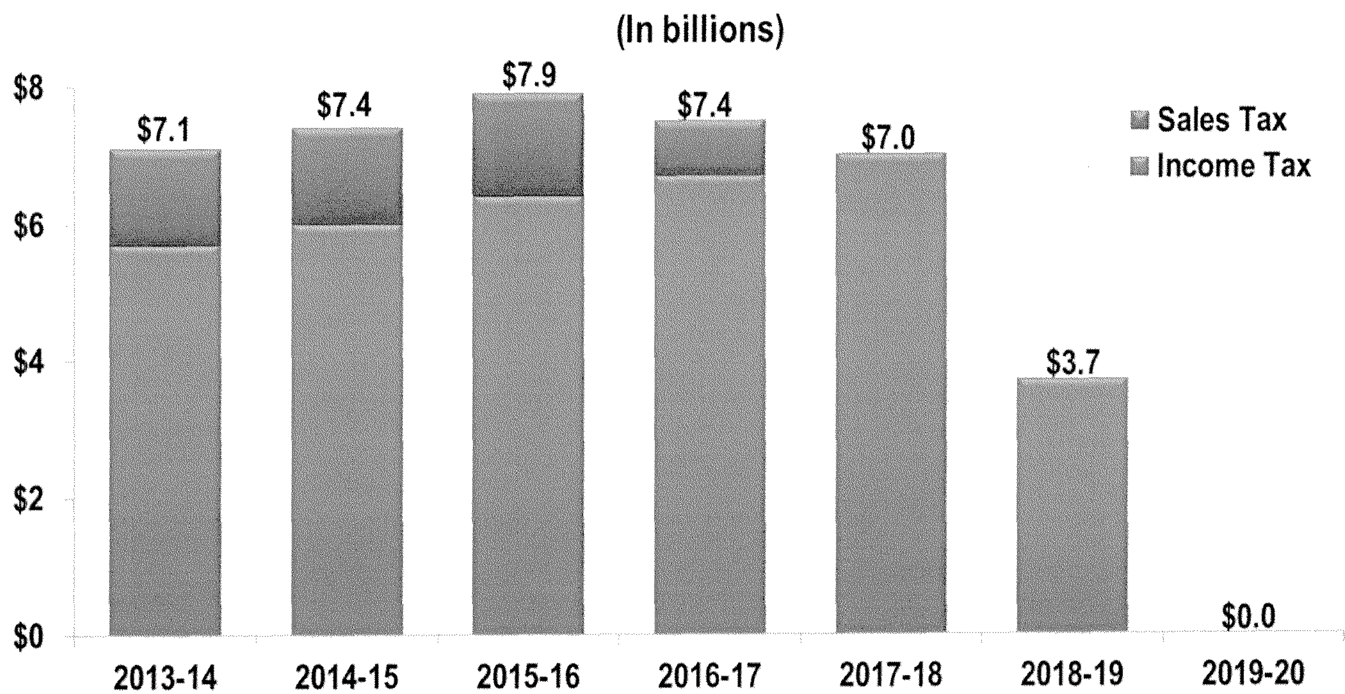
May Revised Budget Details

- California State Teachers' and California Public Employees' Retirement System
  - Governor Brown's commitment to achieving a fully-funded retirement system within 30 years has translated into increased rates for districts and employees. The timeline for rate increases for both STRS and PERS correspond with the timeline for implementation of the LCFF funding model with full implementation achieved by 2020-2021. As outlined below, STRS rates increase from 8% in 2013-2014 to 19.1% in 2020-2021 while PERS rates increase from 11.442 in 2013-2014 to 20.4% in 2020-2021
  - **The 2015-2016 State Budget proposal does not address these cost increases for local educational agencies**
  - **The 2015-2016 CalPERS employer contribution rate increase is less than expected – increasing to 11.847% instead of 12.6%**

	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
CalPERS Employer Rate	11.77%	~~12.60%~~	~~15.00%~~	16.60%	18.20%	19.90%	20.40%
CalSTRS Employer Rate	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
Total Dollars (in millions)	$23.6	$28.1	$33.6	$38.9	$44.3	$49.9	$53.9
		11.847%	13.05%				

Areas of Concern

- Proposition 30 taxes are temporary
  - The .25% sales tax increase expires in 2016
  - The personal income tax increase expires in 2018
  - A downturn on the economy along with expiration of Prop 30 revenues could magnify impact



Source: 2014-15 May Revision and SSC

CAPISTRANO UNIFIED SCHOOL DISTRICT

Areas of Concern

- STRS/PERS Increases
  - The added costs of STRS/PERS means the Governor's goal of the same purchasing power in 2021 as existed in 2007 is already offset by the higher STRS/PERS costs which will, on average, take 25% of the new revenues

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
CalPERS Employer Rate	11.77%	11.847%	13.05%	16.60%	18.20%	19.90%	20.40%
CalSTRS Employer Rate	8.88%	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
Total Dollars (in millions)	$23.6	$28.1	$33.6	$38.9	$44.3	$49.9	$53.9

- Risk of Future Recession
  - Recovery would be longest since the Civil War if some forecasts are accurate
  - It will be important to continue to build reserves with one-time savings
- Declining Enrollment
  - District funding is based on average daily attendance (ADA). Enrollment declines means less revenue

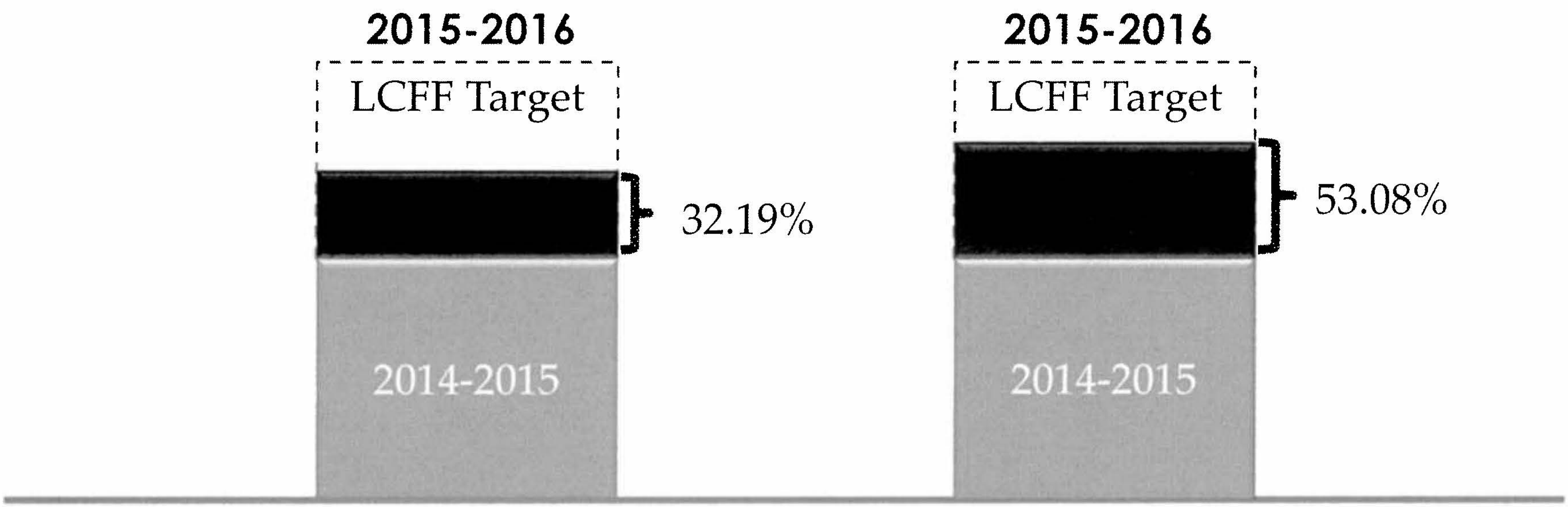
CAPISTRANO UNIFIED SCHOOL DISTRICT

CUSD Projection

2015-2016 Fiscal Year Based on Governor's May Revised Budget Proposal

Gap Funding

January Proposal | **May Revise**

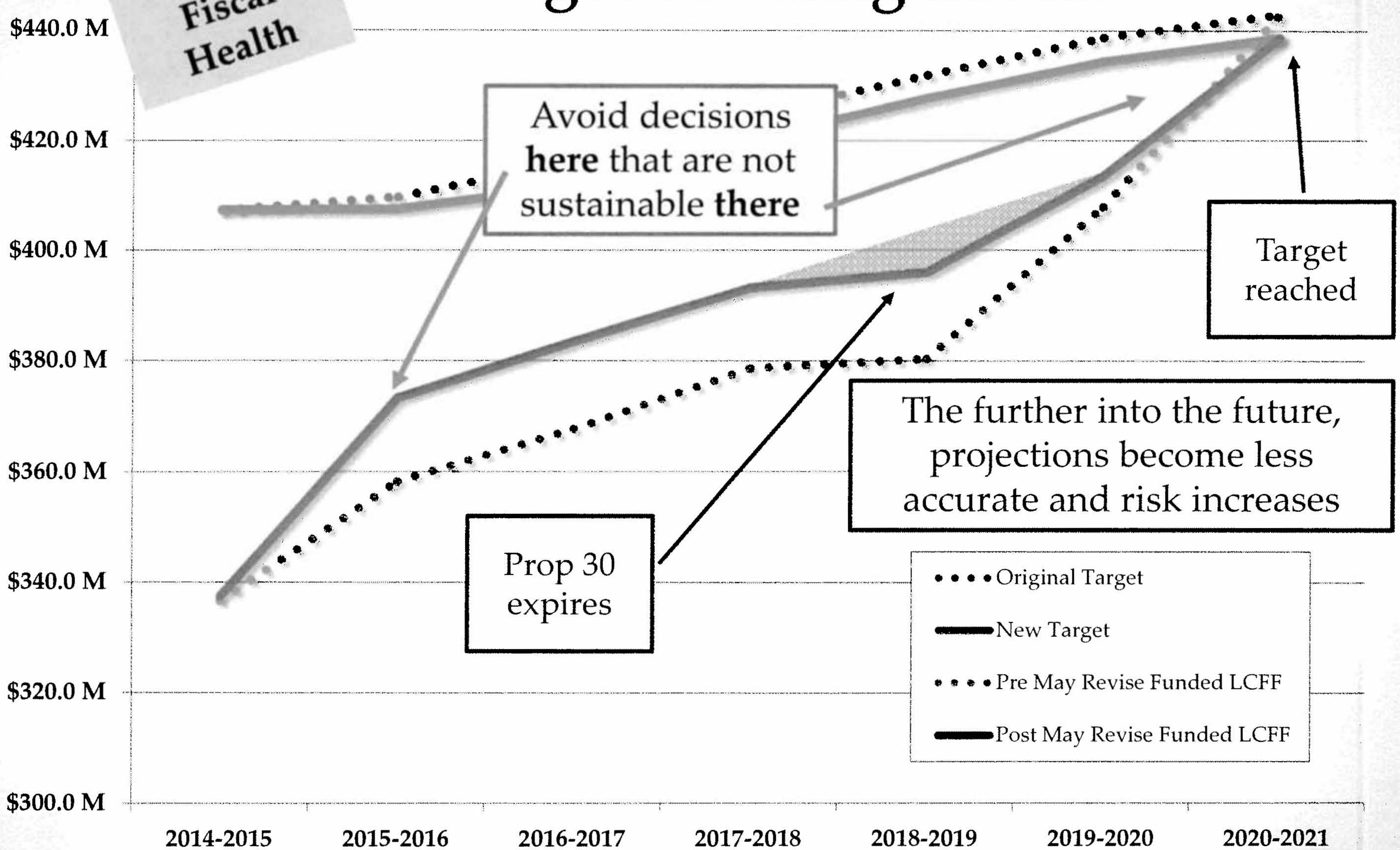


LCFF Target based on 2007-2008 funding levels plus inflation

State expects to hit target in 2021

CFF Target Funding Levels

Risks to Fiscal Health



LCFF Target based on 2007-2008 funding levels plus inflation. State expects to hit target in 2021

Questions?