Governor’s 2017-18 State Budget and District Fiscal Outlook

Presentation to the Board of Trustees
February 14, 2017
Brett W. McFadden, Chief Business Officer
Governor’s 2017-18 Budget: Overview

- No surprises from Governor Brown
  - Conservative revenue estimates
  - Cautious spending plan
  - No new programs
- Backdrop of general economic uncertainty
- K-12 budget is straightforward, but pension costs raising serious concerns
- Legislative Analyst’s Officer believes Governor’s revenue estimates are low and inconsistent with his economic outlook
Local Control Funding Formula

Entitlement Target

- TIIG Add-on
- Trans. Add-on
- Concentration Grant
- Supplemental Grant
- K-3 GSA

Base Grant (adjusted for 1.48% COLA)

9-12 GSA

2017-18 Funding

- 23.67% of Remaining Gap
- Prior Year Gap + ERT Funding
- 2012-13 TIIG
- 2012-13 Trans

- 2012-13 “Included” Categoricals
- 2012-13 Revenue Limit

2016-17 Funding
<table>
<thead>
<tr>
<th>Year</th>
<th>Transition Funding</th>
<th>Gap Closure</th>
<th>COLA</th>
<th>Percent of Target Funded</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
<tr>
<td>2013-14</td>
<td>$2.087</td>
<td>12.02%</td>
<td>1.57%</td>
<td>72%</td>
</tr>
<tr>
<td>2014-15</td>
<td>$4.722</td>
<td>29.99%</td>
<td>0.85%</td>
<td>80%</td>
</tr>
<tr>
<td>2015-16</td>
<td>$5.994</td>
<td>51.97%</td>
<td>1.02%</td>
<td>90%</td>
</tr>
<tr>
<td>2016-17</td>
<td>$2.942</td>
<td>55.28%</td>
<td>0.00%</td>
<td>96%</td>
</tr>
<tr>
<td>2017-18</td>
<td>$0.744</td>
<td><strong>23.67%</strong></td>
<td><strong>1.48%</strong></td>
<td><strong>96%</strong></td>
</tr>
<tr>
<td>2018-19</td>
<td>$1.904</td>
<td>53.85%</td>
<td>2.40%</td>
<td>97%*</td>
</tr>
<tr>
<td>2019-20</td>
<td>$2.022</td>
<td>68.94%</td>
<td>2.53%</td>
<td>98%*</td>
</tr>
<tr>
<td>2020-21</td>
<td>$2.294</td>
<td>100%</td>
<td>2.66%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*estimates
Pension contribution rates:
Eating up LCFF funding

CalSTRS
(CalSTRS (Current Assumptions)
(CalSTRS (Expected Assumptions)
CalPERS
CalPERS (Prior Assumptions)
CalPERS (New Assumptions)
## Cost of pension reform: STRS benefit contribution increase

<table>
<thead>
<tr>
<th></th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
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<tbody>
<tr>
<td>STRS Base Rate</td>
<td>8.88%</td>
<td>10.73%</td>
<td>12.58%</td>
<td>14.43%</td>
</tr>
<tr>
<td>Annual Increase</td>
<td>1.85%</td>
<td>1.85%</td>
<td>1.85%</td>
<td>1.85%</td>
</tr>
<tr>
<td>Effective Rate</td>
<td>10.73%</td>
<td>12.58%</td>
<td>14.43%</td>
<td>16.28%</td>
</tr>
<tr>
<td>Base Earnings</td>
<td>36,266,382</td>
<td>38,834,950</td>
<td>39,668,270</td>
<td>40,341,167</td>
</tr>
<tr>
<td>Projected Expense</td>
<td>3,891,383</td>
<td>4,885,437</td>
<td>5,724,131</td>
<td>6,567,542</td>
</tr>
<tr>
<td>Year over Year Increase</td>
<td>994,054</td>
<td>838,695</td>
<td>843,411</td>
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</table>
Cost of pension reform*: PERS benefit contribution increase

Unrestricted General Fund
(Estimated off of 2016-17 First Interim)

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<th>2019-20</th>
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<tr>
<td>PERS Base Rate</td>
<td>11.847%</td>
<td>13.888%</td>
<td>15.800%</td>
<td>18.700%</td>
</tr>
<tr>
<td>Annual Increase</td>
<td>2.041%</td>
<td>1.912%</td>
<td>2.900%</td>
<td>2.900%</td>
</tr>
<tr>
<td>Effective Rate</td>
<td>13.888%</td>
<td>15.800%</td>
<td>18.700%</td>
<td>21.600%</td>
</tr>
<tr>
<td>Base Earnings</td>
<td>12,633,220</td>
<td>12,873,358</td>
<td>13,118,122</td>
<td>13,367,601</td>
</tr>
<tr>
<td>Projected Expense</td>
<td>1,754,502</td>
<td>2,033,991</td>
<td>2,453,089</td>
<td>2,887,402</td>
</tr>
<tr>
<td>Year over Year Increase</td>
<td>279,489</td>
<td>419,098</td>
<td>434,313</td>
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* Figures reflect new employer rate increases adopted by PERS December 2016
MPUSD’s fiscal challenge:
Revenue vs. expenditures

Governor’s 17-18 Budget projects flat revenues for the district

LCFF and categorical revenues

LCFF and categorical revenues

Health care costs

Sp Ed contributions

Step and column

CalPERS increase

CalSTRS increase

PERS rate increases were increased

2016-17 Revenues

2017-18 Projected Revenues

Multi-year expenditures

LCAP expenditures / operational increases

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Governor’s 17-18 Budget projects flat revenues for the district.
The district’s fiscal outlook continues to face significant challenges.

The governor’s proposal results in a $2.1 million reduction in projected LCFF funding for 2017-18 (estimated).

- This projected reduction was a big surprise.

Increased ongoing / fixed costs will continue to increase.

District will need to take steps to address ongoing fiscal challenges.

Staff recommends review of spending priorities for 2017-18.
Criteria to use when reviewing fiscal priorities

Staff recommends utilization of the following criteria for board analysis:

1. Protect classroom instruction and vital programs and operations
2. Ensure the district’s long term fiscal solvency
3. Seek to implement greater program and operational efficiencies
4. Focus on existing vacant positions to reduce / avoid layoffs
Conclusion

Questions and Comments