Overview

State Budget Update
- The Economy
- State Revenue Collections
- Proposition 55 – Tax Extension

School District Fiscal Considerations
- California State Teachers’ Retirement System (CalSTRS) and California Public Employees’ Retirement System (CalPERS) Rate Increases
- Reserve Requirements and Collective Bargaining
- Multiyear Projections
- The Local Control and Accountability Plans (LCAP) and Local Accountability

Monterey Peninsula Unified School District (USD)
- 2016-17 Selected Fiscal Data
State Budget Update

The Economy
State Revenue Collections
Proposition 55 – Tax Extension

Rocky Start for General Fund Revenues

- While the employment picture looks good, state revenues since the May Revision forecast have fallen short by just over $920 million
  - Revenues for the 2015-16 fiscal year ended short of the forecast level by $706 million
    - July short $330 million; August up $140 million; September short $32 million
- The current shortfall stands in stark contrast to state revenues for the prior three years through August
  - 2015-16 up $1.5 billion
  - 2014-15 up $710 million
  - 2013-14 up $2.2 billion
State Revenues Falling Short

General Fund Revenues
Actual Collections vs. May Revision Forecasts
(in millions)

Prior Year (May and June)  July, August, September

- Prior Year (May and June)
- July, August, September

Implications for the State Budget

- It is still too early to conclude that a negative trend is developing, and this shortfall can be reversed in a few months.
- Nevertheless, revenue collections, which underperformed a conservative forecast and weak national Gross Domestic Product (GDP) growth for the first two quarters of 2016, do not inspire confidence in the broader outlook.
- We’ll closely monitor revenue collections month to month.
What to Watch

We believe it is important to:

• Monitor General Fund revenue collections as reported by the Department of Finance (DOF) in its monthly Finance Bulletin

• Follow the performance of the Dow Jones and the S&P 500, given the market sell off in late January of this year
  ▪ Though the market has more than recovered, California’s progressive tax structure contributes to revenue volatility

Also, watch the polling on Proposition 55, the measure to extend the high-bracket income tax

• The 2016-17 State Budget assumes expiration of the temporary taxes; passage of Proposition 55 would boost state revenues in 2018-19

Proposition 55 – Tax Extension

Proposition 55 extends the high-bracket income tax for 12 years until 2030

• The 0.25 cent sales tax will expire as originally planned

• These funds boost the Proposition 98 guarantee and provide up to $2 billion in additional funds for Medi-Cal

The Legislative Analyst’s Office estimates that the tax extension will generate General Fund revenues of between $4 billion and $9 billion annually

• The tax extension will boost Proposition 98 funding compared to current law, which repeals the higher tax rates

• However, the state’s tax structure will become even more volatile with greater reliance on tax payments from the top income earners
**Proposition 55 – Tax Extension**

Will Proposition 55 pass? Recent polling is unclear:

- The Public Policy Institute of California shows support slipping from 58% in May to 54% in September
- Field Poll shows support at 60% vs. 30% opposed as of September

“Conventional wisdom” suggests that the measure is in trouble if support drops below 50% prior to the election

- Governor Brown proved this conventional wisdom wrong on Proposition 30, which dropped support below 50% just weeks prior to the 2012 election
- However, the Governor is not weighing in on Proposition 55
  - He insists it's up to the voters

Education and hospital organizations are strongly backing the measure

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**Will School Districts Gain?**

If Proposition 55 passes, how much will school districts receive?

Proposition 98 is based on three “tests,” which adjust funding for workload and inflation

- If Test 1 (share of General Fund revenues) or Test 3 (change in General Fund revenues), the Proposition 55 revenues will boost Proposition 98
- However, a Test 2 year (change in state personal income) would not boost the minimum guarantee
How Much Will My District Receive?

- Assuming Proposition 55 yields $8 billion in revenues, it will provide about $4 billion to K-14 education (full-year effect), with $3.6 billion going to K-12.
- With 6 million students, this works out to an average of $600 per average daily attendance (ADA) in 2019-20.
  - Districts with an unduplicated pupil percentage (UPP) greater than 63% — the statewide average — will receive more; those below will receive less.
- At 71% UPP, Monterey Peninsula Unified School District (MPUSD) receives about 5% more than the statewide average.
  - Based on these assumptions, MPUSD could receive about $630 per ADA above current law, which assumes the tax expires.

Major Uncertainties About This Estimate

- This estimate, however, comes with major uncertainties:
  - Local Control Funding Formula (LCFF) vs. categorical programs
  - The economy and revenues in 2018-19 and beyond
  - Funding above LCFF targets
  - The district’s future unduplicated percentage
- CAUTION: This boost is measured against the DOF forecasts for LCFF gap closure.
  - A revised forecast, including an economic slowdown, could reduce this gain.
School District Fiscal Considerations

CalSTRS and CalPERS Rate Increases
Reserve Requirements and Collective Bargaining
Multiyear Projections
Local Control and Accountability Plans

CalSTRS Employer Rate Increases

- Employer rates have increased to 12.58% in 2016-17, up from 10.73% in 2015-16
  - 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 and state contribution rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Employer</th>
<th>Pre-PEPRA* Employees</th>
<th>Post-PEPRA Employees</th>
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<tbody>
<tr>
<td>2015-16</td>
<td>10.73%</td>
<td>9.20%</td>
<td>8.56%</td>
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<tr>
<td>2016-17</td>
<td>12.58%</td>
<td>10.25%</td>
<td>9.205%</td>
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<tr>
<td>2017-18</td>
<td>14.43%</td>
<td>10.25%</td>
<td>9.205%</td>
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<tr>
<td>2018-19</td>
<td>16.28%</td>
<td>10.25%</td>
<td>9.205%</td>
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<tr>
<td>2019-20</td>
<td>18.13%</td>
<td>10.25%</td>
<td>9.205%</td>
</tr>
<tr>
<td>2020-21</td>
<td>19.10%</td>
<td>10.25%</td>
<td>9.205%</td>
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</table>

*Public Employees’ Pension Reform Act
CalPERS Rate Increases

- The employer contribution rate for 2016-17 is higher than previously anticipated, at 13.888%
  - Fortunately, outyear estimated contribution rates have been lowered since they were last released in 2014
  - Unfortunately, this summer CalPERS announced its 2015-16 return on investment was 0.61%
    - School employers will feel the impact of this low investment return as the employer contribution rates for 2017-18 and beyond are calculated

<table>
<thead>
<tr>
<th>Actual</th>
<th>Estimated</th>
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<tbody>
<tr>
<td>2015-16</td>
<td>2016-17</td>
</tr>
<tr>
<td>11.847%</td>
<td>13.888%</td>
</tr>
<tr>
<td>2017-18</td>
<td>2018-19</td>
</tr>
<tr>
<td>15.5%</td>
<td>17.1%*</td>
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<tr>
<td>2019-20</td>
<td>2020-21</td>
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<tr>
<td>18.6%*</td>
<td>19.8%*</td>
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</table>

*CalPERS-provided estimates, April 2016

Reserve Requirements and Collective Bargaining

- The cap on district reserves has placed great pressure on districts to expend some of these funds on salary increases, even though the cap is not yet operative
- The key to protecting your reserve: Educate your bargaining units
  - One-time reserves cannot support ongoing salary increases
  - Reserves protect against:
    - Unforeseen cuts in LCFF funding from the state and unbudgeted expenses
    - Cash between funding cycles to maintain payroll and utility costs
  - Districts with positive relations with their bargaining units will “get it”
Multiyear Projections

- Multiyear projections (MYP) are required by Assembly Bill (AB) 1200 (Chapter 1213/1991) and AB 2756 (Chapter 52/2004)
- Recognize that MYPs are projections, not forecasts
  - Projections are expected to change as various factors change – they are not predictions
  - Projections are the mathematical result of today’s decisions based on a given set of assumptions
  - Forecasts are predictions of the future – there is a higher implied reliability factor than for projections
- Projections will change any time the underlying factors change – therefore, plan to adjust as conditions change

Multiyear Projections

- The cause of most school district insolvencies can be traced to a bad financial decision made during prosperous times that came back to bite the district during lean financial times, so caution is key
  - One-time funds are just that – one time
  - A future recession is predicted – the timing is unknown
  - Proposition 30 temporary taxes expire in 2018, and a tax extension in November 2016 is not guaranteed
  - Low cost-of-living adjustment (COLA) environment on programs that require contributions
  - Increasing retirement obligations
Increasing Revenues Have Increased Costs (Average Local Educational Agency)

- Base Grant $254
- Supplemental Concentration (S/C) Grant $292
- Special Education Contribution $168
- CalSTRS $115
- CalPERS $36
- Step & Column $102


Local Control and Accountability Plans

- The State Board of Education (SBE) will eventually adopt a new LCAP template
  - While the majority of the elements are the same, the format is significantly different
  - The LCAP template will be linked to the evaluation rubrics, which were approved in September 2016
    - What subgroup is at risk
    - How are certain subgroups doing over time
- The SBE will consider the new LCAP template at its November 2016 meeting
  - If adopted, both the template and the evaluation rubrics will be in place for 2017-18
The Evaluation Rubrics

There are currently eight metrics tied to the eight state priorities, which will be used for the following:

- Local educational agency (LEA) self-evaluation
- County offices of education and the state to review local progress
- State intervention

The California Department of Education will populate the rubrics with data

- The data is anticipated to be available to the public in January 2017

The evaluation rubrics replace the single number measure (the Academic Performance Indicator), providing greater detail on LEA and school site progress

- Color coded to provide information on both status and change

State Assistance and Intervention

LEAs failing to show adequate progress could receive differentiated assistance or intensive intervention

- State differentiated assistance is triggered if:
  - Any one subgroup does not meet performance standards for two or more priorities
- Intensive intervention is triggered if:
  - Three or more subgroups fail to meet performance standards for at least two priorities over three of four consecutive years

SSC’s Advice: Pay attention to student performance and make changes to address deficiencies identified by the evaluation rubrics
### Monterey Peninsula USD

#### 2016-17 Selected Fiscal Data

<table>
<thead>
<tr>
<th></th>
<th>2015-16</th>
<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>STRS Base Rate</td>
<td>8.88%</td>
<td>10.73%</td>
<td>12.58%</td>
<td>14.43%</td>
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<tr>
<td>Annual Increase</td>
<td>1.85%</td>
<td>1.85%</td>
<td>1.85%</td>
<td>1.85%</td>
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<tr>
<td>Effective Rate</td>
<td>10.73%</td>
<td>12.58%</td>
<td>14.43%</td>
<td>16.28%</td>
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<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>
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<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>
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<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

<table>
<thead>
<tr>
<th></th>
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<th>2016-17</th>
<th>2017-18</th>
<th>2018-19</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERS Base Rate</td>
<td>11.771%</td>
<td>11.847%</td>
<td>13.888%</td>
<td>15.500%</td>
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<tr>
<td>Annual Increase</td>
<td>0.076%</td>
<td>2.041%</td>
<td>1.612%</td>
<td>1.600%</td>
</tr>
<tr>
<td>Effective Rate</td>
<td>11.847%</td>
<td>13.888%</td>
<td>15.500%</td>
<td>17.100%</td>
</tr>
</tbody>
</table>

*Base Earnings | 12,043,385 | 12,617,937 | 12,805,936 | 12,996,812 |

Projected Expense | 1,426,780 | 1,752,379 | 1,984,920 | 2,222,455 |
Year over Year Increase | 325,599 | 232,541 | 237,535 |

Challenge facing districts:
Revenue vs. expenditures

- LCFF and categorical revenues
- Other funding
- LCAP exp. and employee salary increases
- Health care costs
- Sp Ed contributions
- Step and column
- CalPERS increase
- CalSTRS increase

2016-17 Revenues
2016-17 New Expenditures
Thank You