



School  
Services  
of California  
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*An Employee-Owned Company*

**Governor's January Proposal 2019-20**



# Themes for the 2019-20 Governor's Budget

- **Governor Gavin Newsom's first State Budget lays the groundwork and his governing philosophy and outlook for the next four years**
- **The economy continues to outperform expectations but this is the tenth year and some fear a downturn**
- **The growth in Proposition 98 for 2019-20 is minimal even though state revenues are outpacing the forecast**
- **Local educational agencies (LEAs) will continue to face budget challenges as Local Control Funding Formula (LCFF) funding flattens and costs increase, COLA 3.46%**
- **Accountability remains a priority as the California School Dashboard (Dashboard) and other metrics continue to evolve**



# The California Economy

- Continued growth of the economy will rely on three major factors
- The Budget assumes steady job growth and a more balanced distribution of wage increases across all workers





# What's Not in the Budget?

- With a new Administration, the details of all the proposals contained in the Governor's Budget still need to be flushed out
- Over the course of the legislative hearings, additional specificity is expected for:
  - The \$576 million funding various Special Education proposals
  - The Early Childhood Education proposals
- While new funding is provided for Special Education, funding for equalization of rates is not included in the Budget
- The LCFF targets have been achieved, but this is a modest goal; higher LCFF targets are not included in the Budget
- The Budget does not provide any funds for one-time discretionary grants





# Early Care and Education

- One of Governor Newsom's most aggressive budget investments is in early care and education sector
- In total, the 2019-20 Budget includes over \$2.4 billion in programs and services to children and families
  - Most are one-time investments
  - Nearly all of them are funded with non-Proposition 98 dollars





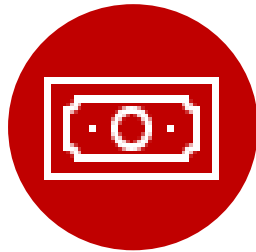
# Cap on District Reserves

- Proposition 2 (2014) established the Rainy Day Budget Stabilization Fund Act that included a state rainy day fund and a Proposition 98 reserve (exempts basic aid districts)
- The measure also imposed a cap on what school districts could maintain in their local reserves if certain conditions are met
  - The conditions will not be met in fiscal year 2019-20



### Maintenance Factor

**Met:** Proposition 98 Maintenance Factor prior to 2014-15 is fully paid



### Test 1

**Met:** Minimum Guarantee is determined by Test 1



### ADA and COLA\*

**Not Met:** Proposition 98 Minimum Guarantee is sufficient to fund ADA, but not COLA



### Capital Gains

**Met:** Capital gains exceed 8% of General Fund revenues



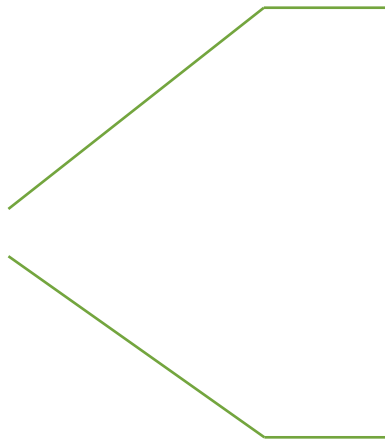
\*Cost-of-living adjustment (COLA)



# CalSTRS – Employer Contributions

- The State Budget recognizes the cost pressures LEAs face with rising the California State Teachers' Retirement System (CalSTRS) employer contribution rates

**\$3 billion  
one-time  
non-  
Proposition 98  
to reduce  
liabilities for  
employers**



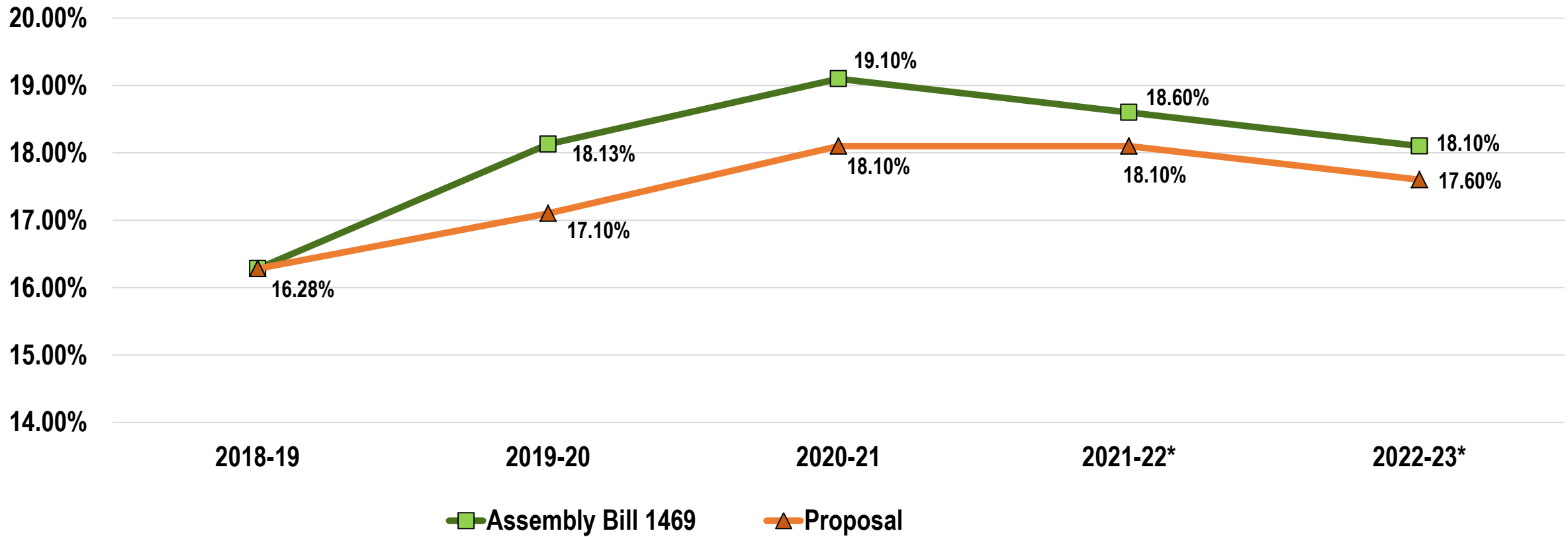
**\$700 million to reduce the employer contribution rate in both 2019-20 and 2020-21**

**\$2.3 billion towards employers' liability, which is expected to reduce the out-year employer contribution rate by approximately 0.5%**



# CalSTRS Employer Contribution Rates – Current Law Versus Governor’s Proposal

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\*Beginning in 2021-22, the CalSTRS Board has authority to increase/decrease the employer contribution rate (with some restrictions) to fully fund the unfunded liability by 2046





# Discretionary Grant Funding

- **During the last four years of the economic recovery, school districts have experienced upward revisions of the current-year Proposition 98 guarantee, providing one-time discretionary grants in the following year**
  - **2018-19: \$1.1 billion or \$184 per ADA**
  - **2017-18: \$877 million or \$147 per ADA**
  - **2016-17: \$1.3 billion or \$214 per ADA**
  - **2015-16: \$3.2 billion or \$530 per ADA**
  
- **In contrast, the Governor's Budget indicates that Proposition 98 has been revised downward in the current year and therefore no discretionary grant funding is proposed for 2019-20**
  - **Nor does Governor Newsom use other one-time funds for discretionary grant funding**



# Next Steps

## ● State level

- ❑ Budget committee hearings
- ❑ Next update – Governor’s May Revision

## ● District level

- ❑ Second Interim report due by March 15, 2019, including Multiyear projections