

Santa Clara County  Office of Education

**BUDGET STUDY COMMITTEE MEETING**

May 18, 2016

3:00 - 4:30 p.m.

Campbell Conference Room – 3<sup>rd</sup> Floor, North Building

**AGENDA**

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| I. Call to Order/Roll Call                          | <i>Superintendent Gundry</i>           |
| II. Setting the Agenda                              | <i>Mark Skvarna, Business Services</i> |
| III. Review and Approval of Minutes - March 9, 2016 | <i>Mark Skvarna, Business Services</i> |
| IV. Tax Revenue Anticipation Notes (TRAN)           | <i>Mark Skvarna, Business Services</i> |
| V. Governor's May Revision                          | <i>Mark Skvarna, Business Services</i> |
| VI. Next Meeting – Dates to be determined           | <i>Superintendent Gundry</i>           |
| VII. Adjourn  | <i>Superintendent Gundry</i>           |

**MEMBERS**

Jon R. Gundry, Superintendent/Committee Chair  
Darcie Green, Board Member  
Rosemary Kamei, Board Member  
Grace Mah, Board Member  
Claudia Rossi, Board Member (Alternate)  
Mary Ann Dewan, Deputy Superintendent  
Philip Gordillo, Chief Human Resources Officer  
Del Mallory, SEIU  
Steve Olmos, Chief Schools Officer  
Angelica Ramsey, Associate Superintendent  
Lesbia Reclosado, SEIU  
Mark Skvarna, Interim Chief Business Officer  
Earl Thaxton, ACE/CTA  
Lisa Vieler, ACE/CTA  
David Wu, Chief Technology Officer

**RECORDER**

Theresa Martinez

Santa Clara County  Office of Education

**BUDGET STUDY COMMITTEE  
UNAPPROVED MINUTES  
MARCH 9, 2016**

**I. Call to Order/Roll Call**

Superintendent Gundry called the meeting to order at 3:16 p.m.

**Members Present**

Jon R. Gundry, Superintendent/Committee Chair  
Rosemary Kamei, Board Member  
Grace Mah, Board Member  
Philip Gordillo, Chief Human Resources Officer  
Steve Olmos, Chief Schools Officer  
Angelica Ramsey, Associate Superintendent  
Mark Skvarna, Interim Chief Business Officer  
David Wu, Chief Technology Officer

**Others Present**

Laurie Book, Director-Internal Business Services  
Theresa Martinez, Business Services (recorder)

**II. Setting the Agenda**

Trustee Mah motioned to accept the March 9, 2016 agenda; motion seconded by Mr. Skvarna; motion carried unanimously.

**III. Review and Approval of Minutes – January 22, 2016, 2015**

Trustee Mah motioned to approve minutes of the January 22, 2016 meeting; motion seconded by Mr. Gordillo; motion carried unanimously.

**IV. Overview of Fund Accounting and Unrestricted/Restricted Fund Balance as of January 31, 2016**

Mr. Skvarna acknowledged and congratulated Ms. Book on her recent appointment as Director-Internal Business Services. Ms. Book has served as interim in the position for the past seven months and has been an employee of the County Office for multiple years.

Ms. Book presented an overview of fund accounting, identifying the categories and types of funds the County Office has and how they are used. Funds are segregated for the purpose of carrying on specific activities, special regulations, restrictions, or limitations.

Ms. Book clarified how OPEB (Other Post-Employment Benefits) costs and rates are calculated to determine the current and future costs for retiree benefits.

Ms. Book explained that the General Fund/County School Service Fund (01) is the main operating fund of the LEA, used for all activities not accounted for in other funds.

Ms. Book noted that Fund 100 is a Special Education Pass-Through Fund (SELPA), where money passes in/out for the SELPAs in the county based on calculations from ADA, property taxes, etc. Fund 820 is a Special Education cost recovery fund used to bill back districts for County Office services.

There was discussion about districts experiencing cash flow issues and the consideration of Tax Revenue Anticipation Notes (TRAN). Superintendent Gundry remarked that due to collective bargaining negotiated and declining district enrollment, we may want to consider bridge funding for school districts with cash flows issues. Mr. Skvarna will provide more information on a TRANs operation at the next meeting.

Ms. Book reviewed the main components of the Standardized Account Code Structure (SACS), the structure used by school districts and COE's throughout California to determine where education funds come from and how they are used.

- The resource component tracks activities funded with revenues that have special accounting or reporting requirements, or are legally restricted.
- The goal component defines an objective or a set of objectives for the LEA.
- The function component describes the activities or services performed to accomplish a set of objectives or goals.

Ms. Book reviewed a listing of County School Service Fund restricted funds (restricted by resource) and unrestricted fund balances as of January 31, 2016, second interim.

The committee briefly discussed Educare and the financial support the Office has provided for the program. In order to get a clear picture of the program's needs and to determine future commitments of the COE and others, Mr. Olmos will follow-up on securing an outside auditor to review Educare's expenses and liabilities.

**V. Position Analysis**

Superintendent Gundry explained the purpose of the position analysis report is to look at where we are in terms of how many positions are open, how many are closed, compare with our current revenues and the budget impact projected out for several years. Superintendent Gundry and Mr. Skvarna will review the information and report back at a future meeting.

**VI. Next Meeting**

The next Budget Study Committee Meeting is scheduled for May 18, 2016.

**VII. Adjournment**

Trustee Mah motioned to adjourn; motion seconded by Trustee Kamei; meeting adjourned at 4:05 p.m.

**ANALYSIS OF GOVERNOR'S MAY REVISION PROPOSAL**  
**CAPITOL ADVISORS GROUP – 05/13/16**

We have done a review and assessment of the Governor's May Revision budget proposal, which we sent to you earlier today. We noted in January that the budget proposal was good news for schools and, despite a small general fund revenue shortfall compared to January, Proposition 98 funding actually ticks up slightly in the May Revision. So the bottom-line is still good news.

**Governor's Press Conference**

Governor Jerry Brown's press conference was laced with his usual blend of colorful language and defense of fiscal restraint in anticipation of an imminent economic downturn. Noting that the volatility of state revenues is "like riding a tiger," the Governor stated that "the surging tide of revenue is beginning to turn." He further observed that "paradoxically, the moment you are riding high is also when you are most likely about to hit a deficit." Warning that a recession is coming, Governor Brown argued that the State cannot afford "any significant new spending," while also sending a not so subtle message to the Legislature that he "will be resolute" in his proposal to shift an additional \$2 billion into budget reserves. In short, the theme of this Budget press conference, and of the May Revision proposal, is entirely consistent with what we are used to hearing from this Governor: conservative on-going spending commitments and a focus on building budget reserves to deal with an uncertain future.

In classic Jerry Brown style, a copy of Aesop's tale, "The Grasshopper and the Ant," was included in the documents given to reporters at today's press conference. The age-old fable concerns a hungry grasshopper that begs for food from an ant when a cold winter comes, and is refused. The tale is intended to teach the virtues of hard work and planning for the future. A reporter asked if the tale was meant to be condescending to legislators calling for additional spending on various programs. The Governor ducked the question, but noted that the tale is particularly poignant at this time.

Before turning to his rather gloomy outlook on future revenues, the Governor did list some accomplishments made since the beginning of his Administration. He noted that a \$27 billion deficit that he inherited had been eliminated and, while crediting his fiscal conservatism and the temporary tax revenues from Proposition 30, took a fairly direct shot at the three previous Governors for not understanding the need to be prudent at times when revenues are high. The Governor also mentioned accomplishments related to addressing poverty, including spending to increase the minimum wage and expand Medi-Cal, his efforts to prevent further increases in tuition for higher education students and, of course, increased spending for K-12 education.

**Implications for Schools**

For K-12 education, the most interesting aspects of the press conference were not about educational programs or spending, but rather hints at the Governor's positions on November ballot measures. Governor Brown highlighted a chart that identified looming deficits in 2018-19 and 2019-20 if the Proposition 30 temporary taxes expire. He specifically referred to the proposed tax initiative to extend the Proposition 30 income taxes, and stated that passage of the initiative would erase those deficits and provide for very modest surpluses (Finance Director Mike Cohen identified those surpluses as less than a couple hundred million in each of those fiscal years). While declining to express a formal position in support of the tax initiative, Governor Brown clearly presented the economic argument for the necessity of the Proposition 30 extension ballot measure and suggested it is up to voters to decide what to do.

The Governor was not nearly as helpful with respect to the proposed K-14 school facilities bond, but his comments provided reasons to believe he may refrain from opposing the measure. After noting that he

has not expressed support for the school bond measure, he referred to the crowded ballot and stated that he “could write a lot of the ‘no’ arguments on this ballot.” Given those other measures, he needs to “pick his battles” and is not ready to “jump in” on the school bond.

These comments provide some support for our previous assessment that the Governor is unlikely to actively oppose a school bond measure, even if it is a proposal he doesn’t much like. While the California Teachers Association has also expressed concerns about placing a school bond on the same ballot as the Proposition 30 extension, they will likely receive considerable pressure from their members to ultimately support the bond measure.

### **May Revision – Big Picture**

Primarily based on lower than expected April income tax receipts, the May Revision General Fund revenue forecast for 2016-17 is \$1.9 billion lower than the January Budget forecast. Despite the shortfall compared to January, the 2016-17 Budget remains balanced due to reductions in required (Proposition 2) transfers and other formula adjustments, and general fund spending is only slightly lower than January. As noted above, the projections for future years indicate deficits and without “corrective action” the state would be spending \$4 billion more than it receives by 2019-20.

In addition to the potential impact of losing Proposition 30 revenues, the May Revision repeats the warning from January that “another recession is inevitable and the state must plan for it.” The proposal notes that California’s economic recovery has already been longer than typical recoveries since 1954. The Department of Finance modeled the impact of a recession of “average magnitude” starting in 2017-18, and indicated that revenues would drop by about \$55 billion cumulatively between 2017-18 and 2019-20.

Based on these concerns, the May Revision continues to include the January proposal to shift an additional \$2 billion into the Proposition 2 budget reserve. This “supplemental deposit” is a voluntary appropriation in addition to what is required under Proposition 2, and the Governor’s press conference rhetoric suggests he will resist any attempts by the Legislature to eliminate or reduce this appropriation.

### **Continued Growth in Prop 98 K-12 Spending and LCFF Implementation**

The May Revision Proposition 98 guarantee for 2016-17 is \$71.9 billion, an increase of \$288 million over January estimates. For K-12, part of this increase is reflected in an additional \$154 million for LCFF implementation, bringing the 2016-17 LCFF increase to about \$2.9 billion.

The Governor estimates that this additional investment will bring the LCFF to 95.7% of full implementation. The LCFF gap closure for 2016-17 is calculated at 54.84%, and increase over the 49.08% January estimate. The cost-of-living-adjustment (COLA) was calculated at 0.47% in the January Budget, but is adjusted to 0.00% in the May Revision, which means the LCFF base grants remain unchanged.

Interestingly, due to reduced revenue estimates and higher per capita income for 2016-17, maintenance factor is no longer scheduled to be repaid in full by the end of the 2015-16 fiscal year. A small maintenance factor balance for 2015-16 will grow to nearly \$1 billion in 2016-17 based on May Revision estimates. As a result, schools will receive additional revenues in future “good” Proposition 98 years.

### **One-Time Discretionary Funding**

The January budget proposed nearly \$1.3 billion in fully flexible, one-time funding to school districts, county offices (COEs) and charter schools. Adjustments to the 2014-15 and 2015-16 Proposition 98 guarantees net a modest amount of additional revenue, which allow an increase to this funding to a total of more than \$1.4 billion. The funding will continue to be distributed on an ADA basis. As has been true

for the discretionary one-time funding over the last few budgets, all of these funds count toward offsetting any mandate reimbursement claims filed by local education agencies (LEAs) receiving the funds.

### **Early Education Block Grant**

Governor Brown maintained his proposal for a \$1.6 billion Early Education Block Grant to provide one year of subsidized pre-kindergarten for low-income and at-risk 4 year olds. Funding is decreased by \$4.3 million compared to the January proposal because the COLA is adjusted to zero for the State Preschool Program. Per pupil funding is proposed at \$6,200 per year.

We remain quite skeptical that the Legislature will accept this proposal, and the lack of a more concrete program in the May Revision further supports that skepticism. Details of the proposal are not much different from those we have reported over the last several months:

- Begins in 2017-18 fiscal year, providing one year for transition
- Eliminates transitional kindergarten (TK) statutes as of July 1, 2017
- School districts administer programs with COEs providing technical support and assistance to districts
- School districts must serve no fewer than currently serving in subsidized TK or State Preschool in 2016-17 – districts may serve more children and may charge fees for families that are *not* low-income or at-risk.
- Charter schools are eligible to participate
- State will assess the level of equity for subsidized care every three years
- Funding distribution:
  - COEs: \$20 million (\$10 million one-time distributed on an ADA basis, \$10 million ongoing)
  - School district 3-year hold harmless: maintains current funding level
  - After hold harmless districts may lose up to 5% per year based on reduction in ADA
  - Distribution of new funds based on unmet need
- Gives COEs priority for Quality Rating Improvement System (QRIS) funds

### **Teacher Workforce**

Leading up to the release of the May Revision, there were rumblings that the Administration was preparing to propose a number of initiatives to address the growing teacher shortage. However, the proposal ended up as a very minor package of investments, perhaps reflecting the Governor's statements that no funding is available for new programs.

Specifically, the Governor proposes a \$10 million one-time expenditure for higher education grants to improve or develop four-year integrated teacher credential programs. Grants would be up to \$250,000 and would be prioritized for programs that partner with local community colleges and K-12 LEAs. He also proposes \$2.5 million for the California Center of Teaching Careers (CalTeach), a program to recruit and place new teachers. Expect continued calls to do more to address teacher shortage issues, if not in this budget than certainly in the future.

### **New Emergency Repair Revolving Loan Program**

Apart from a fairly narrowly focused new proposal, the May Revision includes little with respect to school facilities. The Governor proposes \$100 million in one-time funding to establish a new bridge loan program for schools receiving facility hardship grant assistance that have structures that pose an imminent or critical threat to the health and safety of pupils and staff. The loan could be used to house displaced students temporarily.

As a condition of participation, a school would have to provide independent verification that the school site has been deemed unsuitable for occupation, and the school would have to self-certify that no alternative facilities are available to educate the displaced students. Loans could be repaid either (1) in-full within one year and without interest, or (2) through a long-term low-interest repayment plan not to exceed 20 years.

### **Foster Youth**

While not included in the document we sent to you earlier, trailer bill language accompanying the May Revision would distribute the on-going \$25 million in funding for foster youth services through a revised formula. According to the Legislative Analyst's Office, under the revised formula participating COEs with at least one foster youth would receive a minimum grant of \$75,000. Of remaining funds, 70 percent would be distributed according to the number of foster youths served and 30 percent according to the number of districts in each county. Under the existing formula, the California Department of Education provides COEs without any foster youth a minimum grant of \$75,000, those with at least one foster youth a minimum grant of \$150,000, and a 50-50 split of remaining funds based on foster youth and school district counts.

### **Proposition 39 Energy Efficiency**

Based on revised estimates of state corporate tax revenues, the May Revision increases the amount of energy efficiency funds available to K-12 schools by \$33 million to a total of almost \$400 million for 2016-17.

### **May Revision Workshops**

We will provide a comprehensive overview of the Governor's 2016-17 May Revision budget proposal at our budget workshops, which start next week. Please go to [www.capitoladvisors.org](http://www.capitoladvisors.org) to register for a workshop near you. These workshops are brought to you at no cost through the support of your county office of education.

We'll keep you informed as we do further analysis of the budget proposal and assess the response from the Legislature.