Economic and State Budget Update
Greece and China have been in the headlines lately

Greece teeters on the brink

- A deal keeping Greece on the Euro is uncertain
- Its economy is the size of Ohio, but a “Grexit” could destabilize the European Union

China is a big problem

- Their stock market plunged 30% between June and mid July
- China’s economy is second only to the U.S.
Recent Economic Developments

- The U.S. economy continues to add jobs
  - 280,000 jobs added in May and 223,000 in June
    - On average, about 200,000 jobs per month have been added during the past year
    - Professional and business services, leisure and hospitality, and health care account for most of the gain
  - The unemployment rate in May was 5.5%, dropping to 5.3% in June
- First quarter 2015 Gross Domestic Product (GDP) was not as weak as initially estimated
  - The severe winter on the east coast had been blamed for the drop in GDP, estimated at -0.7%
  - The most recent revision puts first quarter GDP decline at -0.2%
- However, unemployment is still a big challenge, especially for some groups
Since the release of the May Revision, the California economy continues to show strength.

The state added 54,200 jobs in May and 23,000 in June.
- If the state had added only its proportionate share of jobs based on population, it would have gained 35,000 jobs.

California’s unemployment rate in June was 6.3%, still above the U.S. average.
- One year ago, the state’s unemployment rate was 7.5%.

The state’s housing market continues to strengthen.
- The statewide median home price in May was $486,000, up 4.4% from May 2014.
- Residential building permits are up almost 21% for the first four months of 2015, compared to the same period one year ago.
General Fund revenues for June 2015, the last month of the 2014-15 fiscal year, came in a whopping $815 million above the May Revision forecast.

- The personal income tax accounted for 90% of the gain.

After adjusting for a minor shortfall in May, the state closed out the fiscal year $732 million above the revised level.

- This amount boosts the beginning balance of 2015-16.
Revenues and transfers are budgeted to increase only 3.3%.

Proposition 98 expenditures actually decline $192 million.

The reserve for economic uncertainties and the budget stabilization account together is 4% of revenues and transfers.

<table>
<thead>
<tr>
<th></th>
<th>2014-15</th>
<th>2015-16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Prior-Year Balance</strong></td>
<td>$5,589</td>
<td>$2,423</td>
</tr>
<tr>
<td><strong>Revenues and Transfers</strong></td>
<td>$111,307</td>
<td>$115,033</td>
</tr>
<tr>
<td><strong>Total Resources</strong></td>
<td>$116,896</td>
<td>$117,456</td>
</tr>
<tr>
<td><strong>Non-Proposition 98 Expenditures</strong></td>
<td>$64,865</td>
<td>$65,953</td>
</tr>
<tr>
<td><strong>Proposition 98 Expenditures</strong></td>
<td>$49,608</td>
<td>$49,416</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$114,473</td>
<td>$115,369</td>
</tr>
<tr>
<td><strong>Fund Balance</strong></td>
<td>$2,423</td>
<td>$2,087</td>
</tr>
<tr>
<td><strong>Budget Reserve:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve for Encumbrance</td>
<td>$971</td>
<td>$971</td>
</tr>
<tr>
<td>Special Fund for Economic Uncertainties</td>
<td>$1,452</td>
<td>$1,116</td>
</tr>
<tr>
<td>Budget Stabilization Account</td>
<td>$1,606</td>
<td>$3,460</td>
</tr>
</tbody>
</table>

Source: 2015-16 State Budget Summary, page 8
Many implementing details of the 2015-16 State Budget were unknown at the time of its enactment:

- Timing of Discretionary Funds
- Mandate Block Grant Application
- Maintenance of effort (MOE) Levels for Adult Education Block Grant
- Lottery Funding Levels
- Calculation of Educator Effectiveness Funds

We will bring you up to speed on the details that have emerged and give our best estimates for the remaining unknowns.
The 2015-16 State Budget included more than $3.2 billion in one-time discretionary funding to be allocated on a per-average daily attendance (ADA) basis as reported at 2014-15 Second Principal Apportionment.

The apportionment will be spread throughout the year as follows:

<table>
<thead>
<tr>
<th>Month</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2015</td>
<td>40%</td>
</tr>
<tr>
<td>January 2016</td>
<td>40%</td>
</tr>
<tr>
<td>April 2016</td>
<td>20%</td>
</tr>
</tbody>
</table>

These dollars are unrestricted and can be used for any purpose determined by a local educational agency’s (LEA’s) governing board.

- The 2015-16 State Budget encourages funding professional development, beginning teacher induction and mentoring, instructional materials, technology infrastructure, and other Common Core State Standards implementation efforts.
Adult Education Funding Levels

- The 2015-16 Budget Act contains $500 million for adult education programs to be distributed in two separate parts in 2015-16:
  1. Up to $375 million based on district adult education MOE levels established in 2012-13
  2. No less than $125 million to adult education regional consortia based on need as defined in the State Budget trailer bill to be distributed locally

- If the MOE levels across the state were greater than $375 million, the amount to districts would be prorated

  - However, the California Department of Education (CDE) determined the statewide MOE at $336.8 million, so local MOE entitlements will be fully funded
    - The 2015-16 State Budget requires these funds to be apportioned no later than August 30, 2015
2015-16 State Budget appropriates $219.4 million for the Mandate Block Grant (MBG) program

- Earlier in August, the CDE opened the application period for 2015-16
- The exact rates for the MBG are as follows:

<table>
<thead>
<tr>
<th>LEA</th>
<th>2014-15 P-2 ADA</th>
<th>Amount per ADA</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Districts Grades K-8</td>
<td>$28.42</td>
<td></td>
</tr>
<tr>
<td>School Districts Grades 9-12</td>
<td>$56.00</td>
<td></td>
</tr>
<tr>
<td>Charter Schools Grades K-8</td>
<td>$14.21</td>
<td></td>
</tr>
<tr>
<td>Charter Schools Grades 9-12</td>
<td>$42.00</td>
<td></td>
</tr>
<tr>
<td>County Office of Education Grades K-8</td>
<td>$28.42</td>
<td></td>
</tr>
<tr>
<td>County Office of Education Grades 9-12</td>
<td>$56.00</td>
<td></td>
</tr>
<tr>
<td>County Office of Education Countywide¹</td>
<td>$1.00</td>
<td></td>
</tr>
</tbody>
</table>

Applications must be completed by Monday, August 31 to receive funding!

¹ Countywide ADA is defined as the aggregate number of units of ADA within the county attributable to all school districts for which the county superintendent of schools has jurisdiction pursuant to Education Code Section 1253, charter schools within the county, and the schools operated by the county superintendent of schools.
Lottery Funding Levels

- Adult and regional occupational centers/programs (ROC/P) ADA is no longer eligible ADA for Lottery funding, effective in 2015-16
  - Many LEAs statewide will see a slight increase in the total Lottery funding received due to this slight increase in the per-ADA funding level due to a smaller divisor
    - Last month, the 2015-16 Lottery projections were released: $181 per ADA ($140 unrestricted and $41 Proposition 20)
  - Some LEAs with larger ADA numbers for adult and ROC/P might see a decrease in funding due to the exclusion of the ADA that is not backfilled by the increased per-ADA amount received for all other eligible ADA
The 2015-16 State Budget provides an appropriation of $500 million for professional development, “Educator Effectiveness,” program funds.

- $490 million will be distributed to LEAs for specified educator support purposes on a per-certificated staff basis using fiscal year 2014-15 staffing data.

The CDE anticipates that it will apportion the funds to LEAs in December 2015 and March 2016.

- One of the remaining questions is the amount of funding that will be received per certificated staff.
  - For initial planning purposes, we estimated $1,450 per staff member.
  - The CDE plans to publish certified funding amounts, including the rate per certificated staff, within the next few weeks.
The Legislature reconvened from Summer Recess on Monday, August 17, with less than one month to wrap up the first year of the 2015-16 legislative session.

At this stage of the legislative year, still-active bills have met their second policy committee deadline:

- Bills with fiscal implications are awaiting action by the Appropriations Committees by August 28:
  - Bills with no or minor fiscal effects bypass the Appropriations Committee “Suspense File”
A few of this year’s hottest topics have already been sent to Governor Jerry Brown for signature

- Senate Bill (SB) 277 (Chapter 35/2015) eliminates the ability of parents or guardians to exempt their children from receiving immunizations based on personal belief
  - The bill allows exemptions for students who are enrolled in an independent study program and does not receive classroom-based instruction
  - And allows pupils who, prior to January 1, 2016, have a personal belief exemption, to be enrolled until the pupil enrolls in the next grade span that requires immunizations (at kindergarten and at grade 7)
  - SB 277 was fast tracked through the Assembly after three, hours-long policy hearings in the Senate
  - And the bill was signed into law within a day of being received by Governor Brown
Assembly Bill (AB) 304 (Chapter 67/2015) enacts some technical clean-up but also some substantive changes to California’s new sick leave law created by AB 1522 (as an urgency measure, the bill was effective upon Governor Brown’s signature):

- Specifically, excludes retirees of the California Public Employees’ Retirement System (CalPERS) that return to work without reinstatement.
- Clarified the statute to specify that the employee must work in California for the same employer for 30 or more days within a year.
- Gives employers options to determining the pay rate for the sick leave usage when an employee has different hourly rates.

For more Q&A on the Healthy Workplaces, Healthy Families Act of 2014, see Fiscal Report article “The Latest on California’s Sick Leave Law” published on July 23, 2015.
Inactive Bills

- Bills that failed legislative deadlines are done for the year – absent rule waivers
  - AB 575 and SB 499 would repeal and replace various provisions of existing law governing the evaluation of certificated employees and, beginning July 1, 2018, requires school districts to implement a best practices teacher evaluation system
    - Management groups oppose these bills because academic and student progress issues would be placed on the bargaining table and a board’s sole right to determine the standards and criteria for job performance and student achievement would be removed
  - Neither bill was heard in the second policy committee before the Summer Recess, which would end their progress this year under regular rules
    - Management groups are concerned rules will be waived to keep the bill moving
Inactive Bills

- **AB 631** (Bonilla, D-Concord) would have provided $1 billion in 2015-16 on a per-pupil basis for the integration of Common Core academic content standards.

- **AB 1066** (Gonzalez, D-San Diego) would have revised the definition of "short-term employee" to require the position not to continue on a year-after-year basis in a school or community college district.

- **SB 191** (Block, D-San Diego) would have provided for school districts to be funded at a minimum of 50% of approved transportation costs by 2021-22, and would provide a cost-of-living adjustment (COLA) in 2015-16 through 2021-22.
Other bills are still subject to the Appropriations Committee

- SB 3 (Leno, D-San Francisco) would increase the minimum wage to $11 on January 1, 2016, and $13 on July 1, 2017
  - Minimum wage would be indexed annually to the change in the California Consumer Price Index beginning in 2019
  - Under current law, minimum wage will increase to $10 on January 1, 2016

- AB 963 (Bonilla) would include, as California State Teachers’ Retirement System (CalSTRS) creditable service, any activities that do not meet the definition of creditable service but were performed before December 31, 2015, and were reported as creditable service
  - Intention is to “grandfather in” any employees enrolled in CalSTRS whose eligibility has come into question and avoid costly litigation between employees and districts
● SB 172 (Liu), would suspend the California High School Exit Exam (CAHSEE) for the 2014-15 through 2017-18 school years, as a high school graduation requirement

☐ This has become a hot topic over the past week as students who have met all other requirements for graduation have been kept from receiving a diploma, putting higher education admissions at risk

☐ Both houses have committed to urgency legislation to address the issue for the Class of 2015

☐ Some districts are providing diplomas in spite of the lack of CAHSEE completion

◇ The July administration of the test was cancelled

☐ Stay tuned . . .
AB 531 would clarify existing law that monies in a committed fund balance would not be subject to the school district reserve cap.

- This is the last of four bills introduced in 2015 to address the issue of the school district reserve cap.
  - AB 1048 (Baker, R-Dublin) and SB 774 (Huff, R-Diamond Bar) would have repealed the reserve cap in its entirety.
  - AB 1318 (Gray, D-Merced) would have substituted an unspecified, but presumably higher, factor for the current cap of two times the minimum reserve level.
- Unanimously approved by Senate Appropriations, it is awaiting final votes in the Legislature.
After having laid low while the 2015-16 State Budget was being finalized, California School Boards Association (CSBA) is ramping up their public relations campaign against the school district reserve cap.

On Tuesday, August 18, CSBA and its allies unveiled SB 799, a measure to reform the reserve cap:

- Cap of 17% of unassigned General Fund balances and Special Reserve Fund for Other than Capital Outlay Projects
- Requirement for adoption of board policy on fund balances
- Require COEs to adopt policy on appeal procedures
- Exempt small (under 2,501 ADA) and basic aid districts

SB 799 is authored by Senators Jerry Hill and Steven Glazer and coauthored by several Democratic legislators.
Final Weeks of the Legislative Session

- By Friday, August 28, the Appropriations Committees will decide which bills will proceed to the final legislative steps of floor votes
  - And which will remain on the suspense file, effectively dead for the year

- By September 11, bills will need to be approved by the second house and, if amended while in the second house, a concurrence vote in their house of origin
  - The Legislature has been known to work into the wee hours of the morning to get bills approved in both houses and sent to the Governor

- The Governor has until October 11 to sign or veto bills
Thank you