Key Education Policies: California's Landscape Affecting Public Education

California Personnel Commissioners Association

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Patti F. Herrera
Director, Governmental Relations

The Economic Landscape

2016-17 State Budget Act

- The 2016-17 Enacted State Budget assumes modest revenue growth of 2.8% to $120.3 billion and expenditure growth of 6% to $122.5 billion
- Reserves total $8.5 billion, including $6.7 billion in the Budget Stabilization Account (BSA)
  - Governor Jerry Brown insisted on appropriating $2 billion more than the required minimum contribution of $1.3 billion
  - The BSA now stands at 54% of the maximum goal of 10% of General Fund revenues

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Recent Economic Developments

- Gross Domestic Product (GDP), the broadest measure of the U.S. economy, has been growing weakly in the first two quarters of this calendar year
  - 0.8% growth in Quarter 1 and 1.1% growth in Quarter 2
- GDP growth in 2014 was 2.5% and in 2015 was 2%, which is weak by historical standards
  - Both years saw very weak growth in the first quarter but a pick up in the following three quarters
    - 2014 Quarter 1 was -0.9% and 2015 Quarter 1 was 0.6%
- GDP growth for the remainder of 2016 will have to pick up significantly to reach the 2% to 3% range given the weakness of the first half of the year

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Rocky Start for General Fund Revenues

- State revenues since the May Revision forecast are down by just under $900 million
  - Revenues for the 2015-16 fiscal year ended short of the forecast level by $706 million
  - July revenues were short $330 million; August up $140 million
- While the numbers, along with national GDP trends do not inspire confidence, it's too early to predict the effects on the State Budget

How the current shortfall compares to the prior years (August)	
2015-16	Up $900 million
2014-15	Up $430 million
2013-14	Up $1.8 billion

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- On November 8, California voters will decide on whether or not to extend the high-bracket tax rates imposed with the passage of Proposition 30
- The 2016-17 State Budget assumes the expiration of the taxes

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Proposition 55: What It Does and Its Outlook

- Proposition 55 extends the income tax rates for the state's highest income earners for 12 years until 2030
  - The ¼ 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

Recent polling in September % of voters supporting	
PPIC	54%
Field Poll	60%
USC	57%

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If Proposition 55 Passes, How Much Will My District Receive?

- Why no one can answer this question for any one district:
  - Proposition 98 guarantee is based on multiple factors, including the state of the overall economy
  - Each district's revenue is based on its LCFF target and student demographics
  - The Legislature can decide to spend Proposition 98 on other education priorities (e.g., categoricals)
- That said, on average revenues from the passage of Proposition 55 could produce about $600 per average daily attendance (ADA)
  - Proposition 98 is based on three "tests" which adjust funding for workload and inflation
  - If Proposition 98 is determined by Test 1 (share of General Fund revenues) or Test 2 (change in General Fund revenues), the Proposition 55 revenues will boost education
  - $8 billion in Proposition 55 revenues will provide about $4 billion to K-14 education, with $3.6 billion going to K-12

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On the Horizon: Operational Issues

Supplemental/Concentration Grant Challenges

- Supplemental/concentration (S/C) grant funds are to be used to increase or improve services to the targeted students
  - –Districts with a high unduplicated count generally receive more funding on a per-pupil basis than districts with a low unduplicated count
  - –S/C grants make up a larger proportionate share of their total LCFF funding
- These districts face a significant squeeze on their unrestricted General Fund contributions for programs that do not receive similar increases, such as:
  - –Special Education
  - –Transportation
  - –Cafeteria

Supplemental/Concentration Grant Challenges

- Districts with significant S/C grants face greater pressure from bargaining units to provide large, on schedule salary increases. We recommend:
  - Linking across-the-board salary increases to increases in the base grant
    - Programs that do not receive an increase similar to the district's LCFF gain will nevertheless have to be provided the same increase as provided to the general education program
  - Negotiating compensation increases that exceed the gain in the base grant to increases in services, such as long day/year, lower class size, counseling, etc.
- Remember, carryover funds are unrestricted; however, achieving proportionality in services will be difficult if funds are redirected away from targeted students

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CalSTRS Employer Contribution Rates

- 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, California State Teachers' Retirement System (CalSTRS) will have the authority to marginally increase or decrease the employer and state contribution rate

Year	Pre-PEPRA* Employees	Post-PEPRA Employees	Employer
2015-16	9.20%	8.56%	10.73%
2016-17	10.25%	9.205%	12.58%
2017-18	10.25%	9.205%	14.43%
2018-19	10.25%	9.205%	16.28%
2019-20	10.25%	9.205%	18.13%
2020-21	10.25%	9.205%	19.10%

*Public Employees' Pension Reform Act

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How Is CalSTRS Doing These Days?

- This summer, CalSTRS reported that its investment returns for the 2015-16 year were 1.4%, significantly below its long-term assumption for investment earnings of 7.5%
  - In the longer term, CalSTRS' investment earnings have been as follows:
    - 7.7% over the last 5 years
    - 7.1% over the last 20 years
- The CalSTRS funded ratio (value of assets divided by value of liability) in 2015 is 68.5%, unchanged from 2014
  - Up from 66.9% when the state undertook the full-funding plan
  - The funding gap of $76.2 billion actually increased by $3.5 billion since the 2014 previous valuation

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CalPERS Rate Increases

- The employer contribution rate for 2016-17 is higher than previously anticipated, at 13.888%
  - Fortunately, out year estimated contribution rates have been lowered since they were last released in 2014
  - Unfortunately, this summer the California Public Employees' Retirement System (CalPERS) announced their 2015-16 return on investment was 0.61%, which will have an impact on employer contribution rates in 2017-18 and beyond

Actual		Estimated			
2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
11.847%	13.888%	15.5%	17.1%*	18.6%*	19.8%*

*CalPERS-provided estimates, April 2016

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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"

Use of One-time Funds

- Establish Fund 14 for deferred maintenance, which will not count toward your reserve balance
- Use one-time funds to buy down other **postemployment benefits** liabilities
- If the district is experiencing declining enrollment, consider a one-time early retirement incentive

Multiyear Projections

- Although required by law, recognize that Multiyear Projections (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

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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

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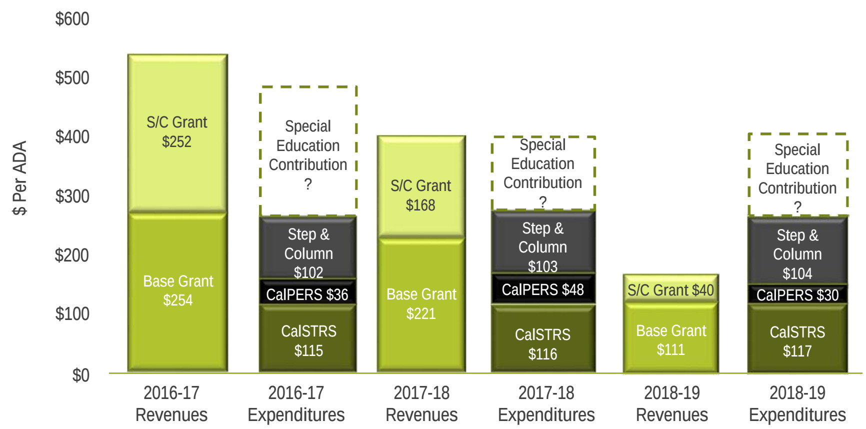
Increasing Revenues Have Increased Costs (Average Local Educational Agency)



School Services of California, Inc., Financial Projection Dartboard

Factor	2015-16	2016-17	2017-18	2018-19
Statutory COLA	1.02%	0.00%	1.11%	2.42%
LCFF Factors				
Factor	2015-16	2016-17	2017-18	2018-19
SSC LCFF Gap Funding Percentage	52.56%	54.18%	19.30%	34.25%
Department of Finance (DOF) LCFF Gap Funding Percentage	52.56%	54.18%	72.99%	40.36%
Factors for All Scenarios				
Factor	2015-16	2016-17	2017-18	2018-19
California Consumer Price Index	2.07%	2.26%	2.39%	2.46%
Ten-Year Treasuries	1.95%	1.76%	2.22%	2.37%
CalPERS	11.847%	13.888%	15.50%	17.10%
CalSTRS	10.73%	12.58%	14.43%	16.28%

The Policy Landscape

Quite a few personnel-related bills were introduced, with many becoming law, in the 2016 legislative year

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Significant Personnel Bills Signed by the Governor

- Assembly Bill (AB) 2393 (Chapter 882/2016): Requires K-14 classified school employees and community college academic employees on maternity or paternity leave during the school year to receive differential pay for up to 12 workweeks of unpaid and protected family and medical leave after all sick leave has been exhausted
  - The employee is not required to have 1,250 hours of service with the employer during the previous 12-month period in order to take parental leave
  - An employee shall not be provided more than one 12-workweek period for parental leave during any 12-month period

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Significant Personnel Bills Signed by the Governor

- AB 2028 (Chapter 794/2016): Requires the reinstatement of a CalPERS member, without regard to retirement status, who is involuntarily terminated on or after January 1, 2017, and subsequently reinstated to that employment pursuant to an administrative, arbitral, or judicial proceeding
  - The bill requires contributions to be made to the system for any period for which salary is awarded in the proceeding and provides the member with service credit for that period and reinstatement of benefits effective as of the date from which salary is awarded

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Significant Personnel Bills Signed by the Governor

- AB 2843 (Chapter 830/2016): Extends the employee information disclosure limits of the Public Records Act to personal cellular phone numbers and birth dates, provided that disclosure can be made in specified instances, including providing personal cellular phone numbers to an employee organization
- AB 2248 (Chapter 103/2016): Provides that a teacher who possesses any of several specified California credentials or permits, and who is able to present a valid out-of-state credential or certificate that authorizes content instruction delivered in a pupil's primary language, may qualify for that authorization by submitting an application and a fee to the commission

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Significant Personnel Bills Vetoed by the Governor

- AB 2197 (Garcia, C.): Would have deleted the prohibition on the payment of unemployment benefits to specified employees of K-14 local educational agencies (LEAs) between two academic years. The bill would have phased in, starting in 2017, up to eight weeks of benefits available to those specified employees over a four-year time frame.

Governor's veto message:

> "This bill allows classified school employees to collect unemployment insurance benefits between school years. This bill creates several conformity issues with the federal Unemployment Insurance laws, which could result in sanctions from the federal government, including the loss of significant tax credits for California's employers."

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Significant Personnel Bills Vetoed by the Governor

- AB 2826 (Weber): Would have amended the Stull Act to define measures of pupil progress, instructional techniques and strategies, among other things, for purposes of evaluating teacher performance

Governor’s veto message:

> “This bill sets forth 20 separate measures that school districts may voluntarily use for teacher evaluation. I don't believe that this list of particular measures will materially change current teacher evaluations in California.”

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Near Miss . . . *Again:* AB 2835 (Cooper) Fails

New Employee Orientations

- Allow 30-minute union presentations in the first half of the orientation
- Must be provided within four months of hire
- To be conducted in person, during work hours
- Exclusive representative must be given notice not fewer than ten days in advance of an orientation

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AB 2835 (Cooper)

- AB 2835 (Cooper) was principally co-authored by Assembly Speaker Anthony Rendon and Senate President pro Tem Kevin de León – signaling the importance of the measure to legislative Democrats
- The Legislature had the votes to get the bill through, but it was not clear if Governor Brown would sign the bill
  - The urgency of an unfavorable *Friedrichs vs. California Teachers Association* decision was no longer looming, and public employers rallied strongly against the bill
  - The DOF estimated a prior version of AB 2835 would cost the state $350 million – annually
- It is likely that this bill will re-emerge in the future

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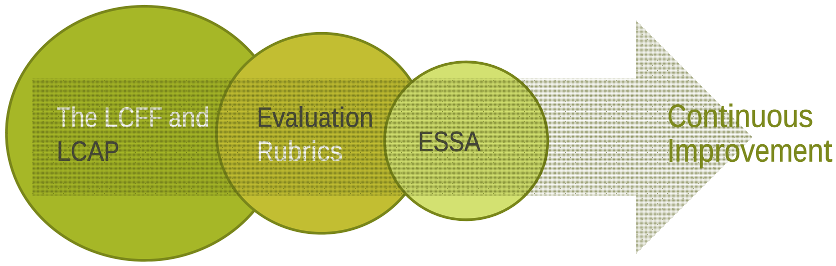
A Brief Look at Our Evolving Accountability System

We are moving away from a compliance and sanction system to a local continuous improvement system reliant on multiple measures of educational efficacy that coheres federal and state requirements



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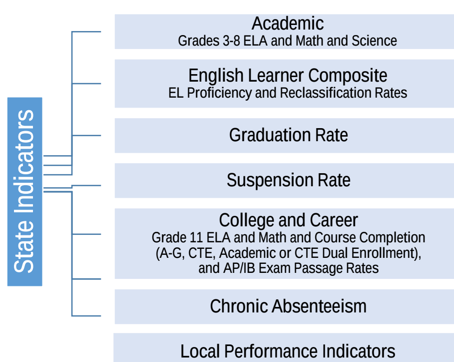
The LCFF Evaluation Rubrics

In September, the State Board of Education adopted the initial LCFF Evaluation Rubrics, which lay the foundation for the State Accountability System. They are…

- Intended to guide local education planning and budgeting through data analysis
- Intended to help LEAs identify their strengths and weaknesses
- Intended to help County Superintendents and the State identify LEAs in need of technical assistance and support and/or intervention

. . . by looking at key STATE INDICATORS



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Identifying LEAs for Technical Assistance and Support

State Priority	Differentiated Assistance – When any student group meets performance in two or more of the following:	Intensive Intervention – When three or more student groups meet performance in two or more of the following in three of four consecutive years:
1 - Basic Conditions	Not met for two or more years on Local Performance Indicator	
2 - Implementation of Standards	Not met for two or more years on Local Performance Indicator	
3 - Parental Involvement	Not met for two or more years on Local Performance Indicator	
4 - Pupil Achievement	RED on both ELA and Math; or RED on ELA or Math and ORANGE on the other test; or RED on the EL Indicator	
5 - Pupil Engagement	RED on Graduation Rate Indicator; or RED on Chronic Absenteeism	
6 - School Climate	RED on Suspension Rate Indicator; or Not met for two or more years on Local Performance Indicator	
7/8 - Access to, Enrollment in, and Outcomes in a Broad Course of Study	RED on College/Career Indicator	
9 - Coordination of Expelled Students Services (COE)	Not met for two or more years on Local Performance Indicator	
10 - Coordination of Foster Youth Services (COE)	Not met for two or more years on Local Performance Indicator	

ESSA Continues to Evolve Through Proposed Governing Federal Regulations

- State Plan Requirements
  - Identifying schools for Targeted or Comprehensive Assistance and Support
    - Summative ratings
  - Changes for English Learners
- Title I Supplement not Supplant


Q&A