



# California State Budget

## Overview of the 2017-18 May Revision



## Themes for the 2017 May Revision

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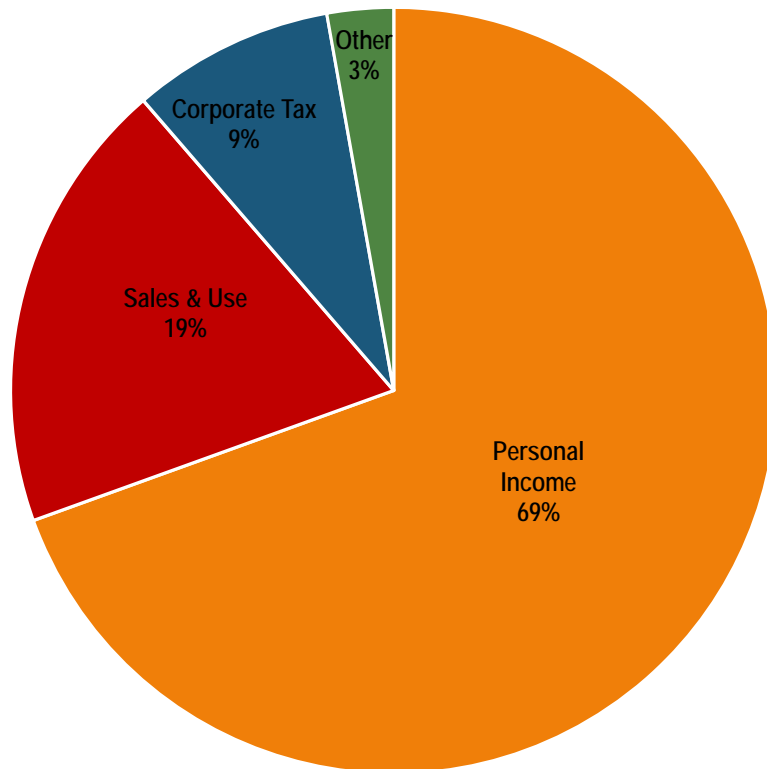
- The May Revision is Governor Jerry Brown's last statutorily required revision to his 2017-18 proposed Budget, prior to adoption of local educational agency (LEA) budgets and the enactment of the State Budget in June
- The Administration has this opportunity to modify its revenue and other forecasts based upon the updated economic news and state tax collections
- This year, the Governor lowered revenue expectations for 2016-17
- But for 2017-18 the Governor raised his revenue forecast
- Budget Conference Committee will work with the Senate and Assembly versions of budget, the conference version of the budget is then sent to the two houses for approval. The Budget must be passed by the Legislature and signed by the Governor.



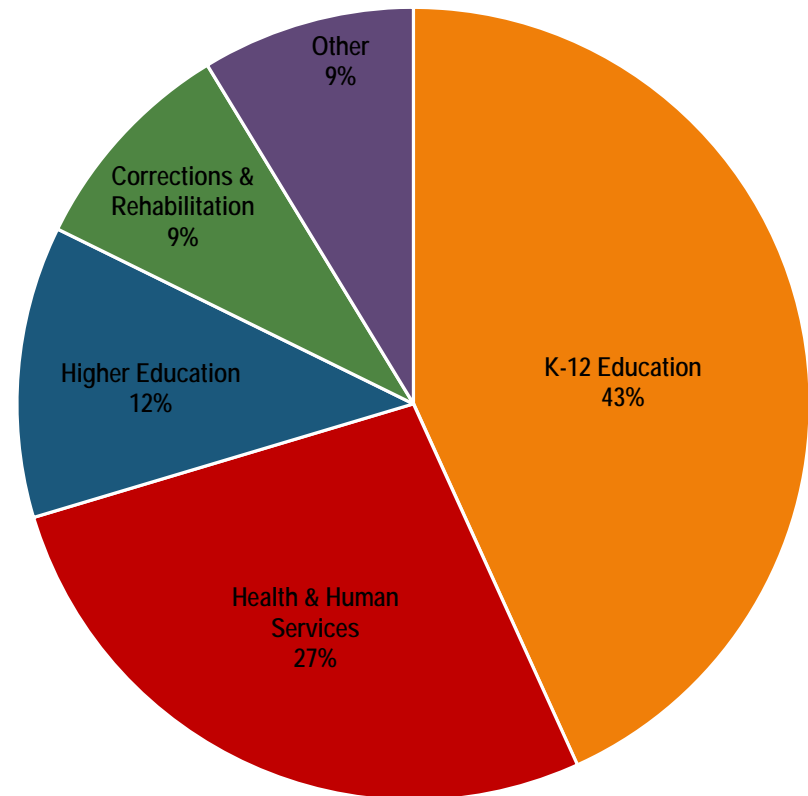
# State 2017-18 Budget Proposal

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State Revenue Sources



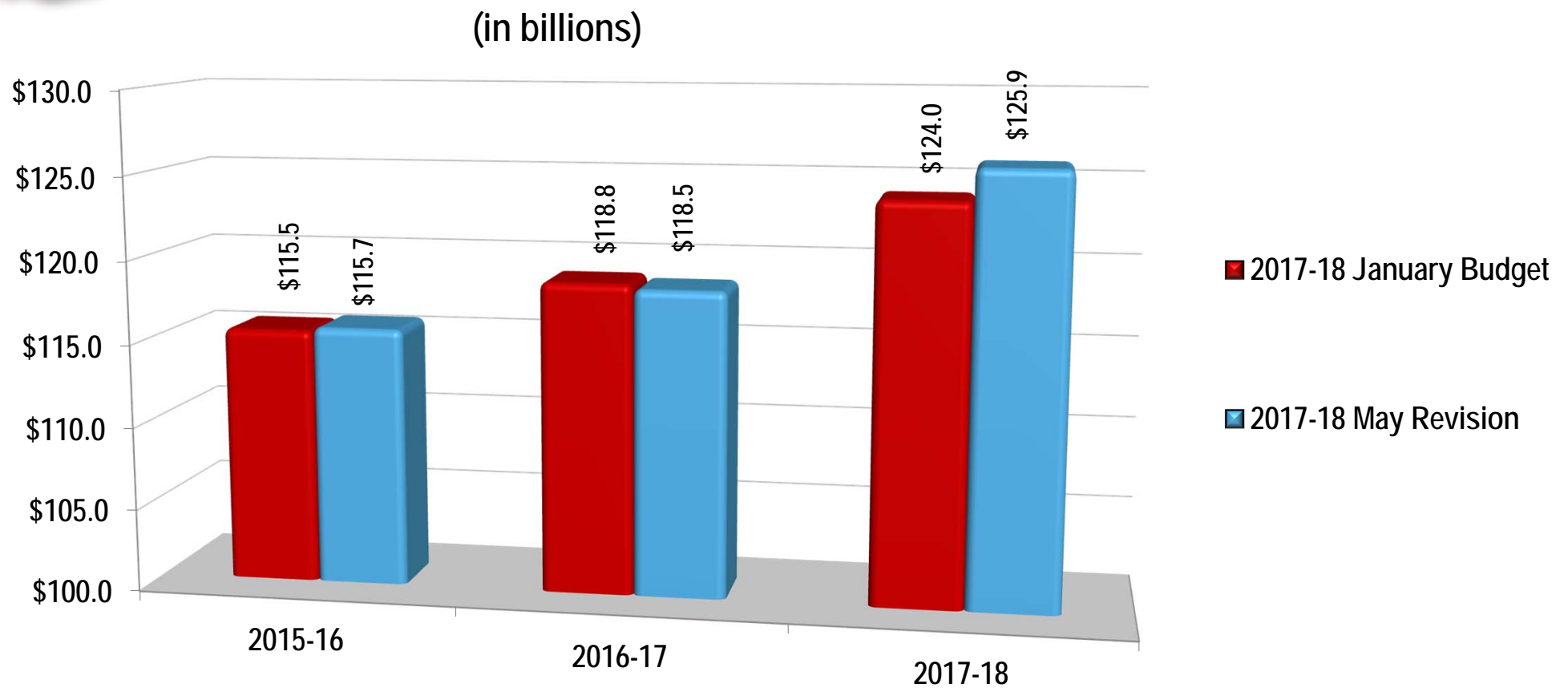
State Spending





## Comparing the Revenue Forecasts

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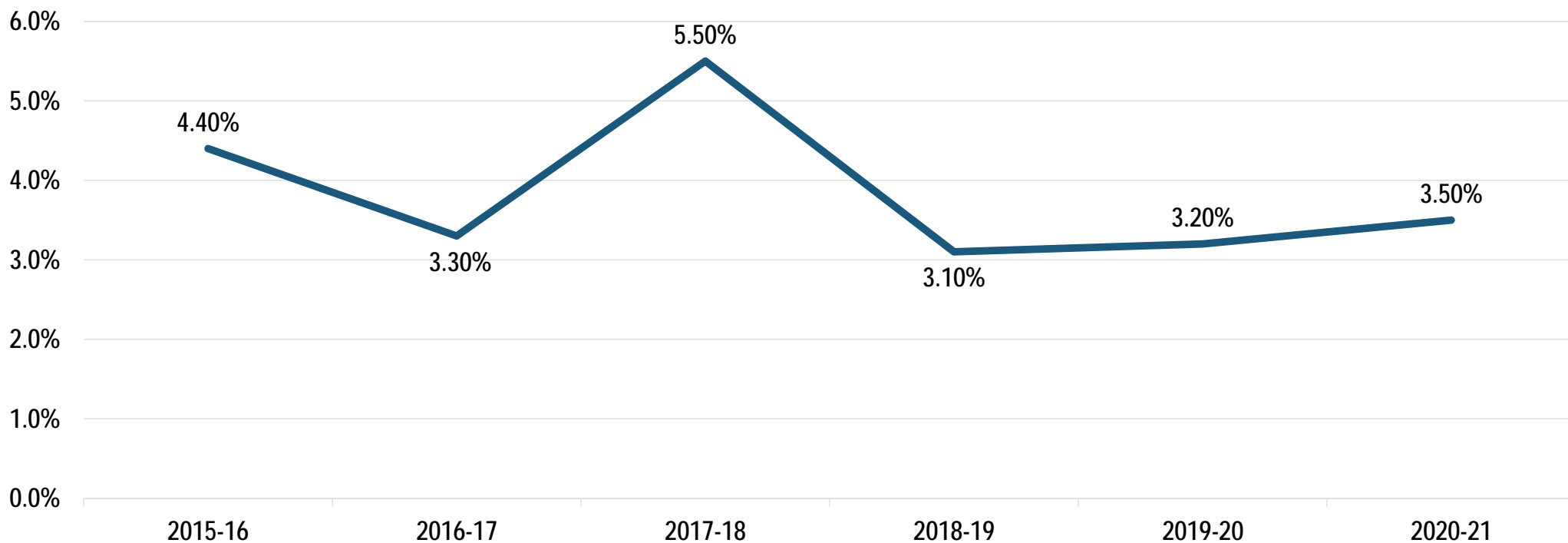




## Big Three Taxes – Percent Change

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Personal Income, Sales, and Corporation Tax Revenue  
(Percent Change)



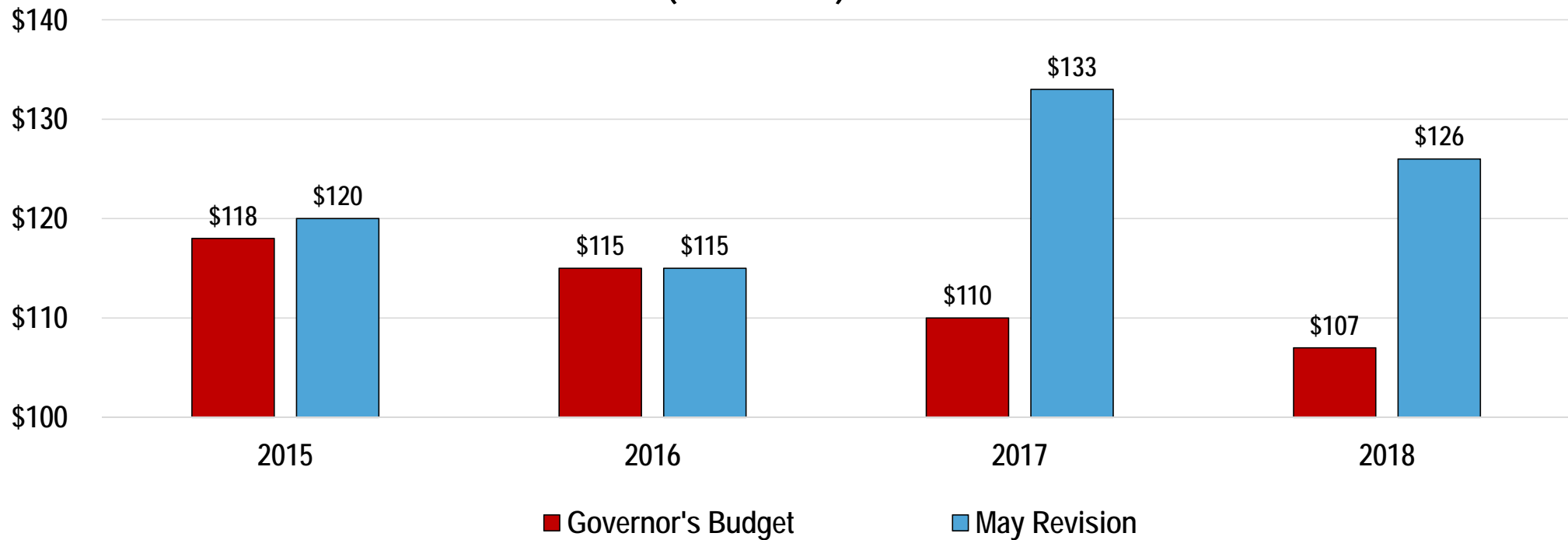
Source: 2016-17 May Revision, pg. 87



## Capital Gains Risk

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### Capital Gains Realized by Taxpayers (In Billions)



Source: 2017-18 May Revision, Page 88





# Proposition 98 and the Education Budget



## Proposition 98 Still Governs the Level of Funding

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- While Proposition 98 continues to rise, the rate of increase is much lower than has been experienced over the last few years
- Past years have started with low revenue forecasts that got better
  - This year, the Governor's 2017-18 January forecast was lower than stated in the 2016-17 Adopted Budget
  - However, the May Revision once again reflects higher revenues for 2017-18 than the January Budget due to increases in personal income and corporation taxes
- As part of the Governor's Proposition 98 package, the May Revision proposes to suspend the statutory Proposition 98 Test 3B supplemental appropriation from 2016-17 through 2020-21 fiscal years

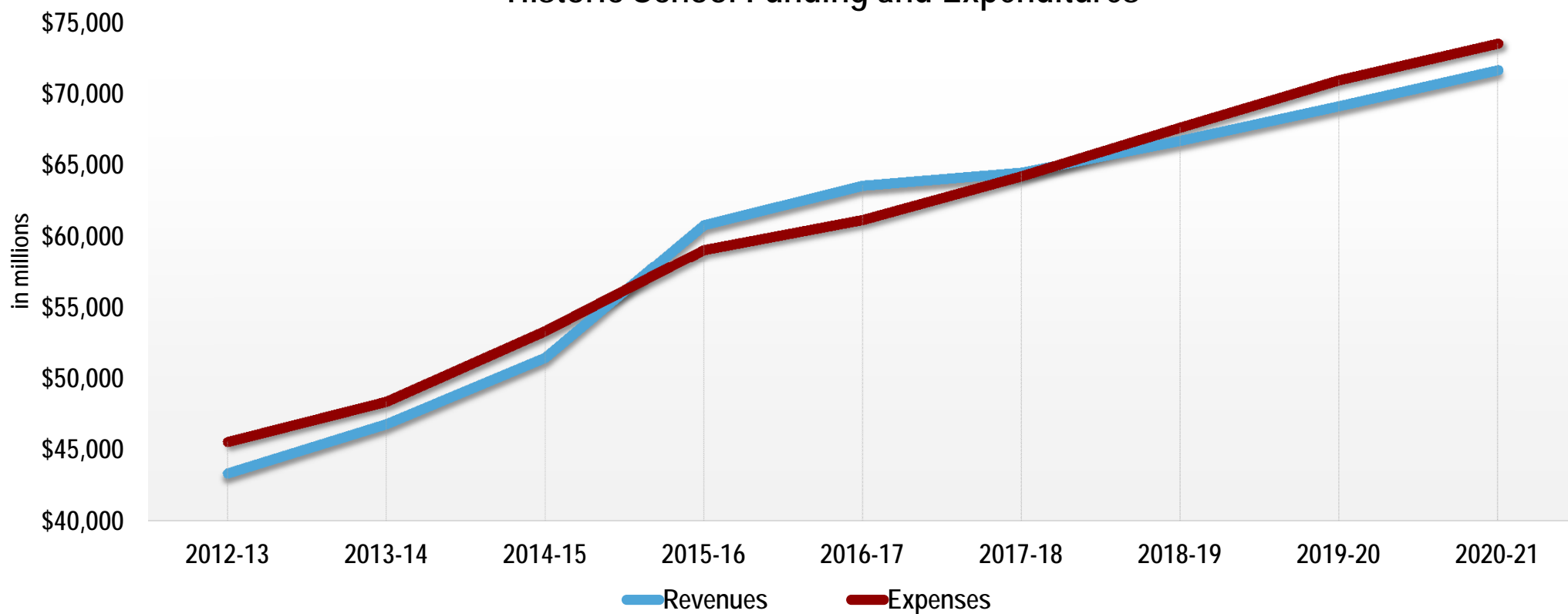




# School Agency State Revenues vs. Expenditure Trends

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## Historic School Funding and Expenditures





## Lowering Proposition 98

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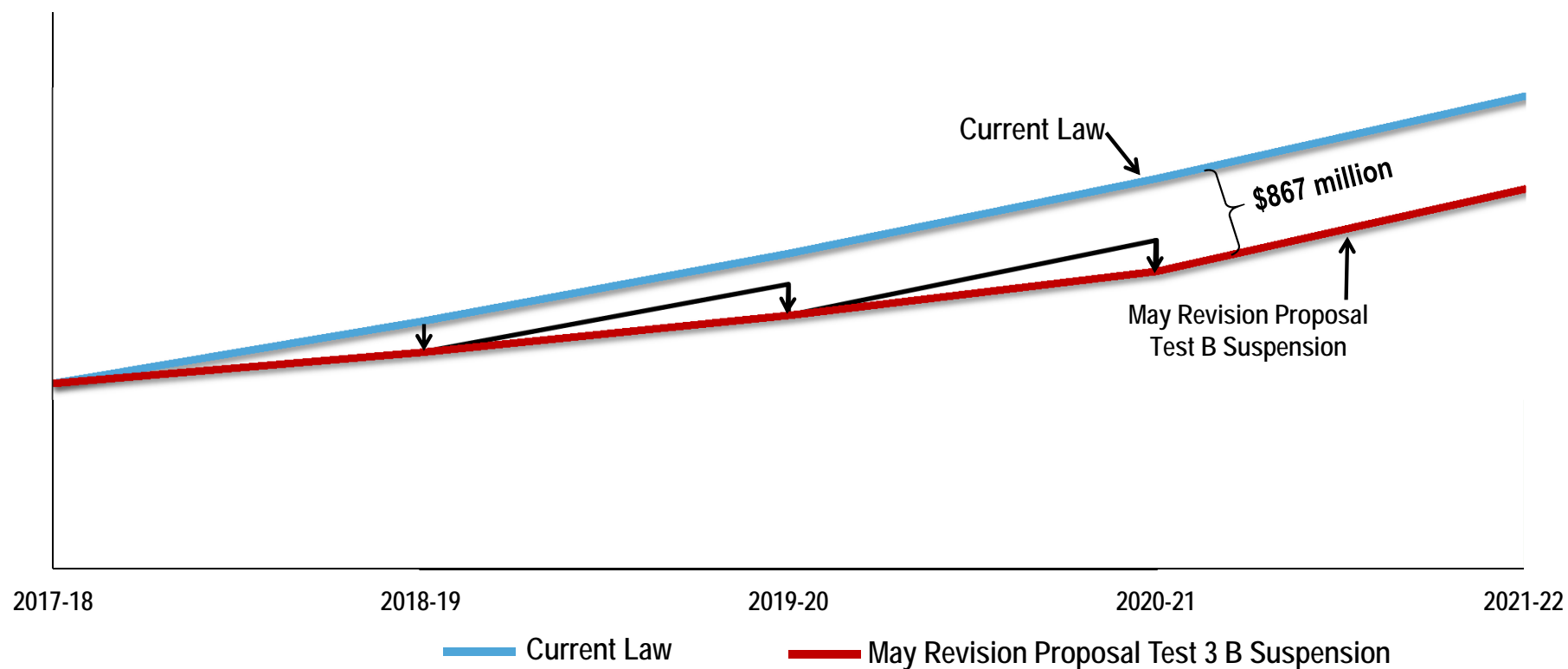
- The May Revision proposes to lower Proposition 98 beginning in 2018-19 by not paying a supplemental appropriation under Test 3 – funding based on per capita General Fund revenues
  - Test 3B, “equal pain/equal gain,” requires Proposition 98 spending increases to be no less than non-Proposition 98 spending increases
- The May Revision would suspend Test 3B payments through 2020-21, which lowers the minimum funding guarantee
  - \$867 million for 2018-19 through 2020-21
  - Suspended payments would accrue to the maintenance factor



# Proposition 98 Funding Loss

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## Proposition 98





## The LCFF Promise

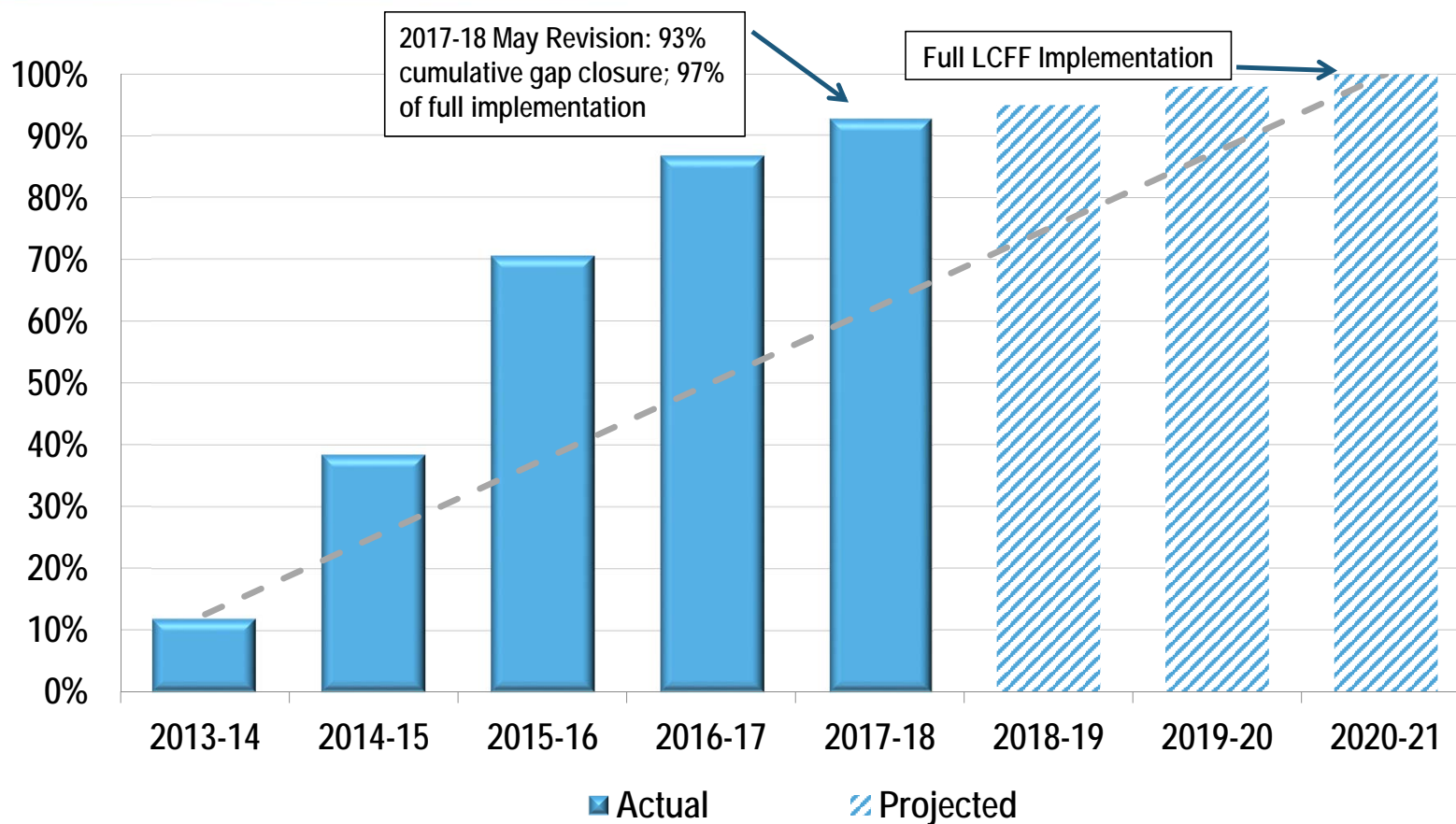
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- The main premises of the Local Control Funding Formula (LCFF) when it was introduced were as follows:
  - Restoration of prerecession purchasing power to the 2007-08 level by 2020-21
  - Redistribution of funding among LEAs to fund additional services to targeted students and close the achievement gap
  - Greater local control over programs and resources



# Progress Toward LCFF Implementation

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## Multi-Year State Budget Assumptions

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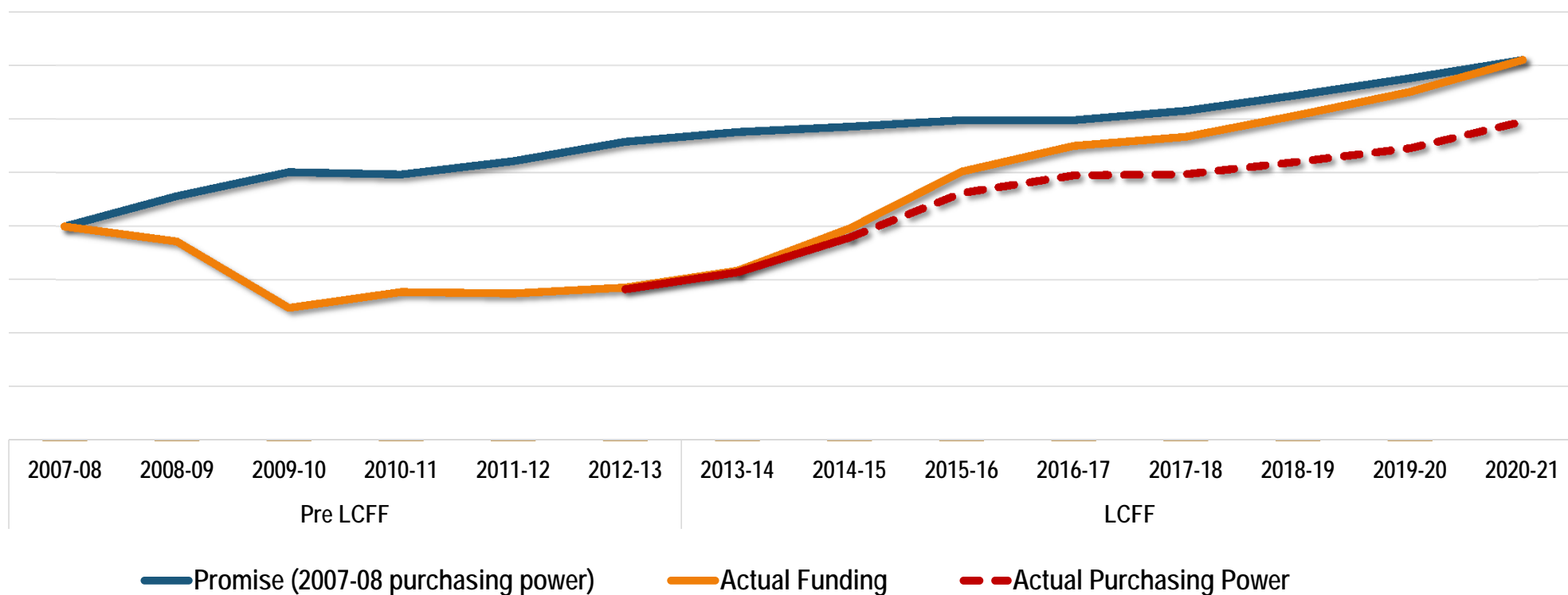
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
COLA	1.02%	0%	1.56%	2.15%	2.35%	2.57%
CalSTRS	10.73%	12.58%	14.43%	16.28%	18.13%	19.10%
CalPERS	11.85%	13.89%	15.53%	18.10%	20.80%	23.80%



# Does the LCFF Restore Purchasing Power Lost?

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Purchasing Power Under the LCFF







## One-Time Discretionary Funds

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- As a result of modest revenue increases since the release of the January Budget, the May Revision proposes an increase in discretionary one-time funding from \$287 million to \$1.01 billion

	January Budget	May Revision
Per-ADA	\$48	\$170
VUSD Estimate	\$783,600	\$2,775,250

- But, the Governor proposes to hold all of the funds until May 2019!
- Funds can be used for any one-time expenditure as determined by a local governing board
- If the Proposition 98 guarantee decreases before the 2018-19 fiscal year, these funds may never materialize
- Accounting guidance dictates these funds not be recognized in the 2017-18 budget or MYP due to the uncertainty around collectability



# Summary and Perspectives