

**State Enacted Budget 2020-21
Presented to the Board of Education
August 4, 2020**



Themes for the 2020–21 Enacted State Budget

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- The education budget is about as good as can reasonably be hoped for in these uncertain times
 - No Local Control Funding Formula (LCFF) cuts
 - New ongoing resources in special education and one-time resources for learning loss
 - Pension contribution rate relief for two years
- However, cash deferrals, the cost of protective measures, distance learning, and pandemic uncertainty all contribute to the most difficult year education has likely ever faced
- Programmatically, the 2020–21 State Budget creates rules for distance learning, and in-person and hybrid instruction models as a condition to receive flat funding in 2020–21




Risks to the State Budget

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The possibility of a revised State Budget in the fall is still real



Continued record unemployment



Actual revenues drastically less than projected revenues, particularly income tax receipts



Sustained economic downturn from shuttered businesses

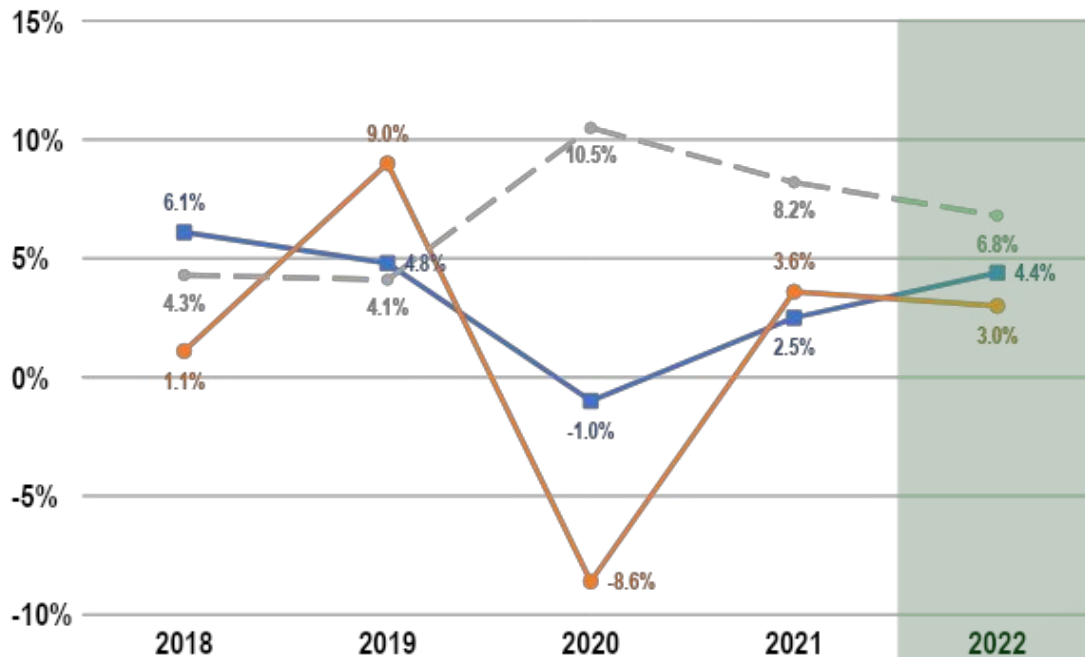


California Economy: The Road to Recovery

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Constellation of Economic Indicators

Real Personal Income Employment Unemployment



- As with the national recovery, the state's recovery will depend on how effectively we manage COVID-19
- Some industry sectors will heal slower than others
 - Leisure and Hospitality
 - Trade
- The technology and financial sectors should recover more quickly
- Key economic indicators narrow in 2022 when the overall economy is predicted to reach near 2019 levels

Source: UCLA Forecast, June 2020



January Budget vs. May Revision vs. Enacted Budget

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Item	January Budget	May Revision	Enacted Budget
2020–21 LCFF* Funding Change	+\$1.2 billion	-\$6.5 billion	\$0
Proposition 98 Minimum Guarantee			
2018–19	\$78.4 billion	\$78.7 billion	\$78.5 billion
2019–20	\$81.6 billion	\$77.4 billion	\$77.7 billion
2020–21	\$84.0 billion	\$70.5 billion	\$70.9 billion
2020–21 Statutory COLA	2.29%	2.31% (Not funded, additional cuts)	2.31% (Not funded)
One-Time Discretionary Funds	\$0	\$0	\$0

*Local Control Funding Formula (LCFF)

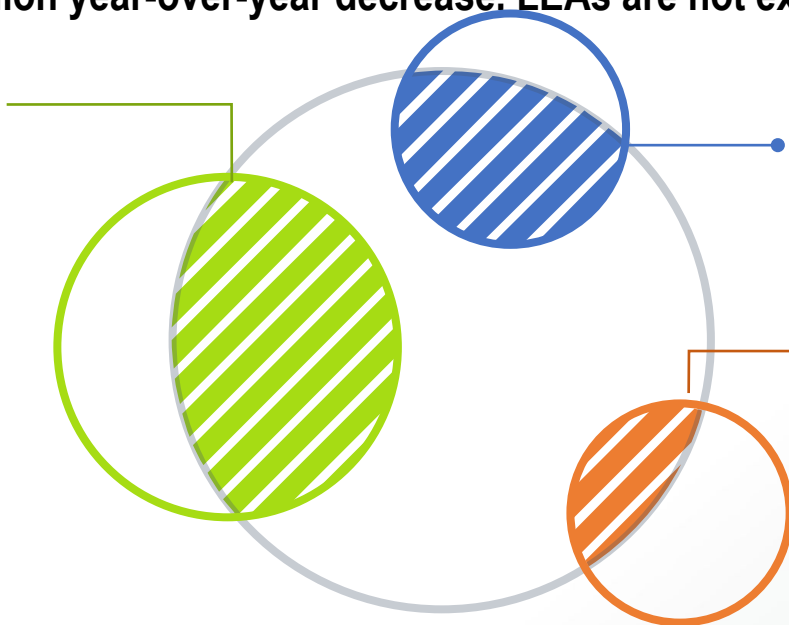


Proposition 98 Minimum Guarantee

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- Proposition 98 funding levels have decreased significantly in both 2019–20 and 2020–21, resulting in an almost 10% reduction over the three-year period
 - Even with a \$6.8 billion year-over-year decrease, LEAs are not experiencing significant cuts due to:

Deferrals



**Reduction and/or
elimination of programs**

**Withdrawal of funds in
the Public School System
Stabilization Account**



Statutory COLA

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Statutory COLA: 2.31%



Funded COLA: 0%



The statutory cost-of-living adjustment (COLA) is 2.31%; however, the adopted State Budget provides no COLA for 2020–21



No changes were made to the LCFF add-ons (e.g., Home-to-School Transportation, Targeted Instructional Improvement Grants, etc.)



While the Legislature can say “no cuts were made to education,” the elimination of the statutory COLA is a cut



The COLA has been eliminated not only for LCFF, but for all categorical programs outside of the LCFF



Budget Deferrals

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What Are They?

- Budget deferrals allow the state to record a budget cut in one year and move the expense to the next year

Impact to Proposition 98

- This entry then reduces the appropriated Proposition 98 amount in the deferral year and increases Proposition 98 appropriations in the next year

You Can Have Both Budget and Cash Deferrals

- June to July deferrals are cash deferrals, part of which are budget deferrals
- February through May deferrals are both cash and budget deferrals



Cash Deferrals

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February 2021
\$1.54 Billion

March 2021
\$2.38 Billion

April 2021
\$2.38 Billion

May 2021
\$2.38 Billion

June 2021
\$4.23 Billion (est.)

Cash deferrals are changes in law (Education Code Section [EC §] 14041) to delay the schedule of apportionments allowing the state to retain cash for a period of time—the burden of borrowing lies with the LEA to ensure adequate cash for operations. Should additional funding from the federal government materialize, the deferrals will be paid in the order issued.

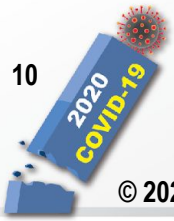
November 2021
\$1.54 Billion

October 2021
\$2.38 Billion

September 2021
\$2.38 Billion

August 2021
\$2.38 Billion

July 2021
\$4.23 Billion (est.)



CalPERS and CalSTRS Rate Buydowns

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- **Assembly Bill 84 (Chapter 16/2020) was signed into law and sets the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) employer contribution rates for 2020–21**
 - The rates for 2021–22 are subject to some fluctuation, and updates will be provided by each system as we approach that fiscal year
- The bill also removed the CalSTRS Board's ability to change the state contribution beginning in 2020–21, instead retaining the 2019–20 rate

CalPERS—Employer Rate				CalSTRS—Employer Rate			
2020–21		2021–22		2020–21		2021–22	
Previous	New	Previous	New	Previous	New	Previous	New
22.67%	20.70%	24.60%	22.84%*	18.40%	16.15%	18.10%	16.00%*

*Subject to change by system board



Special Education

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No COLA applied to special education resources



Increases base rates to \$625 per ADA for those Special Education Local Plan Areas (SELPAs)/LEAs funded at or below that rate

SELPAs/LEAs currently funded above \$625 per ADA will continue to receive their historic rate, without COLA



Categorical Programs

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May Revision included \$352.9 million in cuts to categorical programs

**Career Technical Education
Resources**

Adult Education Block Grant

**After School Education and Safety
(ASES) Program**



No cuts to categorical programs in the enacted State Budget



Flexibilities for ASES in 2020–21

Attendance Requirements

Hours and Locations

Student-to-Staff Ratios



CARES Act—Learning Loss Mitigation

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\$2,160,023* SWDs

Estimated at \$1,900 per pupil, based on the 2019–20 fall 1 census enrollment of SWDs ages 3 to 22

\$1,728,080* Supplemental & Concentration Grants

Based on proportion of supplemental and concentration grant funding using the 2019–20 Second Principal Apportionment (P-2) certification

**\$1,178,295*
LCFF Apportionment**

Based on proportion of LCFF funds using the 2019–20 P-2 certification

*Amounts updated to reflect California Department of Education's preliminary apportionment 7/28/2020



CARES Act—ESSER Funds

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- **\$1.48 billion (90%) of the state's ESSER funds will be allocated to LEAs in proportion to the amount of Title I, Part A funds that each LEA received in fiscal year 2019**
 - **District preliminary allocation \$648,000**
- **The remaining \$165 million (10%) of those funds will be distributed as follows:**

\$112.2 million to provide up to \$0.75 per meal for LEAs participating in the National School Lunch Program, School Breakfast Program, Seamless Summer Option, or Summer Food Service Program between March 2020 and August 2020 due to physical school closures

\$45 million to LEAs for grants to coordinate or expand community schools

\$6 million for the University of California Subject Matter Projects to provide distance learning educator professional development

\$1.5 million to the California Department of Education (CDE) for state operations costs associated with the COVID-19 pandemic



Additional Federal Funding?

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On May 15, the U.S. House of Representatives approved a \$3 trillion stimulus package dubbed the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act

The HEROES Act would provide about \$58 billion for K–12 education, \$1.5 billion to help schools provide internet services, and \$10 billion to provide services for families and children

Senate Majority Leader Mitch McConnell has described the HEROES Act as “dead on arrival,” but also said that a second COVID-19 relief package would be considered when the Senate returns from recess

If additional federal funding does materialize by October 15, up to \$5.8 billion of the K–12 deferrals may be reduced



2020–21 Accountability

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Suspended for 2020–21

- Local Control and Accountability Plan
- 2020 California School Dashboard
 - SB 98 (Chapter 24/2020) includes language for charter renewals that will be impacted in 2020–21 and 2021–22

Required for 2020–21

- LCFF Budget Overview for Parents still required to be adopted by December 15, 2020, along with First Interim budget report
- New Learning Continuity and Attendance Plan must be adopted by September 30, 2020



Multiyear Projections—Roller Coaster

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- After several years of multiyear economic assumption stability, you will now be taking your stakeholders on a rollercoaster ride that will likely have significant ups and downs
 - The ride from January to May was a breathtaking drop, from a funded statutory COLA to a 10% LCFF cut
 - The May to Adopted Budget ride was a significant rise to flat funding for the LCFF





Multiyear Projections—SSC Advice

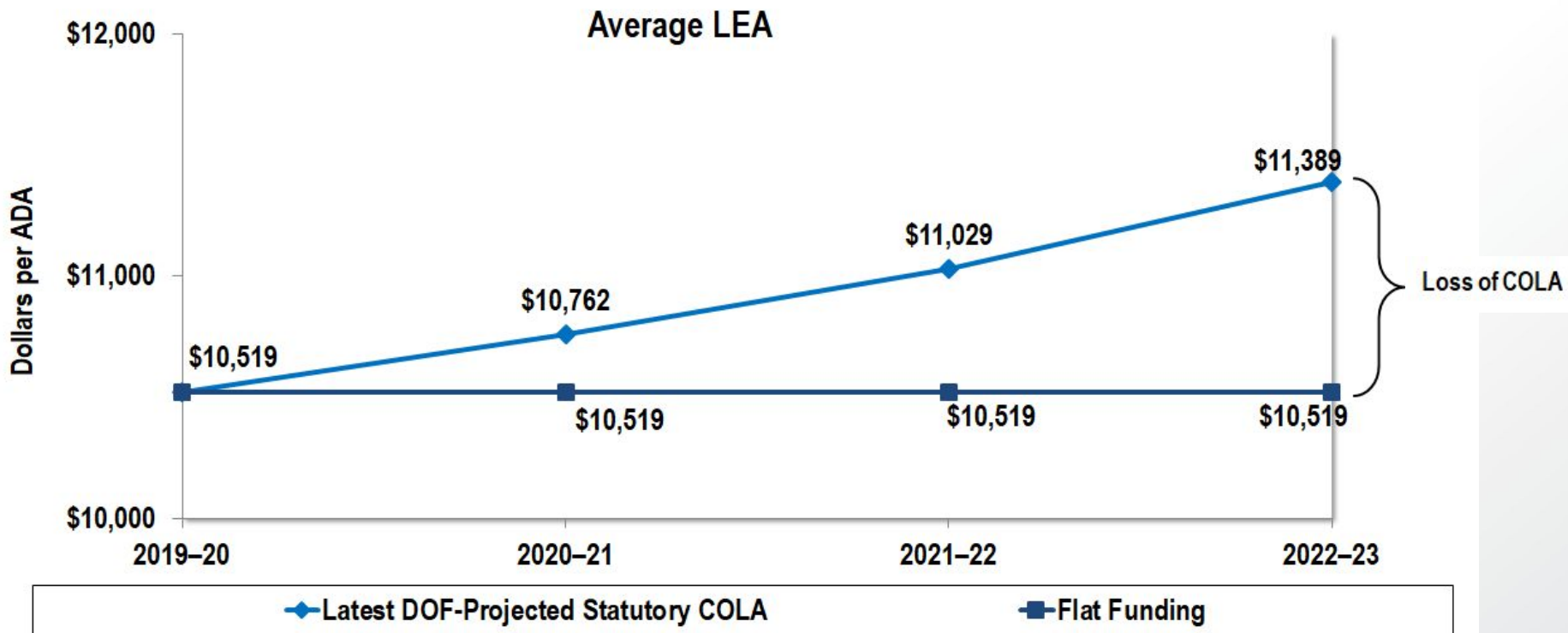
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- The state records zero funded COLA for 2020–21 while the statutory COLA was actually 2.31% and should be considered a cut to school funding
- The Department of Finance projects significant COLAs for 2021–22 and 2022–23
 - SSCal advises not to budget for COLAs with the current volatility in funding
- Schools should maintain and build reserves if possible to prepare for future needs such as:
 - A resurgence of COVID-19 and subsequent shutdowns; protective devices and cleaning; training and technology for distance learning; and maintaining staff positions that might otherwise be reduced
- Growing districts will not see an increase for ADA in 2020–21 and should project ADA conservatively in the out years



LCFF Deficit Factor—Here We Go Again?

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Multiyear Projections—Roller Coaster

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- **Significant one-time federal dollars can mask an operational ongoing deficit**
 - **And the ADA hold harmless will create a one-time bump or dip in revenue projections tied to ADA**
- **One day when the state has more Proposition 98 dollars, will the resources go first to deferral pay downs or LCFF COLAs?**
- **How you inform and enlighten your stakeholders will be more important than ever**
 - **As was the case during the last recession, the MYP will likely be the most important and most maligned financial document in your local agency until we crawl out of the current economic downturn**



45-Day Budget Revision

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- A 45-day budget revision is not required
 - But this year especially it's highly advisable due to significant changes from the May Revision
- If the LEA makes revisions to its budget to reflect the State Budget Act, the revisions must be made available for public review within 45 days from enactment¹
 - The Governor signed the 2020–21 Budget Act on June 29, 2020
 - The 45-day timeline ends August 13, 2020
- There is no SACS version for the 45-day revision
 - Use a local format, typically a spreadsheet, to illustrate the revisions

¹Source: EC § 42127(h)



45-Day Budget Revision—School Services' Advice

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- LEAs should consider revising their budgets to include the following:



**No COLA for
LCFF but no
additional cuts**



**CalSTRS and
CalPERS employer
contribution rates**



**Federal funding
through CARES Act**



**State funding for
special education¹**



**New revenue
projections for
Lottery**



**Expenses for
temporary cash
borrowing**



**Contributions to
restricted
programs—update
for changes caused
by other adjustments**



**Additional costs
for reopening
school**



**Position budget for retirements,
resignations, and new hires since
June budget was adopted—plus
rescission of classified layoff
notices if applicable**

¹In accordance with SELPA allocation model



Potential New Revenues for Education

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Proposition 15 (2020)

Proposition 13 (1978) split-roll initiative on the November ballot

- Tax commercial and industrial properties regularly at their fair market value
- Would raise \$6.5 billion to \$11.5 billion annually, with 40% for schools and 60% for local governments

AB 398 (Chu, D-San Jose)

“Head count” tax measure in the State Legislature

- Tax private, for-profit businesses with more than 500 employees at a rate of \$275 per employee for five years beginning January 1, 2021
- 50% of revenue would be allocated to schools while the other 50% would go to local governments



Next State Budget Check Point

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- When Tax Day was moved, most presumed an “August Revision” to the State Budget would follow just as the May Revision follows Tax Day during normal years
 - However, the Administration has not committed to significantly revisiting the Budget later in the summer
 - The Legislature is scheduled to complete its two-year legislative session on August 31 and hit the virtual campaign trail
 - A special session of the Legislature could be called if the Budget’s revenues and expenditures are wildly off course
 - But would likely lead to tough votes resulting in reductions to popular programs—a difficult position legislative leaders would want to avoid as voters consider their local elected officials
- In conclusion, the next official Budget checkpoint comes on January 10, 2021

