Initial Thoughts

• Crisis is so much bigger than a state or local budget …
• Governor Newsom forced to turn to federal government
• Deep cuts but some hope for “trigger off” from another federal relief package
• LEAs must budget from May Revision, but the only certainty is that the final budget will be different from this proposal
• This is not just a budget issue, it’s a health issue
• How to plan for educating students and resolving the conflict between the cost of reopening schools and implementing historically deep cuts

Economic Realities

• Uncertainty is the primary fact of this budget cycle
  – What’s really going to happen to revenues? – July 15 extension, budget year, out years
  – How much will COVID-19 related costs be? – direct and indirect
  – Will there be a “V”, “U” or “L”-shaped recovery? – hopefully not like the Great Recession
• There are some certainties: We are in a recession
  – National GDP fell by ~4.8% for 1st quarter of 2020; likely more than 33% in the 2nd quarter
  – CA Unemployment – 4.7 million filed from 3/14 to 5/14 - 4 million more than worst 2 months of Great Recession - the CA unemployment rate is now at 24.4% (Budget assumes 25%)
  – Recession means lower General Fund (GF) revenues, which means lower Prop 98 Guarantee
  – CA’s unique economy will help and hinder recovery – three “T”s: tech, trade and tourism
  – We are more prepared this time than for the Great Recession
  – The next 2 or 3 years will be a very rough ride
Projected “Big 3” General Fund Revenues
(Dollars in Billions)

General Fund Revenues (before transfers)
(Dollars in Billions)
General Fund Revenues (including transfers) (Dollars in Billions)

- Jan. Budget
- 2019 Budget Act
- May Revision

<table>
<thead>
<tr>
<th>Year</th>
<th>2018-19</th>
<th>2019-20</th>
<th>2020-21</th>
</tr>
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<tbody>
<tr>
<td>Jan. Budget</td>
<td>$140.1</td>
<td>$146.5</td>
<td>$151.6</td>
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<tr>
<td>2019 Budget Act</td>
<td>$139.4</td>
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<tr>
<td>May Revision</td>
<td>$138.5</td>
<td>$136.8</td>
<td>$137.4</td>
</tr>
</tbody>
</table>

May Revision Revenues & Expenditures

- $139 billion in total available 2020-21 GF resources (includes prior year balance of $1.6 billion)
- $137.4 billion total 2020-21 revenues/transfers
  - $124.9 billion total GF revenues projected for 2020-21
  - Transfers total $12.55 billion, including $7.8 billion from BSA
- Revenues assume tax policy changes (including limiting offsets for more than $5 million of tax liability for 2020-22) that net $4.4 billion in 2020-21
- 2020-21 total GF expenditures are $133.9 billion, leaving a Fund Balance of $5.14 billion
Proposition 98

- DOF calculates the hit to Prop 98 for the three-year budget period to be more than $19 billion under current law
- Assuming Prop 98 receives about $1.8 billion from proposed change to tax policies, the drop over the three period is about $17.3 billion
- After accounting for some Prop 98 allocations made before K-12/CCC split, the three-year hit to K-12 share of Prop 98 is about $15.1 billion
- This loss of funding is covered primarily by deep cuts and deferrals
- Still a Test 1 year, and May Revision assumes only a small ADA change (less than 30,000 students statewide) for 2019-20 to 2020-21

K-12 Prop 98: $15.1 Billion Rack Up

<table>
<thead>
<tr>
<th>2019-20</th>
<th>Fund shift from 2018-19 ($391M already accounted for in $15.1B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.9 Billion</td>
<td>Deferral to 2020-21</td>
</tr>
<tr>
<td>$467 Million</td>
<td>K-12 share of PSSSA draw down</td>
</tr>
<tr>
<td>$337 Million</td>
<td>Prior year reversions</td>
</tr>
<tr>
<td>$309 Million</td>
<td>Pull back 2019-20 policy changes</td>
</tr>
<tr>
<td>$110 Million</td>
<td>Sweep unencumbered State Preschool Funds</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2020-21</th>
<th>Cut to LCFF</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6.5 Billion</td>
<td>Additional deferrals (total is $5.3 billion)</td>
</tr>
<tr>
<td>$3.4 Billion</td>
<td>Pull back January budget policy proposals</td>
</tr>
<tr>
<td>$1.5 Billion</td>
<td>Cuts to categoricals</td>
</tr>
<tr>
<td>$462 Million</td>
<td>Savings from zero COLA to other programs</td>
</tr>
</tbody>
</table>
### District LCFF Entitlement Targets

- **Base Grant per ADA (with 2.31% COLA and 10% reduction)**
  - K-3 = $7,092 (-$610 / -$786)
  - 7-8 = $7,413 (-$638 / -$822)
  - 4-6 = $7,199 (-$619 / -$798)
  - 9-12 = $8,590 (-$739 / -$953)
- **Grade Span Adjustments:**
  - 10.4% = $738 (-$63 / -$81) per K-3 ADA; 2.6% = $223 (-$19 / -$25) per 9-12 ADA
- **Supplemental Grant** = 20% of Adjusted Base Grant
- **Concentration Grant** = 50% of Adjusted Base Grant
- **TIIG and HST Add-ons reduced by 10% from prior years**

### County Office of Education LCFF Entitlement

- **Alternative Education Grant**
  - Base Grant per ADA w/ 2.31% COLA and 10% reduction = $11,335 (-$975 / -$1,257)
  - Supplemental Grant = 35% of Base Grant per unduplicated students + juvenile court school students
  - Concentration Grant = 35% of Base Grant per unduplicated student (beyond 50%) + 50% of juvenile court school enrollment
- **Operations Grant** – w/ 2.31% COLA and 10% reduction = $662,769 (-$57,014 / -$73,497) for each COE, plus
  - $110,461 (-$9,502 / -$12,249) per each school district in the county, plus
  - A per ADA amount based on county-wide ADA, ranging from $70.73/ADA in the smallest counties to $40.42/ADA in the largest.
Property Taxes and Basic Aid Districts

- 2020-21 Basic Aid district funding from the state reduced by 10%
  - Intended to be a “Fair Share” reduction (parallels the 10% reduction to LCFF)
  - 10% reduction applied to Minimum State Aid (MSA) base year (2012-13) - then normal calculation is made
    - reduces current $160 million in total MSA apportioned by $14 million
  - Basic Aid Supplemental and District of Choice apportionments reduced by 10%
  - Reductions can’t go below the $120 per ADA Constitutional minimum level of basic aid
- In lieu property tax transfers to charter schools reduced by 10%
- Recession projected to slow growth in property tax revenues - extent is uncertain
- Issue to watch: Counties trying to exit or suspend Teeter Plans
  - Teeter Plans authorize counties to allocate delinquent property tax payments to local entities based on the total amount of property taxes billed, but not collected
  - Teeter plans make property tax allocations to LEAs more certain within any fiscal year
  - Counties then receive penalties and interest on the delinquent taxes when collected
  - Executive Order N-61-20 suspended penalties and interest from March 4 through May 6

Proposals Withdrawn from January Budget

- Educator Workforce Investment Grants: $350 million
- Opportunity Grants: $300.3 million
- Community Schools Grants: $300 million
- Special Education Preschool Grant: $250 million
- Workforce Development Grants: $193 million
- Teacher Residency Program: $175 million
- Credential Award Program: $100 million
- Child Nutrition Programs: $70 million
- Classified Teacher Credential Program: $64.1 million
- Local Services Coordination (CCEE): $18 million
- Computer Science Supplementary Authorization Incentive: $15 million
- Online Resource Subscriptions for Schools: $2.5 million
- California College Guidance Initiative: $2.5 million
- Computer Science Resource Lead: $2.5 million
- School Climate Workgroup: $150,000
Stand-Alone Categorical Programs

- After School Education & Safety Program: $546.2 million (reduction of $100 million)
- Career Technical Education Incentive Grant: $72.6 million (reduction of $77.4 million)
- K-12 Strong Workforce Program: $72.6 million (reduction of $79.4 million)
- California Partnership Academies: $10.7 million (reduction of $10.7 million)
- College Planning and Preparation Website & Online Educational Resources Program: $8.5 million (reduction of $3 million)
- Career Technical Education Initiative: $7.7 million (reduction of $7.7 million)
- Agricultural Education Incentive Program: $2 million (reduction of $2.1 million)
- Specialized Secondary Education Grants: $2.49 million (reduction of $2.4 million)
- Teacher Dismissal: $300,000 (increase of $200,000)
- Special Education: $4.19 billion (reduction of $88.9 million)*
- Adult Education Program: $489 million (reduction of $66.7 million)*
- Mandate Block Grant: $241.6 million (reduction of $5.53 million)*
- Child Nutrition: $173.72 million (reduction of $3.98 million)*
- Foster Youth Programs: $27.33 million (reduction of $626,000)*
- American Indian Education Centers: $4.4 million (reduction of $101,000)*
- American Indian Early Childhood Education Program: $593,000 (reduction of $14,000)*

Special Education

- Modified January Budget Proposals
  - New increased special education base rate of $645 per pupil reflects loss of 2.31% COLA
  - Funding still allocated to SELPAs, new base formula uses three-year rolling average of LEA ADA, other AB 602 funding sources remain in place at 2019-20 levels
  - Retains proposals for special education governance study and workgroups

- New Proposals
  - $15 million federal IDEA funds for the Golden State Teacher Scholarship Program to increase the special education teacher pipeline
  - $7 million federal IDEA funds to assist LEAs with developing regional and statewide dispute resolution services related to special education distance learning service delivery models
  - $600,000 federal IDEA funds for additional two workgroups to:
    - Develop an individualized education program addendum for distance learning
    - Study the costs of out-of-home care

*reduction in part or entirely due to loss of 2.29% COLA.
Employer Contribution Rates

Proposes redirecting the $2.3 billion for employer long-term unfunded liability provided in the 2019-20 Budget to further reduce CalPERS and CalSTRS contribution rates in 2020-21 and 2021-22

### CalSTRS

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Under 2019 Budget Act</th>
<th>Under May Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
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<td>17.1</td>
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<tr>
<td><strong>2020-21</strong></td>
<td>18.4</td>
<td>16.15 (-2.25)**</td>
</tr>
<tr>
<td>2021-22</td>
<td>18.2*</td>
<td>16.02 (-2.18)**</td>
</tr>
<tr>
<td>2022-23</td>
<td>18.1*</td>
<td>18.4**</td>
</tr>
<tr>
<td>2023-24</td>
<td>18.1*</td>
<td>18.4**</td>
</tr>
</tbody>
</table>

*Latest projected rates

**Does not reflect any rate increases STRs or PERs may enact to address investment losses

### CalPERS

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Under 2019 Budget Act</th>
<th>Under May Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
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<td>19.7</td>
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<tr>
<td><strong>2020-21</strong></td>
<td>22.7</td>
<td>20.7 (-2.00)**</td>
</tr>
<tr>
<td>2021-22</td>
<td>25.0*</td>
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<tr>
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<td>2023-24</td>
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<td>26.8**</td>
</tr>
<tr>
<td>2025-26</td>
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<td>26.7**</td>
</tr>
<tr>
<td><strong>2026-27</strong></td>
<td>26.2*</td>
<td>26.5**</td>
</tr>
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</table>

Federal Funding Directed to K-12

- Total $4.355 billion to LEAs from discretionary Coronavirus Relief Fund (CRF) and Governor’s Emergency Education Relief (GEER)
  - $4 billion out of roughly $9.5 billion of CRF allocated for California
  - $355 million California GEER for discretionary allocation to K-12 and higher ed
- Funds proposed to be allocated in two ways:
  - $1.5 billion to LEAs based on special education enrollment
  - $2.855 billion to any LEA that received concentration grant funding in 2019-20 P2 apportionment – amount based on P2 total ADA
- Above funds must be used to mitigate COVID-19 impacts (broadly defined) and must be expended on or before December 30, 2020
- LEA governing board must adopt an instructional continuity plan prior to receipt of funds, expenditures subject to audit
Elementary and Secondary School Emergency Relief (ESSER) Funding ($1.6 billion)

- $1.45 billion directly to LEAs based on Title I-A Formula for COVID-19 related costs
- $100 million for grants to COEs to develop networks of community schools and coordinating health, mental health, and social service supports for high-needs student
- $63.2 million for training and professional development for school staff related to addressing the impact of COVID-19 on students

LEA Flexibility Measures

- Hardship deferral exemptions some for LEAs
- Authority to use proceeds from the sale of surplus property for one-time general fund purposes
- Increases on LEA internal inter-fund borrowing limits, subject to public hearing
- Authority for LEAs to exclude state pension payments on behalf of LEAs from the calculation of required contributions to RRM
- Extension of audit timelines
Flexibility for Staff and Programs

• Extension of teacher credential exam and fee validity periods
• Flexibility on Pupil Personnel Services Credential field practice assignment
• One year extension of the deadline for T-K teachers to obtain 24 college units of early childhood education, to August 1, 2021
• Waiver and suspension of certain Migrant Education provisions
• Extension of ELPAC Testing Window

Prop 98 Supplemental Payments

• Starting in 2021-22, a supplemental appropriation of 1.5% of total GF revenues in support of K-14 public schools
• Above Prop 98 guarantee, supplemental payment becomes part of the Prop 98 base the next year
• Annual obligation until supplement payments total $13 billion (roughly equivalent to amount if Test 2 applied to 2019-20 and 2020-21)
• Statutory language, subject to modification in future budgets or legislation (same as any other budget provision)
Infrastructure & Utilities

- Utility rate escalations expected for PG&E, SCE & SDG&E over next 3 fiscal years
- What are Districts doing to combat rate increases, COVID impacts & improve resiliency?
  - Modernizing inefficient equipment
  - Improving air quality & ventilation
  - Creating “smart” buildings
  - Renewable energy (solar, battery)
- How are Districts funding infrastructure improvements?
  - Private sector funding
  - Local bonds
  - State funding
  - Utility incentives
  - Self Generation Incentive Program (SGIP)
  - Routine Restricted Maintenance Programs (RRMA)

Critical Technology Considerations

Phase 1
- Connectivity
- Collaboration
- Citizenship

Phase 2
- Cyber Security and Cyber Safety

Phase 3
- Remote Policy
What’s Next

- Other key issues available in Appendix
- Legislature holds hearings & passes budget by June 15
- Budget Act by June 30 (Budget Act workshop)
- July 15 tax deadline
- Federal relief package?
- August or Fall Revision (Late Summer/Fall budget workshop)
- COVID-19 trend?
- School year begins?
- Ballot politics

Thank You

- You will have the option to download this PowerPoint immediately upon the conclusion of this presentation
- Please feel free to use the content
- For any additional questions, please contact:
  - Barrett Snider: barrett@capitoladvisors.org

See you in June!
Appendix

• Deferrals
• State Preschool
• Child Care
• Additional CARES Act Funding
• Additional Proposals for Relief
• LCAP Executive Order

Principal Apportionment Deferrals

• May Revision proposes two sets of Principal Apportionment Deferrals
  • Commencing with the current (2019-20) fiscal year
    – June payments totaling $1.9 billion deferred to July
    – Structured the same as the first deferral taken in 2003-04
    – Counts toward 2020-21 Prop 98 Guarantee
  • Commencing with the 2020-21 fiscal year
    – April, May and additional June payments totaling $3.4 billion deferred to July
    – Counts toward 2021-22 Prop 98 Guarantee
  • These actions will put almost $5.3 billion of deferrals in place
• At least $200 million of May and June 2020-21 deferrals are available to SPI and Director of Finance to mediate impacts on districts or charter schools that are facing insolvency as a result
• In the year implemented a deferral creates a one-time loss of funds, which is matched by a one-time future gain when it is undone in better times
• May create cash flow and auditing issues in addition to budget impacts
State Preschool

- May Revision includes the following reductions:
  - $159.4 million GF to eliminate 10,000 slots scheduled to begin April 1, 2020 and 10,000 additional slots scheduled to begin April 1, 2021.
  - $130 million Prop 98 GF to align State Preschool funding with demand.
  - $94.6 million Prop 98 GF and $67.3 million GF to reflect a 10 percent decrease in the State Preschool daily reimbursement rate.
  - $20.5 million Prop 98 GF and $11.6 million GF to reflect suspension of 2.31 percent COLA.
  - $3.3 million Prop 98 GF and $3 million GF to eliminate 1 percent add-on to the full-day State Preschool reimbursement rate.

Child Care

- Increase of $53.3 million in Federal Child Care and Development Block Grant (CCDBG) funds to expand access for approximately 5,600 children in the Alternative Payment Program.
- May Revision also includes the following reductions:
  - $363 million one-time GF and $45 million one-time federal CCDBG funds from the 2019 Budget Act for child care workforce and infrastructure.
  - $223.8 million GF to reflect a 10 percent decrease in the Standard Reimbursement Rate and the Regional Market Rate.
  - $35.9 million GF to reflect lower caseload estimates in CalWORKs Stage 2 and Stage 3 child care.
  - $25.3 GF to reflect suspension of a 2.31 percent COLA.
  - $10 million one-time GF from the 2019 Budget Act for child care data systems.
  - $4.4 million one-time GF to reduce resources available for the Early Childhood Policy Council.
Additional Federal CARES Act Funding

• Child Care and Development Block Grant ($350.3 million)
  • $144.3 million for state costs associated with SB 89 expenditures, family fee waivers, and provider payment protection.
  • $125 million for one-time stipends for state-subsidized child care providers offering care during the COVID-19 pandemic.
  • $73 million for increased access to care for at-risk children and children of essential workers.
  • $8 million to extend family fee waivers until June 30, 2020.

• Child Nutrition Program
  • $713.7 million for costs incurred in the 2019-20 fiscal year related to providing meals during school closures

Additional Proposals for Relief

• Move from ADA-based funding to enrollment-based funding or enact an ADA hold-harmless
• Reallocate the special education funding base rates to any Special Education Service Plan Areas (SELPAs) serving preschool and K-12 aged students (3-22) with moderate to severe disabilities to address the funding inequities associated with serving these students
• Enact a statewide utility surcharge to generate a new funding source to provide all California students with universal access to a device and internet at home
• Allocate funding from the State’s $16 billion Budget Stabilization Account to minimize reductions to school funding
• Provide PPE, thermometers, and other medical equipment at no cost to K-12
• Protect districts from legal liability if students or staff contract the virus when schools reopen
• Create flexibility and local discretion in the use of the $4.4 billion federal funds
• Suspend new mandates imposed by laws signed into law in 2019
Additional Proposals for Relief

- Authorize short-term independent study for less than five consecutive days
- Suspend the statutory requirements related to class size reductions
- Delay instructional material adoptions and implementation of curriculum frameworks
- Authorize General Fund use of fund balances and revenues from developer fees
- Provide flexibility in requirements for deposits into the Routine Restricted Maintenance Account
- Authorize certificated employees to retire mid-year - suspend the 180 days for returning to the classroom.

LCAP Executive Order

- Extends 2020–21 LCAP submission to December 15, 2020, approval is January 14, 2021
- Delays implementation of the three-year LCAP template until the 2021–22 through 2023–24 school years
- Requires LEAs to provide an Operations Written Report by July 1, 2020, that includes how they will:
  - Deliver high-quality distance learning opportunities
  - Provide school meals in a non-congregate setting
  - Arrange for supervision of students during ordinary school hours
- The Operations Written Report must be posted on the homepage of the LEA’s website
- A template (optional) for the report is posted on CDE’s LCAP web page: https://www.cde.ca.gov/re/lc/