



# Governor's Proposals for the 2020–21 State Budget and K–12 Education



ARCADIA  
Unified School District

Imagine • Inquire • Inspire



# 2020–21 Governor's Budget Workshop

- **Data within this presentation was extracted from the 2020-21 Budget Workshop presentation facilitated by School Services of California Inc.**
- **The workshop held on January 15, 2020 was attended by AUSD Administrators (Asst. Supt. of Business Services, Director of Special Education, and Director of Fiscal Services) and Bargaining Unit Presidents and Representatives**



# U.S. Economic Outlook

- The fundamentals of the U.S. economy paint a promising picture for continued economic growth

## Full Employment

- 145,000 jobs added in December 2019
- Labor force participation is up at 63.2% as of December 2019

## Housing

- Building permits increased by 11.1%
- Housing starts increased and met market expectations of 1.345 million units, a 13.6% increase from November 2018

## Consumer Spending

- Remains positive
- Personal income expenditures rose 0.4% from October 2019 to November 2019 and is 1.3% higher than last year

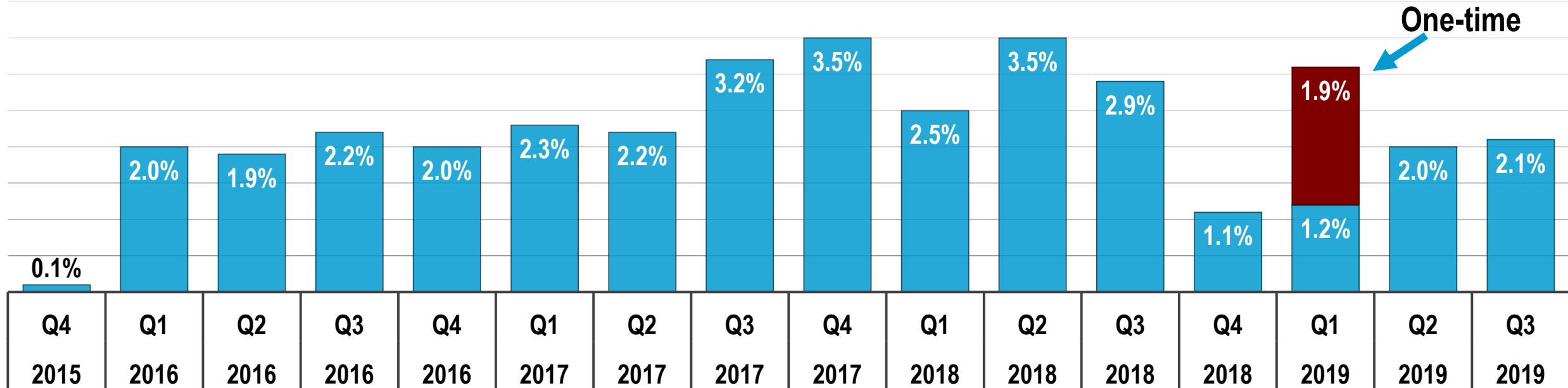
- Stock market near all-time highs



# Gross Domestic Product

- Gross domestic product (GDP) is the monetary value of all the goods and services produced nationally, representing the most comprehensive measure of U.S. economic activity
- For the third quarter of 2019, GDP increased 2.1%

Real GDP: Percent Change from Preceding Quarter





# UCLA Economic Outlook

4

© 2020 School Services of California Inc.

## ● Revised growth projections

### ■ Was 3-2-1 Economy

### ■ Now 3-2-2 Economy

- 3% GDP\* growth in 2019
- 2% GDP growth in 2020
- 2% GDP growth in 2021



\*Gross domestic product (GDP)

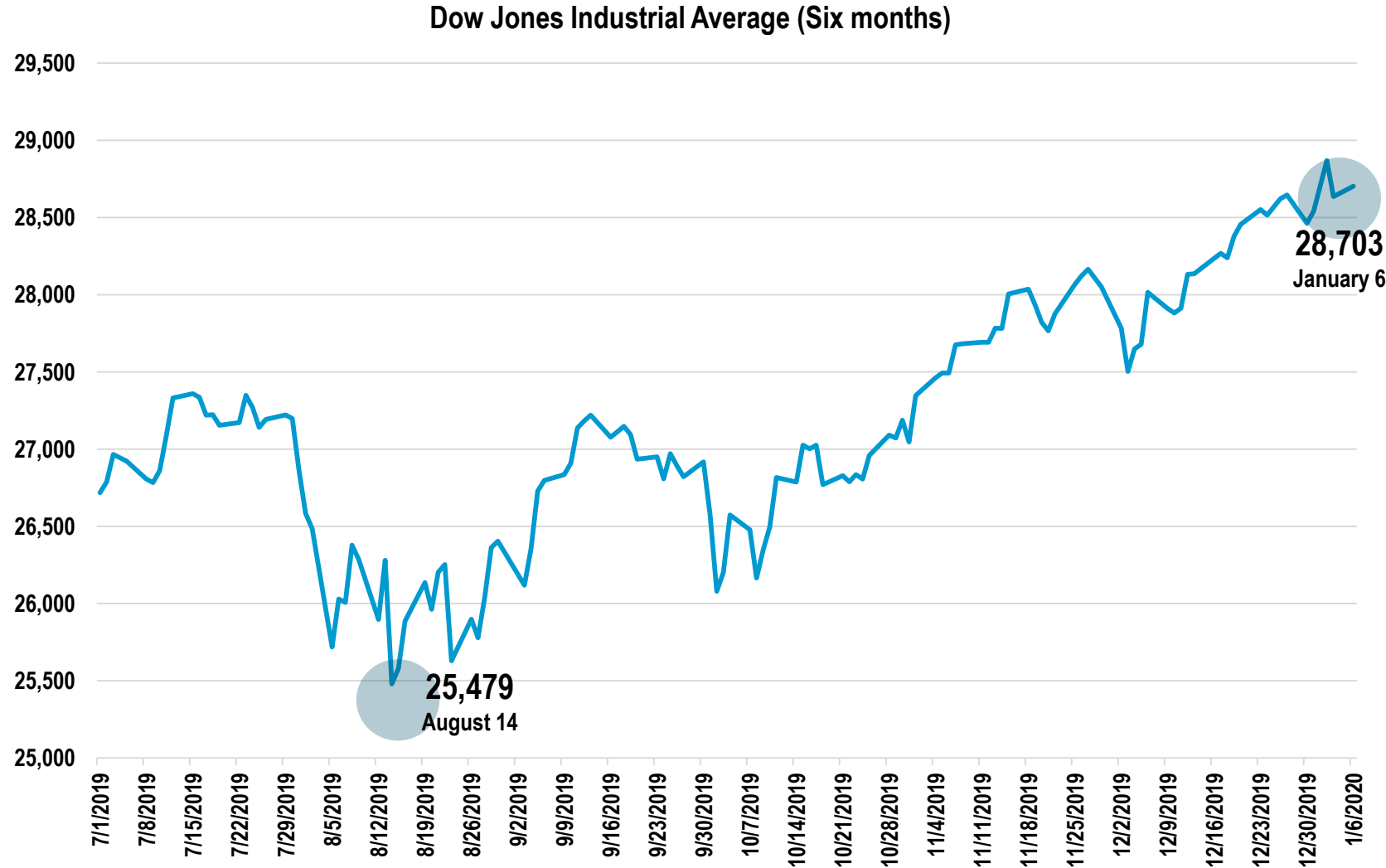


# National Economy—Stock Market

5

© 2020 School Services of California Inc.

- **Dow Jones Industrial Average (DJIA) ended 2019 up 22.3%, its best year since 2017**
- **Jeremy Siegel (Wharton School of Business), who first predicted DJIA would surpass 20,000 in 2015 states “the market is fully valued”**
  - **Warns that euphoria or “meltup” could take stocks to unsustainable peaks**



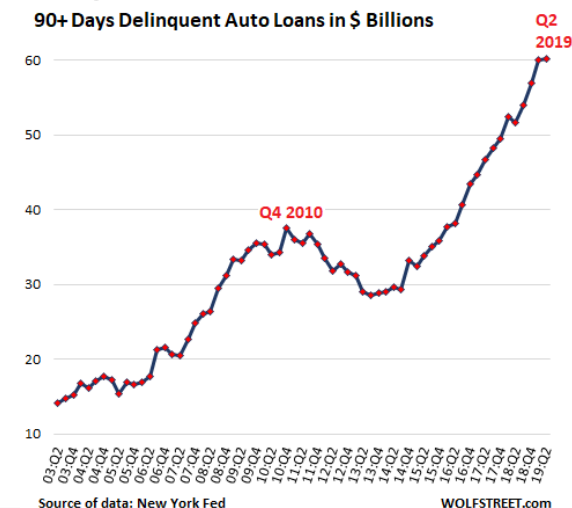
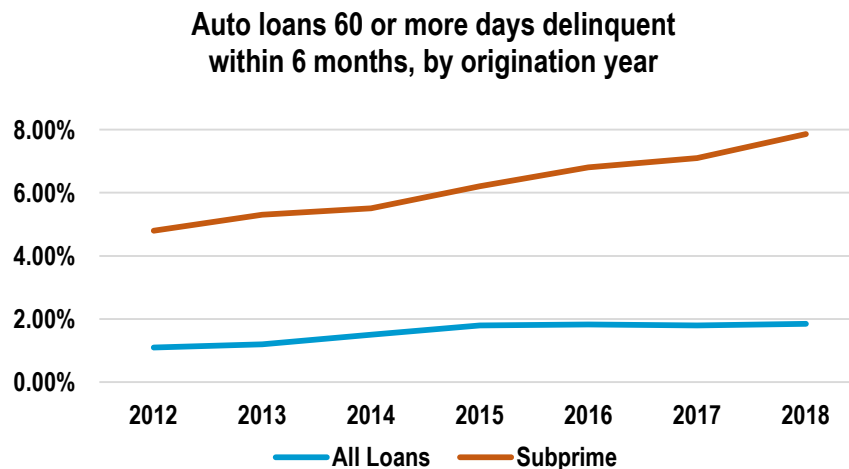


# Risks to the National Economy

6

© 2020 School Services of California Inc.

- Automobile industry beginning to simulate the mortgage-backed securities causing the last recession
  - \$45,000 loan on \$27,000 Jeep Cherokee
  - \$809 monthly payment with \$660 income
  - Rolling over balances on previous auto purchases
  - Pervasive fraud: 20% of the loans have inaccurate income data (PointPredictive)
  - Subprime loan delinquencies will force credit tightening and hurt auto sales in 2020







# The California Economy

7

© 2020 School Services of California Inc.

- **California economy is solid but future predictions point to slowing growth in GDP from 3.5% in 2018 to 2.6% currently**

- **Cargo traffic slowing as a result of trade war**
- **Risk of increased unemployment**
- **State tax revenues that fund education are the most volatile in history**



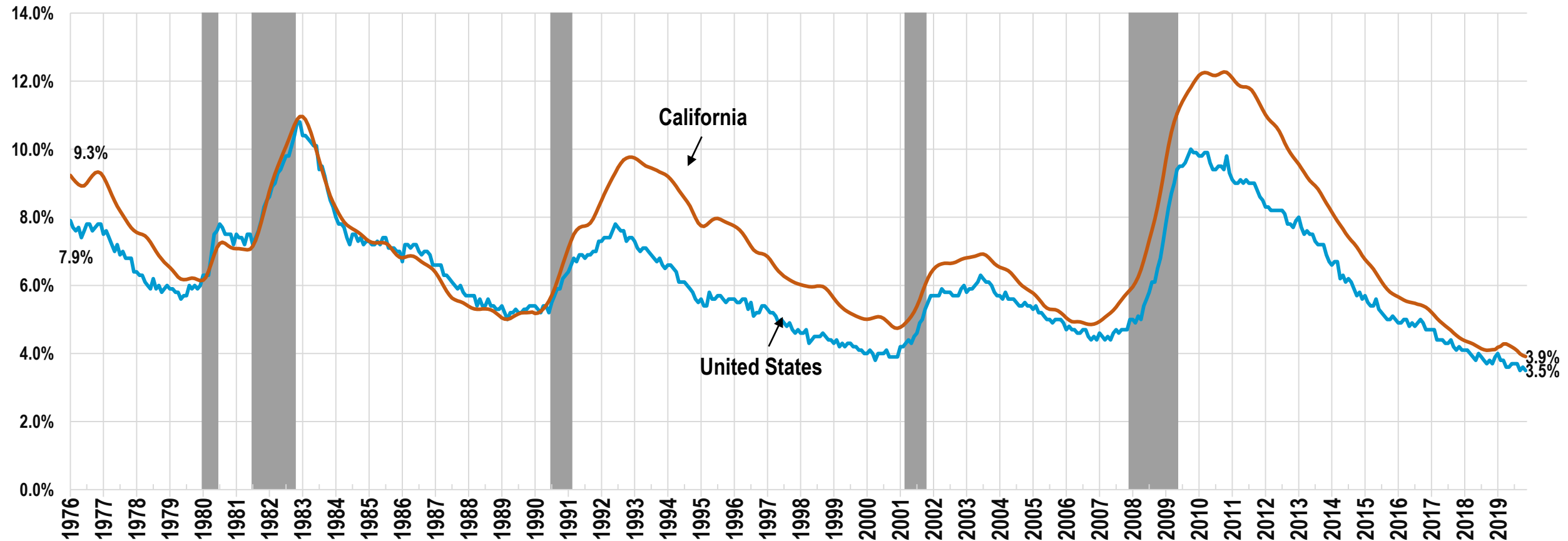
- **Economy continues to grow**
- **Housing sales volume remains strong**
- **Full employment**





# Historically Low Unemployment for California

- While above the national rate, California's unemployment rate of 3.9% represents an historic low





# Risks to the California Economy and the State Budget

9

© 2020 School Services of California Inc.

- **Income taxation is not the panacea nor the abomination it is portrayed to be on television**
- **A study on the impact of Proposition 30 on state revenues using Franchise Tax Board data found increased out-migration of 0.8% (from resident to non-resident) in 2012–13 with the highest concentration among those earning over \$5 million**
  - **Proposition 30 put 66,936 California taxpayers in the highest tax bracket in 2012**
    - **535 top-bracket earners left the state and took much of their earnings with them**
  - **Among top-bracket California taxpayers, the contribution of outward migration and behavioral responses by those who stayed eroded 45.2% of the tax revenues possible from Proposition 30 in 2013**



# Legislative Agenda for 2020—Education Priorities

10

© 2020 School Services of California Inc.

- **Early Childhood Education (ECE)**
  - **Expand access to ECE programs**
  - **Provide funding for preschool facilities**
- **LCFF**
  - **Increase the LCFF base grant funding targets and measure progress to meet those targets**
- **Special Education**
  - **Make statutory changes designed to improve the academic outcomes of students with exceptional needs and provide additional funding to meet those outcomes**



# What's Not in the Budget?

11

© 2020 School Services of California Inc.

**Increased  
LCFF Targets**

**Payments to  
Reduce  
CalSTRS and  
CalPERS Costs**

**One-Time  
Discretionary  
Grants**



# General Fund Budget Summary

12

© 2020 School Services of California Inc.

## 2020–21 General Fund Budget Summary (in millions)

### Revenues & Expenses

Revenues and transfers increase 3.5% in 2020–21, while expenditures increase 2.2%

### Reserves

The “Rainy Day Fund” reaches \$18 billion, or 11.9% of revenues

### Reserve and Great Recession

During the Great Recession, the 2009–10 enacted State Budget anticipated a reserve of 0.6% of revenues

	2019–20	2020–21
Prior-Year Balance	\$8,497	\$5,234
Revenues and Transfers	\$146,486	\$151,635
Total Resources Available	\$154,983	\$156,869
Non-Proposition 98 Expenditures	\$93,344	\$95,510
Proposition 98 Expenditures	\$56,405	\$57,573
Total Expenditures	\$149,749	\$153,083
Fund Balance	\$5,234	\$3,786
Reserve for Liquidation of Encumbrances	\$2,145	\$2,145
Special Fund for Economic Uncertainties	\$3,089	\$1,641
Public School System Stabilization Account	\$524	\$487
Safety Net Reserve	\$900	\$900
Budget Stabilization Account/Rainy Day Fund	\$16,018	\$17,977

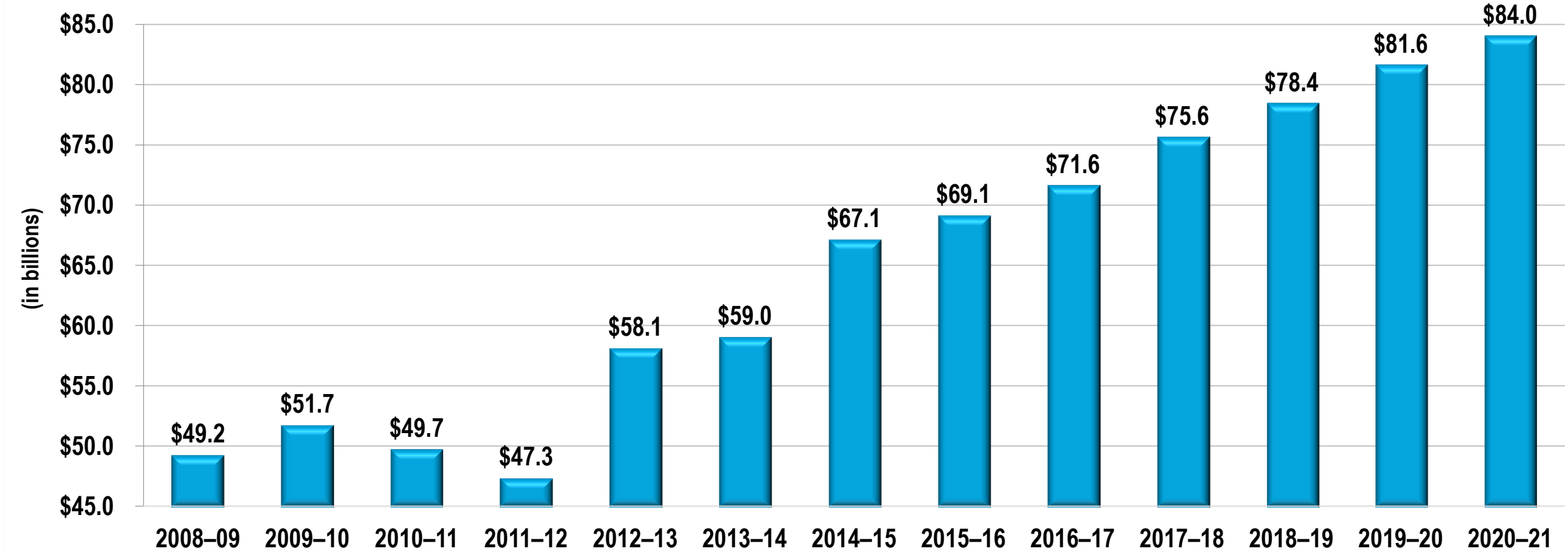


# Proposition 98 Funding Over Time

13

© 2020 School Services of California Inc.

2008–09 to 2020–21



Source: 2020–21 Governor's Budget, page 68



# Statewide Average Reserves

- **2017–18 statewide average reserve levels are slightly down from the prior year**
  - **Close to the 17%, or two months of expenditures, as recommended by the Governmental Finance Officers Association**

2017–18 Average Unrestricted Net Ending Fund Balance		Change From Prior Year
Unified School Districts	16.98%	-0.27%
Elementary School Districts	20.20%	-0.88%
High School Districts	15.63%	-1.01%

- **Average unrestricted net ending balance is based on ending fund balance for the General Fund, plus the ending balance for Fund 17 (Special Reserve Fund for Other Than Capital Outlay) as a percentage of total General Fund (including restricted programs) expenditures, transfers, and other uses**





# 2020–21 Local Control Funding Formula

15

© 2020 School Services of California Inc.

- **The State Budget proposes \$1.2 billion towards the LCFF to fund the 2.29% statutory COLA**
  - **Which brings LCFF funding to \$64.2 billion (up from \$63 billion in 2019–20)**
  - **This is lower than the 3% COLA projected at adoption of the 2019-20 State Budget, but higher than the LAO's estimate of 1.79%**
- **2020–21 LCFF growth provides an average increase in per-pupil funding of an estimated \$231 per ADA, or 2.14% (individual results will vary)**
  - **The lower 2.14% increase takes into consideration that no COLA is provided for Targeted Instructional Improvement Grant, Transportation, or Economic Recovery Target funds**



# Special Education

- To understand the 2020-21 State Budget proposal for special education remember:
  - The 2019-20 State Budget included \$645 million in new resources:
    - \$152 million to bring the lowest-funded Special Education Local Plan Areas (SELPA) up to the statewide target rate of \$557.27 per ADA
    - \$493 million in flexible, one-time funding to school districts based on the count of three-, four-, and five-year-olds with Individualized Education Programs (IEPs)
      - These two pots were funded with ongoing state money, but future, specific allocation to districts was dependent upon further discussion
- The 2020-21 State Budget proposes to use this \$645 million in an ongoing manner to increase special education base rates
- Additionally, the budget proposes \$250 million in one-time funding to school districts based on preschoolers with disabilities



# Addressing California's Educator Shortage

17

© 2020 School Services of California Inc.

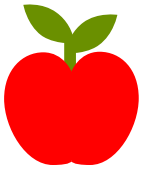
- **Governor Newsom highlighted that the most impactful way of improving student achievement is by improving the skills and abilities of educators who interact with them every day**
- **He supports this belief by proposing a \$900 million one-time Proposition 98 investment in the educator workforce**
  - **Professional development**
  - **Recruitment and retention**
  - **Preparation, including expanding the Classified School Employees Credentialing Program by \$64.1 million**



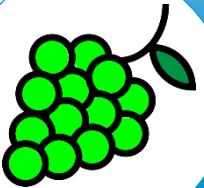
# School Nutrition

18

© 2020 School Services of California Inc.



Increases funding for school nutrition by an ongoing \$60 million



\$10 million one-time to train school food service workers to promote healthier and more nutritious meals



New Farm to School Grant Program housed in the Department of Food and Agriculture to support California farmers and expand healthy food access



**Thank you!**

**School  
Services  
of California**  
INC. <sup>TM</sup>

*An Employee-Owned Company*

**www.sscal.com**  
**(916) 446-7517**