

# 2020-21 Governor's May Revise

Board of Education Meeting  
May 19, 2020

Presented by: Robert Pierce, Deputy Superintendent, Business Services & Facilities  
Shannon Hayes, Chief Financial Officer



# Overview

- Budget Development
- Looking Back
- Preparing for the Unknown
- Governor's May Revise
- Impact of the Governor's May Revise
- Funding the Gap
- Next Steps

# Budget Development

- As we prepare the budget for the 2020-21 school year and beyond we continue to use the following in our work:
  - Maintain Fiscal Solvency
  - Maintain/Evaluate What We Have Built Over the Past Few Years
  - Remain Competitive
  - Build Upon What We Have Already Started
  - Contemplate New Programs/Initiatives

# Budget Development

- Based on current events we are focused on Maintaining Fiscal Solvency
- We have been sharing multiple funding scenarios since March to be in the best financial situation possible to ensure Fiscal Solvency
- As a part of this work we have engaged the following stakeholders
  - Board of Education
  - Partners in Education
  - Principals and Administrators
  - District Employees
- And tonight with our community and stakeholders based on the latest information

## Looking Back

- As EGUSD adopted their 2019-20 budget based on the Governor's May Revise (May 9, 2019) the State had a projected Cost of Living Adjustment (COLA) of 3.00% for 2020-21 and 2.80% for 2021-22 which generated ongoing Local Control Funding Formula (LCFF) revenue of \$17.3M and \$17.4M respectively
- With the adoption of the State budget for 2019-20 (June 27, 2019) we learned the District would be receiving adjustments to the Special Education funding model providing an additional \$4.9M in one-time funds and a reduction to the CalPERS employer rate saving the District \$900K.

# 1<sup>st</sup> Interim Unrestricted General Fund Multi-Year Projection

ITEM	2019-20 1ST INTERIM	2020-21	2021-22	
State Revenue	\$ 608,338,406	\$ 603,103,998	\$ 603,103,998	
Estimated 2020-21 <u>(3.00%)</u>		<b>17,320,959</b>	17,320,959	
Estimated 2021-22 (2.80%)			<b>17,378,466</b>	
Contributions/Transfers	(114,883,125)	(118,753,342)	(122,903,753)	
Salary and Benefits	(458,458,033)	(460,025,350)	(468,854,172)	
Supplies and Operating	(58,547,150)	(46,120,717)	(46,460,141)	
Indirect and Transfers	9,658,432	9,260,318	9,869,971	
<b>SURPLUS/(DEFICIT)</b>	<b>\$ (13,891,470)</b>	<b>\$ 4,785,866</b>	<b>\$ 9,455,328</b>	
Estimated Beginning Fund Balance	86,789,312	72,897,842	77,683,708	
<b>Ending Fund Balance</b>	<b>72,897,842</b>	<b>77,683,708</b>	<b>87,139,036</b>	11.42%
Contingency Mandated 2% Reserve	15,891,834	15,891,834	15,991,834	
Instructional Materials/Adoptions	6,756,553	6,756,553	6,756,553	
Arbinger (8 hours training)	1,844,798	1,844,798	1,844,798	
Reserve for Funding Priorities	48,404,657	53,190,523	62,545,851	8.20%
<b>UNDESIGNATED</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	

# Governor's January 2020-21 Budget Proposal

- The Governor published his 2020-21 budget proposal (January 10, 2020) with a revised COLA of 2.29% in 2020-21 and 2.71% in 2021-22 which reduced our LCFF ongoing revenue to \$12.8M and \$16.3M respectively
- We learned the changes to the Special Education funding model would be converted to ongoing
- The Governor also proposed the following:
  - Grants to address California's educator shortage
  - Funding for Computer Science Education
  - Funding for School Nutrition
- Based on this information we prepared our 2<sup>nd</sup> Interim financial report and the Board of Education took action on March 17, 2020

# 2019-20 2<sup>nd</sup> Interim with Governor's January Budget Proposal Unrestricted General Fund Multi-Year Projection

ITEM	2019-20 2ND INTERIM	2020-21 GOV JAN PROP	2021-22	
State Revenue	\$ 608,983,657	\$ 603,264,249	\$ 603,264,249	
Estimated 2020-21 (2.29%)		<b>12,798,376</b>	12,798,376	
Estimated 2021-22 (2.71%)			<b>16,298,142</b>	
Contributions/Transfers	(112,984,234)	(112,648,682)	(116,480,558)	
Salary and Benefits	(459,939,654)	(466,273,179)	(472,804,188)	
Supplies and Operating	(58,369,682)	(45,881,556)	(46,439,590)	
Indirect and Transfers	9,595,616	9,203,527	9,808,060	
<b>SURPLUS/(DEFICIT)</b>	<b>\$ (12,714,297)</b>	<b>\$ 462,735</b>	<b>\$ 6,444,491</b>	
Estimated Beginning Fund Balance	86,789,312	74,075,015	74,537,750	
<b>Ending Fund Balance</b>	<b>74,075,015</b>	<b>74,537,750</b>	<b>80,982,241</b>	10.58%
Contingency Mandated 2% Reserve	15,891,834	15,891,834	16,091,834	
Instructional Materials/Adoptions	6,756,553	6,756,553	6,756,553	
Arbinger (8 hours training)	1,625,618	1,625,618	1,625,618	
<b>UNDESIGNATED</b>	<b>\$ 49,801,010</b>	<b>\$ 50,263,745</b>	<b>\$ 56,508,236</b>	7.38%

# Preparing for the Unknown – Pre-Pandemic Budget

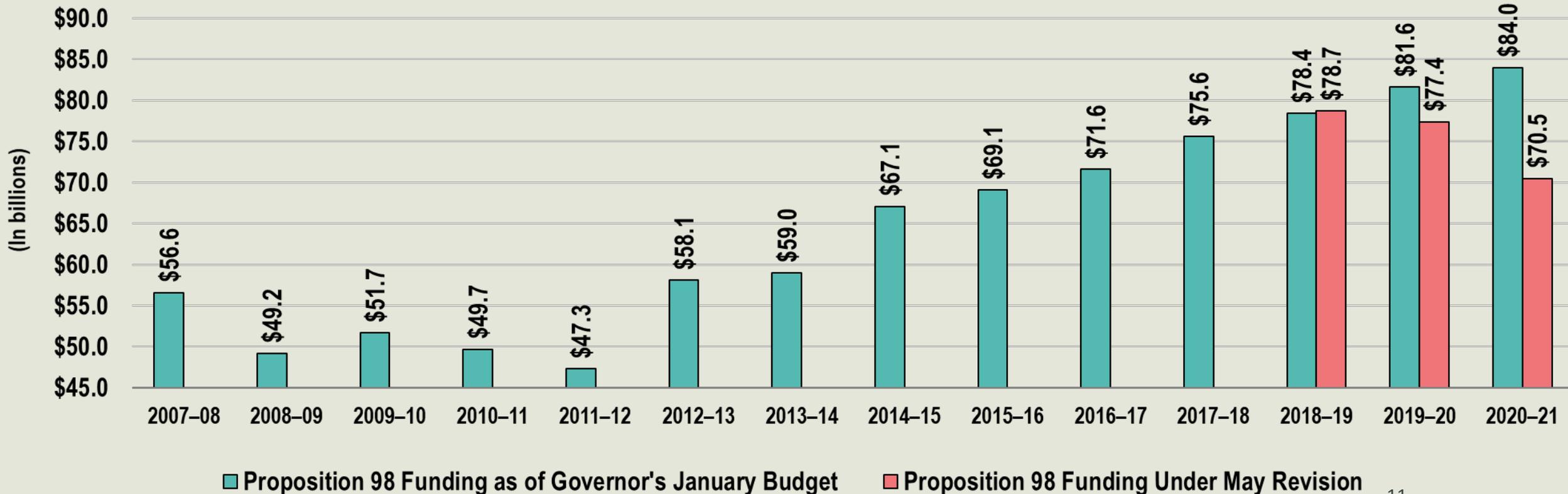
- Unemployment rate was 3.9%
- The “Wall of Debt” was eliminated
- The proposed 2020-21 budget included:
  - \$5.6B surplus
  - Record level of reserves (\$21B for FY 2020-21)
- Revenues through March were \$1.5B above the January projections

# Preparing for the Unknown – Post-Pandemic Budget

- We quickly entered a deep recession
- Since mid-March more than 4.5M unemployment claims were filed in CA alone
- Projections indicate that the 2020 unemployment rate will be 18%, higher than the Great Recession
- Personal income is projected to decline by 9% on an annual basis
- The three main General Fund revenue sources are projected to drop 25% as compared to the January forecast
- This all results in the Proposition 98 calculation falling by roughly \$19B

# Preparing for the Unknown – Post-Pandemic Budget

## Proposition 98 Funding 2007-08 to 2020-21



## Preparing for the Unknown – Current Year 2019-20

- Revenue – Fairly stable; ADA held harmless; Lottery and Local Revenue Down
- Expenditures – Some increased expenditures due to COVID-19 and distance learning; surpassed by savings (distance learning and quick action by Board and Cabinet)
- Reserves – Started the year expecting them to trend down but this may be overshadowed by savings in expenditures
- Cash – Was very strong; will decline with June deferral

# Preparing for the Unknown – Budget Year 2020-21

- Revenue – January Proposal is gone; Rapid decline in State resources; Federal assistance; Statutory COLA 2.31%; Funded COLA at **negative** 10%
- Expenditures – Continued distance learning and social distancing costs; Limited State flexibility
- Reserves – Essential to maintain, but likely to decline rapidly without significant Federal relief (unknown);
- Cash – Will decline rapidly with deferrals and possibility of spending down reserves

# Preparing for the Unknown

- As distance learning began we also began looking at how to mitigate funding reductions in the event the State lacked resources to fund schools
- To prepare for the impacts we implemented the following in order to increase reserves as much as possible in 2019-20 and into 2020-21:
  - Spending Freeze
  - “Hiring Freeze” – Cabinet review of all open positions
  - Delay Instructional Material Adoptions
  - Reduce Professional Learning
  - Reduce Summer School/Extended Learning

# Governor's May Revise to the 2020-21 January Budget Proposal

- As COVID-19 forces the closure of businesses and the unemployment rate skyrocketing the impact to the State's economy has suffered dramatically
  - The Federal Government has provided relief (one-time) through the Coronavirus Aid, Relief, and Economic Security (CARES) Act by providing
    - Elementary and Secondary School Emergency Relief (ESSER) Funds \$1.5B Statewide to LEA's
    - Coronavirus Relief Fund (CRF) \$4.0B Statewide to LEA's
    - Governor's Emergency Education Relief (GEER) Fund \$355M Statewide to LEA's
  - The Governor's May Revise includes a reduction in LCFF revenue of 10% netting a reduction of 7.69% over 2019-20 funding levels
  - COLA is suspended for LCFF and Categorical Funds: Special Education, Child Nutrition, Preschool, and Mandate Block Grant
  - Existing Categorical Programs will also see a reduction in funding: After School Education and Safety (ASES), K-12 Strong Workforce Program, Career Technical Education Incentive Grant Program (CTEIG), Adult Education Block Grant, California Partnership Academies (CPA), Specialized Secondary Program (SSP), Agricultural Career Technical Education Incentive Grant

# Governor's May Revise to the 2020-21 January Budget Proposal

- The Governor continues to fund the proposed revised Special Education funding model
  - Increase special education base rates to \$645 per ADA
  - Assist regional alternative dispute resolution services for cases arising from the pandemic and distance learning \$7M
  - \$15M is proposed for the Golden State Teacher Scholarship Program to increase the number of fully-prepared special education teachers
- Deferrals equating to \$5.3B for 2019-20 and 2020-21 budget years
  - Deferring approximately \$1.9B of the June 2020 apportionment to July 2020
  - Deferring approximately \$3.4B in 2020–21 to 2021–22 or beyond?
  - This will most likely require the district to utilize Tax and Revenue Anticipation Notes (TRANS) to ensure we maintain enough cash to meet our obligations
  - While this avoids additional cuts to districts, it creates an administrative and financial burden

# Governor's May Revise to the 2020-21 January Budget Proposal

- The Governor proposes employer contribution reductions for both CalSTRS and CalPERS
- Reduce the CalSTRS employer rate to 16.15% in 2020–21 and 16.02% in 2021–22
- Reduce the CalPERS employer rate to 20.70% in 2020-21 and 22.84% in 2021–22
- This will save the District approximately \$6.2M in each year than originally projected

# Governor's May Revise to the 2020-21 January Budget Proposal

- Proposed Fiscal Flexibility Available to Districts
  - Apportionment deferral exemptions for documented hardships
  - Recalculation of Routine Restricted Maintenance (RRM)
  - Increased limits on interfund borrowing
  - Proceeds from the sale of surplus property into the General Fund
  - Extension of the statutory timelines for annual LEA audit

# Impact of Governor's May Revise to 2<sup>nd</sup> Interim Projection for 2020-21 and 2021-22\*

ITEM	2020/21	2021/22
Projected Surplus Based on 2nd Interim	\$ 0.46	\$ 6.44
Suspended COLA 2.31% & 2.71%	(13.30)	(29.60)
LCFF Reduction in Funding (7.69%)	(45.14)	(45.14)
Reduction to Existing Categorical Programs	(3.00)	-
Reduced STRS/PERS Employer Rates	6.17	6.20
Recalculation of RRM	0.86	0.86
Total Projected Surplus/(Deficit)	\$ (53.95)	\$ (61.24)
Total Projected Surplus/(Deficit)	\$	\$

\*Summary of Changes in Millions

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Recalculation of RRM	0.86	0.86
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ESSER	12.91	-
Total Projected Surplus/(Deficit)	\$	\$

\*Summary of Changes in Millions

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Reduced STRS/PERS Employer Rates	6.17	6.20
Recalculation of RRM	0.86	0.86
Total Projected Surplus/(Deficit)	\$ (53.95)	\$ (61.24)
ESSER	12.91	-
GEER/CFR	40.00	-
Total Projected Surplus/(Deficit)	<u>\$ (1.04)</u>	<u>\$ (61.24)</u>

\*Summary of Changes in Millions

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Reduction to Existing Categorical Programs	(3.00)	-
Reduced STRS/PERS Employer Rates	6.17	6.20
Recalculation of RRM	0.86	0.86
Total Projected Surplus/(Deficit)	\$ (53.95)	\$ (61.24)
ESSER	12.91	-
GEER/CFR	60.00	-
Total Projected Surplus/(Deficit)	\$ 18.96	\$ (61.24)

\*Summary of Changes in Millions

## Next Steps

- The passage of the Health and Economic Recovery Omnibus Emergency Solutions Act or the HEROES Act?
- Continue to advocate with state and federal representatives
- Continue to analyze the budget as it is modified legislatively
- Constantly update fiscal scenarios and ensure fiscal solvency
- Work collaboratively with our labor association partners
- Present the budget for review and approval – last Board meeting in June