

# 2020-21 Governor's May Revise

Board of Education Meeting  
May 19, 2020

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# 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<br>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><i>SURPLUS/(DEFICIT)</i></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><i>UNDESIGNATED</i></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<br>INTERIM | 2020-21 GOV<br>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

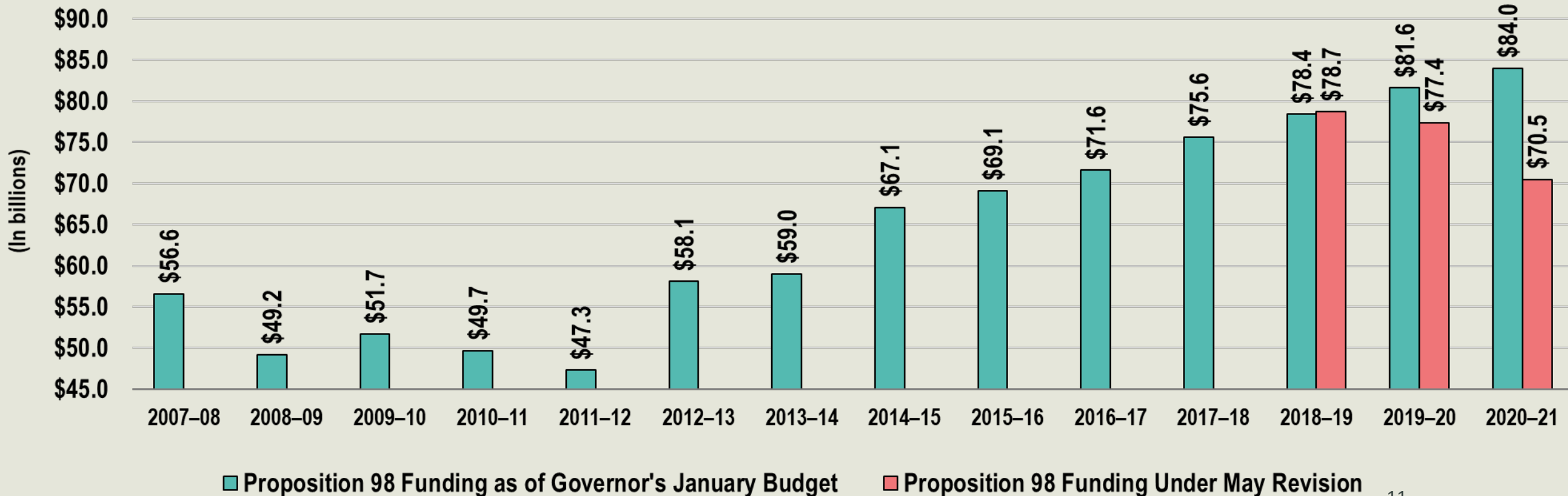
- Unemployment rate was 3.9%
- The “Wall of Debt” was eliminated
- The proposed 2020-21 budget included:
  - \$5.6B surplus
  - Record level of reserves (\$21B for FY 2020-21)
- Revenues through March were \$1.5B above the January projections

# 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

# 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) |
| ESSER                                      | 12.91      | -          |
| Total Projected Surplus/(Deficit)          | \$         | \$         |

\*Summary of Changes in Millions



# 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)        |
| ESSER                                      | 12.91            | -                 |
| GEER/CFR                                   | 40.00            | -                 |
| Total Projected Surplus/(Deficit)          | <u>\$ (1.04)</u> | <u>\$ (61.24)</u> |

\*Summary of Changes in Millions

# 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) |
| 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