

2020 May Revision

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Associate Superintendent, Business Services

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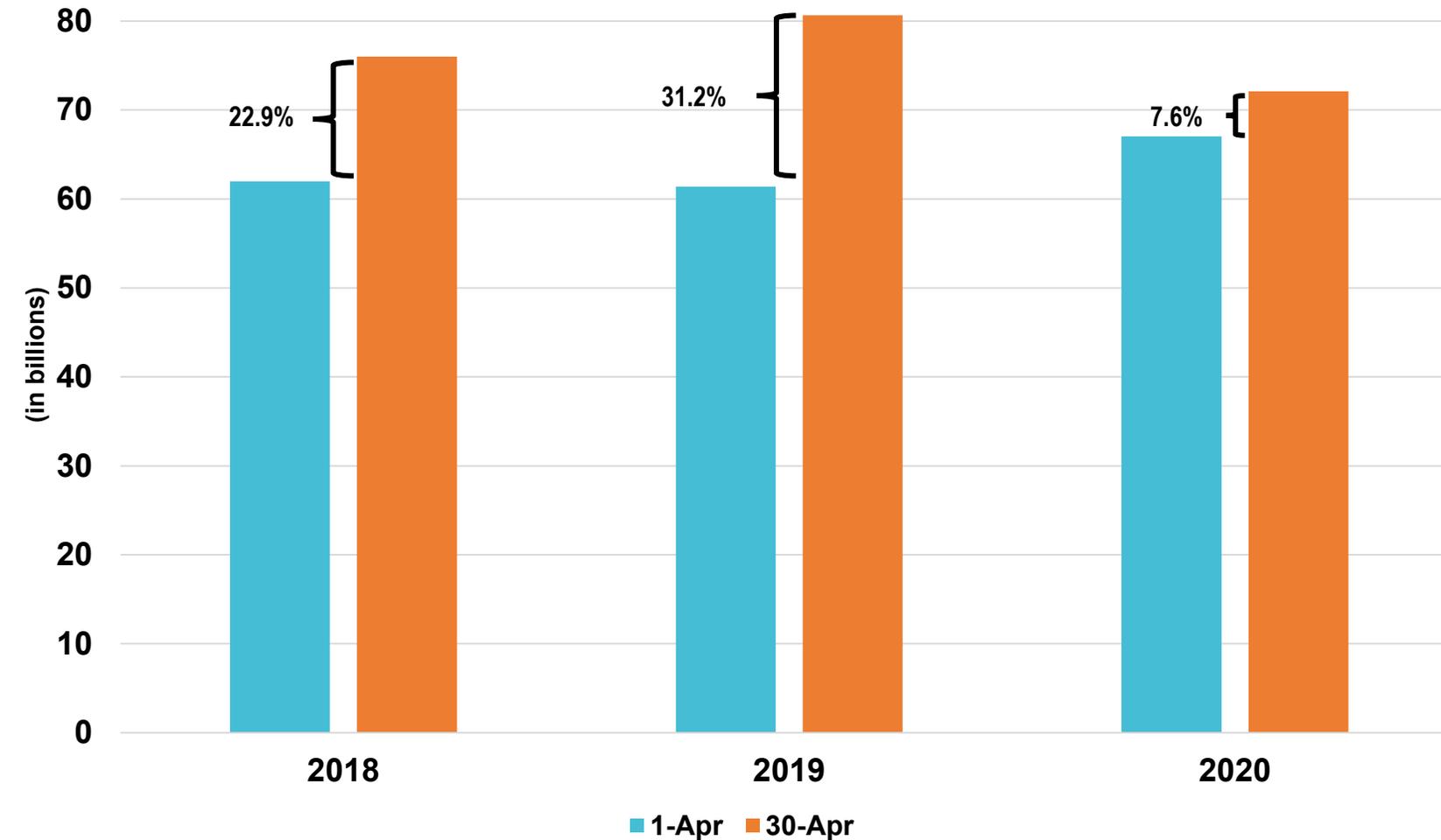


Economic Effects of COVID-19

- **Eleven years of economic expansion came to a screeching halt this year**
 - ◆ **As former Governor Jerry Brown always warned us, a recession was coming, but even he could not have foreseen this**
 - **No aspect of the national or state economy seems to be unscathed by the virus and the path to recovery is unknown**
 - ◆ **There are no models for how a world recovers from a near total shutdown of economies around the globe**
 - **Initial recovery projections were optimistic, but along with the number of cases of COVID-19, have become more and more grim**
 - **The actual economic effects will not be known for months and years, but nonetheless, the Administration must make some assumptions as to how far California will fall and how it will make its eventual comeback**
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Impact of Shifting the Tax Deadline

April Personal Income Tax Collections



- Both federal and state governments shifted the annual income tax deadline from April 15 to July 15 as a result of the COVID-19 outbreak
- This shift has caused a significant decline personal income tax (PIT) revenues in the biggest PIT revenue month, making it difficult to develop the state's on-time Budget
- Given recent unemployment figures, we may not fully recover the lost revenue



California Revenues

- **The May Revision assumes that the state will suffer from a \$41.2 billion loss in revenues compared to January estimates in 2019–20 and 2020–21 combined**
 - ◆ **-\$9.1 billion for 2019–20**
 - ◆ **-\$32.2 billion for 2020–21**
- **Revenue losses are compounded by the growing number of Californians who need access to state safety net services, bringing the state’s total shortfall to \$54 billion**





Rainy Day Fund—Budget Stabilization Account

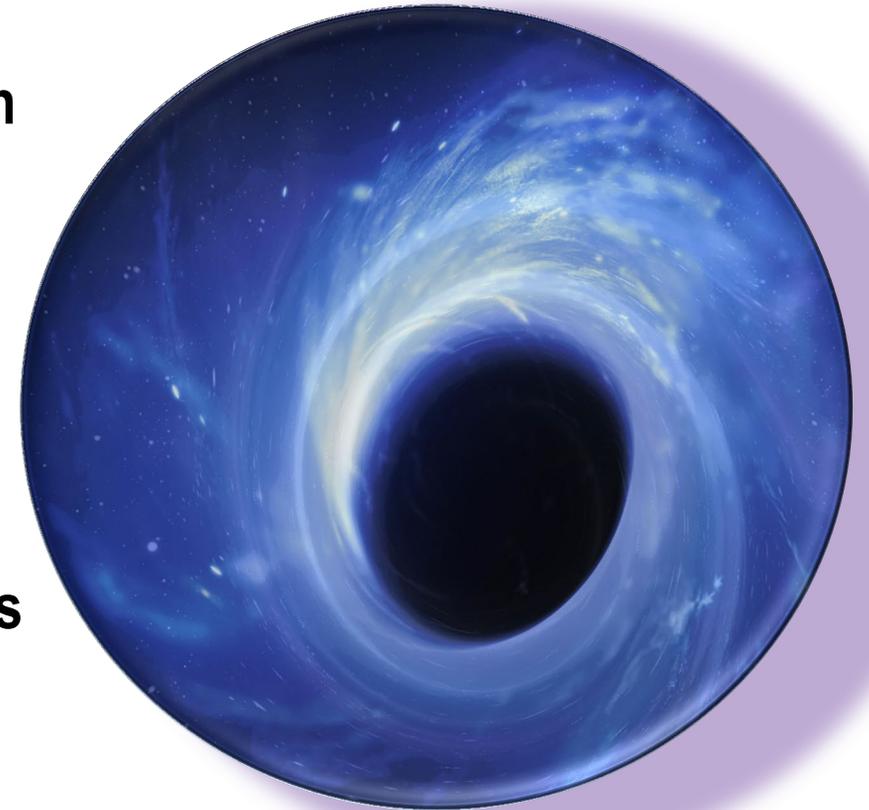
- **The Budget Stabilization Account (BSA) currently has about \$16.2 billion**
- **Proposition 2 (2014) stipulates that a withdrawal may not exceed half of the BSA balance in the first year of a budget emergency**
- **The May Revision proposes to draw down the entirety of the \$16.2 billion over three years**
 - ◆ **This includes \$7.8 billion for 2020–21**





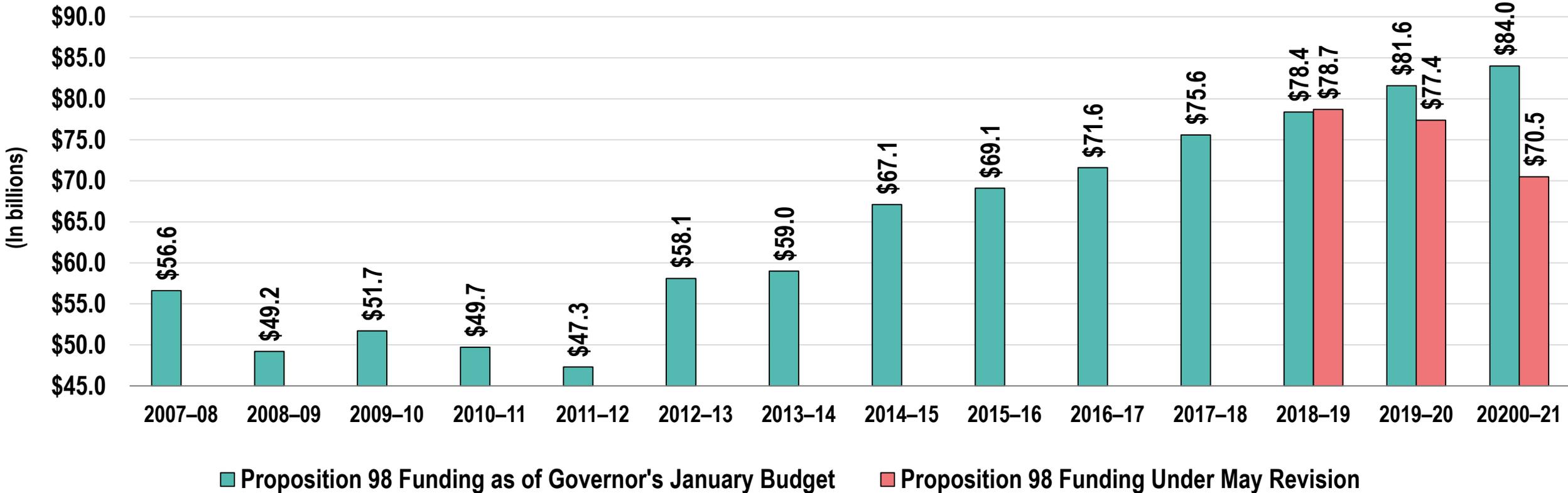
Will There Be a Revised Budget?

- While the May Revision gives us important anchors for state and local budgets that must be adopted by July 1, 2020, there continues to be a gaping hole of information that we need in order to build more accurate budgets
 - ◆ Unemployment rates change
 - ◆ PIT revenue is the largest share of general fund revenue; tax payments deferred
 - ◆ Consumer confidence shaken by the current state of the economy; may be a while before confidence rebuilds
 - ◆ Small, as well as large, businesses may not be able to withstand COVID-19
- The state will likely need to revise its Budget when more information becomes available later this summer



Proposition 98 Funding

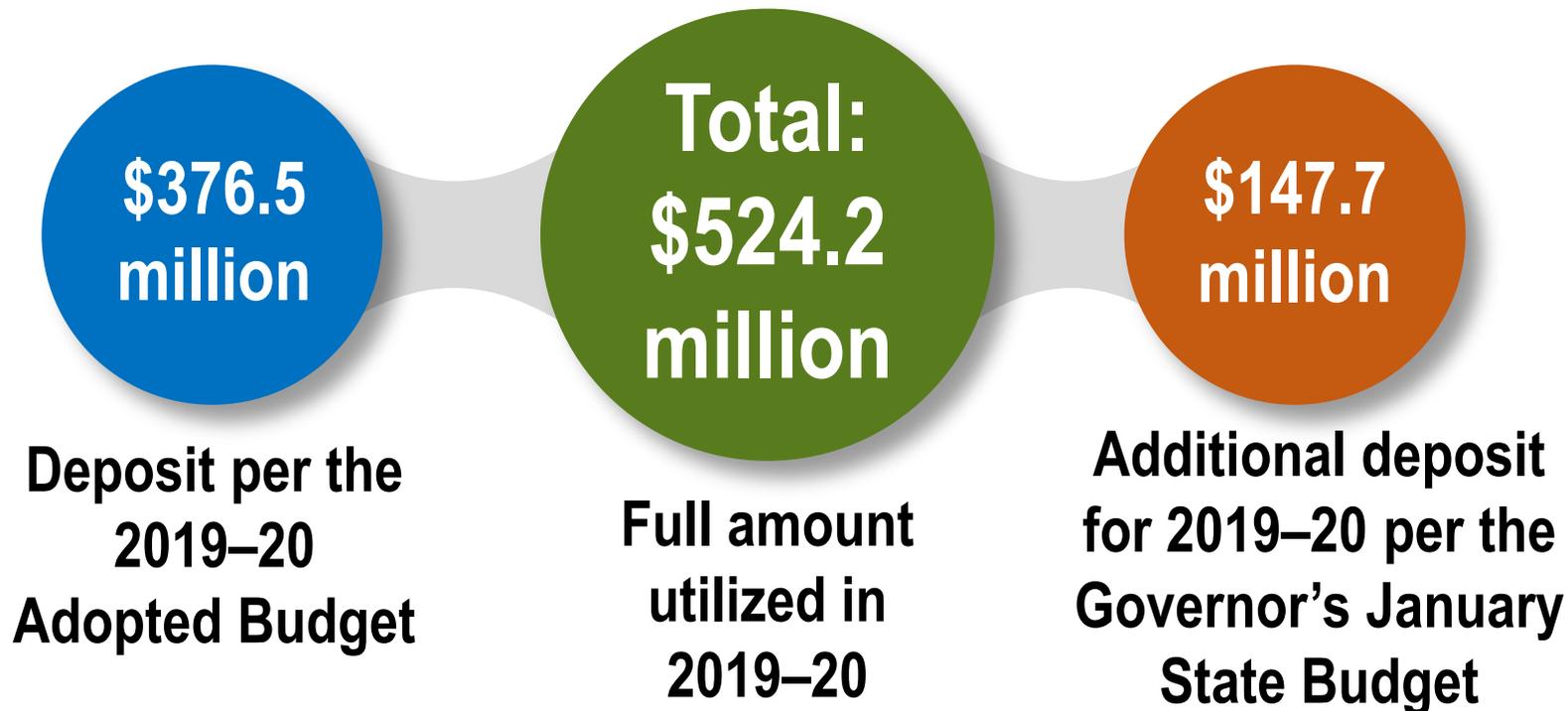
Proposition 98 Funding 2007-08 to 2020-21





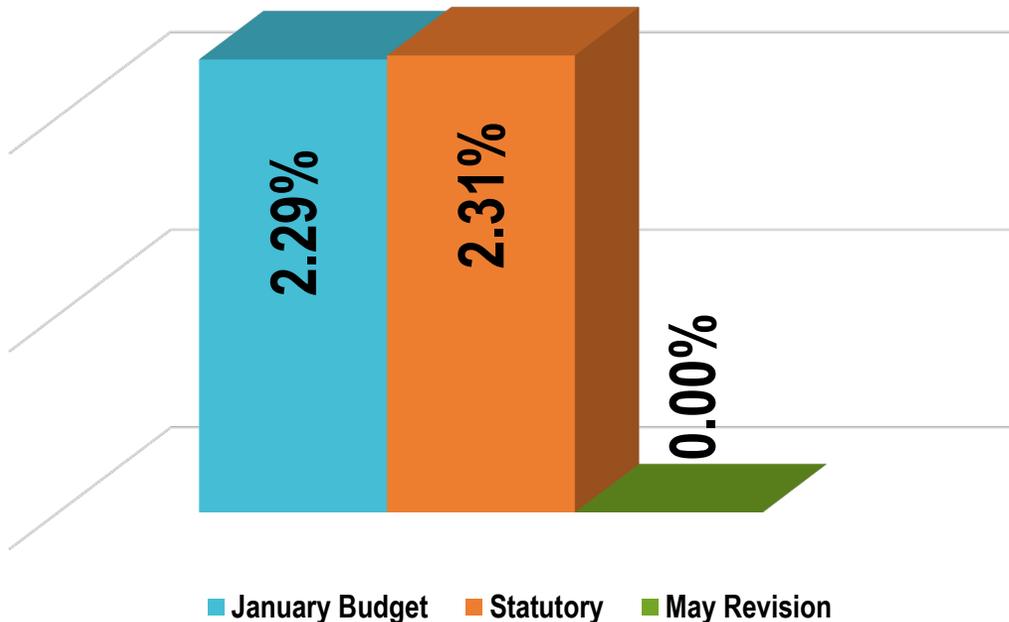
Proposition 98 Reserve

- The May Revision reflects the “withdrawal” of all of the funding in the Public School System Stabilization Account
 - ◆ Effectively, due to the reduction in Proposition 98 for 2019–20, the deposit does not occur, so these funds are available to be used to help satisfy the minimum guarantee for 2019–20

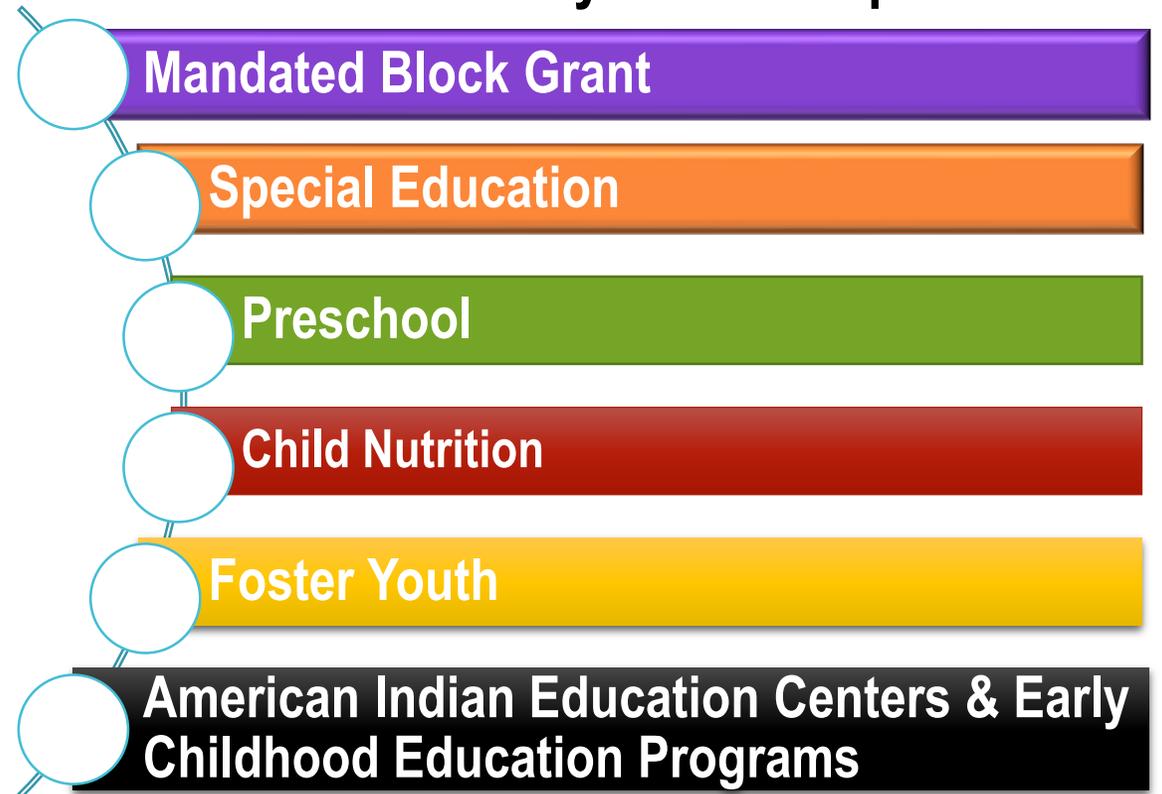


Statutory COLA

- While the May Revision acknowledges a 2.31% statutory cost-of-living adjustment (COLA) (up slightly from the 2.29% estimated COLA in January), it suspends the COLA for 2020–21



- Categorical programs outside of the LCFF will also have the statutory COLA suspended



In typical years, as costs continue to rise, these programs would see adjustments for COLA only and average daily attendance (ADA) for special education



Deferrals: Here We Go Again

- Cash deferrals were used during the Great Recession to implement state-level budget cuts and/or improve the state's cash position
- The Governor's May Revision takes a page from the same playbook and proposes the following cash deferrals:



- Local school agencies may need to implement local borrowing options to ensure adequate cash to continue paying employees and vendors during these times
 - ◆ While this avoids an additional cut in state revenues to schools, it pushes the administrative and financial burden of borrowing cash to local school agencies

2020–21 LCFF Funding Factors

- The May Revision suspends the 2.31% COLA and includes an additional reduction—for a total of 10% cut to the Local Control Funding Formula (LCFF)
 - ◆ First, the 2.31% COLA is applied to arrive at the 2020–21 base grants
 - ◆ Then the 10% reduction is applied—for an effective reduction of 7.92% to the 2019–20 base grant amounts

These reductions would be “triggered off” if the federal government provides sufficient funding to backfill the cuts



Grade Span	2019–20 Base Grant per ADA	2.31% COLA	2020–21 Base Grant per ADA	10% Reduction	Effective 2020–21 Base Grant per ADA
K–3	\$7,702	\$178	\$7,880	[-\$788]	\$7,092
4–6	\$7,818	\$181	\$7,999	[-\$800]	\$7,199
7–8	\$8,050	\$186	\$8,236	[-\$824]	\$7,412
9–12	\$9,329	\$215	\$9,544	[-\$954]	\$8,590



2020–21 LCFF Funding Factors

- **Two grade span adjustments (GSAs) are applied as percentage increases against the effective base grant amounts**
 - ◆ **Grades K–3 receive a 10.4% increase for smaller average class sizes**
 - ◆ **Grades 9–12 receive a 2.6% increase in recognition of the costs of career technical education coursework**

Grade Span	Effective 2020–21 Base Grant per ADA	GSA	2020–21 Adjusted Base Grant per ADA
K–3	\$7,092	\$738	\$7,830
4–6	\$7,199	-	\$7,199
7–8	\$7,412	-	\$7,412
9–12	\$8,590	\$223	\$8,813



2020–21 LCFF Funding Factors

- The cuts are meant to reduce the LCFF with the reduction taken from the base grant, which lowers the amount upon which supplemental and concentration grant funding is calculated

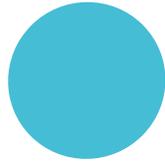
Grade Span	2020–21 Adjusted Base Grant per ADA	20% Supplemental Grant* per ADA—Total UPP after 10% base grant reduction	50% Concentration Grant* per ADA—UPP Above 55% after 10% base grant reduction
K–3	\$7,830	\$1,566	\$3,915
4–6	\$7,199	\$1,440	\$3,600
7–8	\$7,412	\$1,482	\$3,706
9–12	\$8,813	\$1,763	\$4,406

*Calculated based on the percentage of a local educational agency’s (LEA’s) enrolled students who are English learners, free or reduced-price meal program eligible, or foster youth—the unduplicated pupil percentage (UPP)

2020–21 LCFF Add-On Reductions

- In addition to the base, supplemental, and concentration grants, all of the following LCFF add-on funding will also receive a 10% reduction

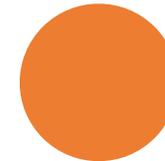
**Targeted
Instructional
Improvement Grants**
Education Code Section (EC §)
42238.02(g)



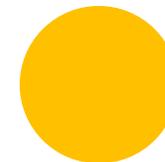
**Home-to-School
Transportation**
EC § 42238.02(h)



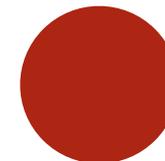
**Economic
Recovery Target**
EC § 42238.025



Minimum State Aid
EC § 41544



**Basic Aid
Supplement**
EC § 47663



District of Choice
EC § 48310



What Does the LCFF Reduction Mean for Modesto City Schools?

Modesto City Schools 2020–21			
	Base Funding	Supplemental & Concentration	Total LCFF Revenue
January 2020	\$263,917,189	\$68,522,163	\$332,439,352
May 2020	\$238,093,119	\$61,859,964	\$299,953,083
Difference	(\$25,824,070)	(\$6,662,199)	(\$32,486,269)

Base Rates increased to \$645 per ADA based on three-year rolling average ADA



Reflects a 15% increase over the amount provided in 2019–20 budget

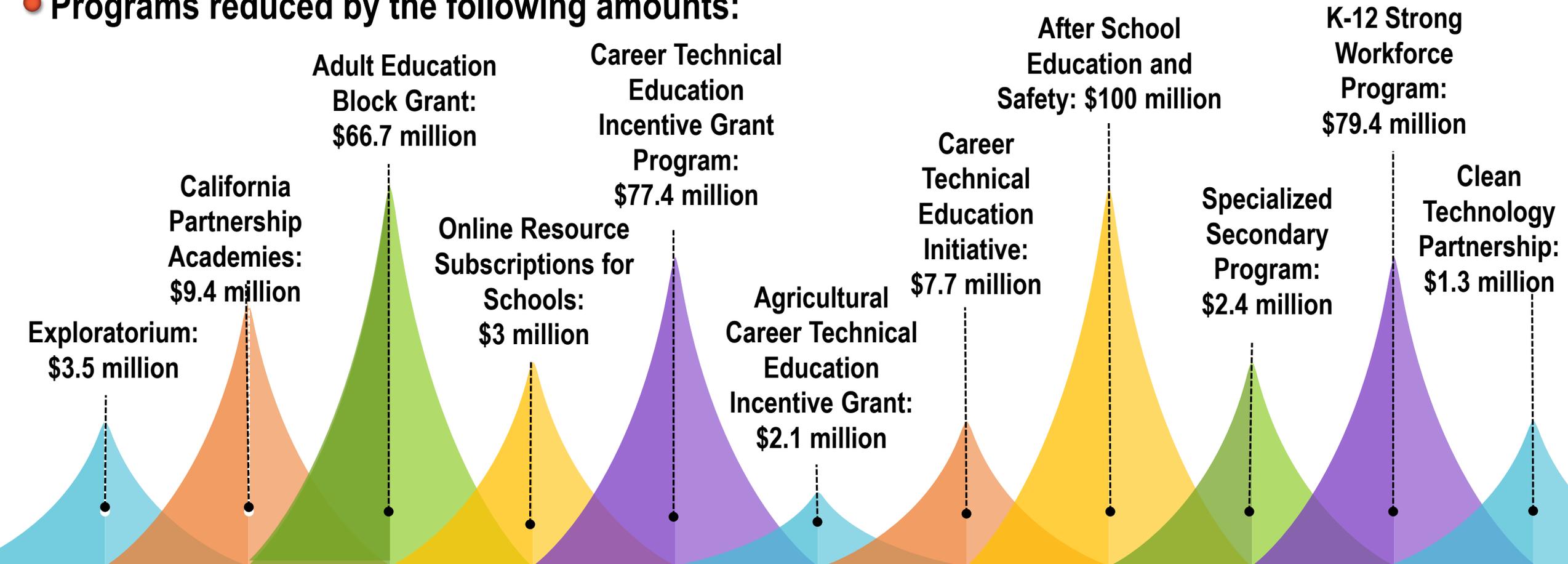
Reflects suspension of 2.31% COLA

Maintains all other existing categorical programs in the Assembly Bill 602 formula until a finalized formula is adopted

Maintains Special Education Local Plan Area Governance and Accountability Structure

Categorical Program Cuts

- Total savings of \$352.9 million by cutting categorical programs roughly in half
- Cuts may be reversed if additional federal funds materialize
- Programs reduced by the following amounts:





CalPERS Future Rate Implications

- To provide increased fiscal relief, the May Revision revised the California Public Employees' Retirement System (CalPERS) 2020–21 employer contribution rate to 20.70%
- \$1 million in savings for MCS with the May Revision rates

CalPERS Employer Contribution Rate Estimates		
Year	Previous Rates	Revised Rates
2020–21	*22.68%	20.70%
2021–22	*24.60%	22.84%
2022–23	25.90%	25.50%
2023–24	26.60%	26.20%
2024–25	27.00%	26.50%
2025–26	26.80%	26.40%
2026–27	26.70%	26.20%

*CalPERS Board approved 2020-21 contribution rate as of April 21, 2020



CalSTRS Future Rate Implications

- The May Revision revised the California State Teachers’ Retirement System (CalSTRS) employer contribution rate in 2020–21 from 18.40% to 16.15%
- \$3.9 million savings for MCS with the May Revision rates
- Any investment returns below the CalSTRS target of 7% will likely reduce the funded status of the plan and potentially increase employer contributions in the future

CalSTRS Employer Contribution Rates	
Year	Rate
2019–20	17.10%
2020–21	16.15%
2021–22	16.02%
2022–23	18.10%
2023–24	18.10%



Additional Federal Funding?

California is slated to receive billions of dollars from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but the funding only puts a small dent in the state's \$54 billion budget deficit

Governor Newsom has been aggressively lobbying the federal government for an additional \$1 trillion in aid

House Democrats introduced the Health and Economic Recovery Omnibus Emergency Solutions Act (HEROES) Act, a \$3 trillion package that gives \$60 billion for K-12 school districts nationally

Resistance from the White House and Senate Majority Leader Mitch McConnell (R-Kentucky) in giving states and local governments additional federal funding

- **In order to help school districts absorb the reductions, the Governor offers a suite of relief**

Exemption from deferrals for hardship reasons

Ability to exclude state's on-behalf-of-employer payments in the Routine Restricted Maintenance Account calculation

Subject to public hearing, the ability to increase internal inter-fund borrowing limits

Authority for special education staff to use technology-based options to serve students

Use proceeds from property sales for one-time general fund purposes

Extend the transitional kindergarten teacher credential requirement from August 1, 2020 to August 1, 2021



Changes to the 2020–21 LCAP

The Local Control and Accountability Plan (LCAP) template adopted by the State Board of Education (SBE) in January will not be used for 2020–21

The templates to be used for the 2020–21 LCAP and the 2019–20 Annual Update require a change in statute, and few details currently are available

The California Department of Education will develop the new templates for 2020–21 in consultation with the SBE and stakeholders

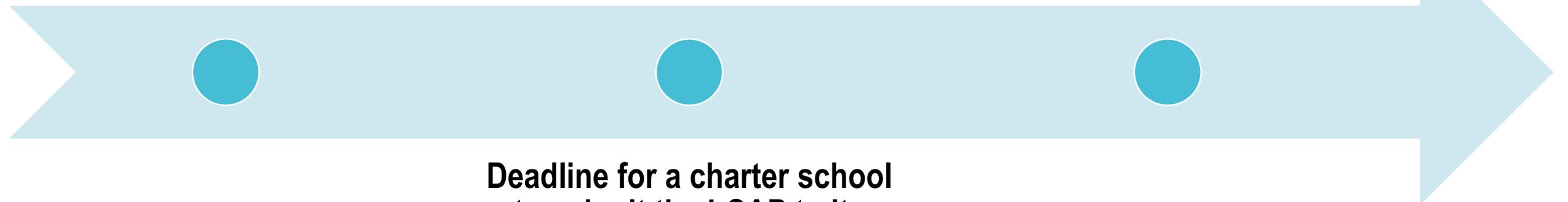
Expected to be available in late summer of 2020



2020–21 LCAP Deadlines Extended

Deadline for LCAP, Annual Update, and Budget Overview for Parents extended from July 1 to December 15, 2020

Deadline for county superintendent or state superintendent of public instruction to approve the LCAP extended to January 14, 2021



Deadline for a charter school to submit the LCAP to its authorizer and the county superintendent extended to December 15, 2020



Questions?