Governor Newsom’s 2020 May Revision Budget Proposal

As presented at the June 1st Kern High School District Board Meeting

Sources: School Services of California, Inc., KCSOS, Dave Walrath, and Michael Hulsizer
The COVID-19 pandemic has all but shut down economies across the globe.

- China’s Gross Domestic Product (GDP) shrank by 6.8% in the first three months of 2020—and the European Union’s economy is expected to contract by 7.5% in 2020.

- National unemployment is projected to reach historic levels—an akin to the Great Depression era.

- Personal income nationwide dropped by 2% in March while consumption fell by 7.5%.
U.S. Real GDP—Great Recession vs. COVID-19

Source: U.S. Bureau of Economic Statistics
Dow Jones Industrial Average

Source: Dow Jones Industrial Average Market Watch—https://www.marketwatch.com
The national unemployment rate was at historic lows, and no one predicted that things would change so suddenly.

Some economists forecast that the unemployment rate could reach upwards of 20% in the third quarter of the year.
The State Budget
Big Three Tax Revenues

2020–21
(in billions)

- **Personal Income Tax**
  - January: $102,878
  - May DOF*: $76,644
  - May LAO U-Shaped: $88,981
  - May LAO L-Shaped: $81,283

- **Sales Tax**
  - January: $28,243
  - May DOF*: $20,561
  - May LAO U-Shaped: $23,836
  - May LAO L-Shaped: $21,332

- **Corporation Tax**
  - January: $16,007
  - May DOF*: $12,373
  - May LAO U-Shaped: $9,704
  - May LAO L-Shaped: $7,803

*Department of Finance
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 projected shortfall to $54 billion.
Filling the State “Budget Gap” Proposal

The Governor’s May Revision solutions to address the $54.3 billion shortfall comes from combined sources:

- Cancel $6.1 billion in new program expansions and spending increases proposed in the January proposal.
- Use all $16.2 billion in State Reserves (“rainy day fund”) over a three-year period.
- Defer apportionments (including school funding), borrow and transfer $4.1 billion from special funds.
- Make $14 billion in cuts (including $6.5 billion from the LCFF) if sufficient federal fiscal relief does not materialize.

Translates to on-going cuts of $35 million for the Kern High School District.
Proposition 98 and the Education Budget

(The Bad News)
### January Budget vs. May Revision

<table>
<thead>
<tr>
<th>Item</th>
<th>January Budget</th>
<th>May Revision</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020–21 LCFF Funding Change</td>
<td>+$1.2 billion</td>
<td>[-$6.5 billion]</td>
</tr>
<tr>
<td>Proposition 98 Minimum Guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018–19</td>
<td>$78.4 billion</td>
<td>$78.7 billion</td>
</tr>
<tr>
<td>2019–20</td>
<td>$81.6 billion</td>
<td>$77.4 billion</td>
</tr>
<tr>
<td>2020–21</td>
<td>$84.0 billion</td>
<td>$70.5 billion</td>
</tr>
<tr>
<td>2020–21 Statutory COLA</td>
<td>2.29%</td>
<td>2.31% (Suspended)</td>
</tr>
<tr>
<td>One-Time Discretionary Funds</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

The May Revision suspends the 2.31% COLA and includes an additional reduction of 7.69% — for a total **10% cut** to the LCFF.
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:

- **After School Education and Safety**: $100 million
- **Career Technical Education Incentive Grant Program**: $77.4 million
- **Career Technical Education Initiative**: $7.7 million
- **Adult Education Block Grant**: $66.7 million
- **California Partnership Academies**: $9.4 million
- **Career Technical Education Incentive Grant Program**: $77.4 million
- **Career Technical Education Initiative**: $7.7 million
- **Online Resource Subscriptions for Schools**: $3 million
- **Exploratorium**: $3.5 million
- **Agricultural Career Technical Education Incentive Grant**: $2.1 million
- **K-12 Strong Workforce Program**: $79.4 million
- **Specialized Secondary Program**: $2.4 million
- **Clean Technology Partnership**: $1.3 million

Translating to ongoing cuts of $3.8 million for the Kern High School District
The Governor’s May Revision takes a page from the same playbook and proposes the following cash deferrals:

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.

This proposal will result in $32 million in cash deferrals for the Kern High School District over two years.
Proposition 98 and the Education Budget

(The Good News)
Governor Newsom proposes to redirect $2.3 billion to further reduce employer contribution rates in 2020–21 and 2021–22.

Based on 2019–20 State Budget

$3.15 billion

Non-Proposition 98 General Fund Payment on K–14 employers’ behalf to CalSTRS and CalPERS Schools Pool

CalSTRS Employer Rate
2020–21: ↓18.4% to 16.15%
2021–22: ↓18.2% to 16.02%

CalPERS Employer Rate
2020–21: ↓22.68% to 20.70%
2021–22: ↓24.60% to 22.84%

1California State Teachers’ Retirement System (CalSTRS)
2California Public Employees’ Retirement System (CalPERS)
Base Rates increased to $645 per ADA based on three-year rolling average ADA

This amounts to approximately $100 per Special Education student for a total increase of $2 million for KHSD

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

Reflects suspension of 2.31% COLA

Maintains Special Education Local Plan Area (SELPA) Governance and Accountability Structure
The CARES Act – One-time Investments

$4.4 billion for LEAs to mitigate learning loss

- $355 million GEER funds
- $4 billion from Coronavirus Relief Fund

Allocated to LEAs using formula that considers state’s most vulnerable students

- $1.5 billion distributed per pupil based on number of students with a disability
  • SSC estimates to be $1,900 per student
- $2.855 billion to concentration grant districts on a per ADA basis
  • SSC estimates to be $735 per ADA

Funds shall be expended by December 30, 2020 on the following activities:

- Extending the instructional school year
- Additional academic services
- Learning supports
- Wrap around services

As proposed - Translates into $29 to 38 million in ONE TIME “Restricted Use” funds for KHSD
Proposition 98 and the Education Budget

(Potentially More Good News...)
The Governor proposes a way to hasten K–14’s recovery from this devastating impact through out-year supplemental payments to the minimum guarantee up to a total of $13 billion.

- Guarantee currently is about 38% of General Fund revenues
- The goal is to increase education’s share to 40% by 2023–24
- Supplemental payments of 1.5% of General Fund revenues beginning in 2021–22

*This is not a constitutional obligation*
California is slated to receive billions of dollars from the 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.
What this Means for the Kern High School District
We would have to trim about $35 million from our 20-21 fiscal year budget ($7 million from LCAP).

We have to trim $1.2 million from Adult Ed, or backfill a portion of that from general fund dollars, which would translate to a deeper cut to general funds.

We lose about $3.6 million in CTE related categorical programs, including partnership academies.

We’ll need well in excess of $35 million in cash to weather the deferrals (and the unsteady flow of cash to the district).

We may have to make some deep cuts despite getting approximately $29 to $38 million in one time “restricted use funds” we believe can only be used to mitigate student learning loss.

And… we may have to make these cuts not knowing if we’ll get any one-time federal relief, which is not expected until late July or early August (if, at all).
The legislature is currently discussing revisions to the governor’s May Revise

We anticipate the legislature giving their proposals to Governor Newsom by June 15th, 2020

We anticipate the Governor Newsom signing the budget by May 29, 2020

Governor Newsom issued an executive order allowing school districts to hold a public hearing and the adoption of the district’s budget at the same board meeting

Due to the uncertainty of changes the legislature may make, and uncertainty about federal assistance, we will be bringing the budget to you for adoption at the June 29th board meeting

The staff is currently working on proposed budget cuts and proposed mitigation strategies that we hope to bring to the board at a special board meeting in June