



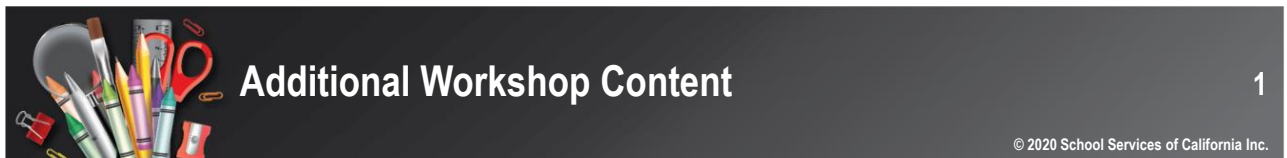
2020 May Revision Workshop

May 19, 2020

Leilani Aguinaldo • Danyel Conolley • Debbie Fry
Brianna García • John Gray • Dave Hecker • Patti Herrera, EdD
Kyle Hyland • Jamie Metcalf • Robert McEntire, EdD
Matt Phillips, CPA • Charlene Quilao • Suzanne Speck
Kathleen Spencer • Michelle Underwood • Sheila G. Vickers

© 2020 School Services of California Inc.

0




© 2020 School Services of California Inc.

- Today's webinar focuses on the most significant information related to the Governor's 2020–21 May Revision
 - ◆ Additional content is available through two pre-recorded modules that can be viewed at your convenience:

Closing the Books for 2019–20	Local Agency Operations
<ul style="list-style-type: none">• Special education• Routine restricted maintenance• Senate Bill (SB) 117—COVID-19 emergency relief• Per-pupil expenditure reporting• Other items for 2019–20	<ul style="list-style-type: none">• Cash management• Summer layoff window• COVID-19 and FEMA relief, serving meals, employee leaves, etc.• Charter school considerations• Other human resources and operational considerations

- These modules can be accessed at any time from your My SSC page

1



Question and Answer Session

2

© 2020 School Services of California Inc.

● This morning's webinar will continue with our live question and answer session right after the formal presentation

◆ During the presentation your questions can be submitted through this function on the My SSC page in front of you

Online Workshop - May Revision Workshop



ASK SSC

NAME *
Dave Heckler

EMAIL (YOUR SSC LOGIN) *
daveh@sscal.com

DISTRICT, ORGANIZATION, COMPANY *
School Services of California

YOUR QUESTION *

SELECT CATEGORY (CTRL FOR MULTIPLE) *

SUBMIT

2

Resources Download



Materials Download
To download the workshop materials, go to:
www.sscal.com/my-ssc



Find Workshops
Under "My Workshops," click on "View Workshop Resources" underneath the workshop title

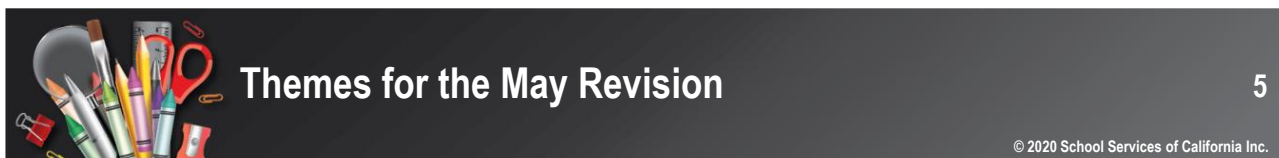


Who can access?
To access the workshop materials, you'll need to be logged in with the email address that is registered for the workshop

3



4



- Through no fault of his own, Governor Gavin Newsom’s May Revision proposals bear little resemblance to his Governor’s January State Budget, when the Administration anticipated a multibillion dollar surplus in a \$222 billion spending plan
- While May Revisions are usually built upon actual personal income tax receipts and stable economic projections, both are missing this year
- Faced with plummeting resources, Governor Newsom cuts into his predecessor’s signature education reform—the Local Control Funding Formula (LCFF)—and has the unfortunate distinction of unwinding the formula
- The Governor provides some glimmer of hope with resources outside of the Proposition 98 guarantee and potentially triggering off LCFF cuts—but the economic situation could also get worse from here



5



May Revision for the State—and for You

6

© 2020 School Services of California Inc.

- While this is an unusual year to say the least, the Governor's May Revision is still the last statutory step in the State Budget process before the Legislature adopts the state's spending plan by June 15
- The Administration has updated revenue projections and proposals based on the latest cash receipts and economic forecasts
 - ◆ This is not so different from the process your local educational agency (LEA) is going through to adopt its budget:
 - Incorporating revised revenue projections with the LCFF Simulator and School Services of California Inc. (SSC) Dartboard
 - Updating step and column movement, benefits, and other local costs
 - Incorporating parent and community feedback into your Local Control and Accountability Plan (LCAP)

6



May Revision for the State—and for You

7

© 2020 School Services of California Inc.

- This is the last set of data points you will receive before local budget adoption and we are here to provide you with this information and our guidance
 - ◆ Once the 2020–21 State Budget has been adopted, our School Finance and Management Conference will tell you what has changed and how to adapt locally
 - And because this is no normal year, if there is an “August Revision” it will likely change many of these revenue assumptions
 - ◆ But until then, this is your best budgeting information

7



Economic Effects of COVID-19

8

© 2020 School Services of California Inc.

- 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

8



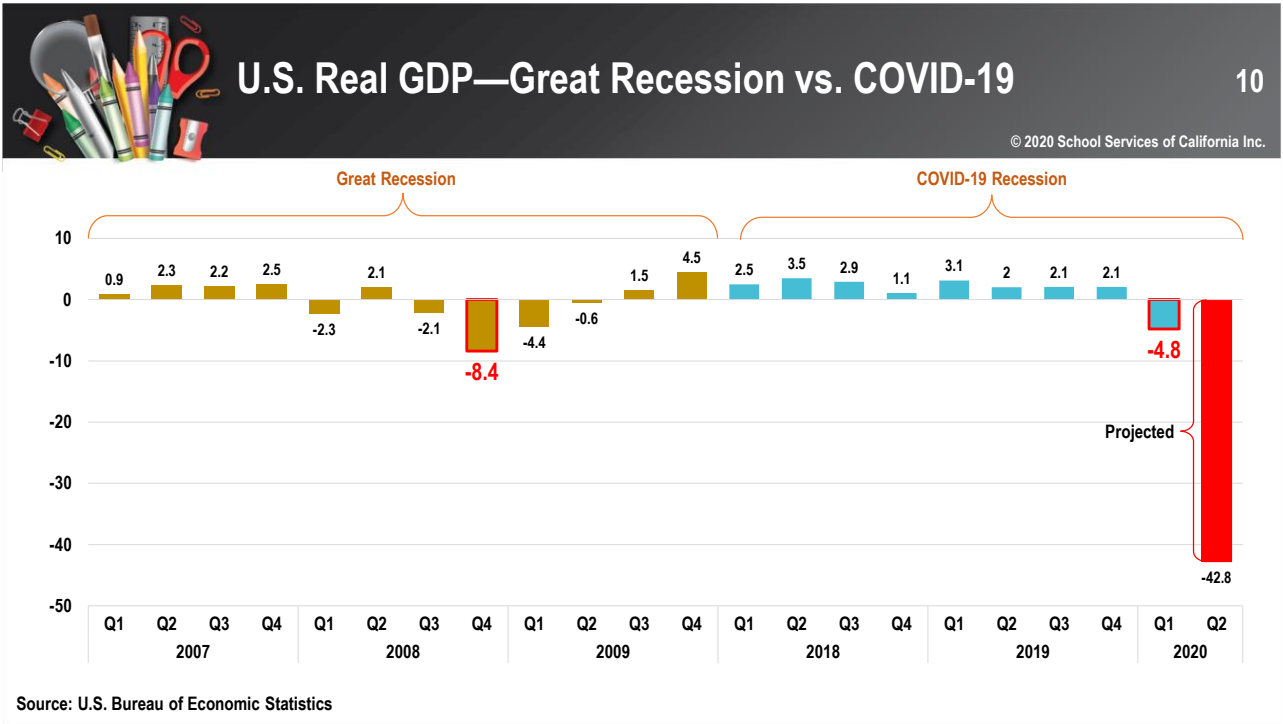
National Economic Outlook

9

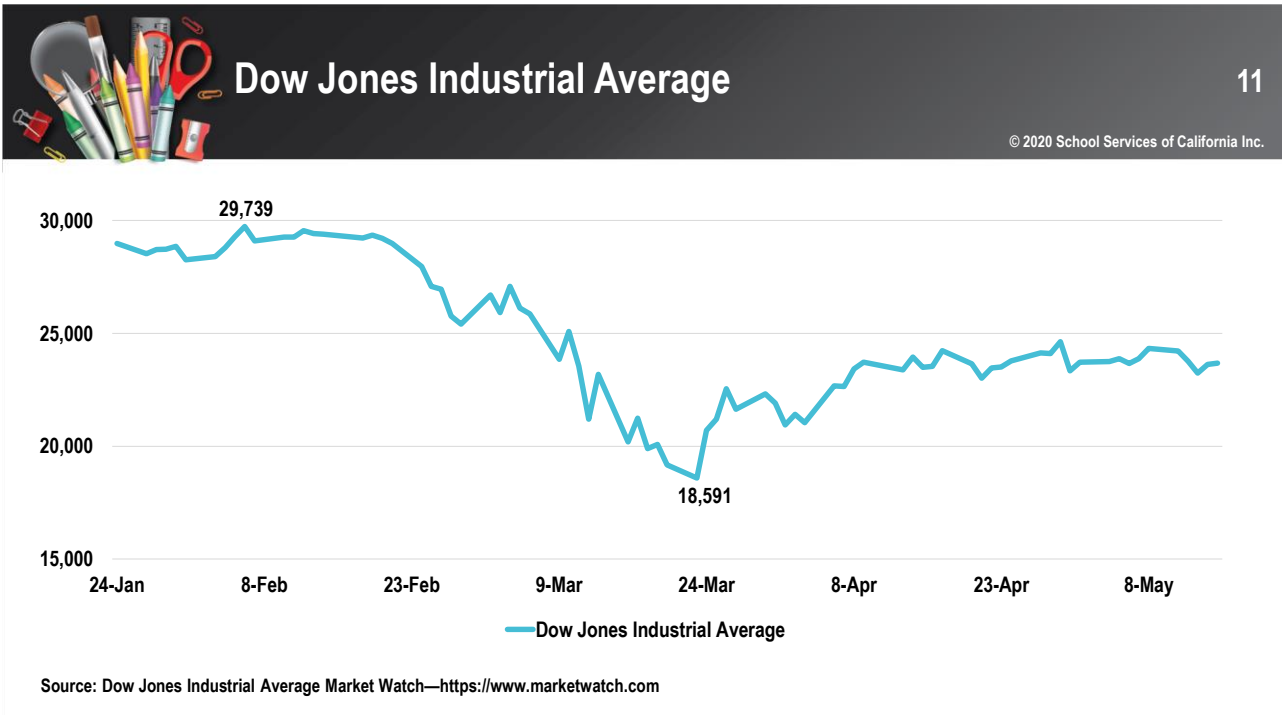
© 2020 School Services of California Inc.

- The COVID-19 pandemic has shut down economies across the globe
- The U.S. is the largest economy in the world and its health relies on a healthy international economy
 - ◆ China's Gross Domestic Product (GDP) shrank by 6.8% in the first three months of 2020—its first economic contraction in 40 years and the European Union's economy is expected to contract by 7.5% in 2020
- National unemployment is projected to reach historic levels—akin to the Great Depression era
- Personal income nationwide dropped by 2% in March while consumption fell by 7.5%
- Aside from the coronavirus itself and the ability to combat it with effective therapies or a vaccine, there are other risks to the national economy
 - ◆ Trade “cold war” with China
 - ◆ Sluggish global demand for U.S. goods
 - ◆ Small and large business bankruptcies that forestall an employment rebound and the confidence consumers need to start spending again

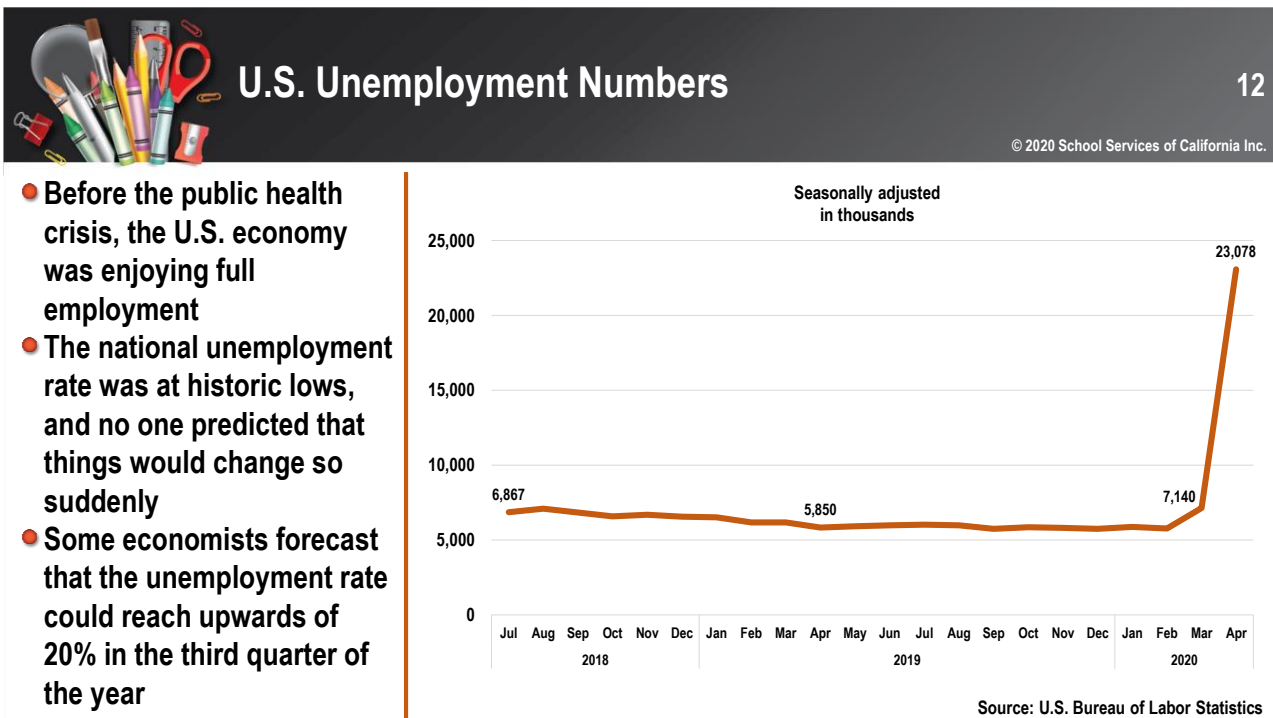
9



10




11



12



13



Big Three Tax Revenues

14


© 2020 School Services of California Inc.

- The “Big Three” taxes make up nearly 77% of state general fund revenue
- Personal income tax (PIT) alone accounts for two-thirds of general fund revenues—making it the largest source of state revenue
 - ◆ California’s income tax structure is extremely progressive
 - ◆ 40–50% of PIT revenue is generated from the 1% of California taxpayers—residents who earn over \$1 million annually¹
- California’s dependency on the state’s top income earners creates extreme volatility for general fund revenues
- We are seeing the evidence of that now



¹ Legislative Analyst’s Office (LAO) (2015), *California’s Tax System: A Visual Guide*

14

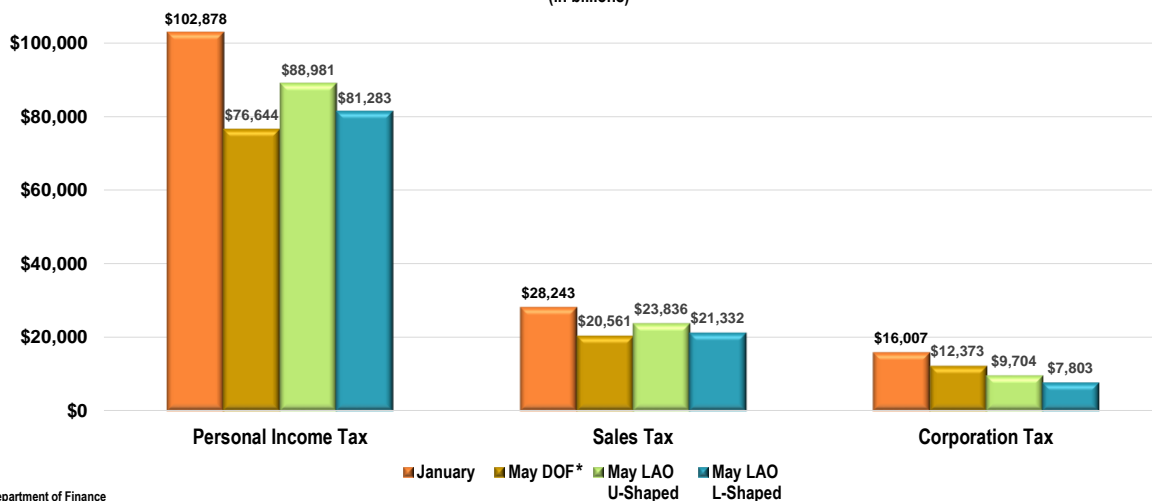


Big Three Tax Revenues

15

© 2020 School Services of California Inc.

2020–21
(in billions)



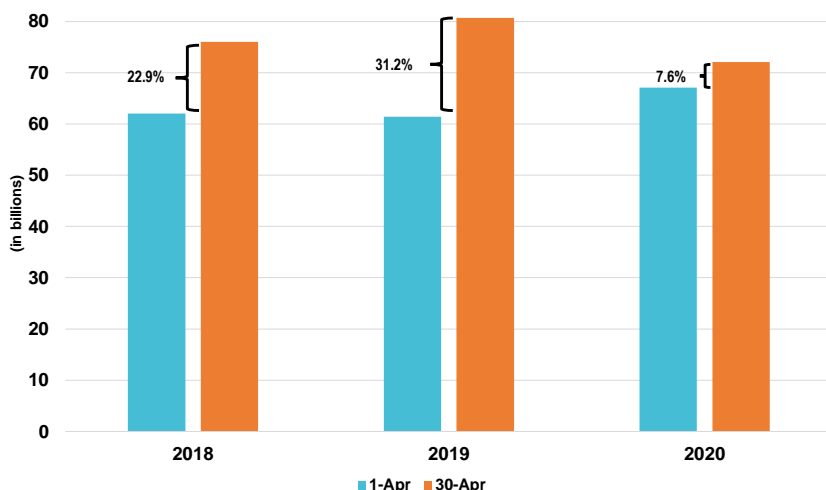
15

Impact of Shifting the Tax Deadline

© 2020 School Services of California Inc.

16

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 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

16

California Revenues

© 2020 School Services of California Inc.

17

- 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



17




Capital Gains

18

© 2020 School Services of California Inc.

- Earnings from stock market investments makes up a sizable share of the revenue from the state's highest earners
- The Governor's January Budget assumed that 3,200 points on the S&P 500 would yield \$30 billion in capital gains revenue
- The LAO 's optimistic projection assumes that Wall Street would return to pre-recession levels in 2022

18



General Fund Budget Summary

19

© 2020 School Services of California Inc.

Revenues & Expenses

Revenues and transfers increase 0.4% in 2020–21, while expenditures decrease 8.6%

Reserves

The entire \$16.2 billion in the Rainy Day Fund will be drawn down over three years

2020–21 General Fund Budget Summary (in millions)

	2019–20	2020–21
Prior-Year Balance	\$11,280	\$1,619
Revenues and Transfers	\$136,836	\$137,417
Total Resources Available	\$148,116	\$139,036
Non-Proposition 98 Expenditures	\$94,145	\$89,030
Proposition 98 Expenditures	\$52,352	\$44,871
Total Expenditures	\$146,497	\$133,901
Fund Balance	\$1,619	\$5,135
Reserve for Liquidation of Encumbrances	\$3,175	\$3,175
Special Fund for Economic Uncertainties	[-\$1,556]	\$1,960
Public School System Stabilization Account	\$524	\$0
Safety Net Reserve	\$900	\$450
Budget Stabilization Account/Rainy Day Fund	\$16,156	\$8,350

19



Rainy Day Fund—Budget Stabilization Account

20

© 2020 School Services of California Inc.

- 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



20

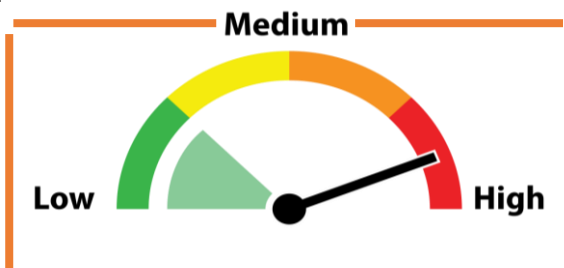


Risks to the State Budget

21

© 2020 School Services of California Inc.

- Biological risks
 - ◆ Epidemiology of the coronavirus
 - ◆ Lack of widespread testing, tracing, effective therapies, and a vaccine
 - ◆ Viral rebound in the fall or winter
- Fiscal risks
 - ◆ Expiration of federal unemployment benefits
 - ◆ Lack of federal stimulus measures that meet need
- Performance of the international economy
 - ◆ Worldwide reductions of gross domestic product
 - ◆ Continuing distortions of supply and demand
- Increasing Sino-U.S. tensions
 - ◆ Pandemic finger pointing
 - ◆ Potential trade “Cold War”



21



Will There Be a Revised Budget?

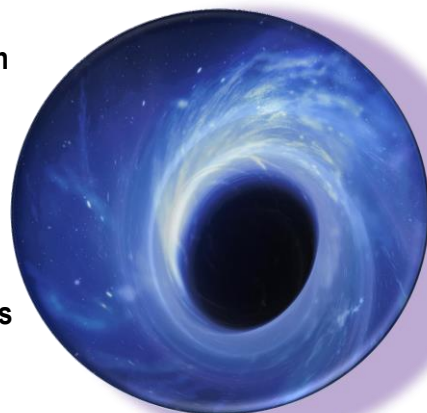
22

© 2020 School Services of California Inc.

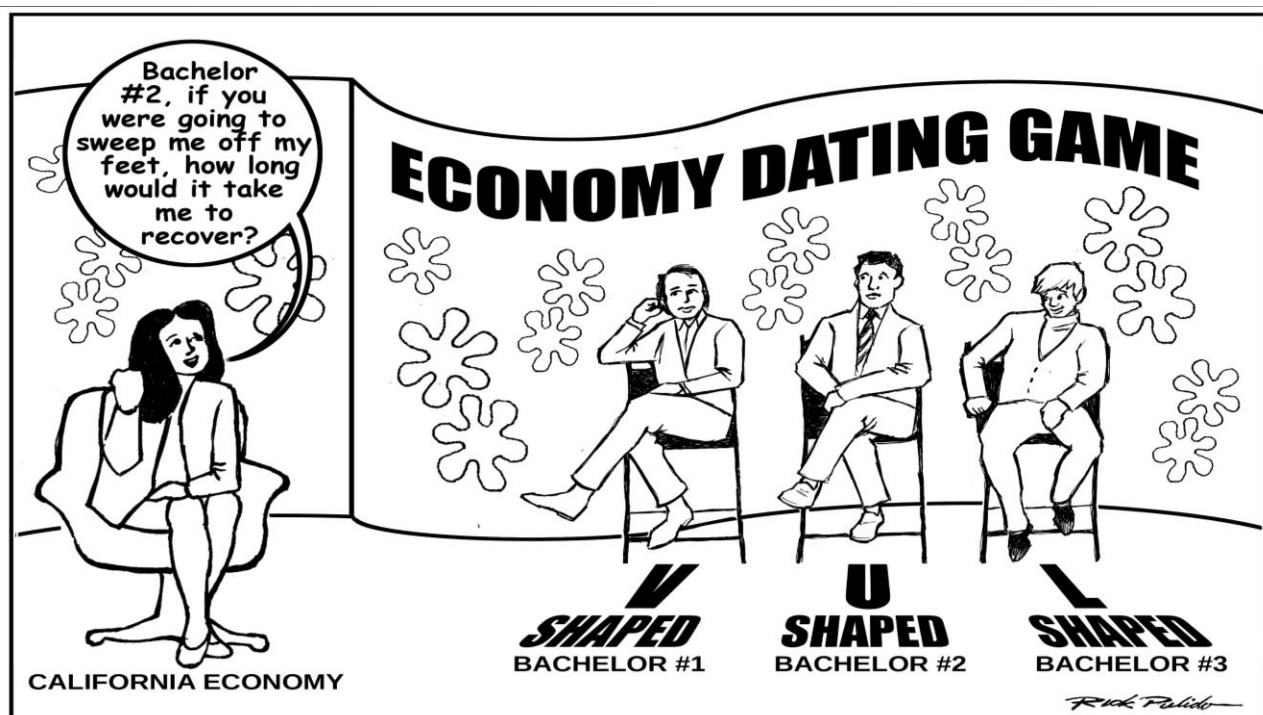
- While the May Revision gives us important anchors for state and local budgets that must be adopted by July 1, 2020, there continues to be a gaping hole of information that we need in order to build more accurate budgets

- ◆ 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



22



23



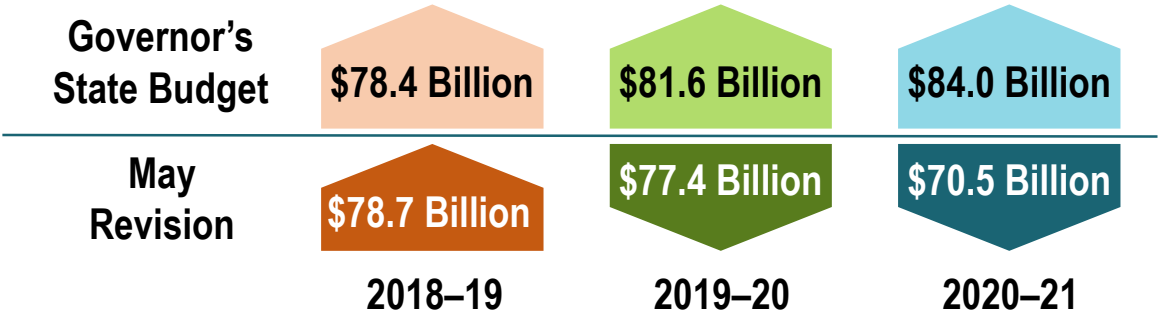
Proposition 98 and the Education Budget


 **Proposition 98 Funding**

25

© 2020 School Services of California Inc.

- Proposition 98 funding levels have decreased significantly from the 2020–21 Governor’s State Budget for two of the three fiscal years
 - ◆ The May Revision estimates that the minimum guarantee will decline approximately 23% from the 2019 State Budget Act over the three-year budget period

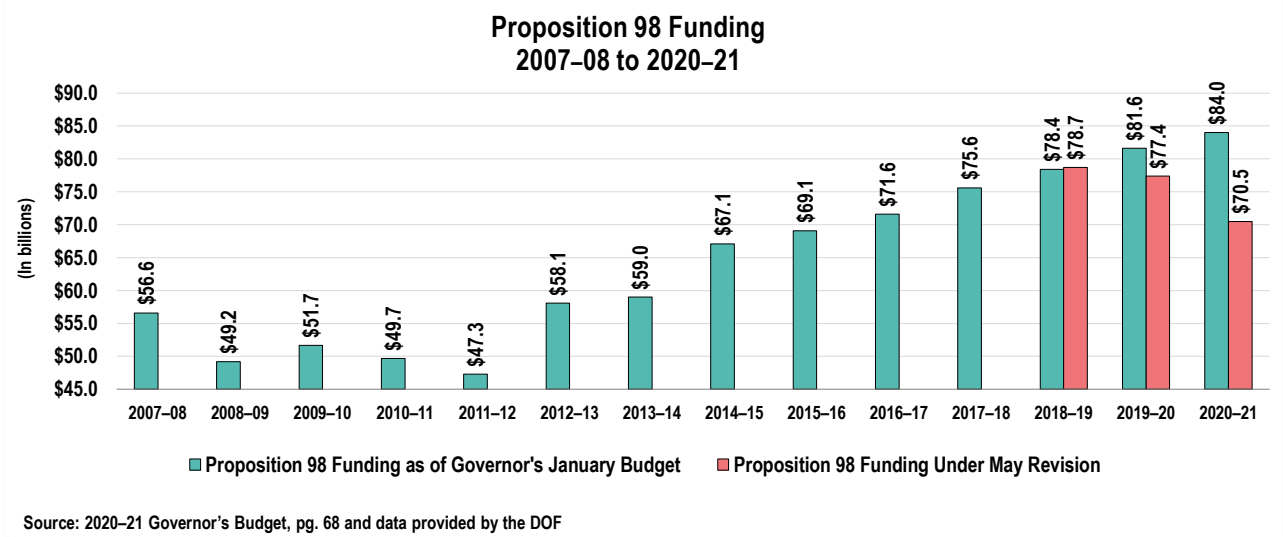





Proposition 98 Funding

26

© 2020 School Services of California Inc.



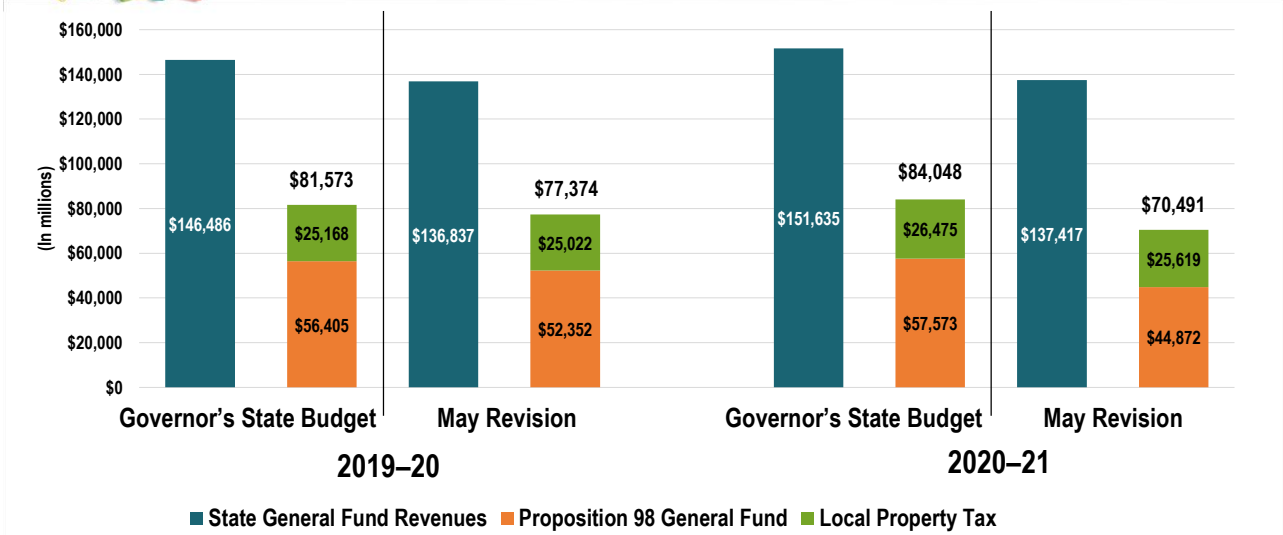
26



Proposition 98 and State Revenues

27

© 2020 School Services of California Inc.

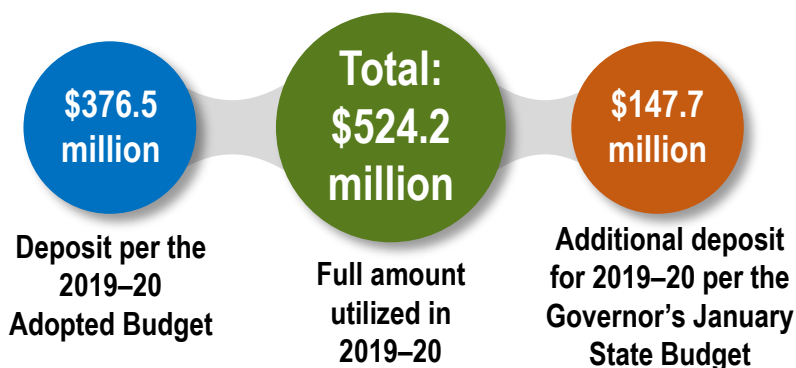


27

Proposition 98 Reserve 28

© 2020 School Services of California Inc.

- 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

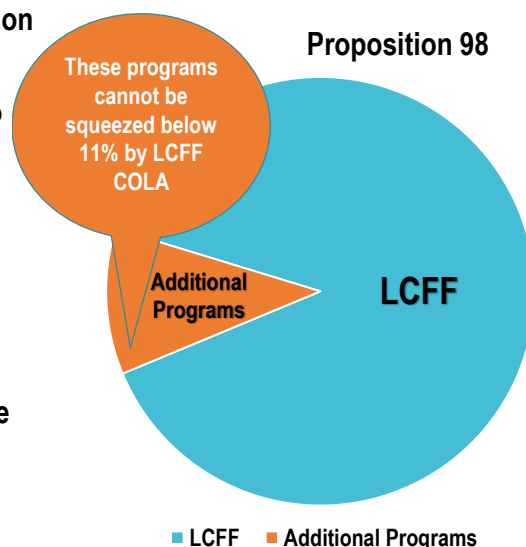


28


Proposition 98’s K–12 “Auto-Fit” Provision 29

© 2020 School Services of California Inc.

- To prevent the LCFF from squeezing out other Proposition 98 programs
- The cost-of living adjustment (COLA) can be reduced to zero for some programs
 - ◆ LCFF
 - ◆ Child Development
 - ◆ Child Nutrition
 - ◆ Special Education
 - ◆ Mandated Block Grant
- Applied when the cost to fund the LCFF consumes more than 89% of the K–12 share of Proposition 98 funding



29



Proposition 98 Autofit Provisions—Implications


30

© 2020 School Services of California Inc.

- When the K–12 “autofit” provision was put into law last summer, we scratched our heads wondering what economic conditions would need to be in place such that the state could not afford to fund the LCFF COLA. Less than a year later, we now know that a complete economic shutdown is likely sufficient to pull this trigger—so, *what does that mean?*

Politically	Fiscally
<ul style="list-style-type: none"> Averts the need for legislators to take action to statutorily reduce education funding Averts the need for legislators to suspend Proposition 98 	<ul style="list-style-type: none"> Averts the need to apply a deficit factor on the annual cost adjustments to the LCFF and other “big ticket” programs Without tracking, it would appear that K–12 programs are fully funded by the constitutional minimum guarantee

30

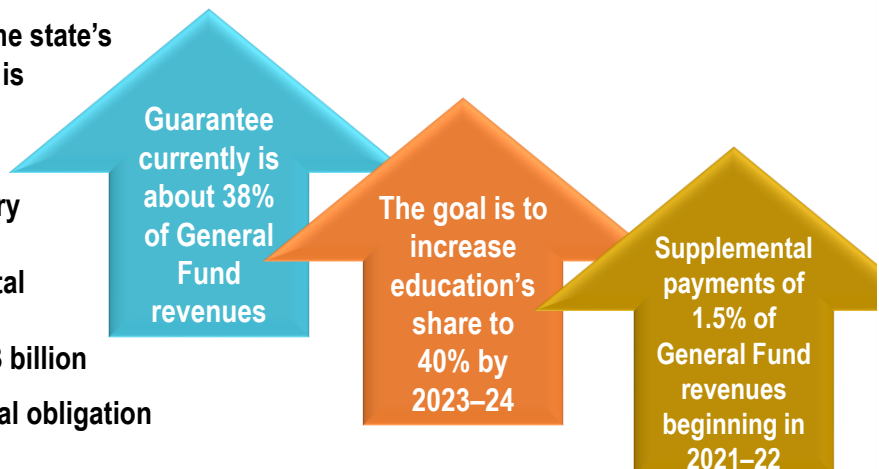


Proposition 98 Supplemental Payments

31

© 2020 School Services of California Inc.

- The Proposition 98 minimum guarantee is projected to be determined by Test 1—simply a share of the state’s general fund expenditures—for the foreseeable future
- With COVID-19’s impact on the state’s revenues, education funding is dropping precipitously
- 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
 - This is not a constitutional obligation



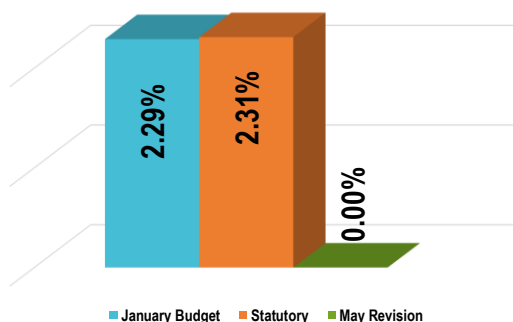
31

Statutory COLA

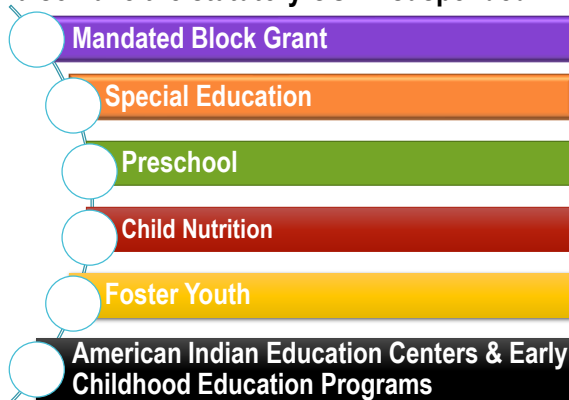
32

© 2020 School Services of California Inc.

- While the May Revision acknowledges a 2.31% statutory 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

32

Deferrals: Here We Go Again

33


© 2020 School Services of California Inc.

- 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

33




Rest of Proposition 98: Community Colleges

34

© 2020 School Services of California Inc.

- Some of the significant adjustments in the May Revision for the California Community Colleges (CCC), who receive approximately 10.93% of the Proposition 98 share, include:
 - 10% or \$760.1 million decrease for the Student Centered Funding Formula
 - Nearly \$1 billion in deferrals
 - \$330.1 million from 2019–20 to 2020–21 and \$662.1 million from 2020–21 to 2021–22
 - \$130.1 million to offset decreases in local property tax revenues
 - \$31.9 million reduction for student enrollment growth
 - Decrease of \$135.6 million for CCC Strong Workforce Program
 - Decrease of \$68.8 million for the Student Equity and Achievement Program
 - \$3 million reduction in support of Calbright College, the newest, fully online college

34



January Budget vs. May Revision

35

© 2020 School Services of California Inc.

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

35



2020–21 LCFF Funding Factors

36

© 2020 School Services of California Inc.

- The May Revision suspends the 2.31% COLA and includes an additional reduction—for a total of 10% cut to the 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

36



2020–21 LCFF Funding Factors

37

© 2020 School Services of California Inc.

- 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 (CTE) 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

37



2020–21 LCFF Funding Factors

38


© 2020 School Services of California Inc.

- 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 an LEA's enrolled students who are English learners, free or reduced-price meal program eligible, or foster youth—the unduplicated pupil percentage (UPP)

38

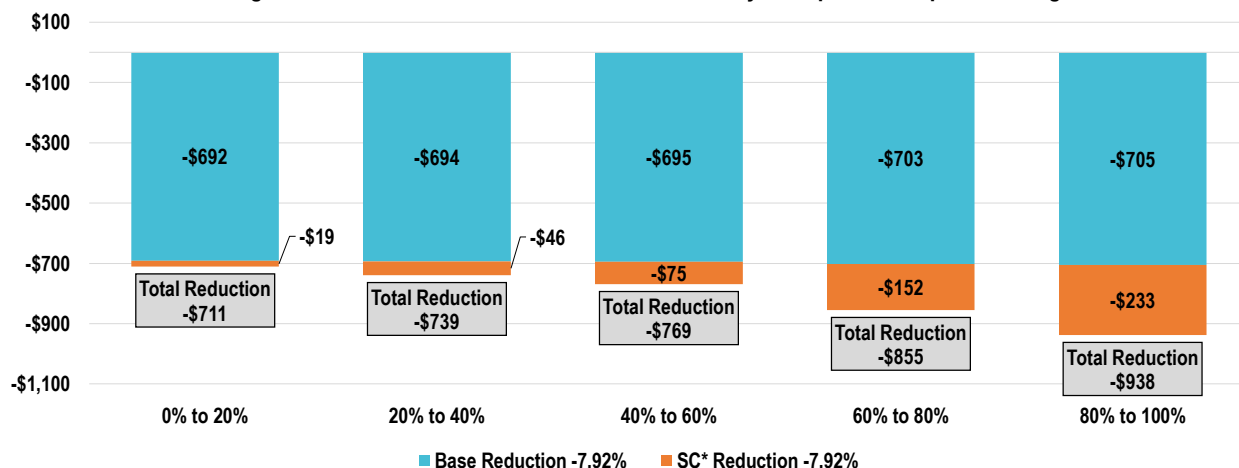


Average Per-ADA Reduction from 2019–20 to 2020–21 by UPP

39

© 2020 School Services of California Inc.

Average Per-ADA Reduction from 2019–20 to 2020–21 by Unduplicated Pupil Percentage



*Supplemental and concentration grants (SC)

39

2020–21 LCFF Add-On Reductions

40

© 2020 School Services of California Inc.

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



40

County Office of Education LCFF

41

© 2020 School Services of California Inc.

- The operations grant includes three components—10% cut applied
- The alternative education grant is calculated on the following factors:

Funding Component	2020–21 Rates
1. For each county	\$662,769
2. For each school district within the county	\$110,461 per school district
3. Countywide ADA:	
0–30,000	\$70.73 per ADA
30,001–60,000	\$60.63 per ADA
60,001–140,000	\$50.52 per ADA
Greater than 140,000	\$40.42 per ADA

- Base Grant** 2020–21 base grant of \$11,335 per ADA (includes the 10% cut)
- Supplemental Grant*** Equal to 35% of the 2020–21 base grant for eligible students (\$3,967 per student), including all juvenile court school students
- Concentration Grant*** Equal to 35% of the 2020–21 base grant for eligible students exceeding 50% of enrollment (\$3,967 per student); or 17.5% of the 2020–21 base grant for all juvenile court school students (\$1,984 per student)

*UPP is based on eligible students enrolled in county office of education (COE) programs meeting eligibility criteria for supplemental and concentration grants

41

CalPERS/CalSTRS Rate Buydowns

42

© 2020 School Services of California Inc.

Portion of payment was to pay down CalSTRS¹ and CalPERS² employer contribution rates in 2019–20 and 2020–21

2019–20 State Budget

2020–21 May Revision

Governor Newsom now proposes to redirect the \$2.3 billion to further reduce employer contribution rates in 2020–21 and 2021–22

¹California State Teachers' Retirement System (CalSTRS)

²California Public Employees' Retirement System (CalPERS)

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

Remaining \$2.3 billion was intended to go towards the long-term unfunded liability of each system

2019–20 State Budget

2020–21 May Revision

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 20.7%

2021–22: ↓24.6% to 22.84%

42

Minimum Wage

43

© 2020 School Services of California Inc.

- Current law allows the Governor to pause the minimum wage when economic conditions are met
- Although the economic criteria have been met in order to temporarily suspend the next increase, the Governor's May Revision proposes to continue with the scheduled increases in 2021

Minimum Wage	Effective Date: > 25 Employees	Effective Date: ≤ 25 Employees	Exempt Minimum Salary (Weekly)	Exempt Minimum Salary (Monthly)	Exempt Minimum Salary (Annually)
\$13.00/hour	January 1, 2020	January 1, 2021	\$1,040	\$4,507	\$54,080
\$14.00/hour	January 1, 2021	January 1, 2022	\$1,120	\$4,853	\$58,240
\$15.00/hour	January 1, 2022	January 1, 2023	\$1,200	\$5,200	\$62,400

43



Special Education

44

© 2020 School Services of California Inc.

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 (AB) 602 formula until a finalized formula is adopted

• Maintains Special Education Local Plan Area (SELPA) Governance and Accountability Structure

44



Special Education

45

© 2020 School Services of California Inc.

- **\$15 million federal Individuals with Disabilities Education Act (IDEA) funds for the Golden State Teacher Scholarship Program to increase the special education teacher's pipeline**
- **\$7 million federal IDEA funds to assist LEAs with developing regional Alternative Dispute Resolution (ADR) services and statewide mediation services for cases arising special education distance learning delivery models**
- **\$1.1 million IDEA funds (replaces Proposition 98 funds from January proposal) for two workgroups to study improved accountability and special education service delivery and student outcomes**
- **\$600,000 in additional IDEA funds to:**
 - ◆ **Study the costs of out-of-home care and how these services can be better aligned**
 - ◆ **Develop an individualized education program addendum for distance learning**

45

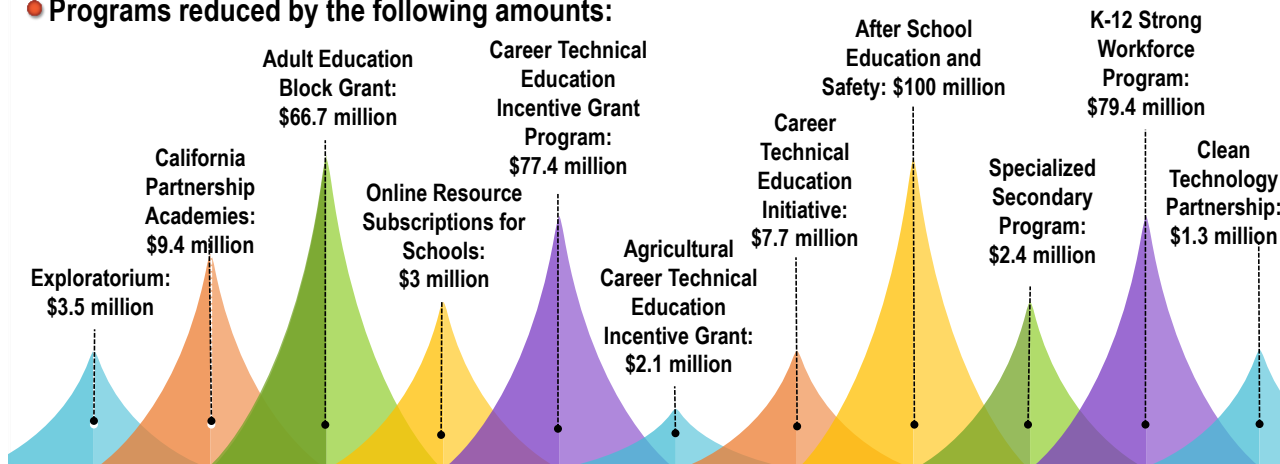


Categorical Program Cuts


46

© 2020 School Services of California Inc.

- 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:



46

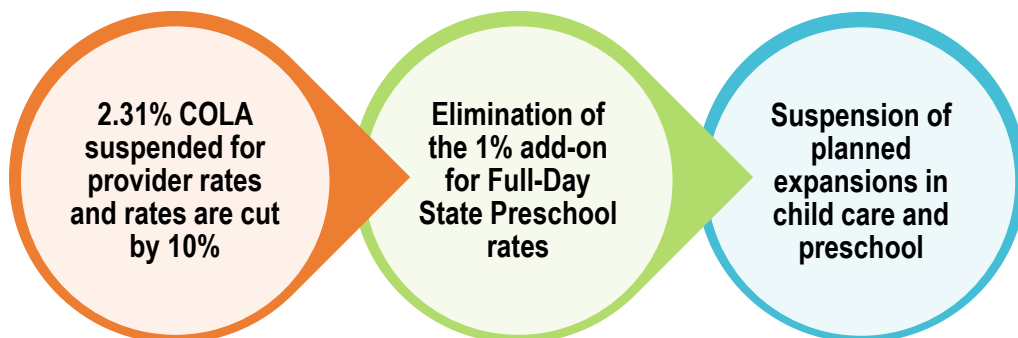


Child Care and Preschool

47


© 2020 School Services of California Inc.

- State-subsidized child development programs are taking their fair share cut as a result of declining state revenues in the May Revision



See the "Other Local Agency Operations" module in workshop resources for more information on the daily and annualized rates

47

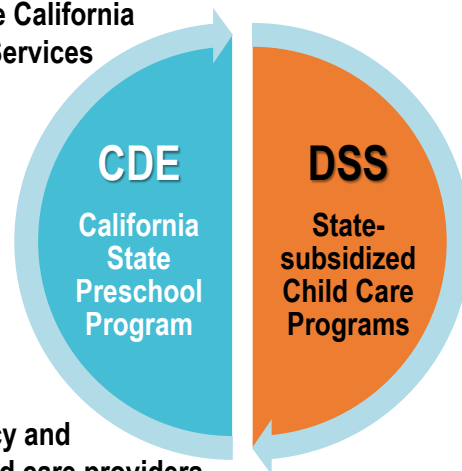


Child Care and Preschool


48

© 2020 School Services of California Inc.

- Instead of creating a new Department of Early Childhood, the Governor proposes to transfer child care programs administered by the California Department of Education (CDE) to the Department of Social Services (DSS) and proposes \$2 million to fund transfer activities
 - ◆ General Child Care
 - ◆ Alternative Payment Program
 - ◆ CalWORKS—Stage 2 and 3
 - ◆ Child care for children with severe disabilities
 - ◆ Migrant Child Care and Alternative Payment Program
 - ◆ American Indian Early Childhood Education Program
- The proposal intends to align child care under a single agency and ease the administration of collective bargaining of family child care providers



48

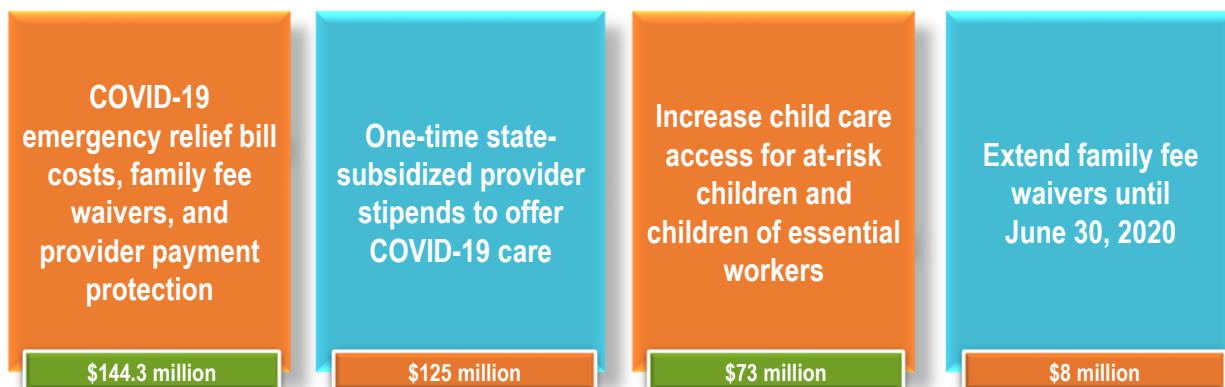


Child Care and Preschool: CARES Act

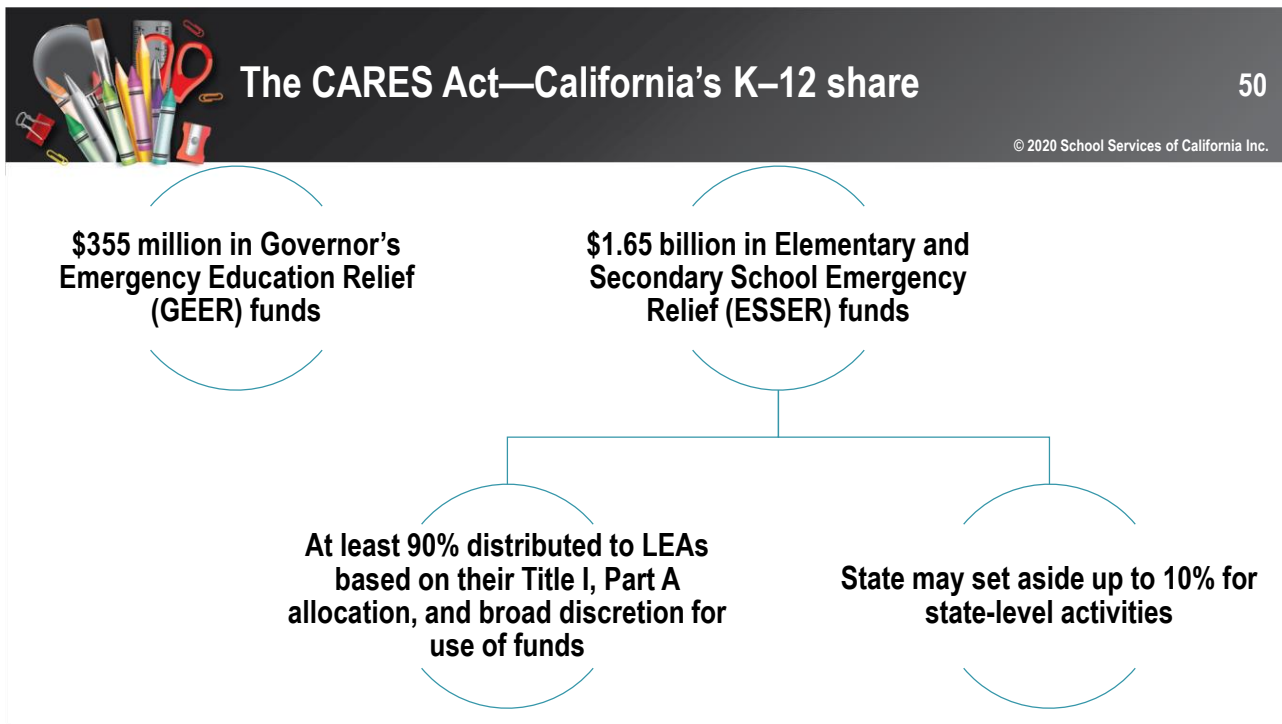
49

© 2020 School Services of California Inc.

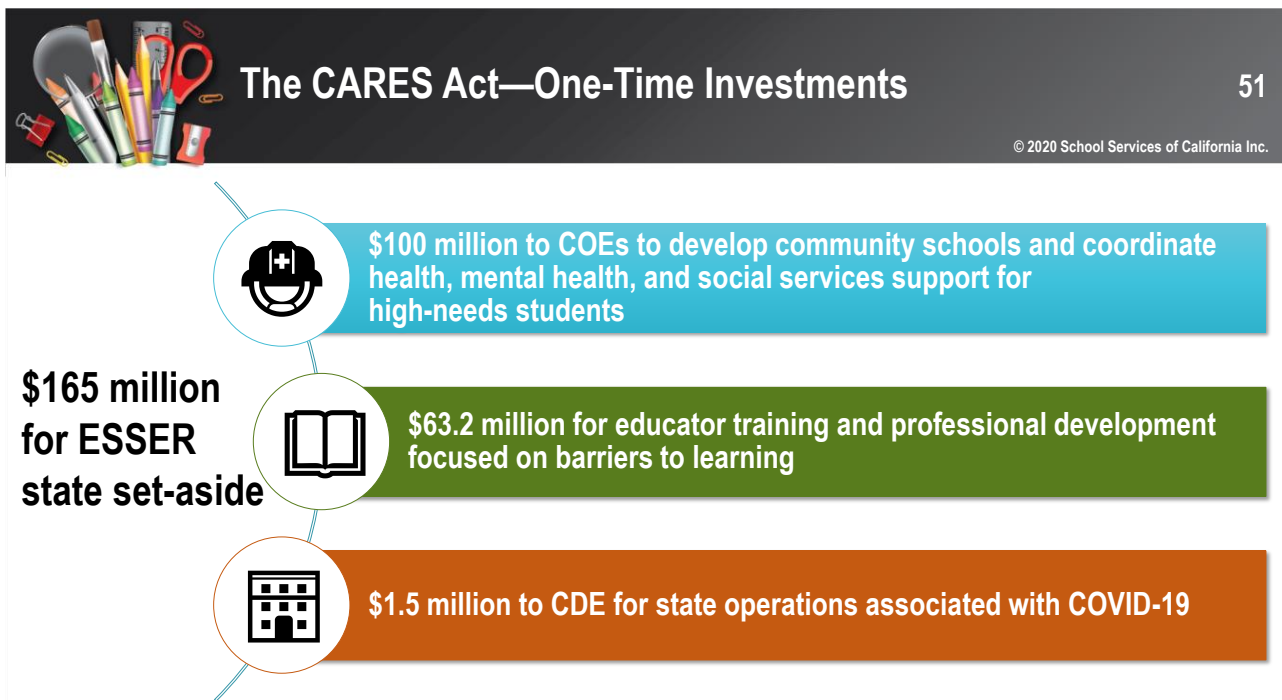
- The Governor proposes to use the \$350.3 million in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds for child care to cover COVID-19 specific costs




49



50



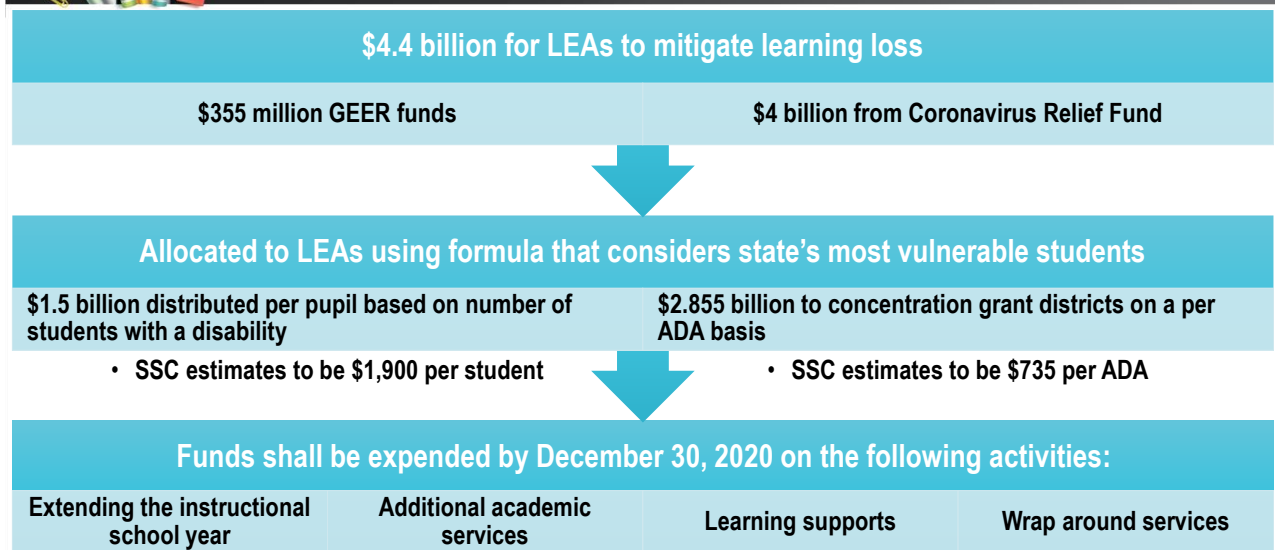
51




The CARES Act – One-time Investments

52

© 2020 School Services of California Inc.



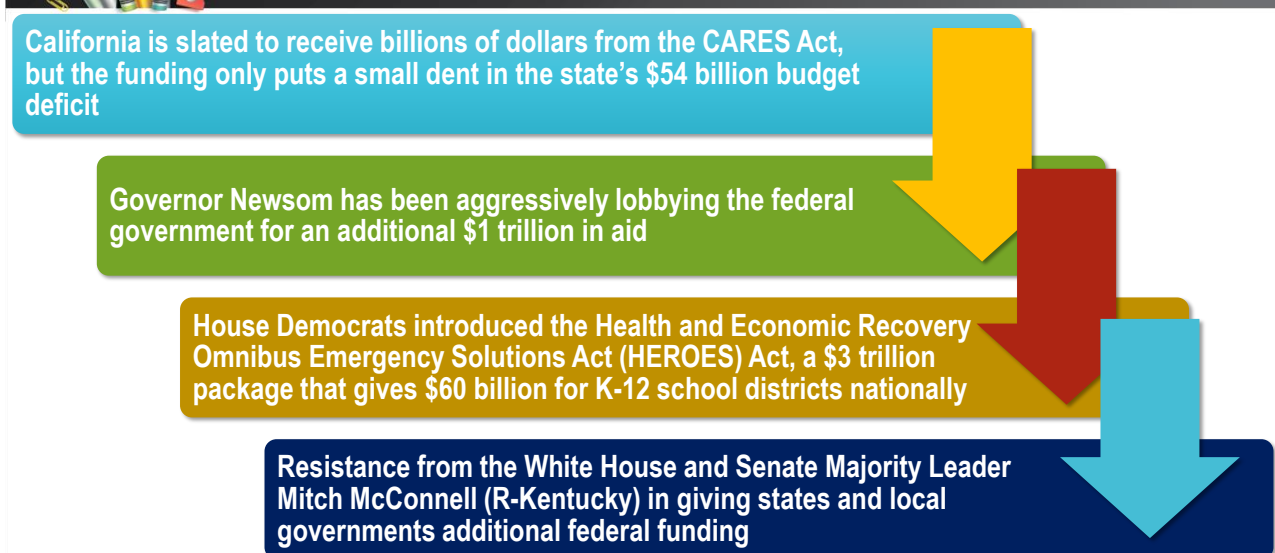
52




Additional Federal Funding?

53

© 2020 School Services of California Inc.



53



Local Relief Measures

54

© 2020 School Services of California Inc.

● In order to help LEAs absorb the reductions, the Governor offers a suite of relief measures

Exemption from deferrals for hardship reasons

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

54



Flexibility Options Absent in the May Revision

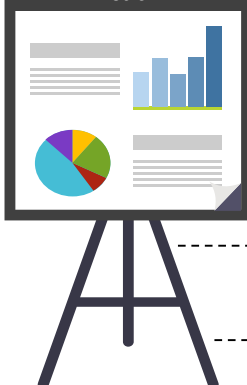
55

© 2020 School Services of California Inc.

During the Great Recession, the state provided flexibility that was meant to help LEAs weather the financial storm

While the May Revision provides some welcomed flexibility, it falls short of providing LEAs what they need

Requires Legislative Action



Flexibility to reduce the instructional year and minutes without penalty

Extend the ADA hold harmless provided for in 2019–20 through 2020–21

Reduce or suspend the required contribution to Routine Restricted Maintenance

Flexibility in the use of supplemental and concentration grant funds

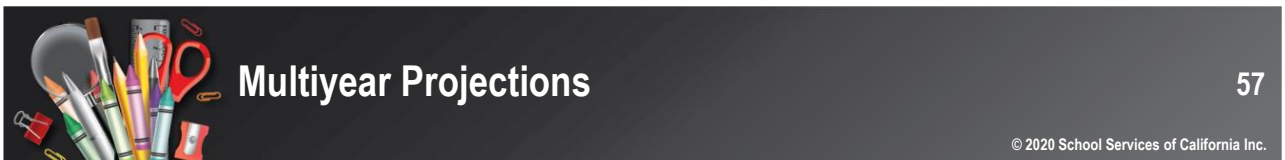
Ability to sweep ending balances from categorical programs and restricted funds to the unrestricted General Fund

See “Strategies for Weathering the Storm” in the *Fiscal Report*

55

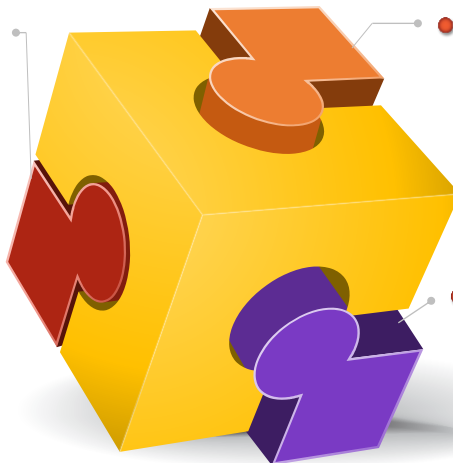


56



- Multiyear projections are the result of mathematical calculations for future years based on:

- ◆ Decisions that have already been made, and
- ◆ A set of reasonable assumptions



- Multiyear projections are not predictions of the future
 - ◆ They are not forecasts
- They are exactly wrong . . .
 - ◆ But should be approximately right

57



COLA Wars!

58

© 2020 School Services of California Inc.

Forecast	2020–21	2021–22	2022–23
DOF Forecast	2.31%	2.48%	3.26%
LAO "U" Shaped Forecast	2.31%	(0.03%)	1.11%
LAO "L" Shaped Forecast	2.31%	(0.63%)	(1.04%)
SSC Forecast	2.31%	0.70%	0.80%
SSC Recommends	0.00%	0.00%	0.00%

58



SSC Financial Projection Dartboard

59

© 2020 School Services of California Inc.

LCFF Planning Factors					
Factor	2019–20	2020–21	2021–22	2022–23	2023–24
DOF Statutory COLA	3.26%	2.31%	2.48%	3.26%	N/A
Effective Deficit Factor	—	-7.92%	-7.92%	-7.92%	-7.92%
SSC Recommended Funded COLA	—	0.00%	0.00%	0.00%	0.00%

Other Planning Factors						
Factors		2019–20	2020–21	2021–22	2022–23	2023–24
California CPI*		2.06%	0.62%	1.73%	2.12%	2.26%
California Lottery	Unrestricted per ADA	\$153	\$153	\$153	\$153	\$153
	Restricted per ADA	\$54	\$54	\$54	\$54	\$54
Mandate Block Grant (District)	Grades K–8 per ADA	\$32.18	\$32.18	\$32.18	\$32.18	\$32.18
	Grades 9–12 per ADA	\$61.94	\$61.94	\$61.94	\$61.94	\$61.94
Mandate Block Grant (Charter)	Grades K–8 per ADA	\$16.86	\$16.86	\$16.86	\$16.86	\$16.86
	Grades 9–12 per ADA	\$46.87	\$46.87	\$46.87	\$46.87	\$46.87

*Consumer Price Index (CPI)

The complete SSC Dartboard is available on our website at <https://www.sscal.com/tools-resources/dartboard>

59



Two Ways to Calculate a Deficit Factor


60

© 2020 School Services of California Inc.

Old School	
Entitlement Factors per ADA	K-3
2019–20 Base Grant	\$7,702
Statutory COLA at 2.31%	\$178
2020–21 Base Grant Before Deficit	\$7,880
Deficit Factor at -10.00%	(\$788)
2020–21 Base Grant After Deficit	\$7,092

New School	
Entitlement Factors per ADA	K-3
2019–20 Base Grant	\$7,702
Effective Deficit Factor at -7.92%	(\$610)
2020–21 Base Grant After Deficit	\$7,092

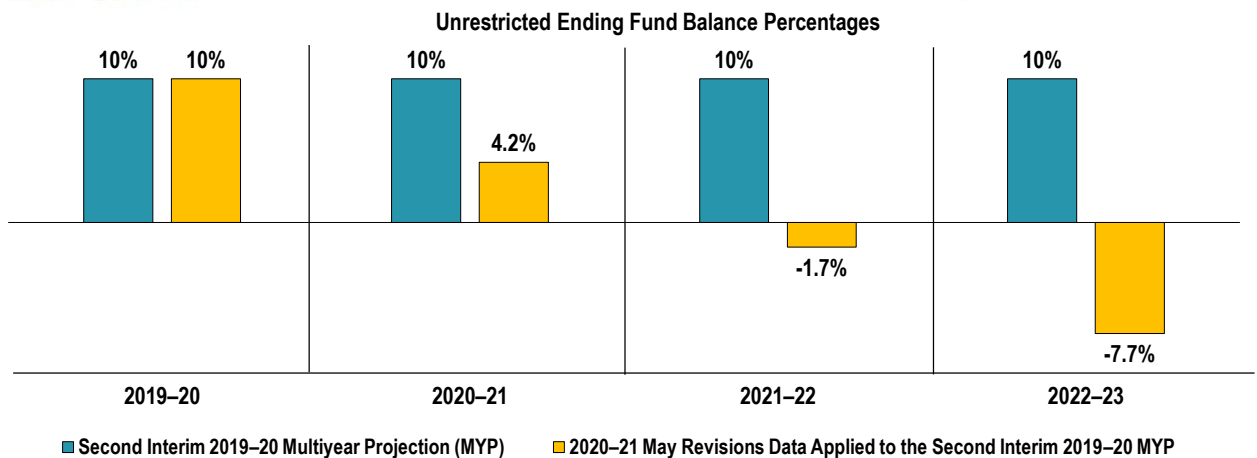
60



Multiyear Projections

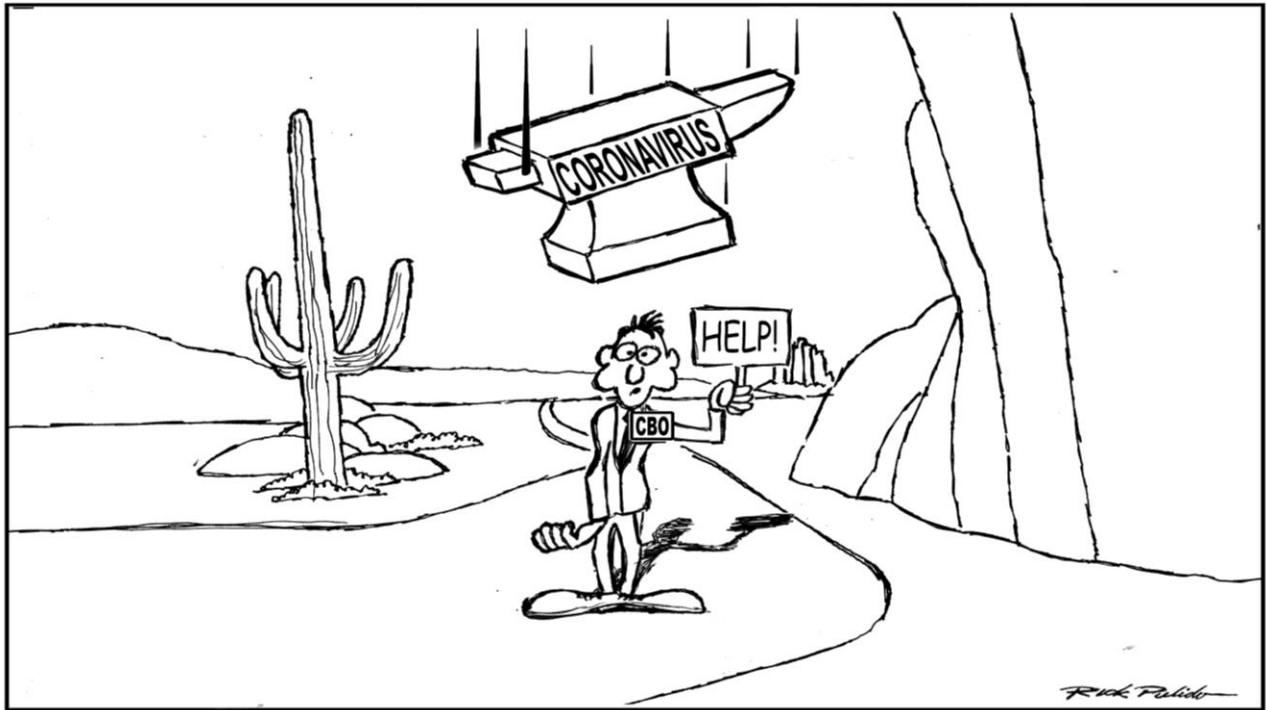
61

© 2020 School Services of California Inc.



Note: Estimated decrease incorporates decrease to LCFF entitlement offset by savings in CalPERS and CalSTRS rates

61



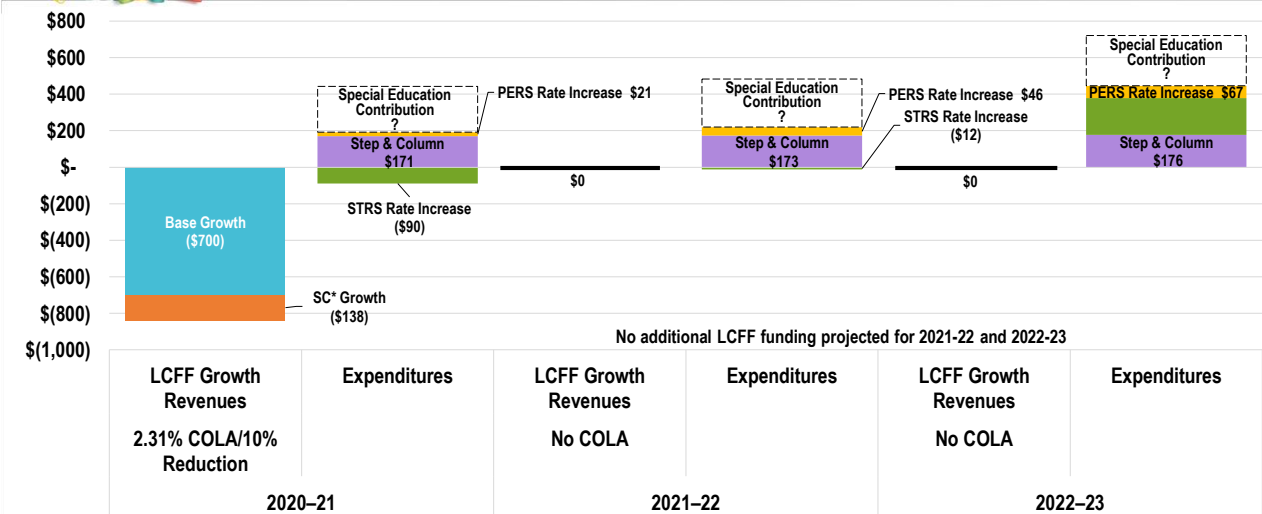
62



Multiyear Projections

63

© 2020 School Services of California Inc.



*Supplemental and concentration grants (SC)

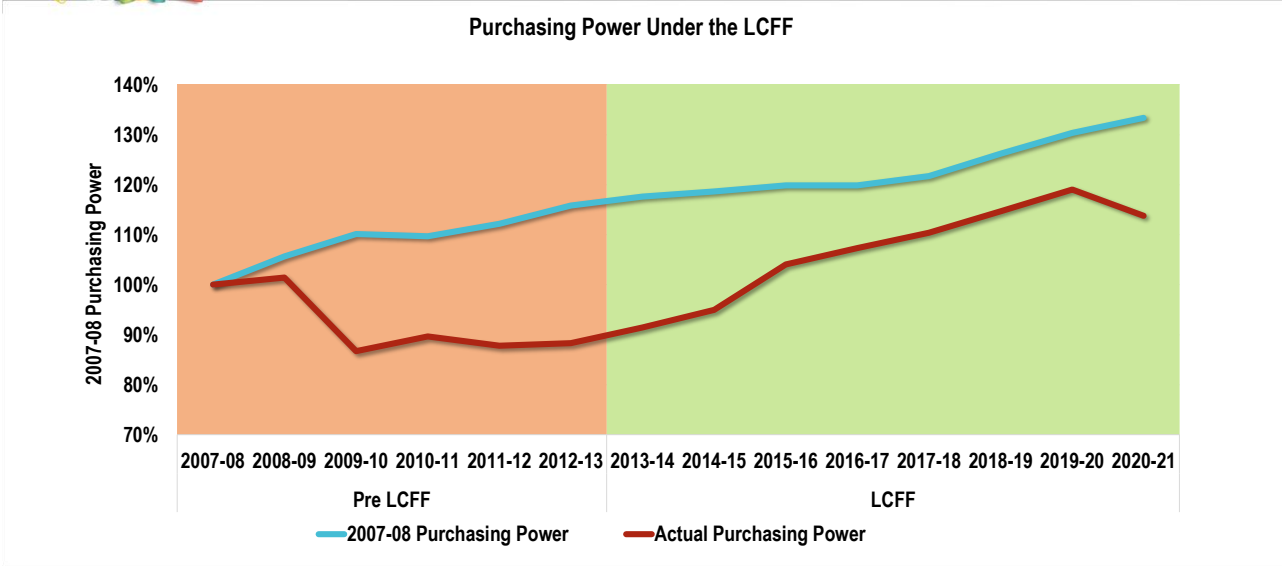
63




Purchasing Power Under the LCFF

64

© 2020 School Services of California Inc.





Statewide Average Reserve Levels


65

© 2020 School Services of California Inc.

● Heading into the Great Recession, local school district reserves were as follows:

2007–08 Average Unrestricted General Fund, Plus Fund 17; Net Ending Balances*	
Unified School Districts	8.32%
Elementary School Districts	14.05%
High School Districts	11.46%

*As a percentage of total general fund expenditures, transfers, and other uses



Statewide Average Reserve Levels

66

© 2020 School Services of California Inc.


- The latest statewide data available on school district reserves is from 2018–19:

2018–19 Average Unrestricted General Fund, Plus Fund 17; Net Ending Balances*	
Unified School Districts	17.26%
Elementary School Districts	20.47%
High School Districts	15.64%

*As a percentage of total general fund expenditures, transfers, and other uses

- Local school agencies are more prepared for this current recession than for the last one
 - ◆ Very close to the percentage of reserves recommended by the Government Finance Officers Association of 17%—or two months—of expenditures

66



Local Agency Reserves


67

© 2020 School Services of California Inc.

- Reserves provide local school agency governance teams with the ability to be more strategic in reducing expenditures when faced with a financial crisis
 - ◆ Reserves protect students, employees, and the public
- With the current pandemic-driven recession and the cuts that LEAs are facing
 - ◆ LEAs with higher reserves are better equipped to protect the community they serve



67

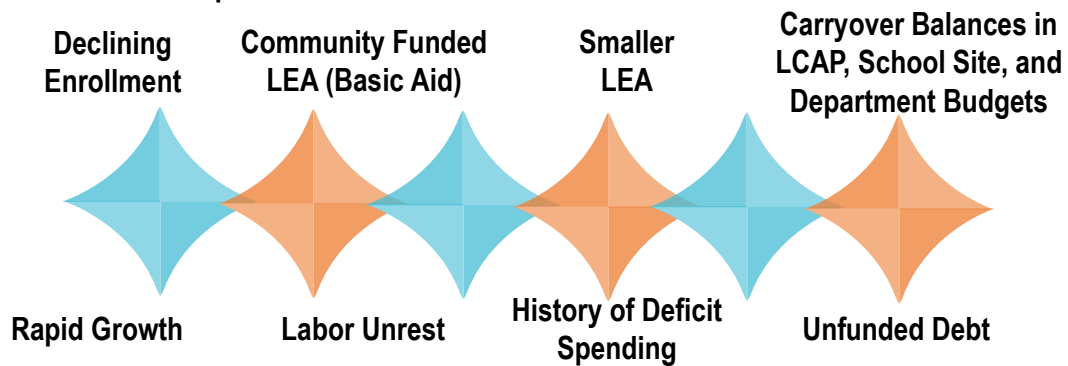


Local Agency Reserves


68

© 2020 School Services of California Inc.

- The state-required minimum reserve level is just that—a minimum
 - ◆ In California, because of the volatility of state tax revenues and therefore state revenues to schools, all local school agencies need more reserves
 - How much depends on local circumstances:



68

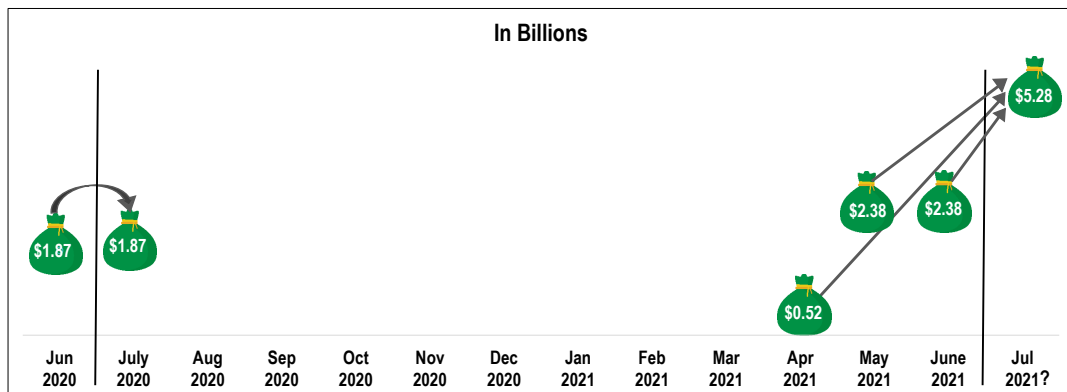


Cash Flow and Deferrals

69


© 2020 School Services of California Inc.

- The proposed deferrals in the May Revision are illustrated as follows:



- The May Revision proposes a process for local school agencies to apply for an exemption from any or all of the April, May, and June 2021 deferrals due to financial hardship

69

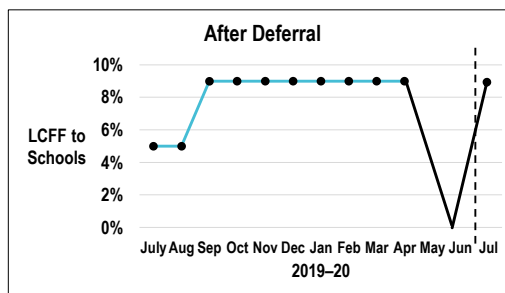
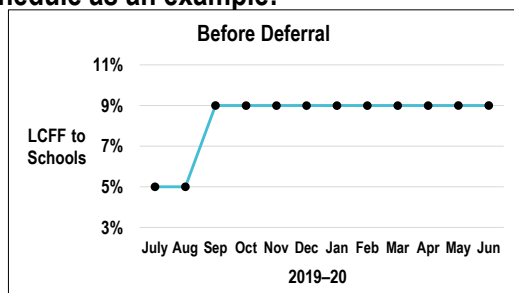


Cash Flow and Deferrals


70

© 2020 School Services of California Inc.

- Normally local school agencies receive state apportionment cash based upon the statutory schedules in EC §14041(a)(2), (7), or (8), depending on local characteristics that existed decades ago
 - Most are on the EC § 14041(a)(2) schedule, also referred to as the 5-5-9 schedule
- The cash deferrals proposed in the Governor's May Revision have this effect, using the 5-5-9 schedule as an example:



70



Cash Flow and Deferrals

71

© 2020 School Services of California Inc.

- Our advice:
 - Make sure all general ledger accounts, including cash accounts, are reconciled every month
 - Use that information to update your cash flow actuals to date
 - Then re-project for the rest of the current year as well as for next year
 - Include the Governor's proposed cash deferrals
- If your 2019–20 cash flow projection looks like this:

Form CASH—Standardized Account Code Structure (SACS) software												
2019	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
F. ENDING CASH (A + E)	2,344,411	444,233	1,599,601	877,645	233,499	3,556,902	2,286,779	1,881,489	1,044,314	2,109,233	877,449	(1,044,776)
												805,992

- Be prepared to borrow cash to get through June 2020 until the July 2020 apportionment is received

See the "Other Local Agency Operations" module in workshop resources for additional information

71



Property Taxes

72

© 2020 School Services of California Inc.

- While the April 10, 2020, property tax deadline was largely business as usual, on May 6, 2020, the Governor issued Executive Order (EO) N-61-20 to waive late penalties for homeowners financially affected by COVID-19
 - ◆ Not all homeowners will utilize this flexibility to postpone payments until May 2021, but there will be some effect locally on cash flow
- All school districts receive some property taxes to fund the LCFF so this EO will have real time cash flow implications with more significant effects for those districts that receive a greater proportion of their funds through property taxes
 - ◆ Districts should work closely with their county tax collectors to understand how many parcels in their area are likely to go unpaid

72



Property Taxes

73

© 2020 School Services of California Inc.

- The vast majority of counties operate a Teeter Plan, in which districts receive their apportionment of property taxes regardless of whether they are actually paid
 - ◆ Districts should also keep in contact with their county supervisors to make sure they are aware of any potential changes to the local payment schedule



73



Collective Bargaining

74

© 2020 School Services of California Inc.

- No single step in the budget development process can impact fiscal health as much as collective bargaining
- Working conditions, such as class size, preparation time, and length of workday, can be costly
- Most of the unrestricted General Fund goes to support personnel costs, and that percentage is growing and will continue to grow absent reductions in force
- LEAs where labor peace reigns and a history of strong labor-management relationships exist may be surprised to find employee groups resisting concessions
 - ◆ Maintaining the status quo will favor your labor partners

74



Collective Bargaining


75

© 2020 School Services of California Inc.

- Unless employee groups acknowledge the problems LEAs are facing and are willing to share in the solutions, there is little the LEA can do but eliminate jobs
- Some recognition is needed by both management and employee groups that we are in this together



75



Bargaining Lessons from the Great Recession

76

© 2020 School Services of California Inc.

LEAs needing concessions from employees to maintain fiscal solvency need to get to the table early

If you meet with resistance, move to impasse and exhaust proceedings quickly—be prepared to impose your last, best, and final offer




Can be a risky strategy

Impasse is costly in dollars and impact to the employer-employee relationship

Will challenge the resolve of the board, community, and the administration

On May 8, Governor Newsom issued Executive Order N-63-20 which extends by 60 days the deadline in which a mediator must request the parties' differences be submitted to a factfinding panel

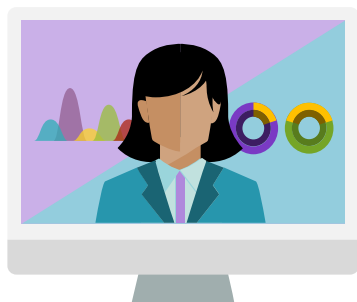
76



Bargaining Lessons from the Great Recession

77

© 2020 School Services of California Inc.




Begin working to cut the low-hanging fruit—if your first stop on your spending reductions journey is at the union's door, it is going to be a treacherous trip

Reductions in classified and certificated services may need to be made now to maximize options while you attempt to negotiate other concessions. Will the summer layoff window open for certificated employees?

Despite the catastrophic cuts that will be needed, unilateral action on matters within the scope of collective bargaining, and without exhausting impasse proceedings, is prohibited

See the "Other Local Agency Operations" module in workshop resources for more information on the Summer Layoff Window

77



Negotiating Concessions

78

© 2020 School Services of California Inc.

LEAs with compensation and working conditions that are the “best in the land”—or at least reasonably comparable—are better positioned to secure salary concessions




Reductions in salary and/or benefits are the most difficult to negotiate, but in most cases result in the greatest savings

Freezing step and column movement results in temporary, short-term savings—think of it as a loan—cost of step and column restoration can be substantial in future years

While the legislature acted to allow reductions in the school year without funding penalties during the Great Recession, the work year of employees is a mandatory subject of bargaining

78



Negotiating Concessions

79

© 2020 School Services of California Inc.

You need concessions but . . .		Consider . . .
Have a closed multiyear agreement (contains a “Zipper Clause”)	→	Sending a formal request to bargain encouraging the union to explore negotiable cost-saving options that might also save jobs
Are currently negotiating with your employee groups, but talks are stalled or going nowhere fast	→	Placing all issues in a packaged proposal and present at the table; if they don’t accept your proposal, file for impasse
Are currently at impasse	→	Exhausting proceedings and preparing to impose your last, best, and final offer
Are settled for 2019–20—haven’t sunshined reopeners for 2020–21	→	Sunshining before July—after the public hearing, begin negotiations even if the union has not presented its proposals

79



Certificated Second Layoff Window

80

© 2020 School Services of California Inc.

EC § 44955.5 provides a “second layoff window” between five days after the enactment of the Budget Act and August 15

The local governing board must determine that its revenue per ADA has not increased by at least 2% over the prior year and adopt an abbreviated schedule of notice and hearing



71 districts and COEs exercised their authority under EC § 44955.5 during the summer of 2009 and 22 went to hearing

With few exceptions, presiding Administrative Law Judges (ALJs) ruled that once the 2% test had been met, the governing board had broad discretion in determining the need to reduce certificated service

80



Second Layoff Window Implementation


81

© 2020 School Services of California Inc.

- LEAs contemplating use of the second layoff window, assuming it isn't rendered inoperative, will need to work closely with their labor attorneys
- Planning of the layoff is critical—as the schedule adopted by the governing board is an abbreviated one and there is little room for missteps
- In 2009, the Office of Administrative Hearings (OAH) proposed the following timelines:
 - ◆ Layoff hearings be scheduled between June 29 and July 24
 - ◆ The presiding ALJ decisions should be issued not later than August 6
- What would a summer 2020 layoff timeline look like?

See the “Other Local Agency Operations” module in workshop resources for additional information regarding implementation

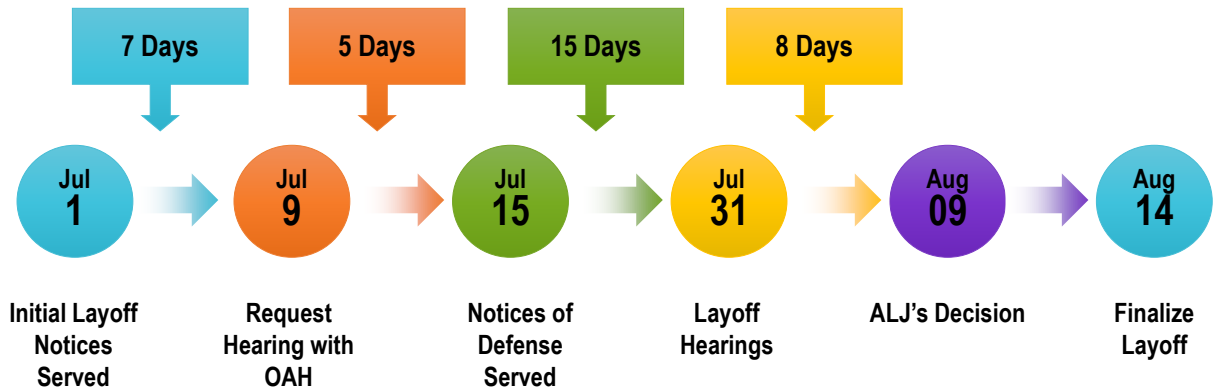
81



Example of Possible Second Layoff Timeline

82

© 2020 School Services of California Inc.



82



Summary and Perspectives

84



The Road Ahead

85

© 2020 School Services of California Inc.

- The May Revision typically spawns intensified negotiations between the Assembly, the Senate, and the Governor over multiple weeks culminating in an approved State Budget
 - ◆ The Legislature has had to make significant adjustments to hearing schedules and procedures as a result of COVID-19
 - ◆ We should expect a minimum number of budget hearings prior to the Legislature's vote to adopt a budget
 - Reduces opportunities to influence budget decisions
 - Limits public access to budget negotiations
- Legislature must approve a budget by June 15, or else risk suspending pay
- Governor must act on the State Budget by June 30



85

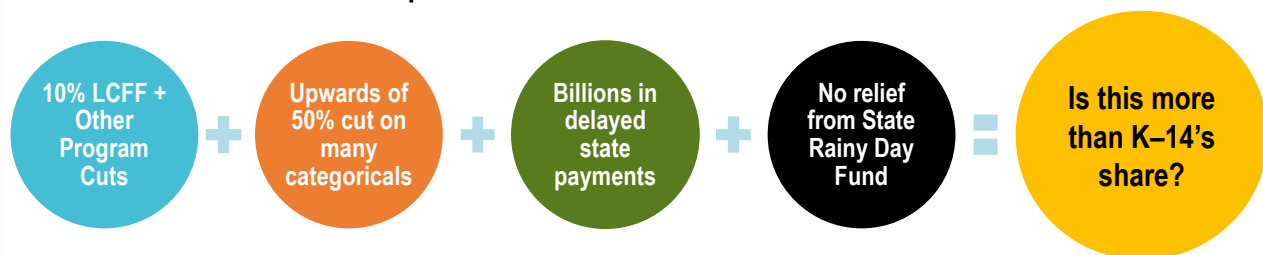


Is This a Fair Share Budget for Education?

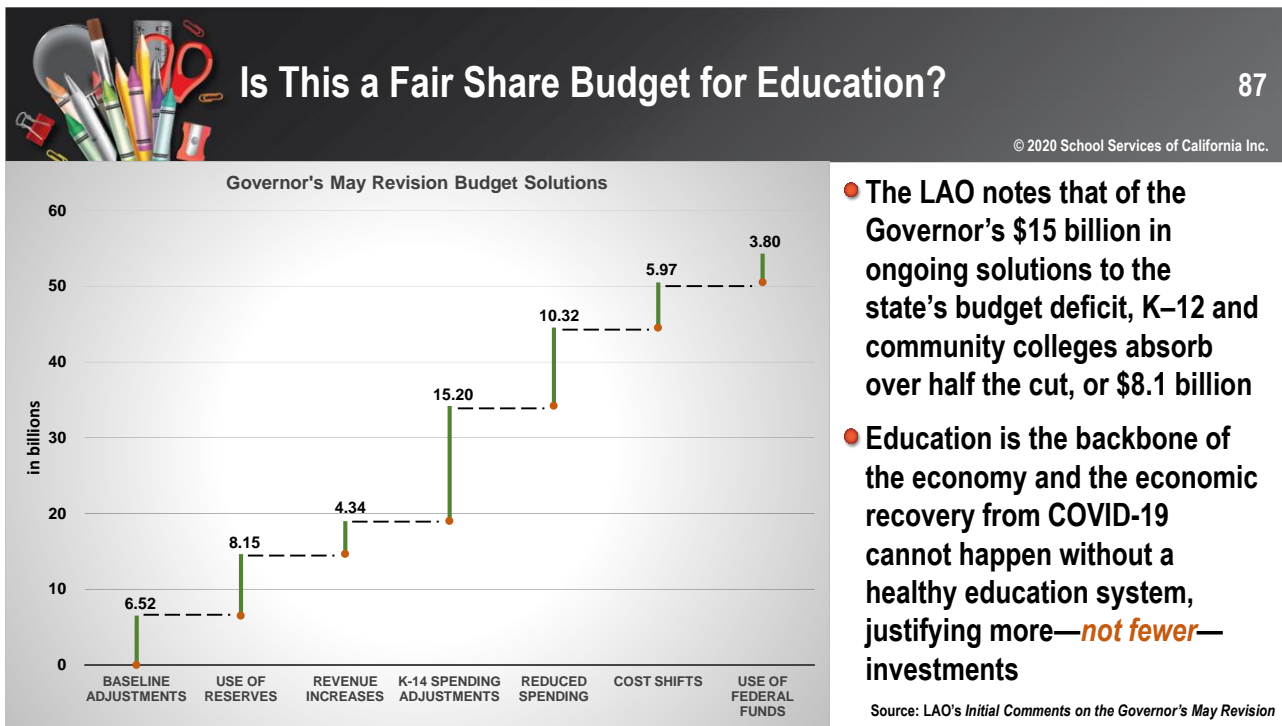
86

© 2020 School Services of California Inc.


- K-12 and community college funding is by far the largest single General Fund obligation the state has as a constitutional entitlement; together, it encumbers almost 40% of all state revenues in most years
- Education funding is impacted by the sudden economic shock that evaporates state revenues almost overnight, to the tune of \$18 billion between 2019-20 and 2020-21
 - ◆ A closer look at the K-12 planned reductions is warranted . . .



86



87



Is This a Fair Share Budget for Education?

88

© 2020 School Services of California Inc.

- There are things in the May Revision to appreciate, but the treatment of education funding in this recession is beginning to feel eerily similar to the way it was treated during the Great Recession

Deferrals

When education was the state's credit card from which it charged its other debt except that local districts were left paying the accrued interest

New LCFF "Deficit Factor"

The 10% reduction to the LCFF and the LCFF add-ons is not unlike the old deficit factor applied to the revenue limits of the past

Categorical Program Cuts

The cut to categorical programs that serve very specific purposes and in many cases specific student groups are severely and disproportionately impacted by the reductions in funding

88



State Political Factors and the Education Budget

89

© 2020 School Services of California Inc.

- The COVID-19 recession will impact the Education Budget very differently from past recessions



COVID-19 creates more than just a financial crisis—it is a health pandemic that has devastating effects on education



A top concern for lawmakers is halting and then recovering the learning students have lost as a result of COVID-19



Some historical flexibilities to help districts manage the crisis may not be politically viable—like reducing instructional days and time, making it difficult for LEAs to right-size their budgets

89



Looking Forward: November General Election

90

© 2020 School Services of California Inc.

- Due to COVID-19, Governor Newsom has issued an Executive Order to ensure that every eligible voter receives a vote-by-mail (VBM) ballot
 - ◆ While 72% of the ballots cast in March were VBM ballots, the election was held prior to the statewide stay-at-home order
 - ◆ How will the VBM order and economy affect voter turnout and results?
- In its annual education survey, the Public Policy Institute of California found:
 - ◆ 50% of likely voters would approve a local bond measure (less than the 55% threshold)
 - ◆ 40% of likely voters would support a local parcel tax, which has a two-thirds threshold
 - ◆ 53% of likely voters said that they would vote for the Proposition 13 split roll
 - However, the opposition campaign by the Howard Jarvis Taxpayers Association will likely narrow these poll numbers

90



Outlook for Education Funding

91

© 2020 School Services of California Inc.



- It would be tempting to feel like public education is going to be at the epicenter of the COVID-19 storm for the foreseeable future
- However, the May Revision holds some promise that we could be seeing brighter days sooner than we think
 - ◆ The Proposition 98 supplemental payments will help to recover from the recession and begin restoring positions and programs that serve students
- But we know we will need more—restoration to pre-COVID-19 levels still leaves us with less purchasing power considering all the new demands of keeping students learning and safe in this environment

91



92



Final Thoughts

93

© 2020 School Services of California Inc.

- We know each of you face harrowing days, weeks, and months ahead and we are committed to serving you the best we can by providing . . .
 - ◆ . . . the latest information from the state in ways that make sense to you and your communities
 - ◆ . . . our best advice on how to manage your operations while maintaining the high-quality education for your students and families
- It's important to keep in mind that there are still a lot of "unknowns"
 - ◆ Economic data will continue to inform revenue projections, like personal income tax, unemployment figures, and updates in the national and state GDP
 - ◆ Historically, during such uncertain times, the state would sometimes revise its budget depending on the magnitude of differences in the June estimates and reality
 - ◆ The Legislature still needs to weigh in with its priorities, which may or may not align with Governor Newsom's

We'll be back in July to let you know the final outcome of budget negotiations . . . please join us!

93



94

Resources Download



Additional content is available through two pre-recorded modules—Closing the Books for 2019–20 and Other Local Agency Operations—available anytime from your My SSC page.



Materials Download
To download the workshop materials, go to:
www.sscal.com/my-ssc



Find Workshops
Under “My Workshops,” click on
“View Workshop Resources”
underneath the workshop title



Who can access?
To access the workshop materials, you'll need to be logged in with the email address that is registered for the workshop

95



**School
Services
of California**
INC. TM
An Employee-Owned Company

Thank you for watching!

96