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FISCAL REPORT

2020–21 May Revision Proposes LCFF Cuts and Deferrals, but Some Good News Too

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Overview

Today, May 14, 2020, Governor Gavin Newsom laid out the details of the May Revision to the 2020–21 State Budget, and they are as grim as expected. Through no fault of his own, the May Revision proposals bear no resemblance to the Governor's January State Budget, when the Administration anticipated a $5.6 billion surplus in a $222 billion spending plan.

The purpose of this article is to provide a quick overview of Governor Newsom's assertions regarding the revised 2020–21 State Budget. We reserve our commentary on these proposals for inclusion in our more detailed *Fiscal Report* article, to be released later this evening.

Proposition 98

As previewed last week, Governor Newsom's revision to his 2020–21 State Budget proposal reflects significant changes to Proposition 98 in the current and budget years, totaling $19 billion.

In future years, Governor Newsom plans to provide supplemental appropriations above the constitutionally required Proposition 98 funding level, beginning in 2021–22, and in each of the next several fiscal years.

Local Control Funding Formula

For the first time since its creation, the Local Control Funding Formula (LCFF) is facing a reduction instead of an increase. Officially, the statutory cost-of-living adjustment (COLA) is calculated at 2.31% and applied to the LCFF, but a reduction of 10% ($6.5 billion) will be applied unless "triggered off if the federal government provides sufficient funding to backfill this cut." As of this writing, no written details were provided as to how this cut would be applied.

CalSTRS and CalPERS

In positive news, the Administration proposes to redirect the $2.3 billion paid in the current-year budget to the California Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) towards long-term unfunded liabilities to further reduce employer contribution rates in 2020–21 and 2021–22. This reallocation will reduce the CalSTRS employer rate from 18.41% to approximately 16.15% in 2020–21, and from 18.2% to 16.02% in 2021–22. The CalPERS employer contribution rate will be reduced from 22.67% to 20.7% in 2020–21, and from 25% to 22.84% in 2021–22.

Deferrals

To address a current and anticipated cash crunch, the Administration proposes several deferrals. The first comes immediately, deferring $1.9 billion of LCFF apportionment from 2019–20 to 2020–21. In 2020–21, the Administration proposes deferrals totaling $3.4 billion, for a grand total of $5.3 billion in LCFF deferrals scheduled for payment in 2021–22.

Flexibilities

In order to assist local educational agencies (LEAs) facing this potential 10% LCFF cut, the Administration proposes the following flexibilities, including:

- Exemptions if apportionment deferrals create a documented hardship
- Authority for LEAs to exclude state pension payments on behalf of LEAs from the calculation of required contributions to routine restricted maintenance
- Increases on LEA internal inter-fund borrowing limits
- Authority to use proceeds from the sale of surplus property for one-time General Fund purposes

Special Education

While the proposed $250 million in one-time funds based on preschoolers with disabilities was dropped at the May Revision, the Administration continues to sustain the Governor's Budget proposal to increase special education base rates, updated at May Revision to $645 per pupil (while suspending the 2.31% COLA), apportioned on a three-year rolling average of LEA average daily attendance (ADA) (allocated to Special Education Local Plan Areas).

Categorical Cuts

The Administration proposes cuts to several non-LCFF programs including: After School Education and Safety, K–12 Strong Workforce Program, CTE Incentive Grants, Adult Education Block Grant, and several others.

Learning Loss Mitigation

The May Revision proposes a one-time investment of $4.4 billion ($4 billion federal Coronavirus Relief Fund and $355 million federal Governor's Emergency Education Relief Fund) to LEAs to address learning loss related to COVID-19 school closures. Funds will be allocated to LEAs offering classroom-based instruction based on a formula that takes into account the share of students most heavily impacted by school closures, including students with disabilities, low-income students, English learners, youth in foster care, and homeless youth.

More Analysis to Come

More in-depth coverage of Governor Newsom's revised proposals will be released in a comprehensive *Fiscal Report* article this evening and at our May Revision Workshop.