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May 14, 2020

May Revision to the 2020-21 Budget Includes Anticipated School Funding Cuts

Today, May 14, 2020, Governor Gavin Newsom released the May Revision to the state budget proposal for 2020-21. We wanted to provide a broad overview of the revised spending plan, but we note that much of the detail of the plan has not yet been provided. We will follow up in the coming days with a full analysis of the proposal and keep you updated as the Legislature works to adopt a balanced budget by June 15. The Governor's Summary of the 2020-21 May Revision [can be found here](#), and see below for information on a CCSA Budget Webinar next week!

The Governor notes: "COVID-19 has caused a global economic crisis which has had a profound impact on California. The May Revision is guided by the principle of prudent fiscal management to: protect public health, public safety and public education; provide assistance to small businesses and Californians most hurt by the pandemic; and to invest in a safe and quick economic recovery."

The impact of the pandemic on state revenue and spending is unprecedented. The May Revision projects a total revenue decline of 22 percent causing a \$54.3 billion deficit over this year and for 2020-21 years.

For K-12 education, the May Revision includes total funding of \$99.7 billion (\$47.7 billion General Fund and \$52 billion other funds). The Proposition 98 school funding guarantee will decline by \$19 billion compared to the January projections. Though several options, including new federal funds pension relief, and apportionment deferrals could help offset some of this direct hit on schools. Specifically, the May Revision proposes:

- Absent additional federal funds, the COVID-19 Recession requires a 10 percent (\$6.5 billion) reduction to LCFF compared to January projections. This reduction includes the elimination of a 2.31 percent cost-of-living adjustment. This reduction will be triggered unless the federal government provides sufficient funding to backfill this cut.
- Also absent additional federal funds, the May Revision includes the several Proposition 98 reductions to various K-12 categorical programs, totaling \$352.9 million, including After School Education and Safety (\$100m), Strong Workforce Program (\$79.4m), and Career Tech (\$77m).
- The SB 740 Charter School Facility Grant Program would not be provided a Cost of Living Adjustment (COLA) as proposed in January, but the May Revision does not propose a further base reduction to the program. In fact, the COLA in 2020-21 for virtually all categorical programs has been eliminated.
- For Special Education, the May Revision sustains the Governor's Budget proposal to increase base rates, updated at May Revision to \$645 per pupil to reflect the suspension of the COLA. This new base rate represents a 15 percent increase in the Proposition 98 General Fund contribution to the base formula funding over the amount provided in the 2019 Budget Act. Also included is \$7 million to develop alternative dispute resolution and mediation options related to service gaps caused by the pandemic.
- Virtually all new proposals are withdrawn from the Governor's Budget, including Opportunity Grants, Special Education Preschool Grant, Credentialing Grants, etc.
- The May Revision proposes a new one-time investment of \$4.4 billion in federal funds to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures for a variety of targeted activities.

School Apportionment Deferrals have become common in economic downturns, and the May Revision also proposes apportionment deferrals as a strategy to retain school funding without deeper cuts. In 2019-20, the Budget proposes to defer \$1.9 billion of LCFF apportionments to 2020-21. An additional \$3.4 billion is added to the 2019-20 deferral in 2020-21, for a total of \$5.3 billion in LCFF deferrals scheduled for payment in 2021-22. In our budget advocacy this spring, CCSA has emphasized the cash-flow challenge deferrals have on schools. We are pleased the Governor included an option for exemptions for local educational agencies if apportionment deferrals create a documented hardship.

To help mitigate the impact of the significant fiscal crisis, the May Revision includes a number of fiscal and programmatic flexibilities including:

- Authority for local educational agencies to exclude state pension payments on behalf of local educational agencies from the calculation of required contributions to routine restricted maintenance.
- Flexibility on local educational agency internal inter-fund borrowing limits
- Allowance of the use of sale of surplus property for one-time general fund purposes.
- Options for specified special education use of tech-based options.

CCSA Hosting May Revision Budget Webinar

The CCSA Government Affairs Team will continue to review and analyze the Governor's May Revision as more details become available. CCSA will also participate in the [Assembly Budget Subcommittee](#) hearing on education finance next Monday, May 18. We'd like to invite you to join Myrna Castrejón and the CCSA Government Affairs Team for a webinar on May 21st for an overview and briefing of the charter school issues in the budget. We also plan on sharing our next steps in advocating on charter schools budget and policy priorities. [Please register here.](#)

Federal Funding Updates

CARES Act Funding

The California Department of Education reports that it is expecting to have information posted about the Cares Act Funding allocations by as early as next week. In accordance with the Act, we expect these formula allocations to be provided to schools based on Title 1 funding allocations in 2019-20.

House of Representatives Introduces HEROES Act

The House of Representatives Democratic Caucus has introduced the HEROES Act, a new \$3 trillion coronavirus relief bill. Amongst new stimulus checks, extension of unemployment benefits, hazard pay for frontline workers, and other proposals, the HEROES Act proposes an additional \$90 billion in state grants to be used for early childhood, elementary, secondary, and post-secondary education. The bill appears to offer more discretion to states on allocation methodology than the CARES Act. This bill still has a long road to reach agreement in both houses, but we will keep you posted of new developments. Additional federal funding will be a key to mitigate some of the significant state funding cuts.

SBA Provides Good Faith Certification Safe Harbor for Paycheck Protection Program (PPP) Loans

On May 13, the U.S. Department of the Treasury (Treasury Department) provided additional guidance about the [Paycheck Protection Program](#) (PPP). It announced a new safe harbor for borrowers. The SBA provided in Question 46 of its [FAQ](#) that it determined the safe harbor is appropriate because “borrowers with loans below this threshold are generally less likely to have had access to adequate sources of liquidity in the current economic environment than borrowers that obtained larger loans.” We encourage borrowers to review the updated guidance on the safe harbor. If you have any questions about how this new guidance affects your school, we encourage you to discuss the updated PPP guidance with your attorney and back office support provider.

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