



Executive Summary on Government Revenues Outlook

May 21, 2020

Massive job losses and an abrupt halt to economic activity make it clear that we have entered a recession, according to Legislative Analyst Gabriel Petek, speaking on April 16th at the hearing of the new Senate Special Budget Subcommittee on COVID-19 Response. While neither the Analyst nor Newsom's staff offered specific figures, they did offer the following key points as summarized by Charter School Development Center (CSDC):

- The State of California is “likely facing a potentially significant budget problem” and revenues will be “insufficient to cover existing service levels.”
- The sudden nature of the economic downturn, combined with its late spring timing and the delay in the income tax filing deadline from April to July 15, will make it difficult for the state to estimate its revenues during this important budgeting season.
- Hope for a short, “V-shaped” recession where the sudden downturn is followed by a rapid recovery are fast fading.
- Past experiences with recessions indicate that the recession “will last several budget cycles” starting with the current 2019-20 fiscal year and perhaps lasting beyond 2020-21.
- A recession reflecting typical post-war economic cycles would cost the state an estimated \$50 billion in revenues. Preliminary data on this new recession, however, indicates that the new recession could be significantly worse than a typical one, and perhaps on par with the Great Recession during 2008-10, costing the state \$35 billion in the current year and \$85 billion in subsequent years.
- The extent of the economic downturn is likely dependent on two major, unknown factors: (1) the path taken by the Coronavirus and (2) the federal government's response.
- A more optimistic scenario would result in a “U-shaped” recession curve, where the virus dissipates over the summer and the economy recovers sharply starting late this year.
- A less optimistic scenario is where the virus initially dissipates, but roars back in the fall leading to a longer, “L-shaped” recession curve with a more delayed recovery.
- The federal response, principally including the CARES Act's \$2.2 trillion stimulus, is helpful and further federal aid could prove critical to economic recovery. The federal role is critical because the federal government can both borrow and print money whereas the state is prohibited from doing so per the California Constitution.



School funding is in a very precarious situation in California, notwithstanding the state's substantial budget reserves. Though it's still much too early to know the specific impact that COVID-19 will have on school funding, the following points seem increasingly clear based on CSDC's analysis:

- Substantial funding cuts, as well as intra- and inter-year funding deferrals for public schools in California are a distinct possibility.
- The specific depth and timing of the cuts is unknown.
- Due to the lack of information about state revenues and the depth/severity of the new recession, the state likely will develop and adopt a "workload" budget in May and June for the 2020-21 fiscal year. It likely will substantially revise the budget after the start of the fiscal year, perhaps in August, after the deferred April 15 income taxes are due in July. **Given this odd budgeting cycle, we are proposing this budget with very limited revenue data. It is likely we will come back with a revised budget proposal once the government revenue is settled in later summer/early fall.**
- Some of the impact of the recession may be mitigated by recent and future federal aid, though the amount and targeting of future aid remains unclear. Schools that participate in the federal Title I aid program should receive the federal aids. **However, due to the uncertainty of the amount, we did not budget any federal revenue increase for FY20-21.**
- Where CSDC previously suggested modeling relatively modest cuts assuming a "V-shaped" recession curve, CSDC now suggests modeling a "less pessimistic," zero COLA scenario and a "more pessimistic" (e.g., 10-20 percent cut) range for 2020-21, until the revenue picture clarifies.
- Based on the advice from CCCOE, **we are assuming a state revenue scenario somewhere between the "less pessimistic" and "more pessimistic" ones, i.e., zero COLA and 5 percent cut from FY20-21 LCFF rate, while assuming no additional federal funding.**
- Congress is expected to approve a second round of the Payroll Protection Program (PPP) with a total funding of \$484 billion soon. The charter community is optimistic that the loan will be treated as a grant instead of a loan (due to the forgiveness). Since there are still a lot of uncertainties about the funding availability, approval process, and how to calculate the forgiveness amount, we are not counting the potential "grant" in the proposed budget.