Executive Summary on 2020-21 State Budget

September 10, 2020

Governor Newsom signed the 2020-21 state Budget Act and related trailer bills into law on June 29, capping funding for growing schools and largely reversing many of the cuts he proposed in May. The 2020-21 state budget package is the most complex in decades, attempting to spare cuts by assuming billions in additional federal funds. The key features of this complex budget, as well as their impact on MWA, are summarized below.

Growth Cap: The growth cap, which was never discussed during the usual budget deliberations, appeared unexpectedly in the final version of K-12 education budget trailer bill (SB 89). It would peg schools' average daily attendance (ADA) for 2020-21 at 2019-20 levels, thereby effectively capping funding. Governor Newsom appears to have some "signer's remorse." He took the unusual step of issuing a signing message when he announced his signature of the trailer bill. The message spoke in part to the ADA growth cap as follows:

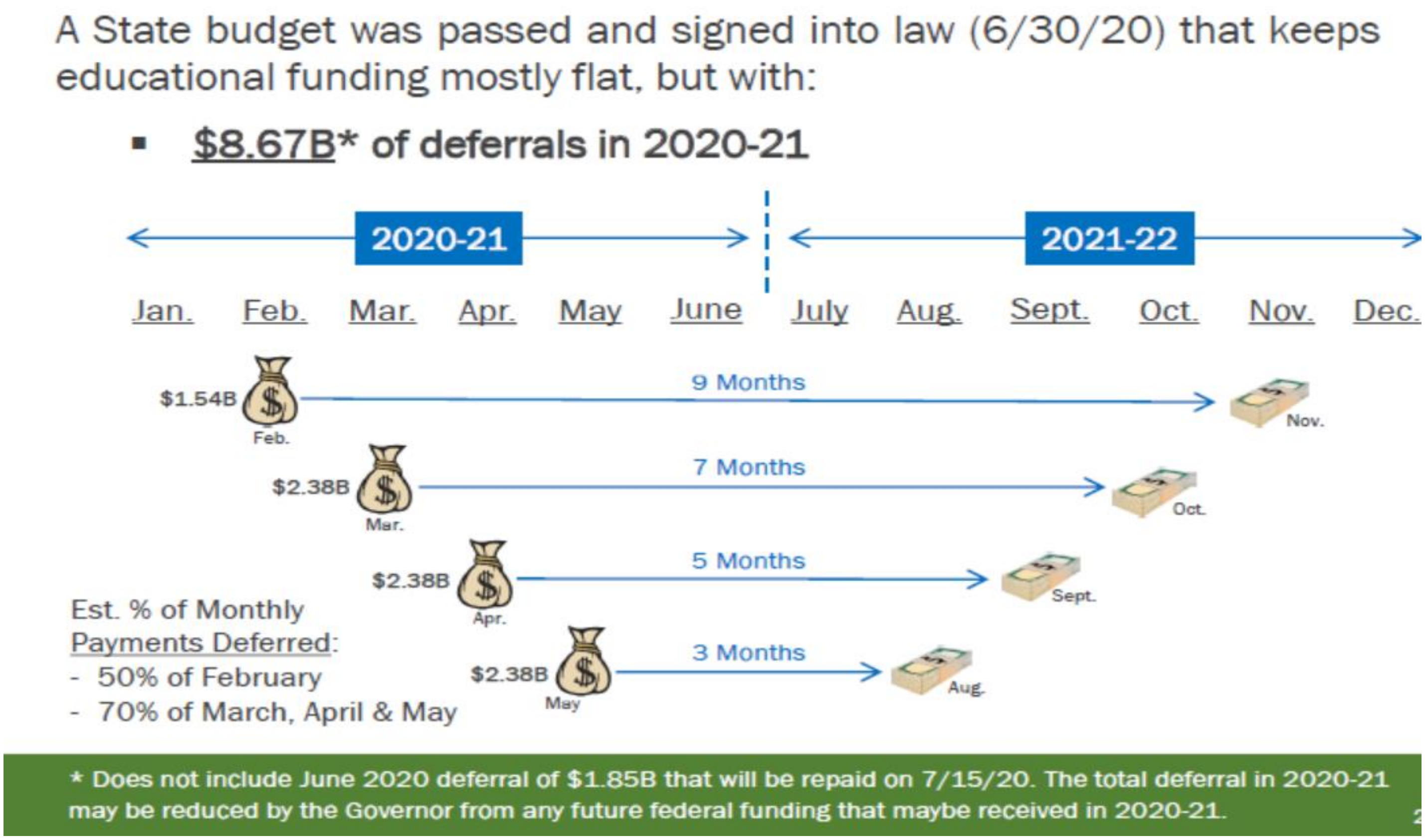
"While maintaining school funding at current levels allows for stability in the public education system, it does not take into account schools that had planned expansions. By not funding these expansions, families enrolled in those schools may be displaced, with impacts exacerbated by the uncertainties caused by COVID-19. I urge members of the Legislature to pursue targeted solutions to these potential disruptions, and will work with you in coming weeks to enact them."

At the time this summary was drafted, the Newsom Administration just proposed the 2020-21 state budget trailer "clean-up" bill language that would allow limited growth for classroom-based schools. Specifically, the administration proposed that the 2020-21 funded ADA for growing schools be lesser of 1)The LEA's actual Fall 2020 enrollment as of October 7, 2020, as reported through the CBEDS data system, reduced for grades K-8 and 9-12 by the statewide average absence factors for those grades (CDE previously posted factors of 4.49 percent for K-8 and 6.01 percent for 9-12), or 2) The LEA's projected enrollment in its most recent budget adopted prior to June 30, 2020 and reduced by the statewide average absence factors.

Some charter advocacy groups, including Charter School Development Center (CSDC), expressed cautious optimism that the governor's proposal will be adopted by the legislature. If passed, MWA' LCFF funding will be increased by about $600k if its enrollment projections are met.

Flat Funding: As opposed to the Governor's May revision budget, which proposed to cut the state's general-purpose K-12 funding by 10%, the final state budget holds funding flat for most K-12 funding programs, including the Local Control Funding Formula (LCFF) and most state categorical funding programs, with no funding for the usual cost-of-living-adjustments (COLAs). ***The funding, however, is contingent in part on the state receiving billions of dollars of additional federal aid***. Congress currently is deadlocked on aid legislation, with no current signs of progress.

Massive Deferrals: The budget includes a complex set of large funding deferrals. The *trailer legislation defers $1.85 billion*, or *roughly half of the usual June 2020 Principal Apportionment briefly until July 15*. **Next spring, the trailer bill defers a total of over $11 billion of state aid, with some deferrals lasting as long as nine months as shown in the graph below**. To put this into perspective, the total deferrals during the Great Recession were about $9 billion rolled over several years.



We updated our cash flow projections based on this estimated deferral schedule. Thanks to the reserves we have built up and also the $2.5M we just received from SRE to pay off the PPP loan, at this point *we are cautiously optimistic that we do not need additional SRE contribution or cash flow support than we budgeted for ($11.5M)*. This is assuming that the state does not make further budget cuts or change the deferral parameters, although both of which could still happen (see below for “Can We Count on the State’s Adopted Budget?”).

Based on the updated cash flow projections, we expect to be able to maintain an ending cash balance of at least $2M for all months in FY21.

Pandemic Funding: The trailer bill appropriates $5.3 billion of federal COVID-19 relief funding to schools for learning loss mitigation. Where the governor’s May Revise had proposed targeting this funding on districts receiving LCFF concentration funding (MWA receives LCFF concentration funding due to its high percentage of students who are eligible for free/reduced price meals), the adopted budget allocates more funding and in three chunks. $1.5 billion is allocated to local education agencies (LEAs) based on the number of special education students they serve. $2.86 billion is allocated in proportion to LEAs' LCFF supplemental and concentration funding. $980 million is allocated based on total LCFF funding.

All three of these Learning Loss Mitigation Funds sources must be used for activities that directly support pupil academic achievement and mitigate learning loss related to the COVID-19 pandemic. They are also contingent on recipients adopting a detailed Learning Continuity and Attendance Plan by September 30 containing specified elements and pursuant to a specified process.

CalSTRS Rate Relief: The state pensions trailer bill redirects $2.3 billion previously appropriated in the 2019-20 budget that was appropriated to reduce long-term pension system liabilities and instead use these funds to reduce school employer near-term contribution rates in 2020-21 and 2021-22. In effect, this trades much larger long-term savings for smaller amounts of short-term relief.

CalSTRS' employer rates are fixed in the Education Code and the pension budget trailer bill (AB 84) reduces them for the next two years, with the results shown in the table below.

CalSTRS Employer Contribution Rates (2020-21 Adopted Budget, estimates shown in italics)					
	2019-20	**2020-21**	**2021-22**	**2022-23**	**2023-24**
Employer Rates	**17.10%**	**16.15%**	**16.02%**	**18.10%**	**18.10%**

Impact on MWA Budget:

Although we will not update our current FY 21 budget to reflect the assumptions made in the State-adopted budget until we develop the First Interim Budget in November, we have summarized the main impact on MWA budget below:

Budget items	**Estimated Net Positive/(Negative) Budget Impact**	**Notes**
LCFF Funding	($190,000)	The original budget assumes a 5% cut, while the final state budget assumes no cut but does not provide funding for any additional students.
State SPED Funding	$76,000	The special education per pupil base rate was increased to $625 pursuant to a new funding formula in the final

		state budget, as compared to $552 estimated by El Dorado SELPA before.
School Facility Lease SB740	($260,000)	No funding for additional students, as well as 10% reduction from 2019-20 funding due to the program running at a deficit.
CARES Act ESSER Funding	$246,000	See “Pandemic Funding” section above
CARES Act Learning Loss Mitigation Fund	$920,000	See “Pandemic Funding” section above
Temporary CalSTRS Relief	$150,000	For 2020-21, the CalSTRS employer contribution rate is reduced from 18.41 to 16.15 percent.
Total Net Impact:	**$942,000**	Surplus of what was originally budgeted

Can We Count on the State’s Adopted Budget?

While the adopted budget with its trimmed COLAs sounds much better than the much larger cuts that the Governor had proposed in May, whether we can rely on the budgeted revenues is an open question.

There are some apparent reasons for optimism. The economy is remarkably resilient in the face of the pandemic and financial markets have substantially rebounded from the initial, negative shock. State tax revenues of late are coming in a little higher than was anticipated when the budget was adopted. Several proposals are pending to levy additional tax funds that, if approved, could benefit schools. Some countries, notably Sweden and other northern European countries, have found ways to keep much of their society, economy, and schools “open” while simultaneously posting declining COVID-19 infection rates.

Several factors, however, raise serious concerns, including at least the following:

- Until reversed, deferrals are a de-facto funding cut.
- The economy recently entered a recession and its depth and severity is difficult to project.
- The recent surge in COVID-19 infections could make the recession worse and longer.
- The Federal Reserve is propping-up financial markets with unusual cash infusions and the larger economy is being held aloft by increased federal deficit spending. While this is comforting to financial markets in the near term, it is unclear whether the federal government can continue these practices,

politically and/or economically. If future measures fall short, it could present a shock to markets and the larger economic picture.

- While the state was able to reverse the funding deferrals from the Great Recession as the economy posted sustained growth, its capacity to reverse them in the near future is doubtful. Increased deferrals and additional funding cuts in 2021-22 are a distinct possibility—some would say likely.