Outcomes

- Share perspectives of Contra Costa Health Services
- Share national perspective - what is a recession?
- Explain a typical economically driven recession and the historical impacts
- Identify where we are currently seeing savings/expense differentials
- Review COLA and Property Tax implications
- Present cash flow and what happens when we do not have it available
- Discuss strategies to effectively manage cash
- Identify budget development considerations tied to economic changes
What are Contra Costa Health Services, County of Santa Clara Public Health Department advising?

- A vaccine won’t be readily available for 12-18 months
- A second wave of infections are expected in the Oct/Nov timeframe
- Children/staff with significant health conditions will continue to be vulnerable
- Teaching and reinforcing prevention behaviors will be critical
- A continuum of distance/blended learning will be needed
- Strategies for social distancing will need to be explored
- Ongoing attendance issues
A Recession….
and what happens

- A “recession” is defined as a period of economic decline to Gross National Product (GNP), followed by a period of unemployment, a drop in the stock market, and a slump in housing prices.
- Generally two consecutive quarters of negative growth - but Forbes (March 28), Dun & Bradstreet (April 6), Wall Street Journal (April 19) are reporting a recession is happening right now.
Economic vs A-Typical Recession

**ECONOMIC**
- Economic growth has slows sharply
- Unemployment levels spike
- Earning growth slows/goes negative
- Government revenues will diminish (the tax base)
- Recovery is slow

**A-TYPICAL**
- Economic growth slows sharply until reopening
- Unemployment levels spike, then recover with reopening
- Earning growth slows/goes negative for calendar year until reopening
- Government revenues rise post-opening
- Government revenues rise
- Rate of recovery can be rapid, relative to phases of reopening
Compare and Contrast of Current Conditions

Current economic conditions are driven by a medical crisis

  • Great Recession was driven by poor lending practices by the banking system
    • Mortgages approved for people that could not afford them
    • Household debt was highly leverage
    • State had no Rainy-Day fund reserves
    • Immediate mid-year reduction to revenues
    • Assessed Valuation of real property decreased up to 35% in some areas

COVID-19 is a Pandemic that could not be predicted

  • Unprecedented restriction to social and economic activities
  • Early Federal and State interventions
  • Strong economy going into the crisis
  • State reserves and Rainy-Day funds built-up
In 2008 Great Recession, buying power was 80 cents on the dollar for several years.

Cash was nearly cut in half for the current fiscal year apportionment deferrals.

In California, schools are on the edge of fiscal volatility.

**Reminder - we just reached 2007 purchasing power last year with full implementation of Local Control Funding Formula (LCFF)**
What is the “Common Message” to Districts?
- CCSESA Business & Admin Steering Committee, 4/14/20

- We abruptly moved into a very different economic environment
- Recessions tend to last 10-15 months, but effects on public education are longer lasting
- CA - May Revise and June Budget will not have true financial picture - it will get worse over time
Current Savings & Expense Differentials

Save in....
- Utilities
- Gasoline for buses
- Materials and supplies
- Assessments
- Some contracted services

Increased spending in....
- Procuring technology devices
- Technology infrastructure
- Online learning resources
- Cafeteria funds
- Custodial supplies
- Overtime in certain departments
0% or Negative COLA

COLA = Cost of Living Adjustment

In June 2019 - the 20/21 COLA was estimated to be 3%

In January 2020 - the 20/21 was estimated to be 2.29%

In April 2020 - Contra Costa County Office of Education imposed a three year, 0% COLA - plus deferrals (that makes it “negative”)

That means…. $6.5 million reduction in 2nd Interim projected revenue
What does “Cash Flow” mean?
What will we do to address cash flow?

“Cash is king!”
Must predict cash flow into 21/22 school year
Frequent check-ins with County Auditor/Controller to understand cash flow expectations and adjust projections (April = property tax collection month)

Delay discretionary purchases districtwide
Temporary interfund borrowing
If needed: Tax & Revenue Anticipation Notes (TRANs), borrow from CCCOE or County Treasurer
Maintain reserves

- FCMAT Fiscal Alert, “Effective Cash Management During Uncertain Times” April 2020
Anticipate the Worst-Case Scenario

Department of Finance (DOF) Letter March 24, 2020:

“Despite the sustained efforts, the virus continues to spread and is impacting nearly all sectors of California’s economy. Among these impacts is a severe drop in economic activity, with corresponding negative effects on anticipated revenues. The impact on revenues could be immediate, affecting the 19-20 fiscal year, and will certainly produce impacts for the upcoming 2020-21 fiscal year and beyond. . . As a result of the conditions noted above, the Department of Finance will now reevaluate all budget changes within the context of a workload budget” . . . As a result, agencies and departments should have no expectation of full funding for either new or existing proposals and adjustments.”
- May Revise where Governor Newsom gives us details on what to expect with the State Budget - **MDUSD will create a budget based on May Revise**
- State will approve a “working budget” in June
- Tax revenue will come in July/August
- State will revise its budget in August - **MDUSD will revise its 45 day budget**
- If State Budget decreases, we will face more reductions starting in September

**State Budget Next Steps (and MDUSD Response)**
Planning for Worse Case Scenario

- Expect 0% COLA for each of the next three years  $6,500,000 reduction
- Deferrals/elimination of monthly apportionments, starting in June
- Increases in CalPERS and CalSTRS contributions - 1% in each per year - $1,000,000 reduction per year (compounds)
- 20% reduction in Lottery  $1,300,000 reduction
- 20% reduction in Local Revenue  $3,000,000 reduction
- Possible health benefit increases
- Address cash flow challenges - monitor bi-weekly

$11,800,000 in additional revenue reduction and possible delayed apportionments of remainder
Board Q&A