Budget & Economic Update

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School Board Meeting
May 11, 2020
Projections of Key Economic Variables in California

- The 2020-21 Budget: California’s Spring Fiscal Outlook

Legislative Analyst’s Office
www.lao.ca.gov
Governor Newsom announced a $54B budget deficit

- State's three main revenue sources in the General Fund will drop
  
  **Personal income tax (-25.5%)**  **Sales Tax (-27.2%)**  **Corporate tax (-22.7%)**

- $18B decrease in K-12 minimum funding guarantee
- MediCal (state's Medicare program) will increase by 2 million
- $10M for childhood trauma and $31M for 10,000 new preschool slots
- $12B in climate controls will be shelved

Legislative Analyst's Office (LAO) - calculating the shortfall at $20-30B a year
Public School Revenue Sources

**United States**
- Federal: 8%
- Property Taxes: 37%
- State: 47%
- Other: 8%

**California**
- Federal: 8%
- Property Taxes: 27%
- State: 58%
- Other: 7%

Source: National Center for Education Statistics, April 2020
Where Do State General Fund Dollars Go?

- UC and CSU: 5.6%
- PERS: 2.6%
- STRS: 3.0%
- Debt Service: 3.6%
- Corrections and Rehabilitation: 8.3%
- Other State Operations: 3.4%
- Medi-Cal: 15.6%
- IHSS/SSP: 4.9%
- Other Local Assistance: 14.0%
- Community Colleges: 4.2%
- Schools: 34.7%

Source: The 2019 Budget Act
Great Recession (2008-11)
- Unemployment peak - 12.3%
- State median income didn’t return until 2018

Feb 2020, Pre-Pandemic
- 3.9% unemployment
- 20/21 budget reflected a $5.6B surplus
- $18M in state’s Rainy Day Fund
- Revenues through March ran $1.35B above January projections

May 2020
- 18% unemployment (DOF)
- Personal income to fall by 9%
- Permits for new housing construction forecast to drop by more than 21%
- Safety net programs expenditures to increase significantly
- Prudent fiscal management, Rainy Day Fund, quick state/federal responses
Prop 98 is tied to the California Constitution. A reduction in state revenue means the Prop 98 minimum guarantee drops.

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<th>Test 1</th>
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<td>Links the minimum guarantee to a share of approximately 40% of the state’s General Fund revenue.</td>
<td>It adjusts the prior year’s Prop 98 funding for a change in attendance and per capita personal income.</td>
<td>Based on follow up legislation (Prop 111), it allows the state to fund lower than Test 2 if the state’s revenue growth is fairly weak, but adds a maintenance factor to catch up in the stronger years.</td>
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What does the Prop 98 Guarantee look like? And how can a COLA be negative?

Current Year 2019-2020
$81.6 billion

Current year now down
$3.7 billion to $77.9 billion

February Estimated 2020-2021
$84 billion

Current Estimated 2020-2021
Now reduced by $14.6 billion to $69.4 billion

Average reduction is approximately $2,300 per ADA (average daily attendance) - inclusive of LCFF is $2,600 - $2,700

The estimated loss across these two years is the equivalent of a - 22% COLA.
What does “Cash Flow” mean and what are apportionments?

Salaries are highest in June.
The CARES Act

The Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act:
- Enacted in March
- Included $13.2 billion to provide districts with emergency relief funds
- Intended to address the impacts of COVID-19
- California’s share is $1.65 billion, 90% of which must go to districts

Mt Diablo Unified expects approximately $4,548,855 in one time funds.

These two steps will help us:
- Fill out the 2020 Census forms
- Complete federal free and reduced meal programs, which help us reach schoolwide Title I status in more schools
What budget strategies are we using?

- Shift legitimate expenses from unrestricted to restricted
- Freeze the use of substitutes for non-essential positions
- Implement accountability measures to prevent leave abuse
- Audit dependent medical, dental, vision benefits
- Closely monitor Worker’s Compensation claims
- Require Executive Cabinet level approval of over or extra time
- Eliminate stipends not tied to collective bargaining
- Executive Cabinet review before filling positions
- Reviewing use of CalCards, purchase requisitions, essential purchases, purchasing department intervention
- Analysis of work in departments that can be automated
- Exploring TRANS for cash flow shortfalls
- Governor Newsom presents May Revisions on State Budget (May 14/briefings on May 19)
- MDUSD will create a budget based on May Revise, not tied to LCAP
- State will approve a “working budget” in June
- Tax revenue will come in July/August
- State will revise its budget in August/September - MDUSD then has 45 days to revise its budget, send to Contra Costa County Office
- If State Budget decreases, we will face more reductions starting in September
- One year LCAP approval in December, tied to budget

2020/2021 Budget Timelines
What to Listen for in the Governor’s May Revise

- **COLA** for 20/21, 21/22, 22/23
- Apportionment **deferrals**
- Any new requirements for conditions to return to work/school
- **Enrollment**-based funding option or relaxing of enrollment and **attendance** calculations, funds for excused COVID-19 absences, short term independent study for less than 5 days, reduce instructional year and minutes without a penalty
- **Flexibility** in use of LCFF supplemental and concentration funds
- **Impacts** of lottery sales, PERS/STRS rates
- Utilize the “**summer layoff window**” to reduce certificated staff
- Reduce/suspend required contribution to **Routine Restricted Maintenance**
Key Legislation to Watch

**AB 1835 (Weber)** - LCFF
Supplemental & Concentration funds must roll forward for unduplicated students

**AB 1982 (Cunningham)** - Teacher credential candidates can bypass basic proficiency exam with “B’s” in coursework

**AB 1837 (Smith)** - State Assistance for Emergency Response team within CDE to support districts with emergencies

**AB 2022 (McCarty)** - Fee reimbursement program for districts who cover AP costs for eligible low-income students

**AB 2052 (O’Donnell)** - District can add minutes to school day if it can’t add days (emergency situations)
Board Q&A