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TO: SELF

RE: ***SSC's Sacramento Weekly Update***

Governor Newsom Releases the May Revision

Last Thursday, May 14, 2020, Governor Gavin Newsom released the May Revision, which is the final statutory opportunity for the Governor to update his economic projections prior to the enactment of the State Budget in June.

When the Governor presented his initial budget proposal in January, his Administration was projecting that the state would have a $6 billion surplus for 2020–21. However, when the Governor took to the podium to deliver his May Revision just four months later, the state is looking at a $54 billion budget deficit due to the recession caused by COVID-19, making his press conference last week a much more sobering event.

COLA, Proposition 98, and LCFF

While the May Revision proposal acknowledges the statutory cost-of-living adjustment (COLA) of 2.31%, slightly higher than the 2.29% in the January State Budget proposal, it suspends the COLA in 2020–21 for all eligible programs, including the Local Control Funding Formula (LCFF), special education, nutrition, foster youth, preschool, and the Mandate Block Grant.

The May Revision estimates that the Proposition 98 minimum guarantee will decline approximately 23% from the 2019 State Budget Act over the three-year budget period. The revised budget projections actually show a slight increase for the prior budget year (2018–19) from $78.4 billion to $78.7 billion, then projects a $4.2 billion decrease for the current budget year (2019–20) from $81.6 billion to $77.4 billion, and a $13.5 billion decrease for the 2020–21 State Budget from $84 billion down to $70.5 billion.

In January, the Governor's budget projected a $1.2 billion increase to the LCFF, however, the May Revision proposes a reduction in addition to the statutory COLA suspension—for a total cut of 10%, or $6.5 billion—to the LCFF. The cuts are meant to proportionately reduce the LCFF with the reductions taken from the base grant, which lowers the amount upon which supplemental and concentration grant funding is calculated. The effects of the cuts on individual local educational agencies (LEAs) will vary depending on the unduplicated pupil percentage of each LEA. However, on average, a 10% cut to the LCFF translates to $1,050 per average daily attendance (ADA).

Governor Newsom noted that a mechanism is being included within the proposed State Budget, which he is providing to the Legislature so that the reduction would be

"triggered off" if the federal government provides sufficient funding to backfill the cuts.

Deferrals

The Governor proposes deferring approximately $1.9 billion of LCFF funding in June 2019–20 to July in 2020–21. Further, LCFF deferrals are needed in 2020–21, increasing by $3.4 billion to $5.3 billion in total apportionments deferred to 2021–22. The Newsom Administration proposes that a process be established for LEAs to seek an exemption from the 2020–21 apportionment deferrals if they create a documented hardship, similar to what was provided for some of the cash deferrals implemented during the Great Recession.

Special Education

The proposed May Revision continues the Governor's January Budget proposal to increase special education base rates to $645 per student (reflects suspension of the COLA). The current statewide target rate (STR) is $557.27, so the increase per student for those LEAs receiving the average STR will be $87.73 (15.74% increase). With the suspension of the COLA, those LEAs funded above $645 per ADA would not receive an increase. As in January, the proposal would apportion this base funding on a three-year rolling average of LEA ADA (but still allocated to Special Education Local Plan Areas) and would maintain the current funding model's categorical programs until a later date.

CalSTRS and CalPERS Relief

The Governor's May Revision proposes to repurpose the $2.3 billion from the 2019–20 State Budget Act that was originally allocated for the long-term unfunded liability for the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) to further reduce employer contribution rates in 2020–21 and 2021–22. This will reduce the CalSTRS employer rate from 18.4% to approximately 16.15% in 2020–21 and from 18.2% to 16.02% in 2021–22. The CalPERS employer contribution rate will be reduced from CalPERS' recently set rate for 2020–21 of 22.68% to 20.7% and CalPERS' 2021–22 estimated rate of 24.6% to 22.84%.

Learning Loss Mitigation

California is receiving $355 million from the Governor's Emergency Education Relief (GEER) Fund, which must be used for LEAs, higher education, or other education-related entities to address the impact the coronavirus pandemic has had on students and families and $9.5 billion total in the Coronavirus Relief Fund (CRF), which can be used more broadly for any necessary expenditures incurred due to COVID-19.

The Governor proposes to use the $355 million of GEER funds and $4 billion of the CRF money to invest $4.4 billion total for LEAs to mitigate learning loss. Of this money, $1.5 billion would be allocated to LEAs based on their students with disabilities population and the other $2.9 billion would be made available to LEAs that receive LCFF concentration grants and would be distributed based on total ADA.

Categorical Reductions

The May Revision proposes savings totaling $352.9 million by reducing funding for various categorical programs including a 52% reduction in the Career Technical Education Incentive Grant and K–12 Strong Workforce Program funding and a $100 million reduction to the After School Education and Safety program.

Next Steps

Now that the Governor has released the May Revision, the Legislature has begun vetting his revised proposals and will look to highlight their own budget priorities as they prepare to build and pass the 2020–21 State Budget by the June 15 constitutional deadline. Below please find a School Services of California Inc. *Fiscal Report* article that summarizes

the Assembly Budget Subcommittee on Education Finance main discussions at their hearing this past Monday, May 18.

Leilani Aguinaldo

Legislature Begins to Vet Governor Newsom's May Revision

By Kyle Hyland
School Services of California Inc.'s *Fiscal Report*
May 21, 2020

Now that Governor Gavin Newsom has released the May Revision, the Legislature can begin vetting his revised proposals and highlight their own budget priorities as they prepare to build and pass the 2020–21 State Budget by the June 15 constitutional deadline.

On Monday afternoon, the Assembly Budget Subcommittee on Education Finance met to discuss the Governor's education proposals, including the significant reductions that are being proposed in order to balance the budget. The hearing included testimony from the Department of Finance (DOF), the Legislative Analyst's Office (LAO), and the California Department of Education.

While sympathetic to the difficult decisions that the Newsom Administration had to make in crafting the May Revision due to the recession caused by COVID-19, the subcommittee members were critical of a number of the Governor's education proposals and the lack of an alternative strategy to generate state revenue if the federal government does not approve another stimulus package that provides additional financial assistance.

Learning Loss Mitigation

Perhaps the sharpest critique was aimed at the Administration's allocation formula for its proposal to use $4.4 billion in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to mitigate learning loss. Trailer bill language stipulates that $1.5 billion would be allocated to local educational agencies (LEAs) based on their students with disabilities population and the other $2.9 billion would be made available to LEAs that receive Local Control Funding Formula (LCFF) concentration grants that would be distributed based on total average daily attendance (ADA). This latter proposal drew heavy criticism.

Assemblymember Al Muratsuchi (D-Torrance) called out the inequities of the proposed formula in that non-concentration grant school districts would be ineligible for nearly $3 billion of this funding. He coupled his argument with the fact that California will also receive $1.65 billion in CARES Act funding via the Elementary and Secondary School Emergency Relief (ESSER) fund, of which 90% (or $1.5 billion) is required to be distributed to LEAs based on their Title I, Part A allocation, meaning that many of the same LEAs that will receive little to no relief from the ESSER fund will also be shut out of the $2.9 billion for learning loss mitigation. He emphasized that all school districts are hurting and need to be included in the education proposals of this "survival budget."

The LAO also expressed concerns with the proposed formula by providing a hypothetical scenario of two LEAs with a similar unduplicated pupil percentage (UPP), but one is just above the 55% UPP threshold to generate LCFF concentration grant funding while the other is just below that threshold. Based on the way the current formula is written, the first LEA would receive a portion of that $2.9 billion for all of its students (based on ADA) because it qualifies for concentration grants, but the other LEA would not be eligible for any of that funding even though it serves a similar number of English leaner, low-income, and foster youth students.

Special Education

Assemblymembers Jose Medina (D-Riverside) and Monique Limon (D-Santa Barbara) expressed their gratitude that the Governor sustained his January proposal to increase the special education base rates to $645 per pupil. However, the members also encouraged the Administration to maintain the existing AB 602 formula rather than transitioning to a new allocation formula in the midst of the COVID-19 pandemic. The DOF responded that the only significant difference between the AB 602 formula and the way they are proposing to allocate special education dollars in fiscal year 2020–21 is that the base rates will be apportioned based on a three-year rolling average of an LEA's ADA. Additionally, the DOF said that they will not make any more significant alterations to special education until after the completion of two work groups that will look at the current governance and accountability structure and then provide recommendations to improve accountability for special education service delivery and student outcomes.

Categorical Funding and Flexibility for School Districts

Assemblymembers Patrick O'Donnell (D-Long Beach) and James Gallagher (R-Yuba City) highlighted some of the significant reductions proposed to the state's remaining categorical programs including a 52% reduction in Career Technical Education Incentive Grant and K–12 Strong Workforce Program funding and a $100 million reduction to the After School Education and Safety program. Assemblymember Gallagher confirmed with the DOF that the state has a high level of flexibility in how they choose to expend their CARES Act dollars and suggested the Legislature could reallocate some of the $4.4 billion from the learning loss mitigation proposal to these categorical programs that the Administration is proposing to reduce.

Assemblymembers O'Donnell and Muratsuchi also agreed that the state needs to provide LEAs certain flexibilities in terms of the 180-day school year and instructional minutes. Assemblymember O'Donnell floated the idea of providing school districts flexibility to implement a blended school schedule that would incorporate both in-person and distance learning to help reduce the number of students on campus at a given time. These conversations will likely intensify as the state looks to provide guidance on how schools can safely reopen their doors next school year.

Reliance on Federal Assistance

Subcommittee chairman Kevin McCarty (D-Sacramento) wanted know what the Administration's "plan B" is if the federal government does not provide more funding to states and local governments. The DOF conceded that while they are open to discussing other ways the state can generate revenue to prevent these proposed cuts they do not have any other plans aside from what's detailed in the May Revision. Assemblymember McCarty said that the state needs to formulate another plan in case the federal government does not come through. He floated the idea of the Legislature pulling together a ballot initiative for November to try and raise money for education; however, the Legislature only has until June 25 to get a proposal through the legislative process to qualify it for the November election.

Next Steps

Due to COVID-19, the Assembly and Senate will likely hold less budget subcommittee hearings than past years to publicly vet the May Revision and present their own budget priorities. However, in the next couple of weeks, each house will have to approve their own version of the State Budget and then go to Budget Conference Committee where they will reconcile their differences and also work with the Newsom Administration on a budget agreement. Once the Legislature reaches a compromise on the 2020–21 State

Budget Act, each house will need to approve the budget bill by June 15. The Governor will then have 12 days to sign the budget bill as presented, approve the budget bill with line-item reductions, or veto the budget bill and send it back to the Legislature.