



2020 MAY REVISION BUDGET BRIEF

2020-21 Budget Requires School Funding Cuts and Payment Deferrals

On May 14, 2020, Governor Gavin Newsom released the May Revision to the state budget proposal for 2020-21. The Governor notes that “COVID-19 has caused a global economic crisis which has had a profound impact on California. The May Revision is guided by the principle of prudent fiscal management to: protect public health, public safety and public education; provide assistance to small businesses and Californians most hurt by the pandemic; and to invest in a safe and quick economic recovery.” With the release of the May Revision, the Legislature will move to approve or amend the Governor’s proposal and adopt a balanced budget by June 15. The Governor’s Summary of the 2020-21 May Revision can be found on the [Department of Finance website](#).

State Budget Overview

The impact of the pandemic on state revenue and spending is unprecedented. As a result of the COVID recession, state revenues have plummeted while the need for state services has increased. The May Revision projects a total revenue decline of 22 percent causing a \$54.3 billion deficit over this year and the 2020-21 fiscal year. The state’s fiscal situation is a stark contrast to the Governor’s January budget proposal that projected healthy increases for key budget priorities including education. In order to meet the state constitutional requirement for a balanced budget, the Governor has rescinded virtually all of his proposals for new and expanded programs from January and proposed cuts to most programs, including the K-12 Local Control Funding Formula.

California had a positive fiscal situation prior to the COVID recession. State reserves are at an all-time high of over \$16 billion. The Governor proposes a multifaceted approach to meeting the balanced budget requirement, including accessing reserves (\$16.2 billion), cancelling program expansions and funding increases (\$6.1 billion), transferring or borrowing from state special funds (\$4.1 billion), suspending targeted tax credits, and accessing federal COVID funds from the CARES Act. The Governor also emphasizes that additional federal funding will help the state further offset cuts to core programs and services.

K-12 Education

For K-12 education, the May Revision includes total funding of \$99.7 billion (\$47.7 billion General Fund and \$52 billion other funds) for 2020-21. The Proposition 98 school funding guarantee will decline by \$19 billion over three years compared to the January projections. Several options, including new federal funds, pension shifts, and apportionment deferrals, will help offset some of this direct hit on schools. Aside from a large deferral of the June payment to July, the May Revision does not propose any operational cuts to schools for the remainder of 2019-20 school year.



Here are the highlights of the 2020-21 May Revision proposals which are discussed in greater detail throughout this Brief:

- LCFF reduction of 10 percent (\$6.5 billion) compared to January projections. This reduction includes the elimination of a 2.31 percent cost-of-living adjustment (COLA).
- K-12 categorical programs will also see reductions, totaling \$352.9 million, including After School Education and Safety (\$100m), Strong Workforce Program (\$79.4m) and Career Tech (\$77m).
- No COLA for LCFF or state categorical programs.
- The SB 740 Charter School Facility Grant Program would also not be provided a COLA, but total state funding would remain at the current year levels.
- For Special Education, the May Revision sustains the Governor's Budget proposal to increase base rates, updated to \$645 per pupil to reflect the suspension of the COLA. This new base rate represents a 15 percent increase over the amount provided in the 2019 Budget Act.
- Virtually all new and expansion proposals are withdrawn from the Governor's Budget, including Opportunity Grants, Special Education Preschool Grant, Child Nutrition and Teacher Credentialing grants.
- CARES Act funding will help offset some of the General Fund loss, and the May Revision proposes \$4.4 billion in additional federal funds to address learning loss related to COVID-19 school closures, especially for the highest need students.
- School Apportionment Deferrals will be enacted as a strategy to retain school funding without deeper cuts. In 2019-20, the Budget proposes to defer \$1.9 billion of LCFF apportionments to 2020-21, with additional deferrals through 2020-21. However, the proposal also includes an option for exemptions from some 2020-21 deferrals for local educational agencies if apportionment deferrals create a documented hardship.

Proposition 98

The provisions of Proposition 98 (1988) establish a minimum funding guarantee for T-K through community college education based on complex calculations and interactions of a number of economic and demographic variables. The budget contains a Proposition 98 school funding guarantee of \$70.49 billion for the 2020-21 fiscal year. Due to the overall decline in state revenues, this is \$13.56 billion lower than projected in January. K-12 education receives approximately 89 percent of Proposition 98 guarantee, with the remainder allocated to community colleges.

Proposition 98 Adjustments for the Current Year: For 2019-20, the guarantee has decreased about \$4.2 billion compared to the Governor's January proposal. However, due to several adjustments such as one-time reserves, recapture of unspent funds, and payment deferral, the budget does not require any operational cuts for the remainder of the 2019-20 year.

Proposition 98 Projection for the Budget Year: The Proposition 98 guarantee in 2020-21 is \$70.49 billion. This is a decrease of about \$13.56 billion from the January estimate. The Governor's proposal uses several tools such as apportionment deferrals, elimination of COLA and backfill of federal and other funds to partially offset this significant reduction. However, schools will still see a base reduction in their LCFF rates compared to current year funding. These adjustments are discussed in more detail below.

Proposition 98 Guarantee 2020-21 May Revision Budget (Dollars in Billions)			
Total Prop. 98	2018-19	2019-20	2020-21
January 2020 Estimate	78.45	81.57	84.05
May 2020 Estimate	78.74	77.37	70.49
Difference	0.29	-4.2	-13.56

Local Control Funding Formula (LCFF)

The May Revision contains a \$6.5 billion reduction in the LCCF, for a total of about \$57.8 billion for LCFF in 2020-21. The budget does not propose any other significant changes or adjustments to the LCFF and the basic architecture of the LCFF remains as originally enacted.

The LCFF provides a base target per-pupil rate for grade level span (TK-3, 4-6, 7-8 and 9-12) and additional grade span adjustments for K-3 and high school average daily attendance (ADA). Each pupil who is identified as an English Learner, or who is eligible for free or reduced priced meals (FRPM), or who is a foster youth, generates an additional supplement. Finally, in addition to the base and supplement, districts and charter schools receive an additional weighted grant if they have a high concentration of high needs pupils overall.

Below are the estimated May Revision rates, supplements and multipliers under the LCFF for 2020-21. The reduction for 2020-21 reflects a 10 percent cut to the base rate compared to what would be provided if the COLA of 2.31 percent had been funded. Therefore, the base rate is approximately 7.69 percent less than what was provided in the 2019 Budget Act for 2019-20.

Because LCFF supplements are a function of the base rates, the supplemental funds will also decrease, even though the underlying factors remain unchanged. Actual funding to be received by each school will vary depending on the pupil population.

LCFF Funding Element	Estimated LCFF Amounts for 2020-21
Grade TK-3 Base	\$7,092
Grade K-3 Grade Span Adjustment	\$ 738 (10.4% of K-3 target)
Grade 4-6 Base	\$7,199
Grade 7-8 Base	\$7,412
Grade 9-12 Base	\$8,590
Grade 9-12 Grade Span Adjustment	\$ 223 (2.6% of 9-12 target)
Supplement per unduplicated Free or Reduced Priced Meal Eligible Pupil, English Learner or Foster Youth	20% of average base and add-on funding per eligible ADA
Concentration Supplement per pupil above 55% of the lesser of total district or charter percent high need	50% of average base and add-on funding per eligible ADA above 55%

LCFF Tools: The information above provides a brief overview of the LCFF and the estimated component rates for 2020-21. However, an additional tool available is an LCFF calculator developed by the state



Fiscal Crisis and Management Assistance Team (FCMAT) to assist schools in estimating LCFF funding. The [FCMAT LCFF Resources page](#) includes the downloadable LCFF calculator. FCMAT has also provided a [Guide for Budget Planning](#) under different scenarios in uncertain times.

In building budgets, charter schools should also include non-LCFF funding sources in their budget planning, such as federal funds, special education funds, the mandate block grant, facility grants, and any other funding the school may receive.

K-12 Education Funding Details

Apportionment Deferrals: The May Revision proposes to initiate a number of school payment deferrals through this year and next. These deferrals are necessary to avoid deeper cuts, but also create a significant cash flow challenge for many charter schools and school districts. In 2019-20, the Budget proposes to defer \$1.9 billion of LCFF apportionments due in June 2020 to July 2020, which will place the payment within the 2020-21 fiscal year. An additional \$3.4 billion is added to the 2019-20 deferral in 2020-21, for a total of \$5.3 billion in LCFF deferrals scheduled for payment in 2021-22. The Governor also provides a process for LEAs to request a need-based exemption to the May and June 2021 deferrals through a process of documenting a hardship to the LEA. The exemption process was originally initiated during the Great Recession to assist schools with significant cash flow challenges caused by deferrals, however, it will not be available for the upcoming June to July deferral this year. CCSA is also working with the lender community to support charter schools that may need to access short-term loans to level their cash flow during this time.

COVID Relief: In an effort to mitigate some of the impact of the economic crisis on schools, the Governor proposes to provide about \$4.4 billion in federal CARES Act COVID relief funds to support schools with learning loss mitigation, particularly for the state's most vulnerable students. These funds would be in addition to the state funds already appropriated under SB 177 and the formula funding allocated to schools under the CARES Act. The new funds could be used for a wide range of learning support such as supplemental interventions prior to school reopening, extending the school calendar or instructional minutes, providing connectivity and devices, student support services and professional development for alternative learning models. Funds will be allocated to classroom-based schools based on each LEAs special education student count, and on a per-pupil basis to LEAs that receive LCFF concentration funding. CCSA is concerned about the exclusion on nonclassroom-based programs and will advocate for parity in the funding allocation.

In addition, the May Revision proposes targeting some federal funding for statewide priorities, including:

- \$100 million in grants to County Offices of Education for coordinated community services similar to the Community School Grant program proposed in January.
- \$63.2 million for professional development and training on the impact of the COVID crisis on student learning, equity, and mental health and implementing distance learning and social distancing in schools.

Charter School Facility Grants: The SB 740 Facility Grant Program provides partial cost reimbursement to eligible charter schools in leased space. The May Revision rescinds the program COLA that was proposed in January but would retain funding for the program at the 2019-20 level of about \$137



million. Proposed COLAs have been suspended for virtually all categorical programs. However, CCSA has noted concern with the administration and the Legislature that this program is currently over-subscribed, meaning that without a supplement, schools will get less than their full funding. In April, the California School Finance Authority reported that they project that for 2019-20, rent and lease costs will be pro-rated, and schools will receive approximately 95% of eligible awards and that the “Other Costs” category will not be funded. Without additional funding, we expect further reductions in grant awards in 2020-21. More program information can be found at the [CSFA website](#).

Special Education: The Governor’s Budget proposed a multi-year process to improve special education finance services and outcomes. The May Revision, retains the basic commitment to increase base rates for lower funded local education agencies (LEA) and apply a three-year rolling average of LEA ADA for base grants, allocated through the Special Education Local Plan Areas (SELPA). However, the base rate is adjusted to \$645 per ADA in the May Revision to reflect the suspension of the COLA in 2020-21. LEAs funded below target rate will received the increase, but those below will not see an increase in their per pupil rate.

The May Revision also provides \$15 million in federal IDEA funds for the Golden State Teachers Scholarship program to support the special education teacher pipeline, and \$7 million to develop alternative dispute resolution processes for cases that arise as a result of service delivery challenges faced during the pandemic.

CalSTRS and CalPERS Pension Relief: For schools and districts that participate in state pension programs, the May Revision proposes a fund shift of \$2.3 billion that had previously been allocated to the retirement systems to reduce the long-term unfunded liability. The May Revision proposes instead to use those funds for a direct reduction in employer contribution rates. For 2020-21, the CalPERS employer rate will be reduced from 22.68 to 20.7 percent and the CalSTRS rate will be reduced from 18.4 to 16.15 percent. For 2021-22 the May Revision proposes reducing the CalPERS employer rate from 24.6 to 22.84 percent, and the CalSTRS rate will be reduced from 18.2 to 16.02 percent.

School Improvement: The May Revision rescinds the Governor’s January proposal to provide \$300 million for Opportunity Grants and \$300 million for competitive Community Schools Grants. However, as noted above, the Community School Grant is revised as part of the COVID Relief proposal with \$100 million in one-time federal funds.

Education Trailer Bill: The budget is typically accompanied by supplemental implementing legislation known as Trailer Bills. This year, the draft Trailer Bill provides the detail on a number of proposals included in the May Revision, such as the apportionment deferrals and exemptions and allocation of the new federal relief funds noted above. The Trailer Bill also includes additional policies and clarifications that offer some flexibility for LEAs to help mitigate the impact of funding cuts or impose new requirements or restrictions. Some of these provisions include:

- Clarity on the allocation of funding for charter schools that restructure due to AB 1505 or 1507.
- Imposition of an age cap of 27 years for students, and additional reporting requirements for charter schools that serve adult populations.
- Suspension of the flexibility and hold harmless provisions enacted in SB 117 and Executive Order N-26-20 on July 1, 2020.



- Extension of timelines for various teacher credentialing requirements for new teachers in the pipeline affected by school closures.
 - Extends validity of credentialing examination scores for one year.
 - Extends credentialing application fee timelines for 120 days.
 - Reduces field practice requirements for pupil personnel services credential for one year.
 - Extends transitional kindergarten teacher early childhood education credit requirement by one year.
- Flexibilities for districts on allowable cross-fund transfers and interfund loans.
- Allowance to use proceeds of surplus property sales for one-time general fund needs.
- Extends 2019-20 audit submittal to March 31, 2021.

Although the Trailer Bill clarifies that the SB 117 flexibilities related to holding schools harmless during COVID school closures will expire on June 30, at this time, the bill does not contain extensions of these provisions or any new clarity on school reopening requirements or protocols. We understand that these issues will continue to be discussed and addressed through the remainder of the budget enactment process and legislative session. However, given the considerable uncertainty about how and when schools may restart, it is still uncertain what direction or support the state will offer on restart issues.

Issues of particular concern to charter schools, such as renewal standards and timelines, authority to offer virtual programming and triggers for nonclassroom-based schools are also not specifically addressed at this time, but we continue to raise these issues with policymakers to ensure fair and equitable treatment for charter schools through this transition.

Budget Facts and Figures

Cost of Living Adjustment (COLA): The education COLA for 2020-21 is estimated at 2.31 percent, however, the Governor is proposing to suspend the application of the COLA for virtually all programs including LCFF, special education, nutrition, mandate block grant and the Charter School Facility Grant Program. The Department of Finance has projected the following COLA estimates for future years, which may assist in long term budget planning:

Year	Estimated COLA
2018-19	3.70%
2019-20	3.26%
2020-21	2.31%
2021-22	2.48%
2022-23	3.26%

K-12 Average Daily Attendance (ADA): Department of Finance’s updated statewide K-12 ADA projections are lower than projected in January. They are provided in the following table:

Year	Estimated K-12 ADA	Change
2018-19	5,922,164	-0.64%
2019-20	5,895,591	-0.45%
2020-21	5,858,752	-0.62%



Minimum Wage Increase: Another issue that schools should consider in longer range budget planning is the increase in the minimum wage over the next few years to reach \$15.00 per hour. Despite the fiscal crisis, the Governor has not proposed to delay any of the scheduled minimum wage increases. Schools will need to plan for both the wage increase, and related benefits for minimum wage employees and other impacts of these increases. Some local jurisdictions may have increases not reflected here, so schools should also monitor any local action on minimum wage. The following table shows the increase in the minimum wage under state law.

Year	Minimum Wage for Employers with less than 26 Employees	Minimum Wage for Employers with 26 or more Employees
January 1, 2020	\$12.00	\$13.00
January 1, 2021	\$13.00	\$14.00
January 1, 2022	\$14.00	\$15.00
January 1, 2023	\$15.00	\$15.00

Legislative Analyst’s Office Response

Earlier this month, the nonpartisan State’s Legislative Analyst’s Office (LAO) released its [Spring Fiscal Outlook](#), an assessment of the state’s fiscal situation. The framework of the LAO is different than the Governor’s Department of Finance provided in the May Revision. Whereas DOF has built the May Revision based on assumptions of where the economy was headed in January, the LAO approached the deficit based on only “workload” adjustments to the 2019-20 budget as enacted last June. The result is that the LAO projections of the deficit appear much lower than DOF. The LAO’s [response to the Governor’s May Revision](#) and other materials related to the 2020-21 education budget are available [on the LAO website](#). While the LAO notes some weaknesses in the Governor’s proposal, and concern on the lack of a clear path for school reopening, overall, they note the May Revision offers “a plan that puts forward a balanced mix of solutions and makes a serious effort to address the state’s ongoing budgetary challenges.”

Next Steps

The May Revision is typically a fiscal update to the Governor’s January Budget proposal. However, given the dire changes to the state’s fiscal situation since January, this year’s May Revision represents a complete reworking of the state budget. Even while working in a remote and socially distant format, the Legislature must act to accept or amend this proposal and approve a 2020-21 Budget by the constitutional deadline of June 15. In addition, because the tax filing deadline has been extended to mid-July and the overall uncertainty of the economy, the state may need to reassess and revise the adopted budget later in the summer as circumstances change. We also expect more discussion and specific solutions on how the state will support schools as they prepare to reopen and accommodate new circumstances for educational service delivery in 2020-21. CCSA will work to ensure charter schools receive equitable treatment and that charter priorities are addressed in the budget process. We will provide regular updates in our **Capitol Update** newsletter as the budget moves forward.